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Framework contract for  
**Multi-country thematic and regional/country-level  
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**LOT 4:**  
**Evaluation of EC geographic co-operation  
strategies for countries/regions in Asia, Latin  
America, the Southern Mediterranean and Eastern  
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**Evaluation of  
European Commission's  
Cooperation with Nicaragua  
1998-2008**

**Final Report**

Volume I – Main Report

**November 2009**



*The author accepts sole responsibility for this report, drawn up on behalf of the Commission of the European Communities. The report does not necessarily reflect the views of the Commission.*



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# Abbreviations

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<b>\$</b>	US Dollars
<b>\$ B</b>	Billion US Dollars
<b>\$ M</b>	Million US Dollars
<b>€</b>	Euro
<b>ALA</b>	Relating to the Council Regulation EEC n°443/92 of February 1992 on financial and technical assistance to, and economic cooperation with, developing countries in Asia and Latin America
<b>AMUNSE</b>	Asociación de Municipios de Nueva Segovia
<b>BCN</b>	Banco Central de Nicaragua
<b>BS</b>	Budget Support
<b>BSG</b>	Budget Support Group
<b>Budget</b>	Budget of the European Commission
<b>C</b>	Criteria
<b>CA</b>	Central America
<b>CAPS</b>	Comites de Agua Potable y Saneamiento
<b>CCER</b>	Coordinadora Civil para la Emergencia y la Reconstrucción
<b>CDC</b>	Budget line – Decentralised Cooperation
<b>CEDEHA</b>	Centro de Derechos Humanos, Ciudadanos y Autonómicos
<b>CEPREDENAC</b>	Centro de Coordinación para la Prevención de los Desastres Naturales en América Central
<b>CGR</b>	Contraloría General de la República
<b>COM</b>	Communication of the European Commission
<b>CRIS</b>	Common RELEX Information System
<b>CRS</b>	Creditor Reporting System (OECD)
<b>CSP</b>	Country Strategy Paper
<b>DAC</b>	Development Assistance Committee of the OECD
<b>DCI</b>	Development Cooperation Instrument
<b>DDH</b>	Budget line on human rights
<b>DG</b>	Directorate General
<b>DG ECHO</b>	European Commission Directorate General for Humanitarian Aid
<b>DG RELEX</b>	European Commission Directorate General for External Relations
<b>DG DEV</b>	European Commission Directorate General for Development
<b>DRI</b>	Programas de Desarrollo Rural Integrado - Integrated Rural Development Programmes
<b>EC</b>	The European Commission
<b>EDRP</b>	Estrategia para el Desarrollo Rural Productivo
<b>EFA</b>	Education for All
<b>ENV</b>	Budget line on environment
<b>EQ</b>	Evaluation Question
<b>ERCERP</b>	Estrategia Reforzada de Crecimiento Económico y de Reducción de Pobreza (in english SGPRS)
<b>EU</b>	European Union
<b>EuropeAid</b>	EuropeAid Co-operation Office

<b>FA</b>	Financing Agreement
<b>FENACOOOP</b>	Federación Nacional de Cooperativas
<b>FONG</b>	Federación de Organismos No Gubernamentales de Nicaragua
<b>FSLN</b>	Frente Sandinista de Liberación Nacional
<b>GBS</b>	General Budget Support
<b>GDP</b>	Gross Domestic Product
<b>GNI</b>	Gross national Income
<b>GoN</b>	Government of Nicaragua
<b>HDI</b>	Human Development Index
<b>HIPC</b>	Highly Indebted Poor Countries
<b>HIV</b>	Budget line – VIH and reproductive health
<b>HQ</b>	Headquarters
<b>I</b>	Indicator
<b>IADB</b>	Inter-American Development Bank
<b>IDA</b>	International Development Agency
<b>IDR</b>	Instituto de Desarrollo Rural
<b>IEN</b>	Instituto de Estudios Nicaragüense
<b>IMF</b>	International Monetary Fund
<b>INIFOM</b>	Instituto Nicaragüense de Fomento
<b>INIM</b>	Instituto Nicaragüense de la Mujer
<b>ITA</b>	International Technical Assistance
<b>JC</b>	Judgement Criteria
<b>JFA</b>	Joint Financing Arrangement
<b>LA</b>	Latin America
<b>LAC</b>	Latin and Central America
<b>LRRD</b>	Linking relief, rehabilitation and development
<b>MAP</b>	Budget line – Land Mines
<b>MDGs</b>	Millenium Development Goals
<b>MECD</b>	Ministerio de Educación Cultura y Deportes (prior to 2006)
<b>MHCP</b>	Minister of Finance
<b>MinEd</b>	Ministerio de Educación (since 2006)
<b>MoU</b>	Memorandum of Understanding
<b>MR</b>	Monitoring Report
<b>MRE</b>	Ministry of Foreign Affairs
<b>MS</b>	Member States of the European Union
<b>NA</b>	National Assembly
<b>NDP</b>	National Development Plan
<b>NGO</b>	Non Governmental Organisation
<b>ODA</b>	Official Development Aid
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PAINIC</b>	Programa de Apoyo Institucional en Nicaragua
<b>PAM</b>	Performance Assessment Matrix
<b>PAPAJ</b>	Programa de Apoyo Presupuestario de Acceso a la Justicia
<b>PAPND</b>	Programa de Apoyo al Plan Nacional de Desarrollo
<b>PAPSE</b>	Programa de Apoyo Presupuestario Sectorial para la Educación



<b>PBA</b>	Programme Based Approach
<b>PCT</b>	Plan Común de Trabajo
<b>PD</b>	Paris Declaration
<b>PER</b>	Public expenditure Review
<b>PESA</b>	Programa Especial para la Seguridad Alimentaria
<b>PFM</b>	Public Finance Management
<b>PIU</b>	Project Implementation Unit
<b>PLC</b>	Partido Liberal Constitucionalista
<b>PMU</b>	Project Management Unit
<b>PNDH</b>	Plan Nacional de Desarrollo Humano
<b>PND<sub>o</sub></b>	Plan Nacional de Desarrollo Operativo
<b>PPDDH</b>	Programa Plurianual Democracia y Derechos Humanos
<b>PPP</b>	Purchasing Power Parity
<b>PRACC</b>	Programa de Reconstrucción Regional para America Central (PRRAC) - Subprograma Nicaragua
<b>PRASNIC</b>	Programa de Agua y Saneamiento en Nicaragua
<b>PREVDA</b>	Programa Regional de Reducción de la Vulnerabilidad y Degradación Ambiental
<b>PRGF</b>	Poverty Reduction Growth Facility
<b>PRS</b>	Poverty Reduction Strategy
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>RAAN/RAAS</b>	North Atlantic Autonom Region/ South Atlantic Autonom Region
<b>RFP</b>	Research Framework Programme
<b>RSP</b>	Regional Strategy Paper
<b>SBS</b>	Sector Budget Support
<b>SEAR</b>	Sistema Educativo Autónomo Regional
<b>SGPRS</b>	Strengthen Growth and Poverty Reduction Strategy (in Spanish ERCERP)
<b>SINAPRED</b>	Sistema Nacional de Prevención, Atención y Mitigación de Desastres
<b>SISSAN</b>	Sistema de Información para el Seguimiento de la Seguridad Alimentaria y Nutricional
<b>SIVIN</b>	Sistema Integrado de Vigilancia de la Intervenciones Nutricionales
<b>SNV</b>	Netherlands Development Organisation
<b>SPAR</b>	Sistema Público Agropecuario y Rural
<b>TA</b>	Technical assistance
<b>ToR</b>	Terms of Reference
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>URACCAN</b>	Universidad de las Regiones Autónomas de la Costa Caribe Nicaragüense
<b>US</b>	United States
<b>USD</b>	US Dollars
<b>VA</b>	Value Added
<b>WB</b>	World Bank
<b>WTO</b>	World Trade Organisation



## Executive Summary

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### Objectives, scope and methodology

**Objectives:** This report presents the results of the evaluation of the European Commission's (EC) cooperation programme with Nicaragua between 1998 and 2008. The objectives of this country evaluation are (i) to provide the relevant EC services and the wider public with an **overall independent assessment** of the EC's past and current cooperation with Nicaragua, and (ii) **to identify key lessons** for improving its current and future strategies and programmes.

**Thematic scope:** The evaluation focuses on the main sectors or themes of EC cooperation in Nicaragua and especially on rural development, good governance, education, and the link between post-disaster relief, reconstruction and development (LRRD). It further assesses the use of the budget support financing modality.

**Methodology:** The evaluation is based on a structured methodology. The criteria used are the relevance, efficiency, effectiveness, impact and sustainability, and in addition EC added value and the coherence of EC strategies at the national and regional levels. The core of the report covers nine Evaluation Questions embodying 47 judgment criteria, and two overall assessments addressing the effectiveness of the interventions and the lessons which can be drawn from the two types of budget support applied in Nicaragua. The analysis is based on a sample of 13 different interventions representing 70% of the funds.

The evaluation process passed through three successive phases (desk, field and synthesis). A combination of different sources and tools were used for collecting and analysing information, including (1)

review of almost 200 documents; (2) 140 interviewees with EC headquarters, EC Delegation in Nicaragua; government and public institutions; civil society; and other donors; *and* (3) five focus groups including final beneficiaries.

A short preparatory field visit was held in September 2008 and the main fieldwork took place during a three-week visit in January-February 2009.

### Context

**National context (1998-2008):** The main characteristics of the national context during the evaluation period are:

- slow per capita real growth;
- tight control by the Bretton Wood institutions;
- no significant reduction in relative poverty and an increase in the level of absolute poverty;
- important human and material losses, and a large fiscal gap caused by Hurricane Mitch in 1998;
- major internal bank crisis in 2001 and a further fiscal deficit
- massive debt relief between 2001 and 2004 (HIPC);
- a structural balance of payments current account deficit covered by remittances and foreign aid;
- ruling of three successive presidents all issuing from democratic elections;
- polarised politics and an important change in 2007 with the return to power of a Sandinista government after almost two decades of conservative ruling;
- deteriorating relations with main traditional donors, culminating progressively in suspension of their budget support to Nicaragua in 2007 and 2008.

**International cooperation:** Over the period 1998-2006 US\$7.6 billion of ODA were committed to Nicaragua, representing almost 20% of its total GNP and reflecting a high level of dependency on ODA resources. Grants accounted for 70% of these commitments. The main providers of grants are the USA, Spain, Germany, Japan and the EC. Altogether EC and 13 EU Member States (MS) account for around 65% of ODA grants. Debt relief was the category accounting for the highest amounts. During the period 2002-2006, Nicaragua was considered a model of international cooperation, mostly reflecting good relations between GoN and the donor community, notably through sector round-tables and the Budget Support Group (BSG) led by the GoN.

**EC cooperation with Nicaragua:** the EC committed €423m and disbursed €321m over 135 interventions during the period 1998-2008. This represents around 6% of all grants, making the EC the fifth largest donor to the country. To this an additional €60m should be added to cover ECHO disbursements following Hurricanes Mitch (1998-99) and Felix (2007). The three main sectors in which the EC intervened were (1) investment in human capital – mostly education (€99m); (2) socioeconomic development in rural areas (€96m); and (3) macro-economic support (€80m), together totalling 65% of all EC commitments to Nicaragua.

The main characteristics of EC cooperation during the evaluation period are the following:

- abandonment, in the 2002 strategy, of large integrated rural development programmes which, for years, had constituted the core of the EC rural development strategy;
- a rapid shift towards budget support from 2003 onwards;

- concentration of commitments in only three programmes (the post-Mitch PRRAC and two budget support programmes), together accounting for about one-half of total commitments;
- a high number of small interventions – 70% of interventions being for less than €1m each;
- significant use of thematic budget lines which, the PRRAC aside, represent around 28% of commitments and are administered mostly through NGOs;
- abandonment of rural development as a focal sector in 2007;
- support for the business and investment climate as a new focal sector in 2007.

The EC Delegation was established in Managua in 1998. The devolution process, started in 2002, constituted an important change in EC cooperation. It enhanced the intensity of the dialogue with the GoN, the degree of engagement with other donors, and the quality of decision-making and of intervention follow-up.

### Conclusions:

The main conclusions of the evaluation are the following:

**1. The EC strategy has been in line with the poverty reduction strategies of the successive governments and showed the necessary flexibility over time. Changes in it were mainly (although not only) in response to changes in the EC priorities.**

This conclusion stems from the following findings:

- the EC strategy was in line with the national poverty reduction strategies of the first two governments of the period (until 2006);

- there was only one extensive consultation process that permitted the main stakeholders to express their opinions: it concerned the 2003-2007 CSP;
- it is difficult to combine the need for alignment on national strategy (which demands flexibility) and the equally-needed establishment of a long-term EC strategy (which demands continuity), in a scenario of rapidly changing public policies;
- in any event the changes observed in the EC strategy responded mainly to changes in EC priorities and to new analyses and information, and were not motivated by comparative advantage or division of labour.

**2. The EC achieved positive results in rural development on various fronts but did not follow a global strategy offering an alternative to the former DRI (IRDP) model**

In this second most important area of intervention, the EC achieved a number of positive results in the areas of micro-finance, coffee processing facilities, extension services based on peasant organisation, and reactivation of the production frontier so as to permit an increase in the cultivated area. It used a much-needed multi-level and multi-actor approach involving different levels of public institutions as well as actors from civil society. But it lacked a global strategy alternative to the former DRI (Integrated Rural Development - IRDP) model. It lacked also continuity of successful processes and learning from experience. It is feared that by downscaling EC support to the rural sector (rural development is no longer a focal sector in the 2007-2013 EC strategy), the important experience gained in the past will be partly lost.

**3. The EC post-Mitch PRRAC rehabilitation programme offered important results but applied very partially the concept of the necessary linkage between relief, rehabilitation and development (LRRD).**

This conclusion is based on the following findings:

- following Hurricane Mitch in 1998 the EC intervened with a multiplicity of instruments implying strong commitment in financial terms (€84m), including various budget lines and various time-spans from short relief to long term development (PRRAC lasted almost 10 years); *but*
- first, there were no formal linkages between relief operations, rehabilitation and development and very little coordination between them;
- second, while PRRAC was designed more as a development programme parallel to the ALA interventions, it lacked coordination either with aid interventions emanating from the CSP, or with the GoN;
- third, this lack of linkage and coordination culminated in a set of problems which hampered the effectiveness and sustainability of the EC interventions.

**4. The General Budget Support (PAPND) and Sectoral Budget Support (PAPSE) were the correct approaches at the time. They accompanied an improvement in public finance management but it is impossible to isolate the EC's influence from that of other donors. Budget support design and harmonisation with other donors improved over time.**

PAPND and PAPSE were relevant since they started during a period of fiscal

imbalance, they were requested by the GoN, they were coordinated with other important donors, and they took place when Nicaragua was implementing an ambitious programme of improvements in public finance management (PFM).

It is difficult to prove a causal link between budget support (BS) and progress in PFM since no counterfactual exists. However most stakeholders stress the quality of the policy dialogue, and the representatives of the previous government recall the importance of the incentives attached to the BS programme, implying an implicit link between budget support and PFM achievements. On the other hand there is no way of isolating the influence of the EC from that of other donors.

The two budget support interventions analysed show that differences between general and sectoral BS can be tenuous and less important than the number, quality and coordination of stakeholders in a BS programme. Sectoral budget support such as PAPSE should demonstrate advantages in terms of preparation, policy dialogue and monitoring, but it was not backed by a continuous and strong political will and therefore showed mixed results in respect of the education indicators. It also suffered from the complexity of its initial design (there were too many indicators, although PAPSE II showed a clear improvement in this regard), from the poor quality of statistics on education, from incentive problems arising from the very nature of the variable tranche system itself, and from the fact that EC remains the only donor to offer a sectoral BS in education.

**5. The effectiveness and impact of interventions were generally satisfactory but unequal. No single factor explains why objectives were better attained in some cases than in others.**

The EC has delivered most of what was originally committed but the results vary considerably from one sector to another. While they are good in GBS and mixed in rural development, education and rehabilitation, they are rather limited in respect of good governance. A more detailed analysis of the intervention logic (the relations between activities, outputs, results and impacts) shows that significant differences exist between outputs and results: good outputs do not necessarily yield good results, nor do unsatisfactory outputs necessarily yield bad results. This is mainly because of an unfavourable context - for example, in the case of 'good governance' - or because the expected results were beyond the reach of the means invested. This is clearly the case with disaster prevention and with interventions on good governance, education and, to some extent, rural development. Finally, in the case of budget support there is not always a clear direct causal relationship between activities and outputs, or between outputs and results.

The reasons for differences in effectiveness do not stem from one or two major factors: they can be attributed variously to the context, to the national counterparts, to the beneficiaries, to the design of the interventions, or to other factors. While the national context at the end of the period is certainly more challenging than a few years before, clear progress has been made thanks to the devolution process which has permitted more decisions to be taken locally.

**6. Coordination with other donors and with GoN has improved but these efforts have not yet led to significant improvement in complementarities between donors. On the other hand the EC's value added is evident more at supra-sectoral than at sectoral level.**

The EC has made major efforts to collect and share information, to improve dialogue and coordination with other donors and, through budget support, it has improved alignment on national procedures and policies. However it has so far not participated in common funding or in delegated cooperation and is still alone in its sectoral budget support for education. The progress observed to date has not yet resulted in actual complementarities with other donors in terms of enhanced division of labour.

The main **EC value added** stems from its financial critical mass, its capacity to convene and to coordinate, its legitimacy and its potential political weight. In contrast, in each main sector or area of intervention the EC's cooperation programme offers some value added, but in none of them does it offer clear expertise which would naturally result in some specific advantage at sectoral level.

### Recommendations

- **Make sure that the focal sectors chosen are those in which the EC can offer recognised expertise and in which other donors are less active.** Therefore consider returning to rural development as a focal sector and maintain a multi-actor and multi-level approach. Concentrate interventions on a thematic rather than geographical basis.
- **Make sure that coordination goes beyond mere information-sharing and that it yields more concrete results linked to collective action and complementarities.** This implies indentifying EC regulations which hamper this type of coordination and rendering them more flexible so as to promote delegated cooperation, joint financing schemes, other joint measures and a common agenda between the Member States.
- **Do not abandon Budget Support but avoid concentrating more resources on this modality.** This implies that the option of the "project approach" should be maintained but mainly through other forms of collective cooperation (see recommendation on coordination) so as to diversify the modalities used. These modalities should be chosen according to the local context and in coordination with other donors.
- **Simplify budget support and make it more effective as an important development modality:** for each BS intervention and in coordination with other donors, choose carefully a few targeted indicators which present no measurement problems or error margins that will invalidate their use.
- **Draw on the very diverse experience from post-Mitch interventions in Nicaragua** in order to draw out the lessons and improve future similar interventions in Nicaragua and in other countries





# 1. Introduction

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This **Evaluation of the European's Commission's (EC) co-operation with Nicaragua** from 1998 to 2008 was commissioned by the Joint Evaluation Unit common to EC's Directorates-General for Development (DG DEV) and External Relations (DG RELEX) and the EuropeAid Cooperation Office of the EC. This document is the second draft final report of the evaluation. It presents the results of the synthesis phase during which the information obtained has been analysed in order to answer the Evaluation Questions and draft Conclusions and Recommendations.

## 1.1 Evaluation objective and scope

This evaluation has two main objectives as stated in the Terms of Reference (see annex 12), namely:

- to provide the relevant external co-operation Services of the EC and the wider public with **an overall independent assessment** of the EC's past and current cooperation relations with Nicaragua
- **to identify key lessons** with the aim of improving the current and future strategies and programmes of the EC.

The temporal scope of the evaluation is the EC's cooperation with Nicaragua **from 1998 to 2008**. It therefore covers the strategies set out in the 1998-2000 and 2002-2006 Country Strategy Papers (CSPs) and their implementation. It also covers implementation of thematic budget lines that benefited Nicaragua during the period. For the 2007-2013 CSP an analysis of the relevance and design of the strategy has been made looking at the intended effects in the priority sectors; an analysis of implementation of the 2007-2013 CSP was precluded by the fact that interventions have not yet started.

## 1.2 Structure of the report

This draft final report is structured as follows:

- **Chapter 2** provides a description of **Nicaragua's socio-economic evolution** during the period, its development policy and the interventions of external donors (additional information is also provided in annexes 1, 2 and 3);
- **Chapter 3** presents the EC's global development policy framework; and focuses on the **EC's strategy for Nicaragua**, taking account of the various CSPs covering the period, reconstructing the intended intervention logic for the whole period, and describing the EC's interventions from 1998 to date (additional information is also provided in annexes 4, 5, 6 and 7);
- Chapter 4 presents the findings and **answers to the Evaluation Questions** (see annexes 8 and 13 and 14 for respectively detailed information by indicator and explanation of the methodology used);
- Chapter 5 presents an **overall assessment** on the effectiveness of EC cooperation strategy and on Budget Support (BS);
- The report finally closes with Chapter 6 and 7 on **Conclusions and Recommendations**.

Two volumes of supportive material accompany this main report. Volume II with annexes to Volume 1 and Volume III is exclusively devoted to methodological aspects.

### 1.3 Evaluation methodology

This evaluation was managed and supervised by the Joint Evaluation Unit. The progress of the work was closely followed by the Reference Group chaired by the Joint Evaluation Unit and consisting of members of RELEX, EuropeAid and ECHO and the EC Delegation in Nicaragua.

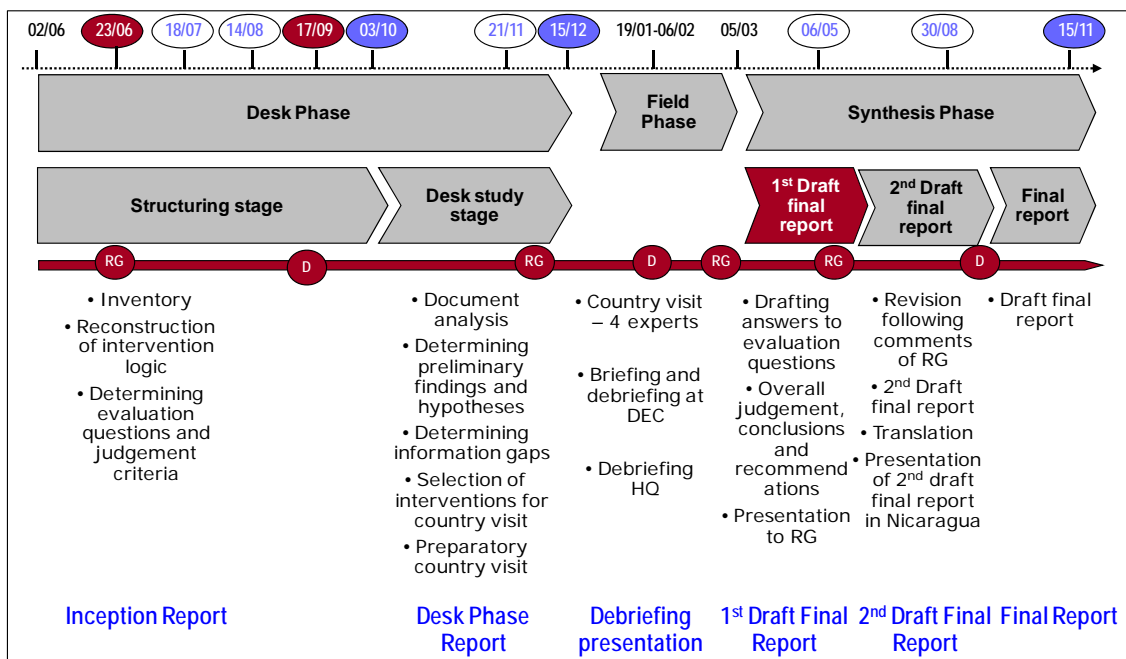
The methodology developed for this evaluation aimed to define and answer a set of Evaluation Questions in order to draw out Conclusions based on sound analysis, and useful corresponding Recommendations. To this end the evaluation was conducted in three main phases: desk phase, the field phase and the synthesis phase.

This section presents briefly the overall evaluation process, the information on which the findings are based, and the main challenges and limits faced by the evaluation. A separate volume of this report (Volume III on evaluation methodology) details the specific methodological aspects and approaches used for the evaluation.

#### 1.3.1 Evaluation process

Figure 1.1 below provides an overview of the **three main phases** mentioned above. It specifies for each of them the activities carried out, the deliverables produced and the meetings organised with the Reference Group (RG) and with the Delegation (D).

**Figure 1.1 : Evaluation process**



The desk phase counts with two stages: the structuring stage and the desk study stage.

The **Structuring stage** aimed at defining with the Reference Group a common reference framework for the evaluation, which included the following:

- description of the evolution of the **Nicaraguan context** during the period;
- **reconstruction of the intervention logic** underlying the objectives and intended impacts pursued by the EC during the period under study;
- **inventory** of EC interventions in Nicaragua financed bilaterally during the period;
- definition of **Evaluation Questions** to better focus the scope of the evaluation
- definition of **Judgment Criteria** and related **Indicators** for each Evaluation Question, (see annex 14) and identification of sources and tools to be used to inform these indicators.

Each Evaluation Question is linked to one or several DAC evaluation criteria and/or to the “3Cs” (coordination, complementarity and coherence); the value added by the EC; and three cross-cutting issues, namely gender, environment and decentralisation.

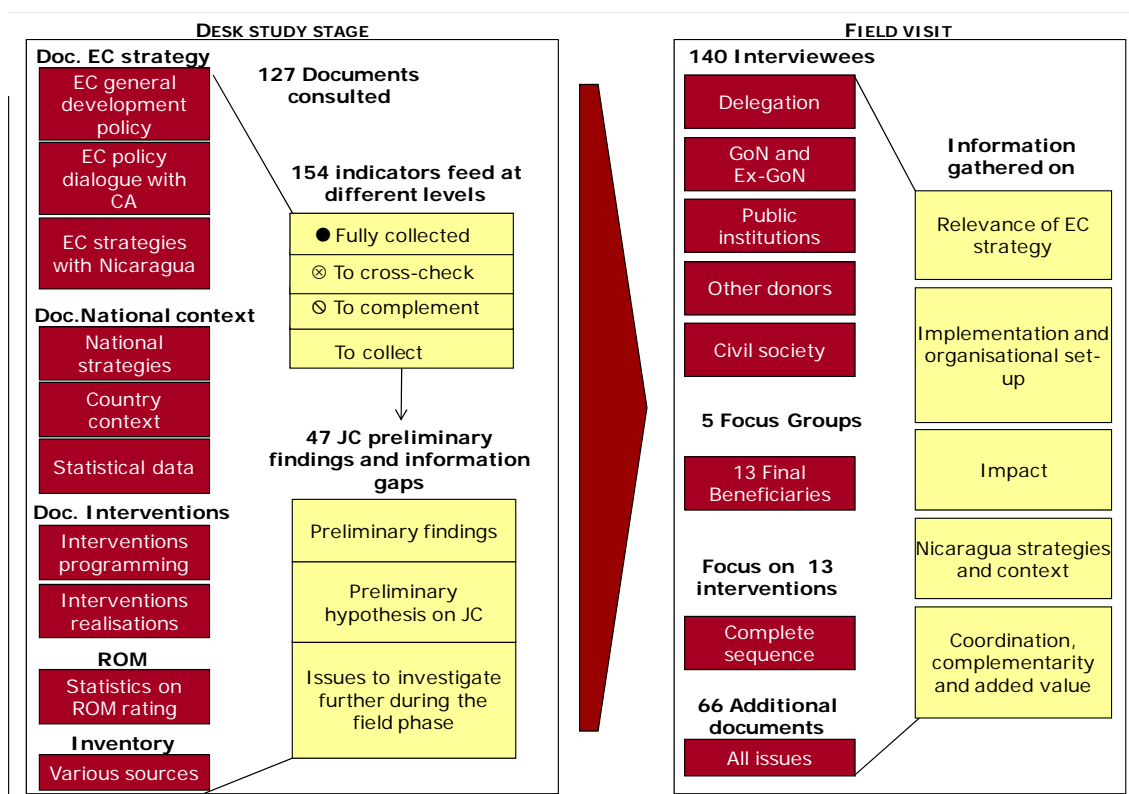
These elements were presented in the *Inception Report* of October 2008.

On the basis of this methodological framework the team carried out the data collection to inform and substantiate the Indicators. Two stages could be distinguished:

- **Desk Study Stage** during which the team carried out a review of relevant documentary sources (see list of documents in annex 11) and made a preliminary visit to the EC Delegation in Nicaragua (September 2008). The results of this stage were presented in the *Desk Study report* (November 2008), and facilitated preparation of the field mission by identifying information gaps, suggesting preliminary hypotheses to be tested further, based on validation of the Judgement Criteria, and proposing a **selection of interventions** to be visited.
- The **Field phase** that through the country visit allowed completion and cross-checking of the information base. This was achieved through face-to-face semi-structured interviews, focus groups with beneficiaries, collection of additional documents, and a focus on 13 interventions. A debriefing with EC Delegation was held at the end of the country visit.

The information sources and the tools used as well as the outputs obtained are summarised in the following Figure 1.2.

**Figure 1.2 : From desk study to field phase**



Overall this multi-tool approach allowed cross-checking and fair coverage of the scope of the evaluation.

**Figure 1.3 : Tools used and coverage of the scope**

BASIS FOR THE EVALUATION	AREAS OF INTERVENTION	INTERVENTIONS	EURO
Documentary study (193 documents)		Coverage: Overall	
Interviews (140 interviewees)		Coverage: Overall	
Inventory	All areas	All interventions: 135	All funding: €423m
Monitoring rates (115 Reports)	All areas	45	€255m
Selection of interventions	4/5	13	€265m

- **Documentary study:** around 200 documents were consulted for this evaluation. In addition to intervention-specific documents, key information was identified through a review of transversal assessments and evaluation reports, as well as through a review of a wide array of strategic documents on the EC strategy for the region and the country, and on the Nicaraguan context.

- **Interviews:** more than 140 interviewees were met for this evaluation, notably through headquarters visits in Brussels and during the country mission interviews in the field. The list of interviewees is provided in annex 10.
- **Inventory:** this overview of EC support provided in the country aimed at being comprehensive and covering the whole period. Therefore four sources were combined: the CRIS database, the Delegation's Tableau de Bord (2002, July 2008, December 2008), the ROM database and the Central America Evaluation. ECHO funds were also considered in the inventory.
- **Monitoring reports:** the global analysis of 115 monitoring reports made possible some preliminary quantitative analysis which focused on whether programmes or projects in different sectors tended to exhibit different characteristics in terms of performance.
- **Focus on a selection of interventions:** during the desk study, documents on interventions implemented in the country were used to acquire a general knowledge of the whole range of interventions. Based on this, 15 interventions were selected to further the analysis during the field phase. They cover the main areas of intervention and a large proportion of the funding. For each the following sequence was applied: documentary review (including monitoring reports), interviews with different levels of stakeholders and field visits<sup>1</sup>.

The third phase, the **synthesis phase**, consisted of an analysis of the information collected in order to provide evidenced-based answers to the Evaluation Questions, sound Conclusions and useful Recommendations. This phase was structured as follows:

1. informing the indicators : sharing of information within the team, cross-checking, comparing and confirming the information gathered from the different sources;
2. identifying the limits of the analysis: data quality and unavoidable information gaps;
3. analysis : validation or invalidation of the Judgement Criteria;
4. on the basis of 1-3, answering the Evaluation Questions and drafting of Conclusions;
5. identifying of Recommendations.

### **1.3.2 Main challenges and limits**

The evaluation needed to address a number of challenges and limits that can be summarised as follows:

- The first challenge was to **reconstruct a complete overview of EC intervention in Nicaragua from 1998 to 2008**. The work carried out during these years was not recorded or compiled in an unique database or document. To overcome this difficulty an inventory was build up using five different sources. The first inventory was built up in July 2008, and later updated in March 2009 so as to ensure coverage of the whole of 2008.

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<sup>1</sup> Field visits were not possible for the project Pueblos Indígenas Costa Caribe (for security reasons) and for the PRASNIC (the project closed in 2004 and recent institutional changes troubled the identification of past stakeholders).

Another important challenge was the **access to complete, readily-available information** for the whole period<sup>2</sup>. The absence of a centralised information system in the institution, especially at the level of the interventions, had as consequence important differences in the availability of documents. The efforts of the team as well as the goodwill and cooperation of Commission Services at Headquarters and Delegation have not completely corrected this situation. Institutional memory is weakened by the absence of a corporate archiving system presently relying on the initiative of individuals. The intended transfer of documents during the devolution process was not completed as many documents previous to that period are still not archived and therefore not available, CRIS, although improving, is not yet a reliable instrument and still contains errors and omissions. One systematic and reliable information source is ROM which however has its own limitations (it is not intended to be a system of information-sharing, it contains only Monitoring Reports and Project Synopsis)<sup>3</sup>.

- **The evaluation scope** itself also constituted a challenge that was overcome by building a strong methodological framework. There were two main challenges:
  - This is a **strategic level evaluation**, not an evaluation of multiple interventions. It is therefore structured on the basis of the intervention logic which identifies the intended strategy and represents the norm against which the present situation should be evaluated and interventions should be considered. Furthermore the inventory provides a good overview of what has in practice been undertaken in the field within each area of intervention. Given that access to information on results is scattered, the team has striven for overall coverage through interviews but also through analysis of the socio-economic trends. The performance revealed by the monitoring report ratings allowed broadening of the picture although coverage is incomplete. The selection of a group of interventions (13) has allowed further examination of the concrete activities stemming from the EC strategy and an analysis of the complete project cycle from identification to implementation, monitoring and evaluation.
  - This evaluation was confronted with numerous **changes over the ten-year period**. During the period the EC strategy evolved in its overall framework and in its approach to cooperation (devolution, shift to BS, Paris Declaration) but also in its regional dialogue and its bilateral strategies (3 CSPs). The Nicaraguan context has also evolved, influenced by external and internal factors such as three different Governments since 1998. The evaluation has tried to capture this evolution over time and to take into account the characteristics of the different periods throughout the report.
  
- Finally, the evaluation coincided with a period of **high tension between the GoN and the donor community**. The mission took place in January 2009, i.e. less than two months after the EC decided to suspend its BS modality in Nicaragua, decision which marked the high point of a crisis which had been hatching since many months.

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<sup>2</sup> But at the same time Nicaragua is one of the most studied country in Latin America and there exists an abundant (sometime excessive) and rich information on most aspects of the country.

<sup>3</sup> In that regard the team experienced difficulties to retrieve the Financing Agreements because CRIS was in the process of changing the layout and during this process the FA usually provided along with the monitoring reports were not available.

## 2. Socio-economic context in Nicaragua between 1998 and 2008

This chapter gives an overview of the key events influencing Nicaragua's development during the period 1998-2008.

This period was significantly influenced by the effects of Hurricane Mitch, of the Structural Adjustment of the 1990s and by the political alternations of the Government. International aid to Nicaragua was characterised by high transfer levels, a focus on a coordinated multi-donor approach to harmonisation and alignment, and a shift to a BS approach.

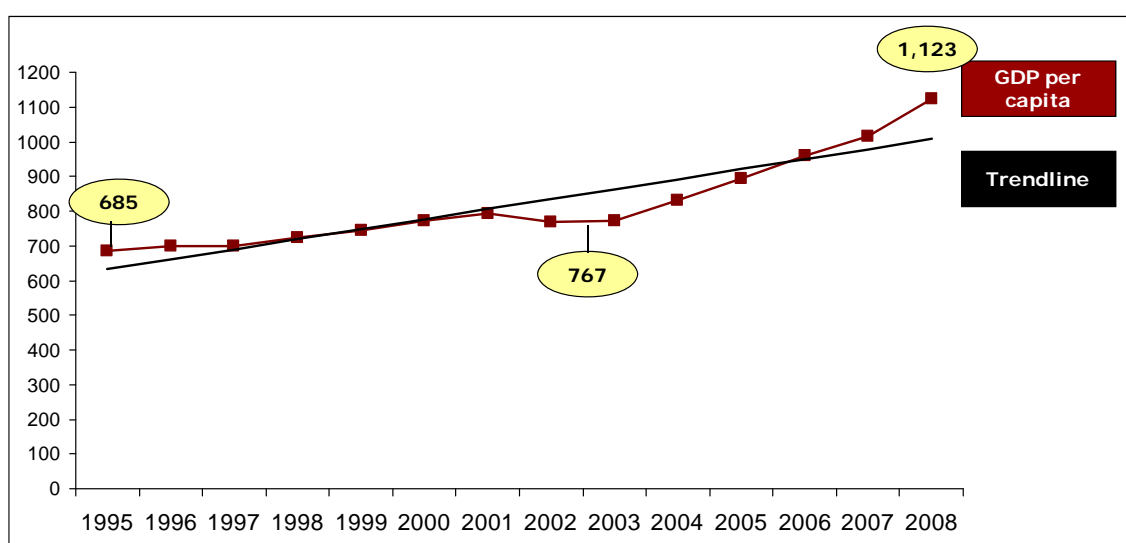
A more detailed overview of the Nicaraguan context can be found in annex 1.

### 2.1 Economic context

Today's economic context is still influenced by the country's history during the last four or five decades: major natural disasters (1972: Managua earthquake and 1998: Hurricane Mitch), the armed struggle and the North American blockade (1979: Sandinista revolution, the Contras' insurrection and the 1990 peace agreement), and IMF Structural Adjustment plans. This explains, at least partially, the relative poverty of Nicaragua as compared to the neighbouring countries. In monetary terms Nicaragua is among the poorest countries of Latin America.

#### A slow but constant GDP growth

**Figure 2.1 : Evolution of GDP per capita in current USD**



Source: Banco Central de Nicaragua (BCN)

From an absolute low of US\$950 in 1992, *per capita* GNI (at PPP<sup>4</sup>) reached US\$2,420 in 2007, which means a growth rate of 6.4% a year on average over the 15-year period. Even so, the GNI *per capita* recovered to its 1987 level only in 1999. Gross Domestic Product (GDP) *per capita* shows the same trend as GNI at PPP, increasing from US\$413 in 1992 in current prices to US\$1,123 in 2008 which represents an average growth rate of 6.1% per year over the last 16 years (see figure above)<sup>5</sup>. However between 2000 and 2008 real GDP had grown at an annual rate of around 3.7% while population grew 2.3% a year over the same period and reached 5.79m in 2008.

### Towards reduction of fiscal deficit<sup>6</sup>

During the 1980s Nicaragua developed a massive public debt and high dependence on foreign aid, both of which were reflected in huge fiscal deficits as compared to other countries in Latin America. After the war and the 1990 elections, the country followed a very strict IMF structural adjustment programme and since then was closely scrutinized by the Breton Wood institutions. The use of the budget as a policy instrument was therefore constrained by external factors. By 1998 the government had largely succeeded in reducing its fiscal deficit and its dependence of foreign aid to sustainable levels. This was achieved through a combination of structural reforms, austerity measures and debt relief. These efforts were largely undone by Hurricane Mitch which struck the region in October 1998 and reopened a large fiscal gap. Although post-hurricane reconstruction activities and the associated aid flows were winding down by 2001, the fiscal deficit prior to grants continued to grow to almost 10% of GDP and represented a primary deficit of -2.8% after grants. This was largely due to an important internal banking crisis which affected the national banking system in 2001-2002<sup>7</sup>.

The incoming Bolaños administration was forced to make drastic adjustments in 2002 to avoid a fiscal crisis. The reduction of the fiscal deficit was brought about mainly through increases in fiscal revenues, rather than a decline in expenditures. This increase was made possible through a series of tax reforms, followed by improvements in tax administration and a buoyant tax revenue response to a growing economy. Although total expenditures exhibited a significant decline in 2002 and 2003, they have since then grown again as a percentage of GDP to surpass the levels reached in the immediate aftermath of Hurricane Mitch. The deficit prior to grants gradually declined from 2002, yielding a primary fiscal surplus after grants in 2006<sup>7</sup>. This surplus reached 1.3% of GDP in 2007, but converted itself into a 0.7% deficit in 2008.

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<sup>4</sup> PPP= Purchasing Power Parity: data's on income are corrected for the internal price level in order to reflect the real purchasing power of an US\$ in Nicaragua and permit international comparisons.

<sup>5</sup> The large difference between GNI data at PPP and GDP data is mostly explained by the very high purchasing power of the US\$ in Nicaragua (almost double) compared with the USA.

<sup>6</sup> This section is based on : World Bank : Report No 39807-NI - Nicaragua Public Expenditure Review 2001-2006 – March 20, 2008, pp. 20-21, and on BCN statistics.

<sup>7</sup> According to sources from the BCN, this crisis would have cost Nicaragua almost 14% of its GDP and was mostly financed by external loans.



An important primary sector, a secondary sector based in *maquilas*

No significant changes have affected the structure of Nicaraguan GDP in the last ten years:

- The primary sector accounts for around 20% of GDP but the share of stock-breeding has increased in recent years. In 2000 the coffee crisis seriously affected producers and workers in the sector.
- The industrial sector accounted for about 24% of GDP in 2007. In absolute terms the sector has grown steadily but its relative share has decreased (e.g. compared with 31,4% in 1980) in favour of the tertiary sector. The industrial sector's share of GDP is accounted for mainly by the light textile production of the “maquilas” free zones.

Severe balance of payments current account deficit but restructured external debt

At macro-economic level Nicaragua suffers from a severe balance of payments current account deficit (see figure 2.2). Despite an increase in exports, mainly due to the influence of international markets favourable to traditional Nicaraguan export products such as meat, coffee and milk products, the deficit is structural; high imports of consumer goods sustain the negative trend. The current account deficit is essentially covered by remittances (\$739.6m in 2007 and \$818.1m in 2008) and usually Overseas Development Assistance (\$255.5m in 2007 or 7% of GDP and only \$193.6m in 2008).

**Figure 2.2 : Balance of payments (\$m)**

	1995	1997	1999	2001	2003	2005	2007	2008 p/
Current account balance	(726)	(847)	(937)	(805)	(663)	(734)	(1,001)	(1,513)
As above, % of GDP	22.0	25.0	25.0	19.6	16.2	14.6	17.5	23.2
Exports of goods	545	745	749	895	1,056	1,654	2,336	2,538
Imports of goods	930	1,473	1,820	1,805	2,027	2,956	4,094	4,749

Source: BCN <http://www.bcn.gob.ni/estadisticas/indicadores/6-3.htm> – p/: provisional data  
Data's between brackets have negative values

Exports are mainly directed towards North American and Central American markets. The EU is a limited and decreasing trading partner. Exports to the EU accounted for 14% of the total in 2007 and were mainly of coffee. Imports from the EU represent 10% of the total and mainly include machinery and chemical products.

Nicaraguan external debt attained extreme levels which placed the country among the “severely indebted low income countries”. As such it has benefited from the HIPC initiative, reaching the completion point in January 2004. The external debt was also re-negotiated with the Paris Club and other bilateral creditors. The total amount of external debt relief in 2004 was \$3,652m. The restructured external debt is no longer considered a major factor of macro-economic instability in the medium term; the main concern today is the level of internal debt.

**Figure 2.3 : External debt balance**

	1995	2000	2005	2006p/	2007p/	2008p/
External debt balance (\$m)	10,248.4	6,659.9	5,347.5	4,526.7	3,384.6	3,511.5
External debt balance (% of PIB)	321%	169%	110%	86%	59%	55%

*Source: BCN – p/: provisional data*

## 2.2 Social context

### High prevalence of poverty

While the overall poverty rate dropped between 1993 and 1998, the current rate (46.2% in 2005) is about the same as it was in 1998 (47.8%). Given significant population growth, this means that the number of poor people in Nicaragua is still rising: it increased by almost half a million between 1993 and 2005.

Poverty<sup>8</sup> still affects nearly half of the population, and extreme poverty afflicts 15 persons in 100 (14.9%)<sup>9</sup>. Poverty is largely a rural phenomenon (in 2005 65% of the poor and 80% of the extremely poor lived in rural areas) while migration movements are causing an increase in urban poverty in absolute terms. The two regions worse affected by poverty and extreme poverty are Rural Central and Rural Pacific: in these regions almost three out of four inhabitants were poor in 2005, while one out of three was extremely poor.

### Weak social indicators

The social context of Nicaragua is weak, the Human Development Index being among the lowest in Latin America. Nevertheless this index slightly improved during the period 1995-2005, the rankings at the start and end of the period being 96 and 86 respectively<sup>10</sup>. Nicaragua's HDI ranking is positive in comparison of its GDP. Again, taking the same cohort of 141 countries as above, Nicaragua ranked only 97 in terms of GDP *per capita*.

In terms of social indicators (see figure below), life expectancy is close to LAC average but most other indicators are below the average. Also noteworthy is the significant positive trend in the primary completion rate. Since 1995, no trend has been evident in access to water.

<sup>8</sup> See Vol II, Annex 8, p.6, footnote 9 for precise definitions of poverty and extreme poverty.

<sup>9</sup> Unless stated otherwise, all the data in this section on poverty come from: World Bank report No 39736-NI "Nicaragua Poverty Assessment, May 30, 2008.

<sup>10</sup> Own calculations based in HDR 2007 UNDP values. In the HDR of 2007, Nicaragua ranks 110 in 2005. This ranking considered more countries than the rank above.

**Figure 2.4 : Health and education indicators**

	1995	2000	2005	2006	Average LAC 2006
Life expectancy at birth, total (years)	67	70	72	72	73
Malnutrition prevalence, weight for age (% of children under 5)	-	10b	..	..	7e
Mortality rate, under-5 (per 1,000)	53	43	37	36	26
Births attended by skilled health staff (% of total)	-	65d	-	-	88
Improved water source (% of population with access)	74	76	79	-	91
Literacy (% of population age 15+)				77	90
Primary enrolment (% of relevant age group)	79a	77b	87	-	96f
Primary completion rate, total (% of relevant age group)	55	66	74	73	96h
Ratio of girls to boys in primary and secondary education (%)	109c	105	102	102	102g

Notes: a-1993, b-1999, c-1991, d-1998, e-1995-2004, f-89-94, g-2004, h-2000-2005 – Sources: WB - UNDP

As regards the Millennium Development Goals, the first follow-up report was published in 2003. Overall, expectations for the attainment of the majority of the targets by 2015 are low<sup>11</sup>.

#### Gender inequality

Regarding gender issues, neither women's access to education nor the level of adult illiteracy exhibit undue inequalities with men. But other indicators are not so positive. Women's earned income is very low in comparison with men's (29.5% in 1994 and 24.1% in 2004 - UNDP), household responsibilities constraining women's work outside their homes. The pregnancy rate among adolescents (15-19 year old group) is the highest in Latin America. Furthermore Nicaraguan women face persistent discrimination; the incidence of domestic violence is high; sexual abuse is reported by about one-third of women<sup>12</sup>. Legal therapeutic abortion has been abolished in 2006 and its penalisation approved in November 2007. This has marked an important backward movement in women rights.

#### Vulnerability to natural disasters

The population is highly vulnerable to adverse natural factors. Nicaragua is subject to regular earthquakes, volcanic eruptions, heavy flooding, destructive tropical storms and hurricanes

Hurricane Mitch (end of October 1998) was a major natural disaster. Around two million people were directly affected across the country. Hurricane Mitch's damage in Nicaragua was estimated at around \$1 billion; it left between 500,000 and 800,000 homeless and caused at least 3,800 fatalities<sup>13</sup>. More recently, in 2007 Hurricane Felix barely impacted on the northern Caribbean Coast.

<sup>11</sup> UNS, IDB, WB, CONPES, Metas de Desarrollo, Seguimiento a la Cumbre del Milenio - Nicaragua 1º Informe, 2003

<sup>12</sup> INIDE-Ministerio de salud, Encuesta Nicaragüense de Demografía y Salud, 2006/07, p. 29.

<sup>13</sup> US National Climatic Data Center (2004) - Mitch: The Deadliest Atlantic Hurricane Since 1780

## 2.3 Government priorities

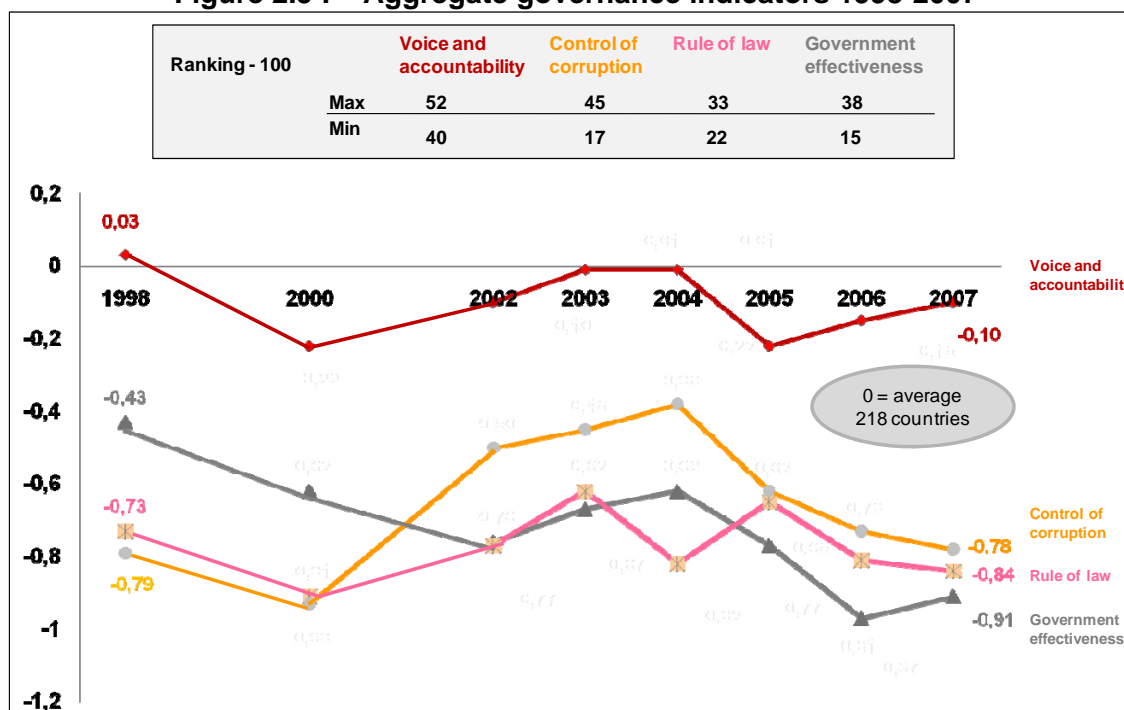
### Alternating governments

Nicaraguan political life has experienced radical changes over the last 30 years since the hereditary dictatorship of the Somoza family (1936-1979) was ended by the Sandinista Revolution. The *Frente Sandinista de Liberacion Nacional (FSLN)* ruled the country during the 1980s but the period was characterised by the armed conflict with the Contras financed by the United States. The election of Violeta Barrios de Chamorro in 1990 launched the country's quadruple transition: to peace, to a market economy, to a modern liberal democratic system, and to a conservative government.

Today the political context is dominated by two parties: the *Partido Liberal Constitucionalista (PLC)* and the FSLN. The trend is towards a *de facto* bipartite system and to alternating governments. During the last 10 years election results have revealed differences of about 13-14% of the votes between the two parties. Given the important weight of the party in opposition, arrangements for power-sharing are made following each election. The most important is El Pacto of 2000, a political agreement between Daniel Ortega (FSLN) and the then President Arnoldo Aleman of the PLC, which continues to have an impact on political life. This pact united their two parties in the National Assembly granting about 90% of the seats. This allowed the two parties to exert influence over most of Nicaragua's public institutions including the Supreme Court and the Supreme Electoral Council. As a consequence other smaller political parties are marginalized or excluded from political life. These new political forces challenge this power-sharing agreement and aim to offer an alternative to the traditional two-party system.

From 1998 to 2008, the period of reference of the evaluation, the country was ruled by three different governments. Arnoldo Aleman (PLC: 1996-2001), Enrique Bolaños (PLC: 2002-2006), Daniel Ortega (FSLN: 2007 and ongoing). Although Bolaños belonged initially to the same political party as Aleman, he created a dissident movement and his government ruled against the majority opposition of both PLC and FSLN.

**Figure 2.5 : Aggregate governance indicators 1998-2007**



Source: World Bank: The worldwide Governance Research Indicators Dataset.  
[http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp)

### Governance indicators

The perception of Nicaragua's governance situation is well illustrated by the four indicators shown above (Figure 2.5). The 0 line represents the average for the 218 countries covered by the surveys on governance, the absolute higher value being +2.5 and the lower -2.5. Nicaragua is far below the average, except on the criterion of 'voice' and 'accountability'. Over the period the trend is almost stable but negative for government effectiveness. The ranking is calculated on 100 as the best position, 0 being the worst. The rankings provided here are the extremes reached during the period. Percentile rank indicates the % of countries worldwide that rate below Nicaragua.

### Successive development strategies

During the reference period, the long term vision on the development of Nicaragua and fight against poverty was translated into three different and successive strategies:

- the Strengthened Growth and Poverty Reduction Strategy (SGPRS or ERCERP in Spanish) of 2001, this was a precondition to the HIPC and the first PRSP.
- the National Development Plan (NDP or PND in Spanish) of 2005 which is the PRSP II, and
- the National Human Development Plan (PNDH) of 2008<sup>14</sup>.

The different political stances of the successive presidents and the highly polarised political debate limited and still limits the possibility of these documents reflecting some kind of a national consensus rather than merely the programme of the ruling government.

## 2.4 Intervention of international donors<sup>15</sup>

Over the period 1998-2006<sup>16</sup>, US\$7.6 billion of ODA was committed to Nicaragua. This represented 20% of its total GNP over the period and 90% of its exports. The annual average of ODA *per capita* was US\$160.48. These figures reflect a high level of dependency on ODA resources.

ODA grants accounted for 69.5% (US\$5.2 billion). In grant terms, the USA is the largest ODA donor to Nicaragua. Its grants account for 11.8% of total ODA committed during the period, with especially strong increases in 2005 and 2006. It is closely followed by Spain (10.5%) and Germany (9.9%), both showing significant commitments in 2004. Other important donors are Japan and the EC (respectively 6.4% and 5.8%). The EC is the fifth largest donor with US\$437.13m committed during the period 1998-2006, accounting for 8.3% of total ODA.

The EU Member States and the EC accounted for around 65% of the ODA grants. Sweden (4% of ODA) and the UK are at present implementing phasing-out strategies<sup>17</sup>. The Netherlands, Denmark, France, Italy, Finland, Austria, Luxembourg, Belgium, and Ireland (these last two only through NGO co-financing) are the other contributing EU countries.

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<sup>14</sup> This document has not been accepted by donors as a valid PRS and therefore it is not yet considered as the PRSP III.

<sup>15</sup> Additional information on ODA to Nicaragua can be retrieved in annex 3.

<sup>16</sup> Source: OECD-DAC CRS, For 2007 and 2008 statistics are not yet fully consolidated.

<sup>17</sup> Sweden has been a long-standing donor to Nicaragua and started its development cooperation following the Sandinista revolution. Its development cooperation will end in 2011.

Loans accounted for 30.3% of ODA. They were mainly attributable to the IDB special fund and the IDA. Bilateral loans accounted for 2% of total ODA.

Social infrastructures and services received 27% of grant commitments with an important share devoted to Government (ie good governance) and Civil Society<sup>18</sup>, but also to education and health. Water supply and sanitation only received 3% of the total amounts. Little efforts target the rural zones: 4% is devoted to integrated rural development and 5% are devoted to agriculture. Action relating to debt was during the period the sector receiving the highest amounts.

#### Intensive dialogue with international donors and macroeconomic focus<sup>19</sup>

The relationship between the Government of Nicaragua (GoN) and international donors changed during the period 1998–2008 as a dialogue opened up from a mainly macroeconomic focus to include poverty reduction and governance issues and pave the way to BS.

This change was influenced by the Heavily Indebted Poor Countries (HIPC) initiative and the Poverty Reduction Strategy Paper (PRSP) process. Nicaragua arrived at the decision point of the HIPC initiative in December 2001 and at the completion point in January 2004.

In parallel, the Bolaños administration had from 2002 undertaken reforms in aid management and coordination based on implementation of sector roundtables and the development of sector-wide approaches (SWAs).

In 2003 the international aid coordination forum started discussions on the necessary preconditions for providing sector and general budget support (SBS and GBS). The key initiative by donors on the development of GBS in Nicaragua took place in 2003 with the formation of the Budget Support Group (BSG) as the donor's forum for discussing BS. With rotating leadership, this group has involved a wide group of bilateral and multilateral donors. Current members include: the EC, Finland, Germany, Inter-American Development Bank (IADB), the Netherlands, Norway, Switzerland, the United Kingdom (UK) and the WB.

Disbursements of the first BS programmes started in 2002 with Sweden's provision of GBS<sup>20</sup>. The EC and the WB then also provided GBS in 2004: Poverty Reduction Support Credit (PRSC) from the WB and GBS for the Education Sector (PAPSE) from the EC. The first formal harmonised arrangement was agreed in mid-2005, when the Joint Financing Arrangement (JFA) developed by the BSG was signed by nine donors and the GoN. The JFA established the mechanisms for dialogue, review, disbursement and reporting, and includes a Performance Assessment Matrix (PAM).

Since 2005 Nicaragua has its own National Plan for Harmonization and Alignment which was endorsed by the Donor Community.

Until 2007 Nicaragua was considered a pilot country for the application of the Paris Declaration principles.

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<sup>18</sup> This category includes institutional support, defence of human rights, elections but also strengthening of civil society.

<sup>19</sup> This section is mostly extracted from Gosparini, P. et al.: "Joint Evaluation of General Budget Support 1994-2004 – Nicaragua country Evaluation", May 2006.

<sup>20</sup> Sweden abandoned Budget Support to Nicaragua in 2007.

## **3. EC intervention in Nicaragua**

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The purpose of this chapter is to present EC's cooperation strategy with Nicaragua over the period 1998-2008. It first describes the overall framework that structures the bilateral cooperation. Secondly, it presents and analyses the strategic orientations of EC support to Nicaragua. And finally, provides an overview of the real commitments engaged in Nicaragua. More detailed information is available in annexes 4, 5, 6 and 7.

### 3.1 Overall framework

#### **3.1.1 The European Community's development policy**

The EC intervention in Nicaragua is part of the European Community's development policy as embodied in Article 177 of the **Treaty establishing the European Community** as per the version adopted at the Maastricht summit in 1992. According to it the European Community policy in the sphere of development cooperation shall foster:

- sustainable economic and social development of developing countries, and more particularly the most disadvantaged among them;
- smooth and gradual integration of the developing countries into the world economy;
- a campaign against poverty in the developing countries.

Moreover, the Treaty stressed that this policy shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to respect for human rights and fundamental freedoms.

In the **Statement of 20 November 2000 on the development policy of the European Community**<sup>21</sup>, the Council and the EC reaffirmed the Community's principles of solidarity with developing countries and stated that the principal aim of the Community's development policy is to reduce poverty with a view to its eventual eradication. It also highlighted various additional principles such as the need for ownership, for quality dialogue with the partner countries, for fostering of donor coordination, and for concentration of EC activities on a limited number of areas in which the EC provides added value.

These principles were reaffirmed in the Joint Declaration by the Council, the European Parliament and the EC on an EU development policy, "**The European Consensus**" (COM (2005)311).

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<sup>21</sup> Source : The European Community's Development Policy - Statement by the Council and the Commission

### 3.1.2 European Community cooperation with Latin and Central America<sup>22</sup>

Bilateral dialogue EC-Nicaragua is also fostered by regional and sub-regional dialogue with Latin and Central America. This dialogue dates back to the 1960s and relations were greatly strengthened after the enlargement to Spain and Portugal (1986).

The relationship evolved through three dimensions – policy dialogue (with active Member States [MS] participation), preferential trade agreements, and a large cooperation framework which up until 2007 was under the auspices of the ALA regulation<sup>23</sup> but which has since been replaced by the Development Cooperation Instrument (DCI)<sup>24</sup>.

**At regional level** the policy dialogue has been structured around the **Rio Group**, a policy consultation forum established in 1986. Since 1987 an EU-Rio Group meeting has taken place annually at ministerial level to build up understanding and facilitate strategic partnership. This dialogue has materialised in numerous horizontal cooperation programmes such as AL-Invest, Al-Urban, Eurosocial and others.

Although dialogue at regional level is strong, **at sub-regional level** it has been maintained in parallel to reflect the significant asymmetries between the Andean countries and Central America. This dialogue was initiated by the EC and the MS in the 1980s. During its first years the so called **“San José Dialogue”** targeted the peace-building process and the democratisation of the region. This process was also supported by a significant increase in development aid and the adoption of the GSP drugs measures (Generalised System of Preferences)<sup>25</sup>.

In parallel with this intense political dialogue, discussions on the appropriate model to be followed for the **EU-CA Association Agreement** started in 1994 and are still continuing.

The cooperation dimension at sub-regional level began to be structured in 1998 with the first Regional Strategy Paper (1998-2000). Up until now the strategy has shown a clear continuum combining support for regional institutions and policies as well as support to civil society for participation in the regional integration process.

## 3.2 Cooperation with Nicaragua 1998-2008

Nicaragua has always been one of the main beneficiaries of the European Community's external aid to Central America. During the decade from 1980 to 1989 EC interventions in Nicaragua already amounted to 186m ecus. They covered mainly rural development projects in support of agrarian reform, food aid and NGO projects. In the early 1990s, following the 10-year civil war, considerable sums were engaged (178,4m ecus between 1990 and 1994) in support of the national reconciliation and reconstruction process. The main areas of cooperation were reinforcement of the democratisation process, food aid, and reintegration of ex-combatants<sup>26</sup>.

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<sup>22</sup> DRN, Evaluation of EC support to Central America, 2007

<sup>23</sup> Council Regulation EEC n°443/92 of February 1992 on financial and technical assistance to, and economic cooperation with, developing countries in Asia and Latin America.

<sup>24</sup> Regulation EC n°1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation.

<sup>25</sup> In 2005, the Commission adopted the SPG-plus. It includes an incentive regime conditioned to the adoption before December 31 2008 of labour and environmental legislations.

<sup>26</sup> European Commission, Definition of the EC mid-term cooperation strategy, September 1995



In 1998 began a transition from a strategy related to the peace process towards a strategy related to poverty reduction. The strategy for the evaluation period appears in the following documents:

- CSP for Nicaragua 1998-2000
- Memorandum of Understanding of March 2001
- CSP for Nicaragua 2002-2006 (May 2002) that covers also the MoU of 2001.
- CSP for Nicaragua 2007-2013 (April 2007)
- Memorandum of Understanding of 30 October 2007

These documents relate to three programming periods, 1998-2000, 2002-2006 and 2007-2013<sup>27</sup>. They provided the basis for the team's reconstruction of the intervention logic (following figure 3.1) for the entire period and the construction of an "expected impact diagram" that encapsulates in a single graphical representation the strategic orientations announced in the documents for the period (for more details on the intervention logic and the reconstruction method refer to annex 13).

### **3.2.1 Intervention logic : impacts, results and areas of intervention**

In terms of long-term impact the CSPs are not explicit. They mention the Community's development policy and the evaluation team therefore supposes that the strategy for Nicaragua is grounded on the long-term expected impacts mentioned in the Treaty establishing the European Community. Poverty reduction is central to the strategy (for this reason the text is in bold).

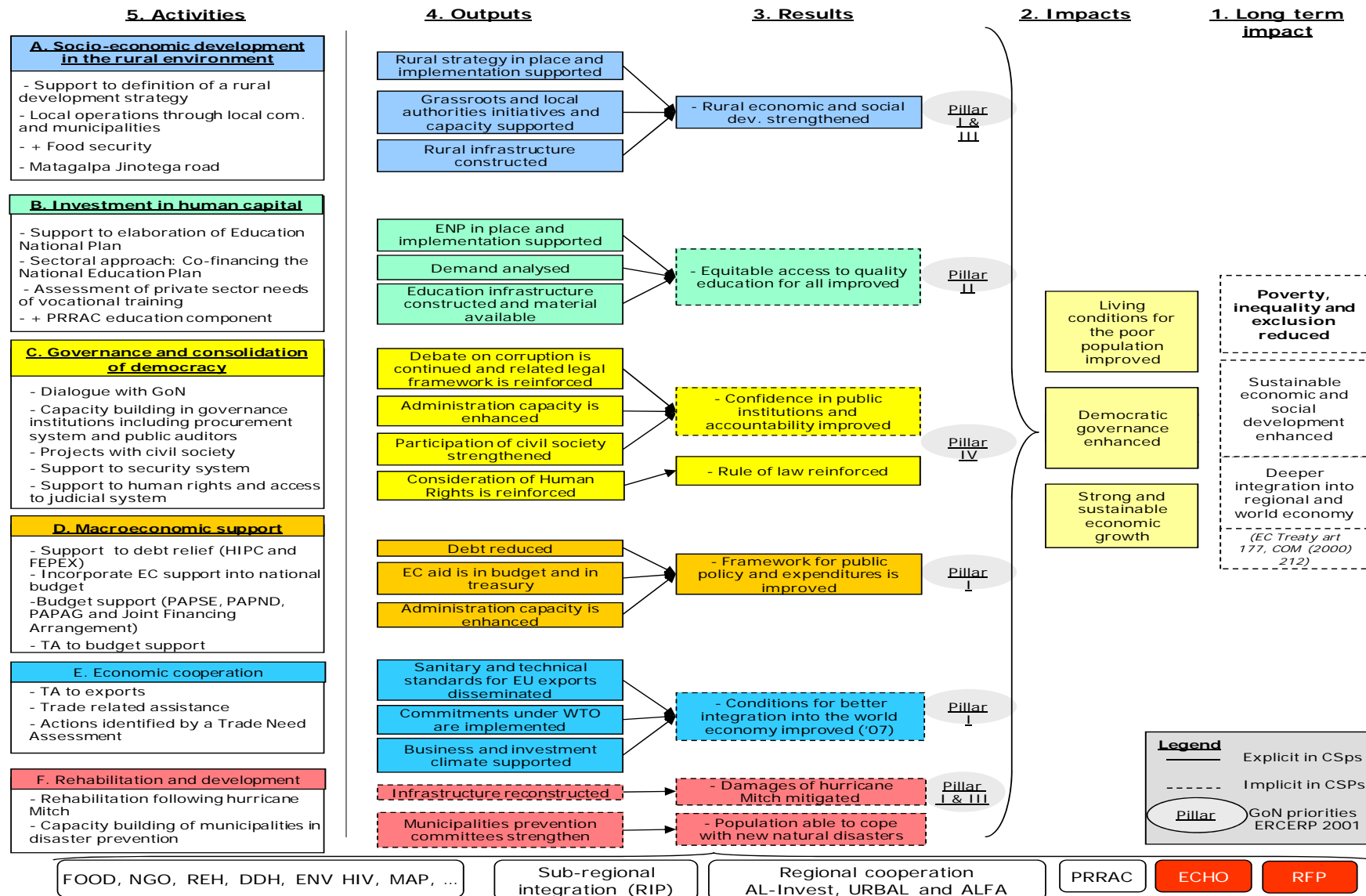
The second column from the right refers to expected impacts as reflected in the different CSPs.

- The first impact, **living conditions for the poor population improved**, is considered in the 1998, 2002 and 2007 CSPs although this formulation is explicit only in the last.
- The next impact, **democratic governance enhanced**, has been a priority of the EC's cooperation since 1990, and reflects a progressive shift from peace consolidation to good governance.
- The third impact, **strong and sustainable economic growth**, was already present in the 1998 and 2002 CSPs but only in terms of increasing wealth for the rural populations. The 2007 CSP gives a new emphasis to economic development reflecting the recent importance given to economic development encompassing wealth but also a competitive economy, macroeconomic stability, and regional and world integration.
- Causal links to long term impacts are straightforward for impacts 1 and 3. This is less true for impact 2 (democratic governance enhanced), which has a weak and much debated link both with Sustainable Economic and Social Development and with Poverty Reduction.

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<sup>27</sup> Only the two first year (2007 and 2008) and design aspects of the 2007-2013 period are covered by the evaluation.

Figure 3.1 : Expected impact diagram



The third column from the right refers to the expected medium-term results which should generate the impacts indicated in column 2. This third column as well as outputs column 4 and activities column 5 are structured through 6 areas of cooperation (see annex 4 for more details):

- Rural development ;
- Investment in human capital ;
- Governance and consolidation of democracy ;
- Macro-economic support;
- Economic cooperation; and,
- Rehabilitation and development.

The CSPs also mention the potential benefits of using other budget lines in its cooperation with Nicaragua. These comprise regional and sub-regional funds as well as thematic budget lines. They are listed in the bottom line of the diagram.

The diagram also takes into consideration other budget lines that the CSPs foresee as potentially benefiting the country. These are thematic budget lines like: NGO, REH, HIV but also ECHO activities or regional programmes like AL-Invest, URBAL and ALFA.

### **3.2.2 Evolution of the strategy**

Considering that even the circumstantial priority imposed by hurricane Mitch has lasted almost ten years, the EC's cooperation with Nicaragua has been characterised by continuity, at least in the choice of its sector priorities.

The 2002-2006 CSP introduces four major changes in comparison with the previous period:

- 1) The EC expects Nicaragua to define the priorities of its development and to assume the leadership, the key dimensions being alignment on the national strategy (ERCERP) and an emphasis on ownership. In the diagram the grey zones show the alignment with the ERCEP pillars.
- 2) Concentration of interventions in a smaller number of sectors and programmes in order to increase effectiveness.
- 3) Shift from a project approach to a sector approach: aid concentrating on a few well-articulated sector policies; promotion of permanent dialogue with the GoN and other donors (alignment and harmonisation); the possibility of introducing BS; emphasis on sustainability in intervention design.
- 4) Strong stress on the importance of internal coordination between different programmes and budget lines, and on complementarities with other donors.

The main changes introduced by the 2007-2013 CSP are:

- 1) Further concentration of interventions on three focal sectors: (1) education, (2) economic and trade issues (divided in Macro-economic support and investment and business climate) and (3) good governance (divided in Governance Facility and Governance&Democracy). Investment and business climate benefited during the previous period of support as a non focal sector. The other focal sectors were

already supported as such in the previous period. Development in rural areas, a historic focal sector, was abandoned as focal sector but, according to the CSP, it should be mainstreamed across the other areas of interventions.

- 2) Consolidation of the orientation towards non-earmarked BS.

Finally three important topics are considered:

- 1) The installation of PRRAC in 2000 which, owing to its experience of direct programme administration, facilitated the initial functioning of the Delegation on its installation
- 2) The opening of the EC's Delegation in Managua in 2002 and the application of the EC's devolution policy.
- 3) The new instruments for external aid for the 2007-2013 period, during which the ALA and thematic budget line Regulations were replaced by the DCI N°1905/2006 Regulation, which implies, amongst others, that most of NGO's financing is decided locally .

### 3.3 The allocation of financial resources

#### 3.3.1 Strategic allocations

The National Indicative Programme (NIP) 2002-2006 and the NIP 2007-2013 foresee for their respective periods an indicative allocation per area of intervention. This is presented in the table below.

This information should be treated with caution as the information for the period 1998-2000 is missing. Also, the table only concerns NIPs resources which are resources of the ALA budget line and does not include allocations of thematic budget lines which are not integrated in the NIP or multiannually programmed<sup>28</sup>.

**Figure 3.2 : Strategic allocations of the NIP 2002-2006 and 2007-2013**

	NIP 2002-2006	NIP 2007-2013
Socio-economic development in rural areas	€103m Focal Sector	-
Investment in human capital	€40m Focal Sector	€74.9m Focal Sector
Support to good governance and consolidation of democracy	€17m Focal Sector	€37.45m Focal Sector
Macro-economic support	-	€42.8m Focal Sector
Economic cooperation (Investment and Business Climate)	€5m Non focal sector*	€48.15m Focal Sector
Other	€11,5m Non focal sector	€10.7m – Institutional support for sector programmes
<b>TOTAL</b>	<b>€176,5m</b>	<b>€214m</b>
For info:	Other budget lines 2002-2006: €114.9m** NIP 1998-2000: €139m***-	

Source: CSP-2002-2006, CSP 2007-2013 NB: \* Financed through the Economic cooperation budget line - \*\* The CSP 2002-2006 gives an indication of amounts already committed for the period within other budget lines: €15m Food Security, €84m PRRAC (of which 19.5m in the area of education), €15.9m as a participation to the HIPC initiative. TOTAL: €114.9m - \*\*\* Strategic allocations for the period 1998-2000 were not available - Team estimation

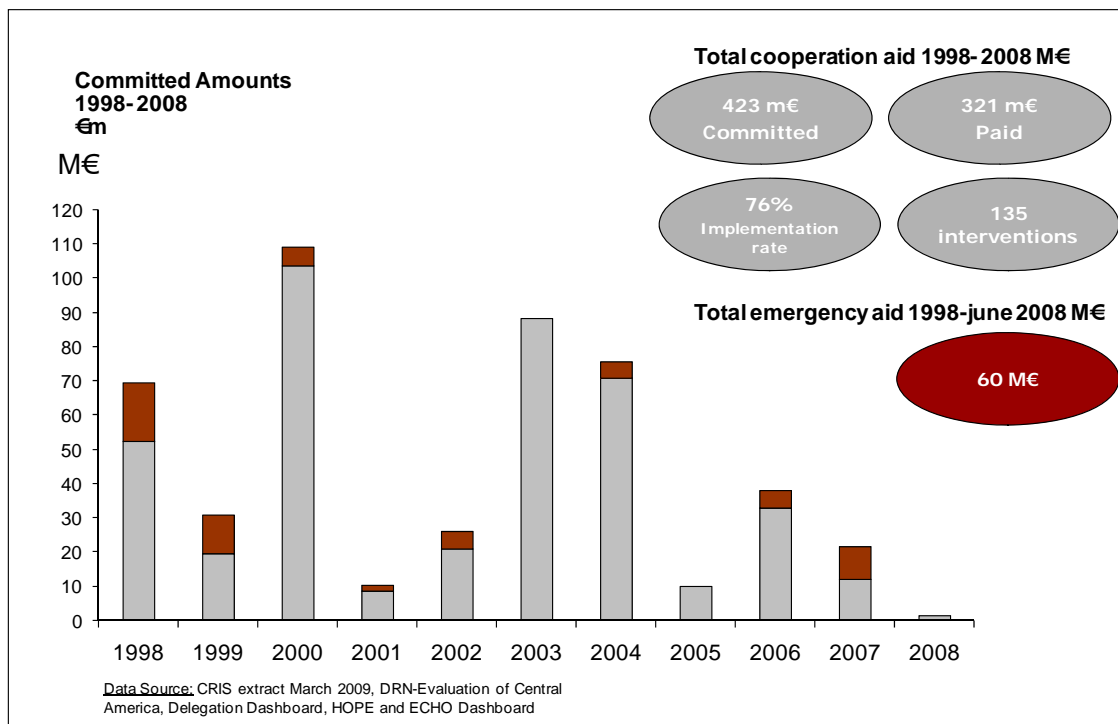
<sup>28</sup> For this reason thematic budget lines are also called not programmable budget lines.

### 3.3.2 Commitments

In terms of actual commitments of financial resources, from 1998 to 2008 the EC for its cooperation with Nicaragua committed €423m and disbursed €321m over 135 interventions.

As regards the funds managed by ECHO, the EC disbursed an additional amount of €60m for emergency and humanitarian purposes.

**Figure 3.3 : Committed amounts 1998- 2008, in €m**



As Figure 3.3 shows, commitments varied over the years. This rhythm reflects programming periods and also commitments to big programmes, namely:

- the PRRAC in 2000 (€84m) a reconstruction programme following Hurricane Mitch ;
- the PAPSE in 2002 (€50m) a SBS in favour of education ; and,
- the PAPND in 2004 (€68m) a GBS in favour of macro-economic support.

For the year 2008, commitments are only the fact of thematic programmes. No interventions under the geographical programme 2007-2013, have yet been executed as no agreement has been found with the new government or because some interventions are still in the formulation phase.

For ECHO funds, commitments in 1998 and 1999 were due to the consequences of Hurricane Mitch. Commitments in 2007 were related to Hurricane Felix which affected the Atlantic Coast.

In terms of **sectoral distribution** (see Figure 3.4), investment in human capital, socio-economic development in rural areas (see Figure 3.5), macro-economic support and urban development were the main areas.

Figure 3.4 : Repartition per area of intervention – Commitments 1998-2008

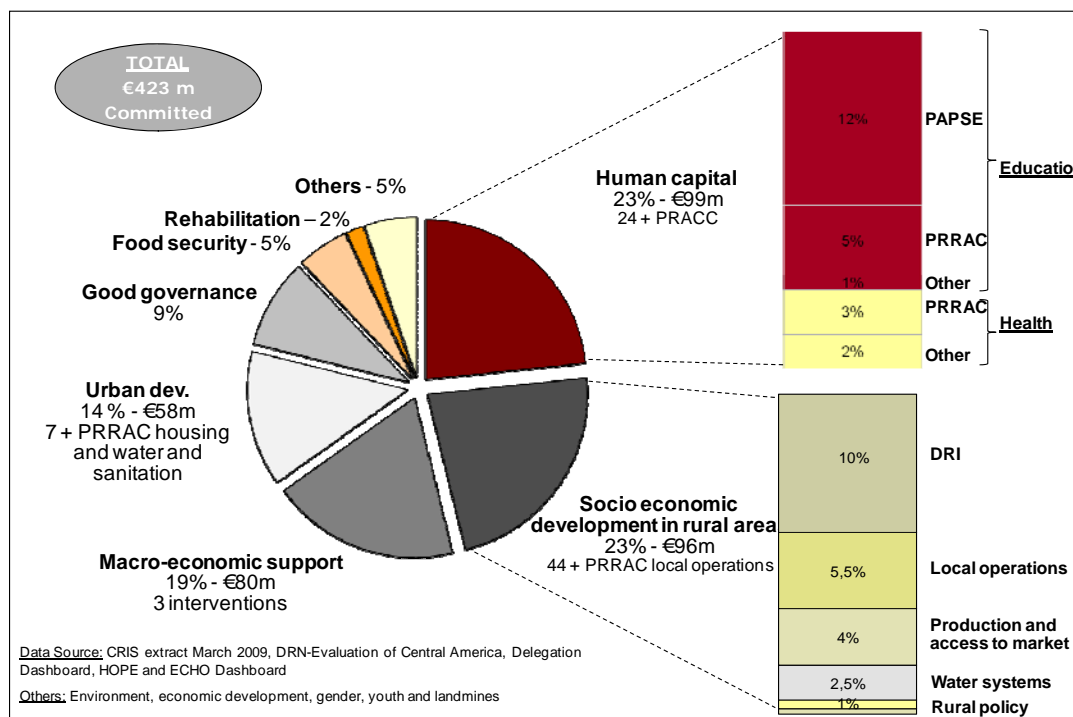


Figure 3.5 : What has been done in rural development?

Rural development was a focal sector of EC CSPs until 2007-2013. It was not only supported by ALA budget line but also by the food security and NGO budget lines. Support for socio-economic development in rural areas represented 23% (€96m) of EC commitments to Nicaragua for the period<sup>29</sup>. Interventions can be classified in the following typology:

- **DRI programmes** (*Programas de Desarrollo Rural Integrado*) – €41m: 4 programmes designed in coordination with the IDR (*Instituto de Desarrollo Rural*), implemented through three components credit, strengthening of municipalities and communities and rural roads rehabilitation. Each programme covered a region of the country: center, northern center, pacific and south, allowing therefore adaptation to the context of each region. They have been implemented over a long time laps and have therefore used different modalities of implementation. The last one started in 2003 and is due to end in 2009.
- Local interventions in **integrated rural development at local level** with components for the improvement of rural production but also for the strengthening of municipalities and communities (12 - €21.6m + PRRAC local operations €1.3m).
- Interventions aimed at **improving production capacity** through agricultural extension and which often include activities to improve market access. This category also comprises interventions promoting environmentally friendly and biological production and capacity building for agrarian producers associations (21 -€16.7m). Among these interventions support to quality coffee production to small producers has played an important role.
- Interventions for **drinkable water systems** in rural areas: mainly PRASNIC in the centre and northern-centre regions but also two small projects financed by PRRAC local operations (3 - €10.7m).

<sup>29</sup> This amount does not take into consideration commitments in other areas of interventions devoted to rural areas.

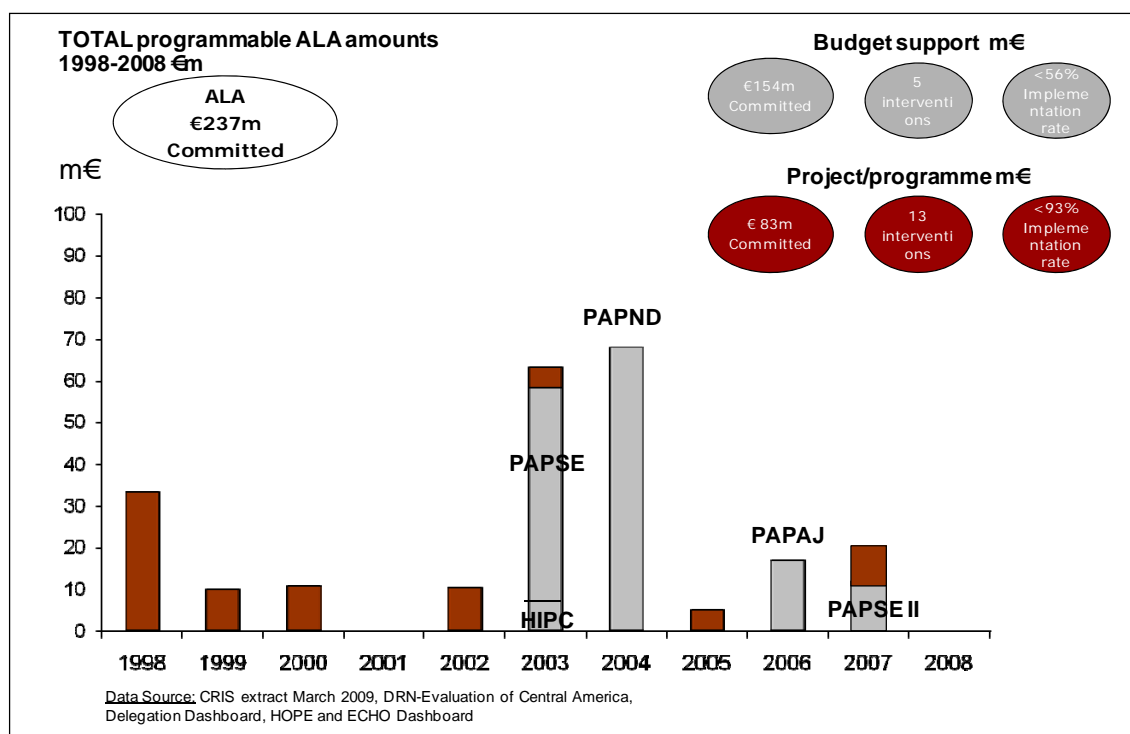
- Interventions in support to **rural policy** ( 3 - €2.5m). These comprise interventions at the field level such as support to the agrarian information system (€1.9m) and two small projects in support of legalisation of land. In addition to this amount, it should be noted that the HIPC support and the GBS programme the PAPND were initially programmed with a focus on rural policy. The PAINIC also provided technical assistance in the field of rural policy.

To this amount should be added commitments in other areas of interventions, such as education and health, that have been invested in rural areas contributing therefore to investment in social infrastructures and services.

**Commitments are highly concentrated:** 3 programmes (2%) amount for about 50% of the commitments. These are the PRRAC and 2 BS programmes (PAPND, PAPSE). But it is also significant that nearly 70% of the projects are of less than €1m. Three factors influence the size patterns presented in the table below:

- The use of BS modality through which commitments are high ;
- The PRRAC programme which amounted for €84m ;
- The significant use of thematic budget lines through which commitments are relatively small.

**Figure 3.6 : Shift towards BS modality in ALA programmable resources**



The possibility of using the **Budget Support modality** was introduced in the 2002-2006 CSP. As Figure 3.7 shows, BS was first committed in 2003. Since then, the bulk of ALA programmable resources (NIP) has been committed under this modality, specifically in focal sectors. This trend was intended to continue during the 2007-2013 period, but the EC suspended the use of this modality in Nicaragua following the deteriorating governance context. The BS programmes are:

- The PAPND (*Programa de apoyo al Plan Nacional de Desarrollo*), a GBS intervention - € 68m ;
- The PAPSE (*Programa de apoyo presupuestario sectorial para la educación*), SBS programme for education - €50m;
- The PAPAJ (*Programa de apoyo presupuestario de acceso a la justicia*) - €17m.
- The HIPC support that dates back to 2003 - €7.5 although the mechanisms were different.

It should be noted that BS only concerns programmable resources, the thematic budget lines still being implemented through a project or programme approach.

The **PRRAC** (*Programa de reconstrucción regional para América Central*) was identified as a response to the damages caused by the hurricane Mitch. The PPRAC commitments amounted to €84m in Nicaragua. Three other Central America countries also benefited from their PRRAC: Honduras, El Salvador and Guatemala. The programme was designed following Hurricane Mitch with a view to continuation of reconstruction after the end of emergency aid. It started in 2000 and finished end 2008. This programme financed interventions in five sectors: urban development, education, health, local development and rural water systems<sup>30</sup>.

### Figure 3.7 : The PRRAC in Brief

The PRRAC was structured through sub-programmes implemented through three different modalities :

1. Projects with PMU, so called big projects - This concerned in Nicaragua 88% of the total funds:
  - FORSIMA – Rehabilitation and strengthening of the primary health services of Managua SILAIS – €10m
  - FOSED – Education infrastructure and equipment in Nueva Segovia and RAAN, support to the curricula of RAAN – €18,7m
  - PRIESO - Water and sanitation, housing and municipalities strengthening in Estelí and Ocotal – €18,9m
  - PROMAPER – Water and sanitation, housing and municipality strengthening in Ciudad Sandino – €23,9m
  - Natural Risk Maps for three intervention zones of the PRRAC.

The contracts for this group of projects were signed between Nov. 2001 and May 2002.

2. Projects contracted with public or para-public entities or international organisation – 5 projects totalling €5.1m 6%. The first contract (contribution agreement) for this group of projects was signed in Dec. 2000.

3. Call for proposals local to NGOs for local initiatives – 17 projects totalling €4,9m – 6%. The contracts (grant agreements) for this group were signed in three periods: 11 in March 2001, 3 in Feb-March 2002 and 4 in Dec-Jan 2003.

The PRRAC was managed through an EC devolved structure in Managua covering the four countries. The structure was settled between August and October 2000. It was assisted during the first years by a programme of technical assistance “PRRAC : Identification and AT”: – €8.2m (Oct. 1999 – Oct. 2002).

<sup>30</sup> See annex 5 for a detailed sectoral distribution of PRRAC commitments. See annex 6 for a detailed chronology of EC Post-Mitch interventions.



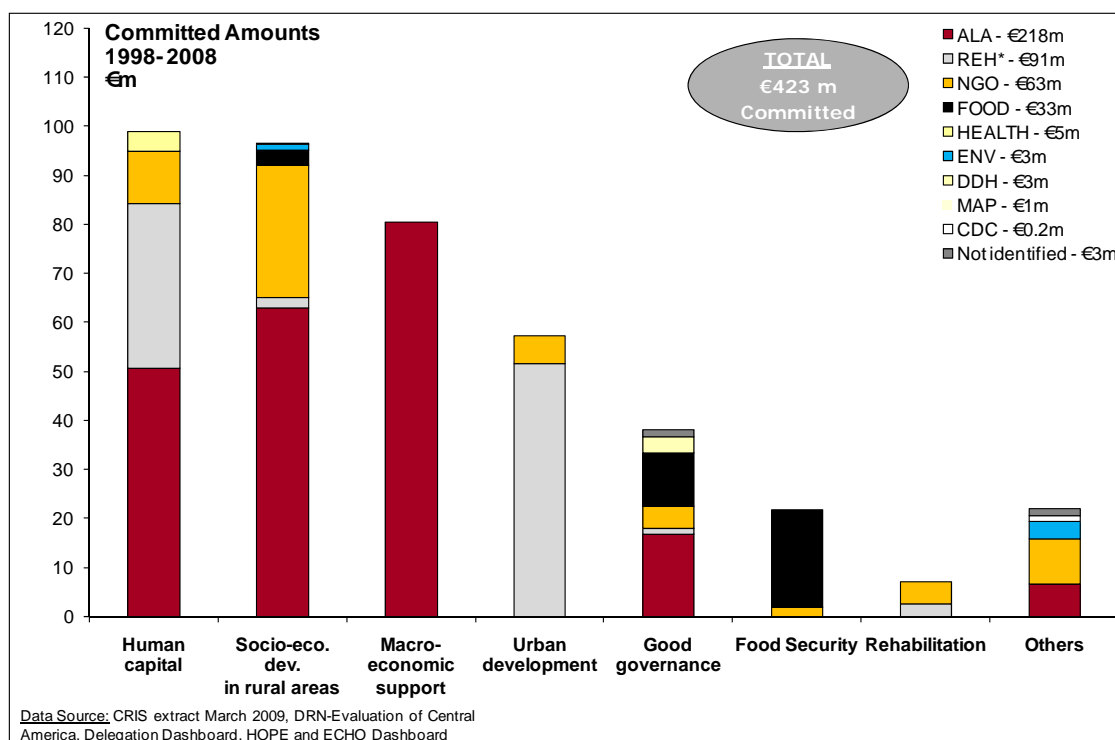
In terms of **financial instruments**, Nicaragua is a major recipient of thematic budget lines. PRACC set aside<sup>31</sup>, the thematic budget lines represents 28% of the commitments. The large number of interventions should be noted also (120 – 88%). The average size of an intervention under these financial instruments is of €1m.

Except the PRRAC and FOOD, the other budget lines (NGO, Health, Env, DDH, MAP, CDC) are mainly mobilised through call for proposals for non state actors. Even if a multi-actor and a multi-level approach is beneficial, a wide use of a call for proposal system might push for a multitude of scattered interventions hampering a strategic approach in the field. This effect is increased when calls for proposals are launched at multi-country level<sup>32</sup>.

Furthermore, the funds of the thematic budget lines are additional to the programmable NIP financed under the ALA regulation<sup>33</sup> and therefore are not considered in the strategic exercise of the CSP.

The sectoral breakdown of the commitments of thematic budget line provides an overview on how they could impact the strategic vision initially presented in the CSP. The Figure 3.9 below shows the financial instruments used for the main areas of intervention.

**Figure 3.8 : Financial instruments by area of intervention**



<sup>31</sup> PRRAC commitment amounts to €84m. Including the PRRAC, the thematic budget lines funds amount to 48% of the total.

<sup>32</sup> See “Evaluation of EC aid channelled through civil society organisations”, 2008

<sup>33</sup> Since 2007, the ALA regulation and the thematic budget lines have been replaced by the DCI which comprises the geographical programme and the thematic programmes. In Nicaragua only DCI thematic programmes have been mobilised so far.



## 4. Answers to the Evaluation Questions

The answers to the Evaluation Questions are presented in this chapter, together with the findings on which they are based and the related analysis. Details of the underlying facts can be found at the level of indicators presented in the data collection grids in annex 8. Details about the definition and selection of the Evaluation Questions can be found in annex 14.

**Figure 4.1: Evaluation Questions in brief**

<p style="text-align: center;"><b>EQ 1 on Relevance of the Strategy</b></p> <p>EQ1 To what extent (i) does the EC strategy in Nicaragua and its evolution respond to the needs and priorities of the population,(ii) is it in line with the priorities set by the successive Governments of Nicaragua in their development policies and (iii) is it in line with the European Community's development cooperation policy?</p>
<p style="text-align: center;"><b>EQ 2 on Rural Development</b></p> <p>EQ2. To what extent did the EC interventions in rural areas (including food security) strengthen local economic and social development and ultimately improve sustainably socio-economic conditions of poor local communities?</p>
<p style="text-align: center;"><b>EQ 3 on Good Governance</b></p> <p>EQ3. How successful has the EC been in contributing to improvement of confidence in public institutions, of accountability and in the reinforcement of the rule of law, and ultimately in the promotion of good governance within the areas it has supported?</p>
<p style="text-align: center;"><b>EQ 4 on Budget Support</b></p> <p>EQ4. To what extent have the EC interventions through budget support been adapted to the national context, and to what extent have they contributed to improve the framework for public policy and expenditure?</p>
<p style="text-align: center;"><b>EQ 5 on Linking Relief, Rehabilitation and Development</b></p> <p>EQ5. To what extent did the EC interventions with respect to rehabilitation following Hurricane Mitch link relief, rehabilitation and development and were they coordinated with and reinforce other EC interventions?</p>
<p style="text-align: center;"><b>EQ 6 on Education</b></p> <p>EQ6. To what extent has EC support contributed to improving equitable access to quality education for all?</p>
<p style="text-align: center;"><b>EQ 7 on Efficiency</b></p> <p>EQ7. To what extent have the financial and human resources been used to reach objectives in a timely and cost effective manner, and was the regulatory and administrative framework appropriate for doing this?</p>
<p style="text-align: center;"><b>EQ 8 on CCIs: Gender, Environment and Decentralisation</b></p> <p>EQ8. To what extent were issues related to gender, environment and decentralisation taken into account in the design and implementation of the interventions?</p>
<p style="text-align: center;"><b>EQ 9 on the 3Cs</b></p> <p>EQ9 To what extent was the EC strategy designed and implemented in coordination with Member States and other donors so as to foster complementarities? To what extent are other EC policies coherent with the EC cooperation strategy in Nicaragua?</p>

#### 4.1 EQ1: on relevance of the strategy

**EQ1 To what extent (i) does the EC strategy in Nicaragua and its evolution respond to the needs and priorities of the population, (ii) is it in line with the priorities set by the successive Governments of Nicaragua in their development policies and (iii) is in line with the European Community's development cooperation policy?**

*This question assesses the relevance of the strategy. A relevant strategy has been defined as being based on a clear identification of needs and as addressing the priorities defined by the Government, while staying in line with the objectives of the European Community's development policy. The capacity to change and adapt is also an essential characteristic.*

##### Summary box EQ 1 on relevance of the strategy

The EC strategy was in line with the national poverty reduction strategies which, until 2006, were accepted by the donor community. Furthermore, unlike the previous strategies, the 2007-2013 CSP passed through an extensive consultation process which allowed the main stakeholders in the international cooperation programme, public and private, to express their views. As an expression of bilateral cooperation, the successive CSPs were preoccupied with alignment on government strategies, but whether these were based on a clear identification of the population's priorities is a matter of debates.

Alignment on government strategies was a constant preoccupation of the two last EC CSPs but, following the 2007 change of government, implementation of the 2007-2013 CSP was rendered difficult because of significant strategic changes in public policies. This illustrates the tension that exists between the need for a long-term strategy on the one hand, and on the other the need to be -and stay - aligned with government priorities. It also shows the difficulty of respecting the Paris Declaration principles when there are important differences of view between government and donors on governance and public policies.

At a documentary level the link between CSPs and the EC's global objectives is strong, but the link with its regional strategies (RSP) is weak. There is only one common focal sector, namely Business and Investment Climate. RSPs and CSPs coexist and evolve at different, albeit parallel, levels.

Three main strategic changes in EC cooperation have been identified and analysed: (1) the shift to budget support; (2) the abandonment of rural development as one of the focal sectors of EC cooperation; and (3) the support for a business and investment climate as a new focal sector. None of these changes was motivated by past experience, comparative advantage or division of labour. All three are partially or totally explained by a mixture of changes in the national, European and international contexts, by newly-available analytical data, and above all by changes in the EC's policies. However it should be noted that "business climate" is the sector covered by the highest number of different donor agencies.

#### **4.1.1 At least until 2006, EC strategy was in line with national poverty reduction strategies. These reflected the orientation of the governments (JC 1.1)**

The successive Poverty Reduction Strategies (PRS) and Development Plans produced by the different GoN, at least until 2006<sup>34</sup> were not based on an extensive consultation process and in this sense it is unknown to what extent they have reflected the priorities of the population as a whole. Nor did the first two CSPs (1998-2000 and 2002-2006) employ participatory processes in their elaboration, but during the preparation of the third CSP (2007-2013) all stakeholders (GoN, National Assembly, other donors and civil society) were for the first time consulted, and there was also strong coordination with the Member States.

The main existing documentation on poverty in Nicaragua was consulted during the preparation of the CSPs and these were in line with the priorities of the GoN. Up at least until 2006 the EC strategy was based on national poverty reduction strategies jointly accepted by the donor community.

A gross sectoral analysis of EC interventions reveals that at least 60% of the €423m committed between June 1998 and June 2008 was “pro-poor”. This does not mean that the remaining 40% is “non-pro-poor” or “pro-rich”, but that a more precise judgement is precluded by lack of information.

#### **4.1.2 EC's strategies tend to reflect governments strategies but the different shifts in national policies make it difficult to stick to a long term development strategy (JC 1.2)**

Globally, the priorities of the 2001 ERCERP are reflected in the 2002-2006 CSP, while the priorities of the 2006 PNDo are reflected in the 2007-2013 CSP which favours budget support as a modality to the extent that it has to be a channel for at least 50% and up to 75% of total commitments. But since the Sandinista government came to power in January 2007, the PNDo can no longer be taken as a reference by the international donor community as it does not reflect the priorities of the current Government. The new plan (the PNDH) has not, up until now (beginning of 2009), received clear support from most of the donors.

This shift, in only a few years, from a rather traditional PRS (the ERCERP) to a strategy based on the free market and private sector (the PNDo), and from there to the Sandinista strategy (the PNDH) based on more centralisation, State intervention and control, illustrates the difficulty for the international cooperation agencies in designing a long-term strategy aligned (and kept aligned) on the government's priorities. In brief, the priorities of successive governments were reflected in the EC Strategies at least until 2006, but it is difficult to follow a unique long-term strategy when there are varying shifts in national policies.

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<sup>34</sup> The introduction to the Sandinista PNDH, released in 2007, claims that this document emerged from a broad consultation of the population which lasted 15 months.

During the Bolaños presidency (2002-2006) there was a clear feeling in the GoN that the EC and other donors were the best allies of the government and that there was strong coherence between the EC strategy (especially the Budget Support programme) and the government's strategy. But after the EC Budget Support Programme was suspended in November 2008 (along with most other European countries' budget support) because of clear violations, on the part of the GoN, of some of the general governance conditions stated in the JFA<sup>35</sup>, the Sandinista government expressed strong feelings on what it regarded as the incoherence of the EC and other donor strategies which, in the view of the GoN, are based on political grounds rather than technical considerations.

This crisis also shows that when there are important differences of view between government and donors on governance and public policies, it becomes difficult for the donors to stay strictly aligned on those policies.

#### **4.1.3 The EC's strategy is coherent with the global and regional objectives of the European Community (JC 1.3)**

A comparison between the objectives of the EC's cooperation strategies with Nicaragua and the orientations of EC cooperation policy as well as the priorities of EU-CA regional dialogue reveals that they did indeed cohere: they refer to the same objectives. The search for coherence and linkage has gained importance over the period. While the 1998 strategy mentions only the regional dialogue, and while the 2000 MoU applies the principles of EC cooperation but does not refer to the global objectives of the European Community treaty (article 117), the 2002-2006 and 2007-2013 CSPs clearly relate to both global and regional levels.

Concrete linkage between the CSPs and the EC's Regional Strategies (RSPs) for Central America is weaker. Mutual references are rare. The documents do not give any particular detail on how coherence and mutual support should be ensured. The potential implications of national-level support for the regional level programmes are not explored in the RSPs and CSPs. These documents coexist and evolve at different, albeit parallel, levels.

Yet economic cooperation (SME) is a common area of intervention at both levels. This theme gained importance at country level over the period, appearing first in the CSP 2002-2006 and then becoming a focal sector in the CSP 2007-2013. It appears from interviews that this item became a focal sector as a result of support at regional level for the strengthening of economic relations between the EU and Central America. But no coordination mechanisms exist that could reinforce this potential mutual support.

In the case of disaster prevention, the regional intervention PREVDA has a strong national component. This seems a preferable modality for ensuring coordination between the regional and country levels. A contrary example is the PRRAC which lost its initial regional character when the Financing Agreements were signed at country level. With the exception of timely exchanges of best practice (in particular regarding water and sanitation), regional initiatives were not promoted and no regional provision was made for them.

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<sup>35</sup> See also 4.4 and 5.2

**Figure 4.2 : Areas of intervention of the RSPs for Central America and for the CSPs for Nicaragua (1998-2008)**

REGIONAL STRATEGIES FOR CENTRAL AMERICA (1998-2008)	COUNTRY STRATEGY FOR NICARAGUA (1998-2008)
Support for integration process Strengthening political and economic relations between the EU and Central America	Socio-economic development in rural areas
Consolidation of regional institutions	Investment in human capital
Support for common policies (customs union)	Trade-related technical assistance (CSP 2002-2006) – non-focal-sector Support for business and investment climate (2007-2013) – focal sector
Strengthening of Civil Society participation in definition of regional policies	Strengthening of Civil Society participation in definition of national policies
Disaster prevention	Rehabilitation and development

*Source: Authors using the RSPs-CSPs 1998-2008*

#### 4.1.4 Changes in EC strategy are mainly explained by changes in EC policy (JC 1.4)

The shift to budget support is explained by a set of factors that include:

- new directives from Brussels (2002 Evaluation of the ALA Regulation);
- increasing dissatisfaction, shared by many donors and by the GoN, with traditional forms of intervention via projects and a renewed emphasis on improving impact, effectiveness and sustainability;
- clear demand from the GoN;
- a change in the international context: the Rome Declaration of 2003 and Paris Declaration of 2005.

The abandonment of rural development as one of the focal sectors of EC cooperation is explained by:

- critical evaluations of traditional “Integrated Rural Development” projects;
- the conclusion that sectoral budget support would be ill-adapted to the complexity and diversity of rural development needs that do not depend solely on public action;<sup>36</sup>
- the opinion that, according to some studies<sup>37</sup>, the institutional environment of the public rural sector is too complex and is changing frequently.

This shift in the EC strategy does not amount to “abandonment” of the rural sector but rather, in terms of the CSP 2007-13, to “supporting rural aspects of other sector policies (mainstreaming)”. It should be noted also that PAPND resembles sectoral budget support to the rural sector in so far as six of the ten indicators of the Variable Tranche relate to development in rural areas.

<sup>36</sup> Rural development needs complementarities between public and private initiatives, but, on the public side, it relies also on a multi-sector approach involving communications, health, education, finance, extension, etc. In other words it can not depend on only one sector or Ministry.

<sup>37</sup> See PAINIC institutional study on public rural sector (2007).

The support for a business and investment climate as a new focal sector is explained by:

- the link between the expansion of the private sector and economic growth: the first is viewed as a necessary precondition for the second;
- the link between the expansion of the private sector and the improvement in Central American integration: growth of business (commerce) and private investment will increase the need for Central American integration and for an Association Agreement between Central America and the EU.

It should be noted that most donors have shifted their attention towards support for business: it has become a fashionable sector attracting a record number of 15 donors.



## 4.2 EQ2: on development in rural areas

**EQ2: To what extent did the EC interventions in rural areas (including food security) strengthen local economic and social development and ultimately improve sustainably socio-economic conditions of poor local communities?**

*This question seeks to address the effects of EC interventions relating to rural development. It covers interventions financed through the ALA, food security and NGO budget lines. Rural development was a focal sector of EC CSPs until 2007 when direct programmes were abandoned in favour of support for rural aspects of other sector policies.*

### Summary box EQ2 on rural development<sup>38</sup>

At local level there is evidence that EC interventions have strengthened the local economy and improved the socio-economic conditions of poor communities, notably through:

- contributing to the reactivation of the old production frontier, that permitted increasing the cultivated area and reducing the pressure on land;
- consolidating the non-bank financial intermediation that partially met rural demand for credit; the EC interventions contributed to broadening access to funds and to strengthening numerous microfinance institutions (NGOs and savings and credit associations);
- improving processing equipment in the coffee sector, benefiting small and medium-size producers and improving access to high value markets (bio, fair trade and gourmet);
- improving access to extension services provided mainly by producers associations and which proved to be of good quality;
- improving access to land by supporting NGOs specialized in working on this topic with poor farmers.

Overall, greater sustainability was achieved when the interventions addressed the strengthening of pre-existing organisations. As regards local investment, the participation of local communities played a key role in achieving greater sustainability of the outcomes. However in most cases there was no further post-intervention follow-up.

The main limitations of the interventions were as follows:

- They were limited in their support to a long-term coherent national development strategy and neither - with the important exception of the DRI projects - did they conform to an EC implementation strategy which would have secured stronger coherence and complementarities between interventions in the sector, for example in subsidies in microfinance.
- There was little learning from best practice and no replication of successful processes such as participative extension services, support to credit organisations, reactivation of the production frontier or the support for the local organisation's own initiatives.
- Many of the organisations created by the interventions for managing equipment and

<sup>38</sup> See figure 3.5 "What has been done in Rural Development?" for a brief description of the different EC interventions.

funds and for providing services could not receive enough institutional support during the short time the interventions lasted, and were viewed as opportunistic, lacking social legitimacy.

In the rural development sector the value added by EC interventions was significant both in terms of the amounts invested (€96m) and because it used a much-needed multi-level and multi-actor approach involving different levels of public institutions as well as actors from civil society..

Finally, PRORURAL marks an improvement in the institutional framework which governs the policy dialogue between the State and donors on rural development. Although the EC does not contribute directly to its common fund, it participates actively in this dialogue.

#### **4.2.1 Most of EC interventions in rural areas were relevant for rural development but lacked a global strategy (JC 2.1)**

Different sources<sup>39</sup> concur that the EC interventions have individually been **relevant** to rural development. They adopted a multidimensional and a multiactor approach<sup>40</sup>, and the regionalisation of the activities allowed regional production characteristics to be taken into account.

In terms of **design and strategy**, EC support to rural development consisted first in the DRI (*Desarrollo Rural Integrado*) projects which benefited from a clear strategy and a strong internal coherence but which, according to available evaluations, lacked sustainability because of scarce ownership. The other interventions consisted mostly of individual (unrelated) projects<sup>41</sup> which were not framed in a strategic vision of sectoral development. The application of an EC implementation strategy would, however, have required a certain continuity in the process which, over the period analyzed, has been weakened not only by changes in the national strategy (see below) but also by frequent changes in Nicaraguan institutions and in the EC<sup>42</sup>.

The new 2007-2013 CSP abandons direct support to rural development as a focal sector. However, this sector still remains significantly supported through co-financing with non-governmental stakeholders. This modality, implemented through calls for proposals, materialises in actions not easily integrated into a strategic vision of interventions.

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<sup>39</sup> These sources are mainly: available evaluations, ROM reports and field visits (including interviews).

<sup>40</sup> The importance of a multidimensional and multi-actor approach to rural development stems from the fact that rural development is an area where complementary public and private investments are both needed and where these investment should apply to very different areas.

<sup>41</sup> However, since 2006 efforts have been made to improve coordination, between different projects and budget-lines intervening in rural development.

<sup>42</sup> In the EC delegation, interviews highlight the frequent organizational changes and allocation of responsibilities to different persons and levels, as well as the different approaches followed by successive managers.

Over most of the period considered, there was no clear national strategy for development of rural areas that could have offered a reference for EC interventions. Different government strategies were formulated, their orientations reflecting government changes<sup>43</sup>. Furthermore the strategies were based on an agricultural approach focusing on production rather than rural development as a specific socio-economic objective integrated in the geographical and macroeconomic national context.

Partly for this reason the 2002-2006 CSP pinpointed the necessity of also supporting the drafting of development policies at central level. This objective materialised in a GBS programme, the PAPND (see below), but did not apply to other individual projects supported.

#### **4.2.2 The EC's interventions achievements in terms of the support to a rural strategy conducive to poverty reduction are difficult to assess but appear limited (JC 2.2)**

**The main efforts made in the direction of supporting a rural strategy are the following:**

- The PAPND, a GBS programme, supports the macro-economic framework (assessed under EQ4) but has also a rural development objective as shown by the importance of rural-development-related indicators which represent 60% of the variable tranches<sup>44</sup>. Furthermore the issue of land legalisation was one of the six criteria for release of the first fixed tranche, and three indicators for the variable tranches are related to land tenure. The aim of this focus on rural development was to enhance the policy dialogue on this issue between the EC and the GoN.
- The PAINIC had a specific rural sector component and produced an insightful institutional analysis of the rural public sector. In the same way the Agrarian Information System (supported to the tune of €1.9m) constitutes a basic contribution to the diagnosis stage preceding policy design.

#### **Were these efforts successful?**

For the reasons already stressed in 4.2.1 no coherent rural development strategy was followed at a national level during the evaluation period. However this does not mean that the EC interventions had no influence at a national level. At least two developments deserve mention:

- PRORURAL, the latest rural development initiative, has become a common basis for discussion by donors since 2005, year of the signature of the *Código de Conducta* on rural development<sup>45</sup>, in spite of the weaknesses of the strategy pinpointed in the

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<sup>43</sup> As an illustration, the Estrategia para el Desarrollo Rural Productivo was very much focused on the restructuring of production through a number of added value export chains promoting employment and exports as the main means of reducing poverty in rural areas. Since 2007 onwards, following the change of government, there is a change of orientation in favour of small producers.

<sup>44</sup> The indicators relate to (i) under-nourishment in rural areas, (ii) access to drinkable water and sanitation in rural areas, (iii) advancement of land register, (iv) resolution of land legalisation conflicts, (v) security index in land tenure and (vi) advancement of the investment plan in the rural sector (PRORURAL).

<sup>45</sup> The official name is: "*Código de Conducta que define las relaciones entre el Gobierno de la Republica de Nicaragua, por medio del Ministerio Agropecuario y forestal, instituciones adscritas, el Instituto de Desarrollo Rural y los socios para el desarrollo rural*".

PRORURAL evaluation (2007)<sup>46</sup>. A common fund accompanied the initiative to which Switzerland, Finland, Denmark, Norway and Sweden contribute. The EC did not participate in PRORURAL's foundation but signed this *Código de Conducta* in 2006. No EC interventions are programmed in the framework of PRORURAL, but the PAPND has considered PRORURAL as a reference since 2008.

- As regards land tenure, after a difficult start improvements are now visible. The present government is also more receptive to the issue. Specifically, the elaboration of the land register is in progress (also supported by the agrarian information system) and there is annual reporting on, and monitoring of, the land tenure security index. The EC participated in this progress through policy dialogue, by including this question in the PAPND's variable tranche indicators.

#### **4.2.3 The EC's interventions have enhanced more equitable access to financial capital; they had some impact on access to extension services, to processing facilities (coffee) and access to land; they marginally addressed transport infrastructures (JC 2.3)**

Based on the documentary review and the field visit, the table below shows which factors were addressed through which interventions.

**Figure 4.3 : Consideration of production factors by EC interventions**

Projects	Origin of information	Land	Water (irrigation)	Financial capital	Agricultural services	Infrastructures and facilities
Food Security – El Niño	D		X			
Food Security - 9 pilot projects	D	X				
Nitlapan Legal Services	D	X		X		
Food Security – Consolidation Programme of non Conventional Rural Credit	D			X		
Campesino a campesino	D F			X	X	
Central-North Region	D F			X	X	X (rural roads)
Decopann	D			X	X	X(rural roads)
PRASNIC	D					X (water and sanitation)
PRODELSA	D F			X		
Information System	D F					
Living with dignity in globalisation times	D F	X		X	X(seed bank)	X(benefits, silos)
Coffee: an example of production and responsible consumption	D F			X	X	X(benefits)
Guayacuan-Jinotega Road	D F					X (road)

\* Origin of information: D: Desk phase; F: Field visit

*Productivo* It was signed by the GoN and by Sweden, Switzerland, IICA, FAO, WB, Germany, Finland, Japan, BID, FIDA, Denmark on September 22, 2005.

<sup>46</sup> EC is commonly assuming the donor coordination of PRORURAL.

EC interventions improved access to certain factors of production. Over the period, the trends by factors of production and the contribution of the EC are as follows, according to available documents<sup>47</sup> and information from field visits:

- With respect to **financial capital**, after the Banco Nacional de Desarrollo closed down in 1998, the main change in the rural sector was the consolidation of non-bank financial intermediation<sup>48</sup> that partially met rural demands for credit. The EC interventions (see table above) contributed to broadening access to funds (short-term credit, local investment funds) and to strengthening numerous microfinance institutions (NGOs and savings and credit associations) even if their sustainability is doubtful. Nonetheless there was no unified approach to provision of financial subsidies (see 4.2.6); the approach or methodology varied from one group of beneficiaries to another and from one project to another, which can weaken rural institutions in the long term.
- There is also evidence of an important contribution by EC interventions to improving **coffee processing facilities**, coffee being the main export commodity of the country and directly benefiting small and medium-sized agricultural producers. A set of convergent factors explains the importance of these interventions in terms of efficiency and impact insofar as they:
  - had a clear objective of poverty reduction;
  - addressed small producers and were adapted to peasant culture;
  - took place in an area previously highly disadvantaged because of insecurity in the northern central region;
  - coincided with an increase in profitability due to higher prices paid by bio, fair trade and gourmet labels;
  - participated in the growing development of an external market;
  - benefited from social control of profits through cooperatives, which explains their reinvestment in social infrastructures; *and*
  - offered better-adapted technologies (*beneficio húmedo*) and produced positive externalities in terms of environmental protection.
- Access to **agricultural extension and information services** is still, according to the agricultural census of 2001, very limited at the level of agricultural producers as a whole. The extension service does not play a relevant role and is fragmented into different units lacking coordination (public entities, producer organisations, NGOs etc.). The EC interventions reflect this national context and are not based on any global strategy for agricultural extension services. Nonetheless there is evidence of interventions that proved to be of good quality and that were offered through professional organisations linked to the coffee chain and to horizontal exchanges conducted through the Programme “*de Campesino a Campesino*” involving small and medium-sized producers and NGOs. Many of these interventions are framed within

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<sup>47</sup> These are mainly FA, evaluations and ROM reports.

<sup>48</sup> Some rural microfinance organisations provide innovative services such as insurance.

the agricultural conservation scheme (environmental protection), but lack coordination with agricultural research.

- The EC interventions also provided **agricultural inputs and basic equipment** (seeds, tools, agro-chemicals, grain bins, breeding stock, etc.) to poor farmers who benefited from food security projects. This was framed within a post-conflict economic reactivation scheme which is important but lacks sustainability when not related to specific high-value product lines such as premium-quality coffees or national policies.
- In rehabilitation of **rural transport infrastructures** (roads and bridges) to give producers access to marketplaces, supply did not match the need. This was due not only to corruption risks that make it difficult to control this type of investment, but also to constant problems of maintenance and sustainability of infrastructure. The EC has however supported the rehabilitation of rural roads (through DRI projects) but has also encountered sustainability and maintenance problems. The new Jinotega-Matagalpa road (22 kms) was constructed at a cost (to the EC) of almost €11m.
- As regards **access to land**, the agricultural border was reactivated (through DRI projects) based on an extensive approach to the extent that the physical, social and environmental boundaries of the country would allow. Yet land tenure problems caused by the absence of ownership titles following the Sandinista land reform of the 1980s are still seriously affecting the land market, involving a high risk of legal and political insecurity, which in turn leads to a high risk of reversal of the land distribution introduced in the 1980s. This problem caused much political conflict and for that reason the efforts of successive governments to solve it are few. EC interventions have concerned only those co-financed non-governmental organisations committed to working with poor farmers. These NGOs supported by EC use specific instruments such as legal rural services to regularise rural properties, land banks, and so forth<sup>49</sup>. Nevertheless when assessing the EC contribution to the advancement of the issue it should be remembered that 30% of PAPND variable tranches are contingent on improvements in land tenure indicators (see previous section).

#### **4.2.4 Social infrastructure was financed through specific sectoral interventions (JC 2.4)**

The EC invested in social infrastructure through specific sectoral interventions rather than through integrated territorially-based interventions.

PRASNIC provided massive support for water systems, water supply and sanitation in the centre-northern region of the country (€11m). According to the PRASNIC evaluation the beneficiary population totalled 65,000 inhabitants.

Educational infrastructure was financed through PRRAC mainly in Nueva Segovia and through thematic budget line projects (€4m for eight interventions). Health in rural areas (€9.9m for 14 interventions), mainly communitarian and reproductive health, was addressed through thematic budget line projects.

The impact of these interventions was not analysed in the context of this evaluation.

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<sup>49</sup> See Land Working Group: [www.agter.asso.fr](http://www.agter.asso.fr).

One of the unintended benefits of the support to rural organisations was that these institutions (cooperatives, associations, etc.) improved direct access to social services in rural areas by reinvesting part of their surplus in social improvements for their members and their communities (school facilities, access to health care, etc.).

#### **4.2.5 It is difficult to establish a link between EC interventions and poverty trends but there is clearly a contribution to economic growth especially through support to high quality coffee chains (JC 2.5 and JC 2.6)**

During the period considered, the statistics show a slight nationwide reduction in relative poverty from 48% of the total population in 1998 to 46% in 2005, even though the *absolute* number of poor people increased owing to population growth. However, poverty rates are still more than twice as high in rural areas as in urban areas (in 2005 68% against 29%), with higher rates in the central and Atlantic coast regions of the country (see section 2.2). It is worth mentioning that the situation regarding food security in the country improved during the period analysed although it is still well below the level of neighbouring countries and food insecurity is more pervasive in rural areas.

Agricultural growth was positive during most of the evaluation period, food production per person increasing 9% between 1999 and 2004 (see Vol II, Annex 8, I 2.5.1). The most relevant components of this growth were the following:

- Expansion of cultivated areas due mainly to re-activation of the agricultural frontier (extensive rather than intensive agriculture), but with substantial geographical variation. The EC contributed to this process through DRI programmes located in the interior of the country and through a number of interventions with civil society (including NGO co-financing, food security, etc).
- Opening-up of the regional market to increase agricultural exports. The EC enhanced this process through interventions in animal health and support for regional integration.
- Introduction of higher-price tags in high-value product lines, and particularly in the premium-quality coffee chains which benefited from EC interventions in favour of small and medium-sized producers in the Central Region.

It should be noted that EC interventions had little to do with the agricultural agribusiness boom in the Pacific coast region and were de-linked from the contract agriculture (value chain) promoted by transnational enterprises (Walmart, Cargill, etc), which encourages the growth of the agricultural sector but turns out to be particularly inequitable and risky for small and medium-sized producers in these areas.

#### **4.2.6 The benefits of the interventions are more surely maintained after external support when these address pre-existing organisations, when they use a coherent methodology and when there is a strong participation by the community (JC. 2.6)**

The different sources of information concur in showing that the sustainability of the results of the EC interventions in rural areas has depended not only on the thematic core of the programme but also on the methodology used. Overall, greater sustainability was achieved when the interventions addressed the strengthening of pre-existing organisations (producers associations, NGOs, cooperatives, financial institutions, etc.)<sup>50</sup>. Monitoring reports and evaluations show that many of the organisations created by the interventions for managing equipment and funds and for providing services could not receive enough institutional support during the short duration of the interventions, and were viewed as opportunistic and lacking social legitimacy. This was typically the case with institutions created by DRI programmes.

Furthermore in some sectors such as financial services there was a lack of coherence and unified criteria, which did not advance the global viability of the sector. This was the case with poor producers who had access to credit at market cost through microfinance organisations, while at the same time credit to women farmers was subsidised through gender-based components implemented by some NGOs. Finally, to ensure continuity of the social mission of rural credit (provision of credit in rural areas and for poor farmers), a problem regarding the legal ownership of funds invested in the Rural Credit Fund (CFR) needs to be solved. The reactivation of the CFR with the SPAR as the only recipient of resources for rural credit necessitates careful monitoring of beneficiary selection mechanisms along with active dialogue on the criteria for allocation of funds.

With regard to local investment (local investment funds, support for water committees), community participation plays an important role in achieving greater sustainability of outcomes (maintenance) as illustrated by the PRASNIC, even when the short-term efficiency of the interventions is weak. However in most cases there was no post-intervention follow-up.

#### **4.2.7 The EC intervention in rural development offers a value added over Member States' interventions for the high amounts invested and for the use of a large variety of instruments involving different stakeholders (JC 2.7)**

In the rural development sector the value added of the interventions has been significant in terms of the amounts invested (€96m over a 10-year period), as well as in terms of potential complementarities between instruments and between stakeholders benefiting from EC financing (institutional strengthening and budget support, projects in rural areas, NGO funding, producer organisations, etc.). Framing this intervention in a strategic vision would potentially enhance the effects at national level.

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<sup>50</sup> A good example is the institutional capacity built by the project *Café: un ejemplo de producción y consumo responsable* (CAFENICA, CAFESOL the laboratory, CECOCAFEN but among others).



Considerable effort was made by the Delegation in promoting donor coordination. The EC is the link in the PRORURAL donor round-table, but there was no fostering of a common vision or a proactive contribution<sup>51</sup> to sectoral funds. However following deconcentration the EC's follow-up capacity has improved. Lastly, many stakeholders keep criticising EC procedures for their scarce adaptation to the national context (procurement procedures for purchase of calves, norms of origin, forms of consultation and registration procedures for national NGOs, etc.).

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<sup>51</sup> For instance, playing an active role in the critical evaluation of the different modalities of the Zero Hunger Program in order to make public investment in the poor farmer sector more efficient.

### 4.3 EQ3: on good governance

#### **EQ3 How successful has the EC been in contributing to improvement of confidence in public institutions, of accountability and in the reinforcement of the rule of law, and ultimately in the promotion of good governance within the areas it has supported ?**

*This question examines how this issue has been addressed in interventions specifically targeting good governance. It concerns on the one hand the general strategy followed by the EC in promoting good governance through the interventions it finances, as well as the EC's capacity to implement this strategy; and on the other hand how this issue is incorporated in the programmes and projects, and its results.*

#### **Summary box EQ 3 on good governance**

Nicaragua has demonstrated a low performance in terms of governance indicators. The citizen's perception of **government effectiveness, the rule of law and control of corruption**<sup>52</sup> deteriorated between 1998 and 2007<sup>53</sup> and is well below the world average. Other sources show that confidence in most public institutions<sup>54</sup> decreased over the same period and that this growing distrust is related to the fact that these institutions are being politicised.

The EC interventions on governance, as those of other donors, were not capable of reversing this trend, but in any case the only institution relating to the legal system which benefited from significant support from the EC was the Supreme Court of Justice<sup>55</sup>. Even so, the evidence suggests that, generally speaking, the EC interventions have mitigated this negative tendency in respect of:

- access to judicial institutions through creating facilities in different municipalities;
- professional skills of judges and of civil servants of the Supreme Court<sup>56</sup> ;
- human rights organisations lobbying on behalf of indigenous communities and African descendants on the Caribbean coast;
- civil society's capabilities in respect of human rights advocacy and citizen participation;

<sup>52</sup> **Government effectiveness** is defined by the quality of public services, the capacity of the civil service and its independence from political pressures; and the quality of policy formulation. **The rule of law** is the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. **Control of corruption** is the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

<sup>53</sup> See the worldwide Governance Research Indicators Dataset and also figure 2.5. ([http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp))

<sup>54</sup> Even confidence in the police and in the army has been deteriorating. These are the two institutions which Nicaraguans have most trusted since the Sandinista period.

<sup>55</sup> On January 16, 2009 the Sandinista-controlled Supreme Court quashed a 20-year conviction for embezzlement against Arnoldo Alemán, a former president, ex-official in the Somoza dictatorship and leader of the PLC (the most important conservative party). Hours after Mr Alemán's absolution, the PLC ended a filibuster in the Parliament and voted to let the Sandinistas run the legislature's affairs (See also I 4.3.2). This is hardly a sign of the Supreme Court's professionalism and independence.

<sup>56</sup> The intervention on behalf of the Supreme Court ("Fortalecimiento de la Administración de Justicia en Nicaragua") lasted from 1998 to 2002 : it ended seven years before former President Alemán was acquitted.

- drawing up a judicial sector plan with PAINIC's assistance (such a plan also facilitating other donor interventions).

Two factors impeded achievement of better results:

- Identification of a major intervention in the judicial sector began in 2003, but five years later, by the end of 2008, the planned sectoral budget support had not yet started by the time the EC decided to suspend its budget support to Nicaragua. One reason for this delay was the complexity of an intervention which had to be negotiated between six different public institutions, all supposedly beneficiaries yet not necessarily sharing the same interests.
- Dialogue with civil society, even if in progress, was scarce during most of the period and resulted neither in a coherent strategy nor in a common agenda involving the main local NGOs active in governance and human rights.

#### **4.3.1 Good governance has been prioritised in EC cooperation and translated into programmes and projects (JC 3.1)**

Evidence that show that democratic governance is a priority of the EC cooperation are the following:

- In the 1998-2000 CSP democratic governance is mentioned as one of three principles stated in the EC Assistance Programme, the general objective of which is to “help anchor democratic government, primarily by strengthening institutions, local development and the participation of civil society”. In this sense it is regarded as a focal sector with the following specific goals: “assisting the legislature, upgrading the professionalism in the Prosecutor’s Office, increasing public safety, including support to the national police, and helping improve the prison system”.
- In the 2002-2006 CSP governance and public safety are among the four specific EC objectives in Nicaragua in accordance with one of the four SGPRS (Strengthened Growth and Poverty Reduction Strategy) pillars.
- There has been an increase in the planned budget figure for future years from 9.3% in the 2002-2006 strategy to 15% in the 2007-2013 indicative budget (NIP)<sup>57</sup>.
- Programmes relating to government institutions and particularly to those in the legal sector were given greater financial weight in the ‘good governance’ sector.

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<sup>57</sup> The regional “Programa Plurianual Democracia y Derechos Humanos in Central America 2001-2005” and its application to Nicaragua are not included in the figures mentioned above.

- Overall, different databases (CRIS, ROM), show that thirteen different specific interventions framed within governance and human rights between 1998 and 2008 were supported, reaching a total cost of about €42m.

#### **4.3.2 The Commission adopted a multi-stakeholder and multi-level approach to supporting good governance (JC 3.2)**

The EC has adopted a multi-stakeholder and a multilevel approach to implementing interventions, involving different actors in civil society and the State so as to strengthen democratic governance.

With respect to civil society actors, the EC developed programmes dealing with promotion of human rights and development at local level through European as well as national NGOs.

As regards State actors, stakeholders in the legal sector have become more diversified through the successive interventions, which range from implementation of the Access to Justice Programme coordinated by the Supreme Court, to the forging of broader alliances, albeit always within the judicial sector. In this sense the Justice Sectoral Plan was designed in coordination with various institutions such as the Government Ministry ("*Ministerio de Gobernación*"), National Police, Office of Public Prosecutor, Family Affairs Ministry, Supreme Court of Justice, and the Nicaraguan Institute for Women.

On the other hand the different interventions have involved different types of actor including management structures (Supreme Court, Judges), executing agents in the legal sector at local level, city councils, Municipality Associations, universities, indigenous organisations, and others.

#### **4.3.3 Evidence that the EC interventions have promoted transparency, accountability and participation exists but is scarce. Nor has the EC systematically applied these issues to its own procedures (JC 3.3)**

A positive - but exceptional - example of intervention having promoted transparency, accountability and participation is provided by the "Access to Information Act" promoted jointly by the organisations which executed the "*Programa País Nicaragua*" as part of the "Pluriannual Program Democracy and Human Rights in Central America" (PPDDH). In this case the key stakeholders were truly involved in the preparation of legislative measures aimed at promoting transparency.

On the other hand, according to interviewees from the civil society, the EC has provided little information to the public about the progress made and difficulties faced by the governance projects in different parts of the country.

#### **4.3.4 The policy dialogue on good governance is progressing but is limited and the Delegation lacks specific expertise on this delicate matter (JC 3.4)**

The policy dialogue with the State has progressed through the governance round-table (*mesa de gobernabilidad*)<sup>58</sup> where the EC, with other donors, reached agreements with different public institution on governance questions such as the Justice sectoral Plan.

The policy dialogue with representatives of civil society was mostly limited to circumstantial encounters<sup>59</sup>, but was not subjected to any formal mechanism of dialogue and did not result in a coherent strategy<sup>60</sup>.

There is no lack of human resources active in the 'good governance' sector in the Delegation, and no lack of participation on this theme in different groups and committees. But there exists no truly specialised expertise on such a delicate matter and there have been few opportunities for relevant training on the subject. This lack of specialised expertise and training opportunities, due partially to the staff specialisation in administrative matters, could be partly compensated for by communication and dialogue between the different Services involved in governance issues, as well as by the experience gained in other EC Delegations.

#### **4.3.5 EC interventions have not generally enhanced democratic governance which has worsened, but some successes may be pointed at (JC 3.5)**

As governance indicators have not improved over time<sup>61</sup>, it cannot be said that EC interventions have enhanced democratic governance, but they may have avoided a worsening.

As regards corruption, neither the EC's assistance nor that of the international community in general has made it possible for Nicaragua to achieve progress in this area over the 10-year period. The analysed data rates progress from at best slow, as assessed by International Transparency, to a slight worsening according to World Bank data (the worldwide Governance Research Indicators Dataset).

As regards local perceptions of public institutions, there has been a loss of citizens' trust in all key institutions since 1998, according to studies conducted by Latinobarometro and Barómetro Iberoamericano

As regards public access to justice, in spite of the enhancement of the technical capacity of the Supreme Court of Justice to implement the national legal framework (training and improvement in infrastructure and equipment), the citizen's trust in this institution has not improved. Organisations from civil society stress the politicisation of the Court, which limits the efficient and impartial administration of justice.

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<sup>58</sup> In 2002 the GoN established a sectoral round-table on governance and a sub-sectoral round-table on justice. The EC, like other donors present in this field, participates in these coordination fora.

<sup>59</sup> For example, during 2008, the conflict between the GoN and some NGOs such as CINCO, MAM, OXFAM GB...

<sup>60</sup> See Vol II, Annex 8, I-3.2.2, I-3.3.2 and I-3.3.4

<sup>61</sup> According the worldwide Governance Research Indicators Dataset.

([http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp))

But on the other hand, the interventions have strengthened sectors that play a key role in the democratic governance of the country including those civil society institutions which have been enhancing a civic and democratic culture. They have also helped some of the most disadvantaged sectors of society, such as the indigenous peoples, by providing support to universities and various organisations in the Caribbean Coast region. At the same time participation and discussion fora between government institutions and civil society were broadened (at least up until 2006), as mentioned in MR of projects involving civil society and as reflected in indicator I.3.2.2

In terms of human rights the EC interventions in the sector are in a sense related to the progress achieved in the national legal framework, which was significant during the evaluation period.

The passage of certain bills (Access to Information, Citizen Participation) has been mainly promoted by organised civil society. The EC support for such bills has therefore contributed to providing greater organisational capacity for citizens and greater weight to citizens' demands.

#### **4.3.6 The main value added by the EC is the Justice Sector Plan formulated with the help of PAINIC (JC3.6)**

The "*Plan Sectorial de Justicia*" (Justice Sector Plan), formulated with the support of the PAINIC and partially financed by PAPAJ, has enabled the international community in general, and the Member States in particular, to support different interventions within a common framework.

The identification of specific measures within this Plan has enabled some cooperation agencies to take it into account in implementing their interventions. A clear example is the common intervention strategy of the Spanish Agency for International Cooperation for Development (AECID) and the EC, in negotiating with the National Police the set-up of a criminal investigation laboratory.

The initiatives involving civil society illustrate another example of coordinated measures and strategies between the EC and a Member State such as Sweden which shared with the EC the financing of the "*Programa Plurianual Democracia y Derechos Humanos*" (PPDDH).

#### 4.4 EQ4: on Budget support

**EQ4. To what extent have the EC interventions through budget support been adapted to the national context, and to what extent have they contributed to improving the framework for public policy and expenditure?**

*This question focuses on the inputs (and relevance) of this form of financing, and on the direct and induced outputs.*

##### Summary box EQ 4 on Budget Support

The EC budget support interventions were relevant: they started during a period of fiscal imbalance, they were requested by the GoN, they were coordinated with seven other important donors, and they took place when Nicaragua was implementing an ambitious programme of improvements in public finance management (PFM). The national context also influenced process and procedures: these were more donor-driven during the first period of politically weak government, but since 2007 a more nationalistic government has assumed greater appropriation of the process

During the 2002-2008 period there was a clear improvement in the framework for public policy and expenditures:

- External assistance has been incorporated more into the public policy and public finance process: the percentage of aid “on budget” has increased significantly, but aid predictability has not improved much.
- Public Finance Management has improved, on both the financial and budgetary sides.
- Policy preparation and use of budget as a policy instrument have improved (medium-term budget framework, monitoring...) although with some notable weaknesses.
- Budget priorities are oriented slightly more towards the poor (rising from 8.3% of GDP in 1998 to 13.3% en 2007), the depth of poverty has decreased but the absolute number of the poor has not diminished.

Were these trends linked to Budget Support?

- The programme of improvement of PFM was led by GoN and started prior to the introduction of budget support. This support certainly encouraged the reforms but no counterfactual exists which might demonstrate a causality between budget support and PFM reform.
- All ex-government interviewees stress the importance of the mechanism of BS as an incentive for pushing forward the reform programme and resisting local or conservative political interest.

Did EC Budget Support play a special role in this process?

- EC Budget Support is recognised both for its financial importance and for the quality of its advocates...
- The EC Technical Assistance programme in support of BS (PAINIC) was not a success when it was not requested by the GoN, but it demonstrated some small but significant success in the Ministry of Finance and in elaboration of a plan for the Justice sector. Globally it helped applying BS, especially after the change of Government in 2007.

Altogether the EC certainly played a role in the process as an important member of the Budget Support Group, its role cannot be separated from that of the other members.

#### **4.4.1 The EC interventions through budget support were adapted to national requests but followed donor-driven procedures (JC 4.1)**

EC interventions in the form of budget support were relevant: they started during a period of fiscal imbalance, they were requested by the GoN, they were coordinated with seven other important donors, and they took place when Nicaragua was implementing an ambitious programme of improvements in public finance management (PFM). Budget support has enhanced coordination between donors, alignment and policy dialogue between donors and the GoN.

The first intervention started in 2004 and the Joint Financial Agreement was signed in 2005 by a government which was very much interested in Budget Support but which had no majority in Parliament and thus could not command a strong negotiating position. Therefore the implementation procedures and the Agreement itself reflected a donor point of view more than the GoN's priorities<sup>62</sup>. Indeed, the first Performance Assessment Matrix (PAM), which is the main instrument for monitoring budget support, was more a sum of different donor points of view than a set of collectively-discussed targets and indicators. Each donor still used its own conditions and procedures, disbursements can be suspended (and were in 2005) for reasons mostly unconnected with the GoN (e.g. laws voted or not voted by the National Assembly), and in the case of the EC-funded sectoral programme PAPSE, the timing of disbursements was not always according to plan.

From 2007 onwards two parallel developments took place, which changed the relationship between GoN and donors:

- First the GoN exhibited progressively increased interest and appropriation of the whole BS process which led, for example, to a fresh negotiation of the PAM and to a reduction in the number of indicators from 52 in 2006 to 27 in 2008<sup>63</sup>.
- Second, because of a clear deterioration of governance in Nicaragua, the donor community grew increasingly sceptical about the respect shown by the GoN for the fundamental principles stated in the JFA preamble. This led to the progressive suspension of most Budget Support disbursements from bilateral donors and, by the end of 2008, also of EC's BS. This decision affected the GoN at a moment when the revenue projection of the 2009 budget was being revised downwards because of the international economic crisis. This suspension was the result of a crisis which had been incubating for many months and it is extremely difficult to assess whether the decision, if maintained, is or is not in the country's interests.

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<sup>62</sup> The JFA contain two different sets of conditions: (1) the fundamental principles which refer to general governance rules such as "respect for human rights", "free and fair elections", etc.; (2) the PAM which consists of technically precise and observable indicators and targets. The fundamental principles are explicitly understood as being above and beyond the PAM but are necessarily subjected to different interpretations between GoN and donors and between donors themselves.

<sup>63</sup> The original PAM contained 74 indicators, too high a number according to most observers.



#### **4.4.2 The process of inclusion of external assistance into public policy & public finance started before Budget Support and was helped but not significantly influenced by this modality (JC 4.2)**

External assistance has been increasingly included in public policy and public finance. In 2005, according to the Paris Declaration Monitoring System<sup>64</sup>, only 49% of all EC aid to Nicaragua was “on budget”, but this figure rose to 63% in 2007. At an all-donor level, these figures are respectively 73% and 83%, which is above the target specified in the Paris Declaration for 2010 (see figure 4.8).

Budget support contributed to this process by a policy dialogue and insofar as these interventions are “on budget”, but the process began before the introduction of budget support in 2002 and well before the signing of the JFA in May 2005. Therefore, BS contribution to the process of inclusion of external assistance in public policy was positive, but, also partly because of the weak weight of BS in ODA (up to a maximum of 15% in 2006), neither the BSG nor EC interventions through BS have had a major influence on this process.

Even so it should be stressed that this process has been accompanied by an intensive and useful policy dialogue between donors and GoN (Budget Support Group). For example, the BSG supported the law 550 approved in November 2005, which, among other things, promotes transparency in cooperation and states that external assistance should be “on budget” (see 4.4.3). This policy dialogue seems to have continued at the same level in 2007 and most of 2008, but the problems related to the fundamental principles have progressively hampered the quality of the dialogue which was finally interrupted after the November 2008 municipal elections, when a majority of donors decided to suspend Budget Support.

From the point of view of the GoN, predictability<sup>65</sup> is the key requirement of any external assistance included in the public finance process, and in this respect EC budget support achievements (PAPND and PAPSE) were above the donor average, at least until 2007<sup>66</sup>. However, when all instruments are considered (when the totality of EC cooperation is taken into account) the EC’s aid would be less predictable than others, according to the indicators of the Paris Declaration Monitoring system (see figure 4.9, indicator 7).

Technical assistance to the BS process, funded by the EC, helped applying BS, especially after the change of Government in 2007, it was effective and made an impact in some areas such as the Justice sector or the administrative reorganisation of the Ministry of Finance<sup>67</sup>,

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<sup>64</sup> <http://www.oecd.org/dataoecd/31/2/42231897.pdf>

<sup>65</sup> Predictability is defined here, following the Paris Declaration Monitoring System, as the difference between commitments announced by donors and disbursements effectively recorded by beneficiaries’ governments. The lower the difference, the higher is predictability. Predictability depends both on donors which should provide reliable commitments over a multi-year framework and disburse aid in a timely and reliable manner, and on the beneficiary country which should record all disbursements in its national accounting system. The predictability indicator therefore measures problems and achievements stemming both from the donor and from the beneficiary side.

<sup>66</sup> The predictability indicator of the PD monitoring system does not necessarily encompass the real concept of predictability of budget support which is the difference between the amount announced by a donor during the period of budget preparation and the amount effectively and punctually disbursed during the budget execution period.

<sup>67</sup> PAINIC (the TA programme attached to BS) also produced an insightful institutional diagnosis of the agricultural sector

whenever the GoN itself defined its needs and asked for TA. But it yielded few results in other areas where the need for TA was less felt by the local institution.

#### **4.4.3 Public financial management has clearly improved since 2002. BS policy dialogue linked to PFM helped this process (JC 4.3)**

Key actors and reports stress the improvement in the PFM framework since 2002 in both of its main areas: Public Financial Management (PFM) and the national budget. For example:

- On the PFM side there has been progress (albeit incomplete) in procurement policies, in the functioning of the Court of Auditors (CGR)<sup>68</sup>, in the progressive implementation of a Medium-Term Fiscal Framework, and in positive development of the legal and institutional framework for PFM. Many reforms were achieved in November 2005 through the new law on financial administration and the budget (law 550).
- On the budget side, the improvements concern the preparation process, public access to information<sup>69</sup>, the role of Parliament - the powers of the National Assembly in budget matters being clear, known and generally respected - and the legal framework<sup>70</sup>.

However, there is still no real monitoring of the CGR recommendations (nor have they been published), and the regular budget of the CGR does not allow it to audit a Budget Report every year. Another important point is that to a large extent the reforms achieved have been made with the support of technical assistance contracted under projects with external financing. Therefore the sustainability of these reforms will depend on the public sector's capacity to formulate, implement, supervise and evaluate modernisation projects using its own resources.

The role of the EC in this process of improving PFM is difficult to assess. As an active member of the BSG it certainly played a positive role since, according to some donors and ex-officials from the previous GoN, policy dialogue and conditionality linked to PFM have constituted a strong incentive for GoN. It should also be noted that there are no counterfactuals which could aid an assessment of the relationship between BS and improvements in PFM.

#### **4.4.4 Policy preparation, implementation and monitoring have improved. Donor's impact, if positive, is collective (JC 4.4)**

Policy preparation, implementation and monitoring of PFM have improved since 2002. For example:

- As stressed earlier, implementation of a medium-term budget framework is a recent but relevant development. The framework has a clear legal basis, and the MHCP has an adequate strategy in place for implementation of this new instrument, albeit in stages.

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<sup>68</sup> The CGR released the two first audits of Budget Execution Reports (years 2005 and 2006) and should present the audit of year 2007 in August 2009

<sup>69</sup> The budget proposal for year 'n+1' is displayed on the Internet at the beginning of October of year 'n'

<sup>70</sup> This concerns the impossibility (since 2005) of the executive (MHCP) introducing budget increases during the financial year without the approval of the National Assembly.

- The 27 indicators of the Performance Assessment Matrix are regularly monitored by technical working groups including donors and GoN officials. They are based on statistics that are increasingly reliable but the quality of which varies greatly from one sector to another. In some cases (education, for example) progress in meeting performance is measured by statistics subject to such a high degree of error that the degree of realisation of the defined objectives becomes uncertain (see section 4.6).

But some problems remain:

- The initial budgets presented to the National Assembly each year systematically underestimate budget disbursements: since 1992 central government expenditures have on average exceeded the initial budget presented to National Assembly by 1% of GDP. On the revenue side actual internal receipts are usually higher than the budgeted amounts. The forecasts have been consistently conservative, which indicate weaknesses in the preparation of projections as reflected in the revenue budget. But an underestimate of expenditure matches a similar underestimate of revenue, so that there were no dramatic inconsistencies between planning and execution.
- Provision for maintenance and repair of infrastructure in the budget is structurally insufficient and shows a long-term declining trend. This inadequacy reflects an efficiency problem.
- In 2007 and the first half of 2008, the GoN did not manage to reach the ceiling target, agreed with the IMF, on central government primary expenditure, nor did it reach the floor target on central government's poverty-related expenditures. This may be linked to a lack of disbursement capacity due to a new government and a (partially) new administration.
- Traditionally, at each change of government there is a general change of administrative staff and a serious loss of know-how and institutional memory. This problem is much less evident in the MHCP (Ministry of Finance) and less still in the budget directorate, but it remains significant.

The progress observed in preparation, implementation and monitoring stems from measures taken by the GoN which can be helped forward by donors<sup>71</sup>. But the donor impact is collective, and therefore it is difficult to assess the role of any one donor within the donor community (See also 4.4.6).

#### **4.4.5 Modest increase of pro-poor public expenditures (JC 4.5)**

The share of poverty-related Public Expenditure in Nicaragua rose from 8.3% of GDP in 1998 to 13.3% in 2007. But on the basis of this indicator Nicaragua fell well below the South and Central American average between 1991 and 2003.

This slow long-term increase was insufficient to reduce the number of poor people in the country during the same period. Both the quality of the statistics and the effectiveness of poverty-related spending can be called into question even if the depth of poverty (especially extreme poverty) has decreased.

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<sup>71</sup> For example, according to interviewees, the education round-table that comprises the GoN and all 13 donors to this sector, has helped improving the quality of the last education plan (*Plan de Desarrollo Institucional*). However this round-table is a policy dialogue forum independent from budget support.

An increase in pro-poor expenditure is one of the PAM indicators attached to the JFA and a precondition for disbursements by some donors. Therefore the existence of the BSG and the Commission's participation in it are incentives to orienting budget priorities to the poor, but are no proof of any causal link between them.

#### **4.4.6 The EC interventions through budget support offered a value added (JC 4.6)**

In the case of budget support, value added has a different meaning *vis-à-vis* that relating to sectoral support, as participation in GBS may *per se* constitute value added, even if it is not accompanied by visible leadership of a political or technical nature. This was particularly the case with the 2005 JFA, the importance of which stemmed from the size and quality of the donors involved.

A single donor may have a particular "weight" in Budget Support, according to:

- its financial importance
- the quality of its advocates
- the quality of its intervention

It can be concluded that EC interventions through budget support offered value added. Donor opinions on the role and added value of the EC's BS are all positive. This is linked to its financial importance and to the quality of its advocates.

#### 4.5 EQ5: Linking relief, rehabilitation and development

**EQ5. To what extent did the EC interventions with respect to rehabilitation following Hurricane Mitch link relief, rehabilitation and development, and were they coordinated with and reinforcing other EC interventions?**

*The purpose of this question is to understand how, following Hurricane Mitch, EC interventions contrived to link relief, rehabilitation and development (LRRD). It focuses exclusively on LRRD in order not to duplicate the general PRRAC evaluation carried on at the beginning of 2009. The LRRD approach aims to improve the effectiveness of interventions following a natural or manmade disaster throughout the successive phases of relief, rehabilitation and development and indeed disaster prevention. Better relief can contribute to development; better rehabilitation can ease the transition between the two; and better development can reduce the subsequent need for emergency relief. This requires that EC interventions, regardless of the instruments through which they are implemented, take place not in isolation but through coordinated management. LRRD also puts special emphasis on the re-establishment of government and public administration, including associated capacity-building<sup>72</sup>.*

##### Summary box EQ 5 on Linking Relief, Rehabilitation and Development

Following Hurricane Mitch, the EC intervened with a multiplicity of instruments<sup>73</sup> and important funding relating to different post-disaster phases: relief, rehabilitation and development. These interventions showed important results but neither in terms of strategy nor at implementation level did they explicitly link relief, rehabilitation and development. Moreover little emphasis was given to disaster prevention.

The response was characterised by a general lack of coordination of strategy as well as of implementation. No formal coordination mechanism existed and each intervention was identified individually without explicit reference to previous operations.

The PRRAC was designed as a development programme but it lacked coordination with aid developed through the CSP and consultation with the GoN. This lack of involvement of and dialogue with the GoN impacted adversely on:

- the identification process for the PRRAC sub-programmes,
- the results of capacity-building components, *and*
- national ownership and sustainability.

#### **4.5.1 After Hurricane Mitch, the EC mobilised a multiplicity of instruments throughout all the post-disaster phases (JC 5.1, JC 5.2, JC 5.3)**

Following Hurricane Mitch, the EC rapidly mobilised additional funds using a multiplicity of instruments<sup>74</sup>. Each intervention corresponded to one or more post-disaster phases and concerned, respectively, relief, rehabilitation and development. Disaster prevention was only marginally tackled. More specifically:

<sup>72</sup> See LRRD Communication COM 1996/163 and COM2001/153

<sup>73</sup> By instruments the EC refers to different budget lines that could be mobilised. Each of them has its own objectives and rules defined in different regulations. In this case the instruments were: ECHO, Food Aid and Food Security, NGO co-financing, ALA and Rehabilitation.

<sup>74</sup> The chronology of EC post-Mitch interventions can be found in annex 6

- ECHO funds were mobilised in the first stages (November 1998), allowing initial emergency relief through distribution of basic commodities (food parcels, emergency relief items and medical support). In a second programme (December 1998), it initially supported infrastructure rehabilitation in water, health and shelter that were continued through a Global Plan in September 1999 for a period of 12 months.
- Under the Food Security budget line substantial amounts (over €10m) of food, agricultural seed, inputs and tools were distributed through EURONAIID in affected areas during the period immediately following the hurricane. Subsequently 12 projects were committed to a value of approximately €4,9m; agreed in 1998 and started in 2000, they concerned the rehabilitation of production means.
- Additional funds were committed to Nicaragua in 1999 through the NGO budget line, resulting in an increase of 36% over the 1998 commitments.
- In response to the disaster, the EC contributed \$14m to the HIPC initiative for Nicaragua in November 1999.
- The EC built up a Community Action Plan for the Reconstruction of Central America which was presented to the Council and the European Parliament in April 1999 (see COM1999/201). The financial envelope amounted to €250m for the four countries concerned, €84m of which was for Nicaragua. This became the *Programa Regional de Reconstrucción de America Central (PRRAC)*<sup>75</sup> for which first contracts were signed in December 2000. The PRRAC, even though identified in 1999, was designed to target medium- and long-term development in the areas of health, education, housing, and water and sanitation<sup>76</sup>.

Disaster prevention was only marginally tackled. Within the PRRAC, despite the weight given to disaster prevention at design level, in implementation the issue was only addressed through small programmes and components<sup>77</sup>. At regional level PREVDA only started its activities at the end of 2008. ECHO has been continuing DIPECHO programmes focusing on disaster preparedness since 1998.

#### **4.5.2 But coordination and strategic linkages were lacking between all these instruments (JC 5.1, JC 5.2, JC 5.3)**

The linkage between relief, rehabilitation and development was weak. Indeed, no formal mechanisms of coordination existed, only a few informal exchanges of information taking place. Interventions were identified independently of previous operations and did not stem from a common strategic plan.

These statements are based on the following observations:

- **No formal mechanism of coordination** existed between concomitant support measures, as confirmed by interviewees. Only a few informal exchanges of experience were found to have taken place between representatives of ECHO and of the food

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<sup>75</sup> The programme was implemented at country level and not regionally. FAs were signed with each country: Honduras, Nicaragua, El Salvador, and Guatemala.

<sup>76</sup> A description of the PRRAC (sub-programmes and modality) can be found in section 3.3.2.

<sup>77</sup> Only two sub-programmes (1.4) addressed directly the issue “*Elaboración de mapas de riesgos naturales para tres zonas de intervención del PRRAC*” and the “*Rehabilitación de la Cuenca del río Macarall*”. FORSIMA was the only big PRRAC sub-programme to have considered the issue in its construction plans; FOSED organised workshops in 61 schools; and PROMAPER and PRIESO designed municipal plans of prevention, mitigation and response to disaster

budget line in the field (Strategic Unit of Food Security in Nicaragua and implementing organisms, mainly NGOs). They were made possible by the fact that both instruments target similar food security issues.

- Each intervention was **identified individually without explicit reference to previous operations and without any integration into a common strategic plan**. The documentary review of the PRRAC revealed only scarce references to ECHO interventions or other relief operations (whether financed by other donors or through Food Security). In addition, the LRRD Communication is not explicitly mentioned either in the Communication identifying the programme of rehabilitation for Central America or in the Financing Agreements. The analysis has revealed that some implementing actors financed through ECHO were also subsequently financed by Food Security (4) and by PRRAC funds (8/16)<sup>78</sup>. But only in one case did the funds finance a second phase of the same intervention<sup>79</sup>.

#### **4.5.3 Missed coordination between the PRRAC, the CSP and the GoN (JC 5.2, JC 5.4)**

While PRRAC targeted development, the EC did not succeed in integrating these additional funds in a unified development strategy for Nicaragua, and the interventions ran in parallel with the subsequently-drafted CSP (2002). Also the PRRAC was implemented through a centralised aid modality that hampered dialogue with national authorities. However and importantly, following the devastations of the Hurricane Felix in 2007, coordination was strong between the DCE/RELEX and ECHO in the context of the Instrument for Stability.

In its conception the PRRAC was clearly a development programme which went far beyond relief in both design and implementation<sup>80</sup>. Its design even went beyond the pure concept of rehabilitation<sup>81</sup> and targeted medium-term and long-term development. The programme aimed at reconstruction but also at transformation<sup>82</sup>. Its global and specific objectives give clear evidence of this approach: while paying special attention to infrastructure reconstruction in the zones more affected by Hurricane Mitch, it also aimed at improving public service delivery in terms of quality and access.

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<sup>78</sup> It seems, as reported by some interviewees, that this concomitancy is better explained by the limited number of NGOs present in Nicaragua having the capacity to submit proposals to the EC, than by a commitment to continuity and linkages between actions.

<sup>79</sup> It should be stressed that following the devastations of the Hurricane Felix in 2007, coordination was strong between the DCE/RELEX and ECHO in the context of the Instrument for Stability.

<sup>80</sup> PRRAC first operations in the field started in December 2000 through the local initiatives component. Contracts for implementation of sub-programmes were signed between November 2001 and May 2002.

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<sup>81</sup> The rehabilitation concept is defined in the Council regulation EC 2258/96, 22 November 1996 on rehabilitation and reconstruction operations in development countries: *“These operations, of limited duration are to be launched as quickly as possible without compromising the quality of assessment, shall be designed to help re-establish a working economy and the institutional capacities needed to restore social and political stability in the countries concerned and meet the needs of the people affected as a whole. The operations must progressively take over from humanitarian action and pave the way for the resumption of medium-term and long-term development aid. They must in particular permit refugees, displaced persons and demobilized troops to return home and must help the entire population to resume normal civilian life in their countries and regions of origin.”*

<sup>82</sup> As stated in the conclusions of the first Consultative Group in Washington *“Reconstruction in the sense of transformation”*.

**Linkages lacked with interventions programmed in the CSP.** The 2000-2006 CSP highlighted the necessity of integrating PRRAC funds into the overall strategy. PRRAC funds were indeed of considerable magnitude. As a comparison the PRRAC alone amounts to 50% of the 2002-2006 NIP. But in practical terms little was done to integrate PRRAC into the CSP. Specifically:

- At the level of the strategy there was no convergence between the sectors of the CSP and those of the PRRAC. A considerable proportion of PRRAC funds were therefore spent outside the CSP focal sectors. This hampered the concentration logic and massively extended EC action to areas of intervention beyond the focal sectors such as urban development, as showed in section 3.3.3.
- At implementation level, the lack of thematic or geographical convergence hindered coordination between large PRRAC sub-programmes and ALA interventions. Nor was there found any evidence of coordination with small projects (NGO co-financing or PRRAC local initiatives). However neither was evidence found of duplication of efforts.

It is not possible to assess to what extent a closer coordination between PRRAC and CSP would have improved the results of these programmes.

According to the available information<sup>83</sup> **dialogue with national authorities** was hampered by the centralised nature of the aid modality selected for implementing the majority of programme funds<sup>84</sup>. This modality was chosen very early after the hurricane, in agreement with the national authorities which at the time were overloaded by the magnitude of the catastrophe and by the response of the international community. It must be reminded that implementation started later, on November 2002, when the situation was normalised. But in consequence of the centralised modality the national authorities minimised their involvement (at the expense of sustainability) and their participation was weak (for example in terms of information-sharing). Indeed under this aid modality the national authorities had only an observer and consultative role through the coordination committee.

#### **4.5.4 This lack of anchorage within the national institutions limited the effects of the PRRAC and its sustainability**

Throughout its implementation PRRAC succeeded in improving infrastructures in many sectors and zones - health in Managua; education in Nueva Segovia and RAAN; housing and water and sanitation in Ciudad Sandino, Estelí and Ocotal. It not only funded the rehabilitation of damaged infrastructures but also built up new infrastructures. But as observed in the final evaluations of the sub-programmes, the lack of dialogue with national authorities had an adverse impact in the attainment of objectives. This happened especially in respect of:

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<sup>83</sup> Mainly the PRRAC final evaluation (July 2009), Monitoring Reports, evaluations and interviews during the field phase.

<sup>84</sup> This concerns the PRRAC PMU sub-programmes also called big "sub-programmes" that cover 88% of PRRAC funds.



- **The identification process for sub-programmes**, including aspects such as location of future infrastructures, suffered from weak technical specifications for certain works, and from a lack of identification of realistic conditions to implementation. This applied in particular to the PROMAPER.
- **The capacity-building components** to which large PRRAC big sub-programmes allocated significant amounts showed mixed results. Only the health sector sub-programme FORSIMA managed to establish a dialogue which resulted in a process change in the SILAIS of Managua and even had an influence on the national sectoral strategy.
- **National ownership and sustainability:** a significant amount of funds was allocated to improving social infrastructures without any strong commitment by the national authorities to their maintenance or to service provision. Each sub-programme developed its own **approach** to improving participation of national institutions and ensuring sustainability, albeit with mixed results. According to the findings of project evaluations, FORSIMA was the best case - emphasising the aspects of maintenance in the exit strategy of the sub-programme. On the contrary, PROMAPER is the sub-programme that encountered the strongest difficulties in ensuring sustainability. Weaknesses had appeared from the design phase of the sub-programme. Sustainability was in fact linked to an unrealistic precondition out of line with Government strategy: the creation of a water society or of a specific office of ENACAL for Ciudad Sandino. However coordination with the local authorities improved at the final stage (closure phase) of the last projects which were transferred to the national authorities.

#### 4.5.5 EC added value (JC 5.5)

The EC actively participated in the coordination forum created following Hurricane Mitch and organised under the auspices of the IADB through Consultative Groups. The EC aligned its plan for reconstruction on the principles agreed in the first Consultative Group in Washington and in particular on the principle of transformation (*"Reconstruction in the sense of transformation"*). The Commission Action Plan was presented in Stockholm at the second Consultative Group in 1999.

The Action Plan only related to the EC intervention and did not seek a common EU position, although Member State backing was sought because mobilisation of additional funds was required for the PRRAC. The Commission submitted a Communication to the Council and the European Parliament, resulting in strong support from these institutions.

In terms of comparative advantage *vis-à-vis* other donors, the EC demonstrated very good capacity for mobilising significant additional funds, and its long-term development programme (PRRAC) stood out as particularly original among the various international community responses, which were mainly focused on relief interventions. On the other hand the choice of the aid modality (centralised aid) for the long-term development purposes of the programme as well as the cumbersome management structure which was of a completely new type<sup>85</sup>, did not facilitate a rapid and flexible management of the interventions.

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<sup>85</sup> Given the reform of EC external aid, the option of a *Bureau d'Assistance Technique* was ruled out. The selected structure was a devolved regional unit, for which new staff had to be recruited and trained in procedures, and an internal process had to be created. A Technical Assistance Unit supported it. Each sub-programme had its own PMU and in

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some cases execution of sub-programmes was attributed to public or para-public entities or to international organisations. In addition the local initiative component was attributed to NGOs through call for proposals.

## 4.6 EQ6 : Education

### **EQ6. To what extent has EC support contributed to improving equitable access to quality education for all?**

*The question focuses on the sectoral budget support in education (PAPSE). It aims at assessing the extent by which this support contributed to improve delivery of education services by the GoN.*

#### **Summary box EQ 6 on Education**

Constant but slow progress has been made in relation to almost all quantitative indicators of education, and total expenditure increased significantly both in absolute terms and as a proportion of GDP during the evaluation period. But this led to no significant improvement in access to quality education for all: there was no long-term positive movement in the quality indicators and some showed a clear deterioration. Neither was there any long-term increase in the share of education in the budget, at least until 2006. EC support to this sector, as well as that of other donors, could not reverse this trend and some of the results of the “National Education Plan” supported by the EC were disappointing. This does not mean that EC aid to education through Budget Support was useless, nor that Budget Support was the wrong instrument. This aid may have avoided a further deterioration of the quality of education but no counterfactuals exist that would permit an estimate of what the situation would have been with less, more, or different donor support.

With two successive budget support programmes (PAPSE I and “PAPSE II”), the EC has since 2004 helped the education sector in a complex setting. This period was indeed characterised by two successive and very different sectoral plans between 2004 and 2008; involvement of thirteen donors in the sectoral round-table; and co-existence of three major aid programmes with little harmonisation between them.

The main achievements of all-donor support have been:

- to have financed this sector up to around 30% of total expenditure, covering many aspects including investments, elaboration of strategies, capacity-building, etc;
- to have managed to stay in line with GoN policies and to adapt to the changes, especially from 2007 onward, when the GoN became more involved and demanded more alignment from the donor community;
- to have participated actively in the sector round-table and working groups (especially in the case of the EC), and to have facilitated advancement of coordination and alignment (establishment of a common workplan, sharing of information, reduction in transaction costs for the GoN), and strengthening of institutional capacities.

However, these efforts have been hampered by some setbacks such as:

- intensive coordination between donors not being matched by corresponding harmonisation: the three main donor programmes still do not share either the same indicator matrix or the same procedures (although a common financial audit was conducted in 2008);
- absence of any improvement in the quality of the education statistics;
- dependence of the use of education services on the supply side which is mostly controlled by the GoN, but with strong demand constraints such as exist in poor rural areas in Nicaragua. In the long term the budget constraint (share in budget and in GDP) also affects the quantity and quality of education. In turn this budget constraint depends on political choices and external conditions (aid, structural adjustment programmes, unexpected events).

From a methodological point of view, some weaknesses were observed, such as:

- the PAPSE I specific objectives being over-ambitious, with the result that most of the objectives were not met;
- some indicators used in the EC Budget Support (such as enrolment rates) suffering from such a large margin of error that they were unsuitable for triggering disbursements;
- the EC being the only donor to use this sector budget modality in education.

On the other hand the excessive number of indicators in PAPSE I (25 different indicators for the variable tranche) was corrected in PAPSE II which uses only nine indicators.

#### **4.6.1 The EC shift towards sectoral budget support in education was in line with sector evolution, donor co-ordination initiatives and improved alignment with GoN. Harmonisation remained scarce (JC 6.1)**

The main characteristics of the education sector in Nicaragua are the following:

- A complex set of actors and institutions, namely:
  - Successive sectoral plans, more specifically, 2002 National Educational Plan (PNE), which led in 2004 led to the *Plan Común de Trabajo* (PCT) in 2004, which was replaced by the Plan de Desarrollo Institucional (PDI) in 2007;
  - An Education round-table (“*Mesa sectorial*”) with five working Groups or “*Sub-Mesas*” and in which 13 different donors participate;
  - The coexistence of three important programmes: PAPSE (EC), PROASE (DK, CA, NL), EFA (WB)<sup>86</sup>.
  - External aid<sup>87</sup> which represented between 20% and 30% of the budget of the education sector, depending on the source consulted.
  
- A clear positive development during the period.

According to interviewees (donors, DEC staff and GoN officials), the content of the different education plans was to too great an extent defined by donors and was not always matched by an equal contribution from the Ministry of Education<sup>88</sup>. The education sector showed substantial change from 2007 onwards: a shift in the sector strategy<sup>89</sup>, more initiative by and contribution from the GoN, and a demand for more alignment on public policies. Donors (and in particular the EC) adapted rapidly to these changes.

The shift in the EC strategy in favour of Sector Budget Support in education was demanded by the GoN and was well adapted to the *Plan Común de Trabajo* (PCT), but other donors did not follow<sup>90</sup>. Even so and according to stakeholders, public and donors, this sector is the most advanced in terms of coordination between donors and alignment with GoN. Donor efforts have been successful in terms of establishment of a common work plan, sharing of information, reduction in transaction costs for the GoN, strengthening of institutional capacities and improvement of the last sectoral development plan (*Plan de Desarrollo Institucional*).

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<sup>86</sup> PAPSE: Programa de Apoyo a la Política del Sector Educativo

PROASE: Programa de Apoyo al Sector Educativo

EFA: Education for All (an International programme)

<sup>87</sup> External aid : grants and loans. See MHCP, Marco presupuestario de Mediano Plazo, anexo al presupuesto general de la República 2009 – 3.4. anexo estadístico del MPMP, p.56. See also World Bank PER 2006, table C.11.

<sup>88</sup> According to some interviewees, the Ministry’s commitment and ownership of sectoral policies, as well as the quality of the policy dialogue, were good at the beginning of the BS programme (2003-2004) and after 2007, but weak in between. See also 5.2 (Overall Assessment).

<sup>89</sup> The PDI marked an abandonment of the decentralisation strategy which had been followed by the previous government, a shift from a focus on quantity to a focus on quality, and an effort to offer “free education for all”.

<sup>90</sup> Therefore PAPSE is still the only BS in education. PROASE is a common fund in which each donor uses its own procedures for accounting, auditing (except for a common audit in 2008) and reporting.

However, despite this intensive coordination, harmonisation remained poor: the three main donor programmes (PAPSE, PROASE and EFA) use three different aid modalities, and three different sets of indicators; a common audit<sup>91</sup> was conducted for the first time only in 2008 (which is a progress); and some opportunities have been lost, such as an agreement on a common set of indicators and an improvement in the quality of statistics.

#### **4.6.2 The results in three of the four dimensions of the NEP were not in line with expectations (JC 6.2)**

The four dimensions of the NEP theoretically supported by PAPSE are:

**(i) decentralisation, (ii) support to teachers, (iii) secondary education reform, and (iv) support to Atlantic regions.** The results pertaining to these four aspects of the National Education Plan which constituted PAPSE's specific objectives were not in line with expectations.

**The process of autonomy and decentralisation** slowed down from 2005 and came to a halt in 2007 when the new government decided to reverse public policy on this issue. Whatever the autonomy principle permitted in terms of gains in quality, participation and efficiency has been lost in terms of equity since parents were contributing more (as education became more expensive<sup>92</sup>) in the autonomous than in the non-reformed schools.

The autonomy principle is at least in part incompatible with the principle of "free education for all" which is the goal of the new education policy.

**The salary policy** was the main obstacle to effective support for teachers. The salary differences between qualified and unqualified teachers are indeed small, so that there are few incentives to obtain qualifications or even enrol in in-service training programmes. The GoN began to apply a new salary increase programme from 2007, but this was hampered by an increase in inflation.

**The reform of secondary education** was the most successful because the process of reforming the curriculum was supported by almost all the main stakeholders in this sector and is applied by the GoN since 2008<sup>93</sup>. However, the process did not fully integrate the directorate on technical education, despite the fact that one of the objectives of the new curriculum is to build bridges between secondary education and the labour market.

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<sup>91</sup> This common audit did not concern PAPSE which, as a budget support programme, follows strictly national procedures on audit and control.

<sup>92</sup> See Vol II, Annex 8, I-6.2.1

<sup>93</sup> This is a rare case, worth to be stressed, of a reform initiated by a government and put into application by another one politically very different.

**Achievements in support for the Atlantic regions** have been few. There has been a lack of a clear definition of the respective roles of the Ministry of Education and the SEAR (*Sistema Educativo Autónomo Regional*), the regional institution in charge of the education sector in RAAN and RAAS. The curriculum transformation does not apply to these regions, which develop their own curricula. But this process came to a halt because of lack of resources. Resources for education in the autonomous regions have increased considerably, but this does not seem to have contributed to an increase of the quality of public education in these regions.

Although the results of PAPSE are disappointing insofar as the majority of its specific objectives were not attained, the following elements qualify this observation:

- Some of the components on which PAPSE focused, such as support for teachers or for the Atlantic regions, suffered from problems which were already present before PAPSE began and which were not removed by the programme. In one case they stem from the salary policy applied in the sector, from exogenous factors such as an increase of inflation and the international crisis, and from the very design of the institutional functioning of the autonomous regions.
- It is difficult to attribute to Budget Support the successes or failures of a sectoral policy. An intervention such as PAPSE supports an institution, a policy and a reform. The successes and failures of these policies and reforms are not strictly attributable to the BS even if the policy dialogue between the GoN and donors (including the EC) meant that the education policy was donor-driven. In this case there is a lack of counterfactuals which could establish a clearer link between the Budget Support and the results mentioned here.
- The new government policy in education (2007) meant a change in education priorities and, following PAPSE I (2004-2006), PAPSE II (2007-2010) uses a modified matrix of indicators already adapted to the new sectoral plan (PDI), focusing exclusively on quality indicators, the number of which was reduced from 25 to nine.

#### **4.6.3 Constant progress in quantity indicators but not in quality indicators; increased education expenditures but no long term increase in the budget share of education until 2006 (JC 6.3)<sup>94</sup>**

**Figure 4.4: Evolution of some quantity indicators of education in Nicaragua**

Indicator	2000	2001	2002	2003	2004	2005	2006
1. Net enrolment rate in primary education	78.6	80.5	86.2	86.0	87.0	86.8	86.8
2. Net enrolment rate in secondary education	34.0	35.7	37.4	38.4	39.9	42.0	43.6

Nicaragua lags behind other Central and South American countries in education, but is showing slow but constant progress in respect of almost all **quantity indicators** (coverage: see figure 4.4). From 2001 to 2006 the rates of growth of enrolment in the four main levels

<sup>94</sup> Progress in quantity indicators such as enrolment rates, and in contrast the disappointing results of the quality indicators, are not only shown up by unreliable official statistical data (see below) and also by independent studies. See World Bank PER 2008, annex C.

of education exceeded population growth which was 2.1% a year on average, so it can be stated that the coverage of education services has increased. Primary education showed an increase of 2.2% a year, compared with 4.9% for secondary education, 5.1% for preschool education and 3.6% for adult education (see annex 8, figure EQ6.3).

**Figure 4.5: Evolution of some quality indicators of education in Nicaragua**

Indicator	2000	2001	2002	2003	2004	2005	2006
3. Dropout rate in primary education	5.3	5.8	6.6	6.1	6.6	8.7	13.1
4. Dropout rate in secondary education	8.8	8.2	12.2	10.9	10.2	12.2	14.0
5. Repetition rate in primary education	5.1	6.7	8.9	10.1	10.6	9.9	9.5
6. Repetition rate in secondary education	5.5	6.2	6.4	6.6	6.7	6.0	5.7
7. Completion rate in primary education	38.7	59.2	66.9	65.9	66.1	67.3	67.3
8. Pupil/teacher ratio in primary education			35.2		33.9	33.6	32.8

**Sources:** El Desarrollo Humano en Nicaragua - Las Condiciones de la Esperanza - PNUD 2002

Informe de Evaluación de medio término - Programa de apoyo a las Políticas del sector Educativo en Nicaragua - PAPSE - Diciembre del 2006

Sistema de Naciones Unidas: Nicaragua – Valoración Común de País - 2007

World Bank: Nicaragua - PER 2001-2006 - May 2008

World Bank: Nicaragua Poverty Assessment 2008

MINED: Indicadores de la educación Básica y Mediana en Nicaragua. Sept 2007

**Note:** Each indicator comes from only one source in order to maintain the coherence of the statistical series.

On the quality side the results are not so good and **quality indicators** (see figure 4.5) such as repetition rate, drop-out rates, pupil-teacher ratio, proportion of unqualified teachers, and national and international student assessments, all show that little or no progress is being made. One important exception is the completion rate in primary school which shows a significant improvement. These results express the former priority given to quantity over quality. It is not clear to what extent progress in education could be accelerated without reducing, at least partially, the budget constraints manifested by an almost fixed (and low) share of education in the national budget from 2000 to 2006, which at 15.2% was the same in 2006 as in 2000. However the share of education in the budget proposal rose from 11.3% in 2006 to 13.4% in 2008<sup>95</sup>.

At this point, several observations should be made:

1) First, some of the data should be treated with care as they are subject to considerable margins of error. For example, a rate of enrolment is a ratio between very unreliable data (total number of pupils enrolled) and what is, at best, a good guess (total number of children in a certain age group). Examples given in the World Bank PER and in the PAPSE mid-term evaluation<sup>96</sup> show that the margin of error of the numerator (total enrolment) can easily be between 10% and 30%. The correction made to the 2005 rate of enrolment by incorporating the new census information shows that the error in the denominator (total population by age group) was around 10%. A ratio between two such unreliable data items cannot constitute, in statistical terms, a reliable result.

<sup>95</sup> The budget proposal, as submitted to the National Assembly, is published on the internet (<http://www.hacienda.gob.ni/hacienda/libros.jsp>) a few months before the beginning of the fiscal year, but one of the problems of budget preparation is the systematic underestimation of the budget approved by Parliament, which only partially reflects real expenditures (see section 4.4).

<sup>96</sup> The evaluation highlights a few regions (RAAN, Jinotega, Río San Juan) which, in 2005, recorded net rates of enrolment higher than 100%.

2) Nevertheless, three rates of enrolment are taken into account in the measurement of education performance, on which a decision to release the variable tranche of PAPSE I is based. Taken together these indicators amount to 40% (€2m) of the “education policy” component (€5m) of the 2006 variable tranche (€10m). In other words, the decision on whether or not to disburse €2m was taken on the basis of the value of a ratio which presents a very high margin of error in both numerator and denominator<sup>97</sup>.

3) While school enrolment has a clear supply side (quality and quantity of schools and teachers), it has also a demand side (for children to go to school, children and their parents must be convinced that it is worth the effort). Demand constraints can prevent children from attending school and are beyond the reach, strictly speaking, of an education policy, at least in the short-to-medium term. Findings from recent household surveys in Nicaragua identify financial problems as the most important constraint for primary-school-aged children, especially those living in extremely poor households in rural areas (figure 4.6). For the secondary-school-age population, the main constraints are financial, work activities and lack of interest in schooling opportunities. These constraints affect respectively about 40% and 43% of the population concerned.

**Figure 4.6: Reasons why children ages 7 to 12 are not enrolled (%)**

	RURAL	URBAN	MANAGUA	PACIFIC	CENTRAL	ATLANTIC
Lack of money	38.9	47.0	40.2	52.6	39	38.2
School is too far	15.8	0.0	0.0	0.0	9.6	23.6
No interest	8.4	15.3	5.6	17.9	11.3	7.1
No place/no class/no teacher	6.8	2.2	0.0	2.2	6.9	7.3
Family problems	6.0	16.3	31.7	8.0	6.5	4.6
Had to work	4.7	0.8	0.0	1.9	4.5	4.4
Other	19.4	18.4	22.5	17.6	22.1	14.8

Source: World Bank: Nicaragua Poverty Assessment 2008, table 2.7 p.39 – Using data from the 2005 Nicaragua EMNV.

In other words low enrolment in both primary and secondary schools is in substantial measure attributable to the demand side of education (lack of family financial resources) and are beyond the reach of an education policy in the short-to-medium term, which is the time span used in valorising indicators governing the release of the variable tranches of PAPSE.

4) Finally, the main restriction on the supply side (within the purview of the GoN) is financial: to increase the quantity and quality of education services provided by the GoN, the education budget has to increase at a rate greater than that of the school population. There certainly exists a margin for efficiency gains in resource utilisation in education but the existing proposals in this regard, such as for example can be found in World Bank PER 2008 (p.172-173), are not far-reaching. GoN has signed an agreement with the IMF which assumes that the country will not increase its primary expenditures. In fact, education expenditures increased significantly during the period of analysis (see annex 8, figure EQ 6.5), but not more than the general budget of the central government, at least until

<sup>97</sup> The margin of error exceeds by far the targeted increase for some indicators. In 2005 two of the three enrolment rates (pre-school and secondary) attained their respective goals, but the third (primary) attained 91.9% instead of a goal of about 93%. This difference of only 1% in the value of an indicator with an error margin of probably more than 20% gave rise to a cut of €0.5m in actual disbursement (€1.5m for these three indicators) in comparison with the maximum possible of €2m.



2006. It is unclear to what extent the macro restrictions agreed with the donor community in general and with the IMF in particular allow for a significant increase in education quality and quantity. Therefore it is unclear whether the 22 conditions agreed between the GoN and the EC for the release of the “education policy” and “decentralisation” components of the variable tranche of PAPSE I provide a realistic framework for improvements in education.

#### **4.6.4 EC added value (JC 6.4)**

The EC is one of the pioneers in the application of new forms of financing for the education sector (Budget Support and common funding) and takes the lead in sectoral round-table coordination. Most other donors consider that the quality of this coordination is the main EC added value. The EC played no particular role in the elaboration of the sectoral strategy because, according to its final evaluation findings and to the comments of interviewees, PAINIC was not a success in the education sector.

## 4.7 EQ7: Efficiency of implementation

**EQ7. To what extent have the financial and human resources been used to reach objectives in a timely and cost-effective manner, and was the regulatory and administrative framework appropriate for doing this?**

*The purpose of this question is to assess the efficiency of EC interventions using three criteria: (i) the quantity and quality of resources, (ii) the organisational set-up, (iii) the cost effectiveness of budget support.*

### Summary box EQ 7 on Efficiency of the Implementation

A majority of traditional interventions<sup>98</sup> show good levels of stakeholder participation and of availability of means, but are still encountering efficiency problems which mostly cause delays in implementation and ultimately jeopardises attainment of the expected results. According to ROM reports, evaluations and interviews, the common causes of delays are: unrealistic design, staffing problems, and slow adaptation to frequent procedural changes. Inefficiencies are also provoked by local factors, mainly weakness of local institutions; political interventions; and a mismatch between the capabilities of a poor country with little tradition of rigorous accounting on the one hand, and the requirements of EC procedures on the other.

At Delegation level efficiency has improved. According to interviewees the deconcentration of the Commission Services has made possible smoother follow-up of implementation of interventions. The Delegation has demonstrated its capacity to intervene positively in cases where implementation was experiencing difficulties. Nevertheless the high number of projects seems to overload the Delegation's capacity. Given the pressure to reduce fiduciary risks, this results in a follow-up based on means and control, with a lack of attention to results and effects.

Also, within the Delegation improvements are needed in information exchange to improve implementation.

The use of Budget Support as an intervention modality has meant a major improvement in efficiency as it overcomes some of the common inefficiencies of traditional interventions (such as those linked to EC procedures, financial reporting, etc.) and allows widening of the disbursement channel. Nevertheless transaction costs for donors and government are relatively higher than expected in the initial phases, although they fall significantly thereafter.

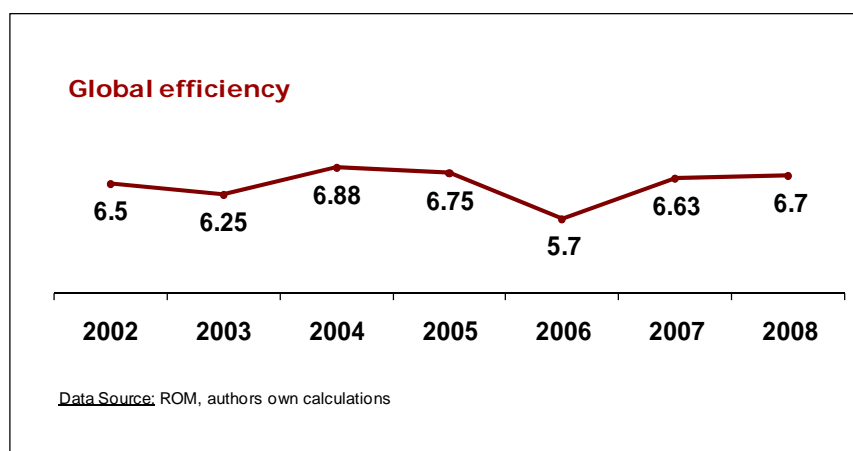
#### **4.7.1 A majority of traditional interventions show good levels of stakeholder participation and of availability of means, but are still encountering efficiency problems, mostly resulting in delays (JC7.1)**

According to the ROM country reports<sup>99</sup>, the efficiency criterion usually scores lower than other criteria. Between 2002 and 2008 efficiency obtained the lowest rating out of the five criteria<sup>100</sup> over 4 years, but a rating close to the mean during the remaining three years<sup>101</sup>.

<sup>98</sup> As opposed to "new" forms such as budget support, sectoral approach, etc.

<sup>99</sup> It must be remembered that the ROM system does not apply to Budget Support interventions and therefore does not capture the effect of these interventions in improving the efficiency of EC cooperation at a general level. Between 2002 and 2008 (over 7 years) the ROM system produced 115 reports on bilateral (as opposed to regional) cooperation on 45 different interventions out of a total of around 120.

**Figure 4.7: Monitoring Efficiency Rates 2002-2008** (on a scale from 1 to 10)



The graph shows that over the longer term the efficiency rating has been more or less steady. There was a clear worsening in 2006 due, according to the 2006 general monitoring report, to the new administrative rules which gave more responsibilities to beneficiaries. But during the following two years the rate recovered to its previous level. Part of the explanation for this improvement lies, according to the general reports, in the incorporation into ROM of more NGOs interventions which are, on average, more efficient than other instruments.

Turning to the sub-criteria which explain the relative efficiency of interventions, the ROM country reports from 2006 to 2008 (the only years for which data are available) all consistently show that the major factors in efficiency are “participation of stakeholders” and “availability of means” (sufficient human, financial and administrative resources) which both score well and enhance efficiency. On the other hand these same reports also consistently show that the major factor in inefficiency is the proneness to major delays in implementation which affect more than half of interventions and cause low levels of financial execution and delivery of results.

The most **common causes of delay** reported by ROM reports, by evaluations, by interviewees and even by official documents (CSP), are the following:

- Implementation schedules do not consider realistically the time needed for the take-off phase of interventions phase in the light of EC procurement rules. Furthermore these rules themselves impose substantial delays.
- The processes of identification and formulation are not sufficiently realistic in terms of allocation of time<sup>102</sup>, financial and human resources needed. Also the planning process

<sup>100</sup> These five criteria are relevance, effectiveness, efficiency, impact and sustainability.

<sup>101</sup> A qualification of more than 5/10 means that in more than half of the projects monitored, efficiency was considered as “satisfactory” or “very satisfactory”.

<sup>102</sup> Unrealistic execution calendars are also cited as a frequent source of inefficiency.

is not flexible enough (it is difficult to change the rhythm and content of a project during its execution phase<sup>103</sup>).

- Staff problems such as rapid turnover and poor quality of TA are often encountered during implementation.
- More generally, the frequent changes of implementation procedures challenge the capacity of stakeholders to adapt to them. Frequent errors in the interpretation and application of new rules increase costs and delays.

At another level, **EC procedures for norms of origin**<sup>104</sup> can result in high costs and sustainability problems and are difficult to reconcile with the spirit of the Paris Declaration. Cases in point are, for example, coffee processing equipment in two NGO projects<sup>105</sup>, drinking water pipes in PROMAPER and PRIESO, medical equipments, cars, machines, weather forecast station, cows, etc<sup>106</sup>.

**Local factors** appear to play an important role in provoking inefficiencies. They are mainly as follows:

- The weaknesses of many local institutions (public as well as private) cause errors, misunderstandings and therefore delays or errors in execution, financial accounting, monitoring and reporting, particularly since 2006 during which time numerous administrative tasks and responsibilities have been delegated to beneficiaries.
- The co-direction system, progressively abandoned since 2004, caused political problems which resulted in conflicts and delays<sup>107</sup>.
- Some interventions are exposed to local political decisions which often reduce cost-efficiency<sup>108</sup>.

#### **4.7.2 At Delegation level there is a clear distribution of roles but there is room for improving information-sharing (JC 7.2)**

**At Delegation level efficiency has improved: a generally clear distribution of roles between HQ and Delegation and within the Delegation itself contributes to smoother implementation. Deconcentration played a positive role in this respect.**

Interviewees explain that the sharing of responsibilities<sup>109</sup> between HQ and the Delegation is clear, well understood and generally accepted. In particular the Delegation appreciates the support it received from HQ in matters such as Budget Support.

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<sup>103</sup> A case in point on this respect is the rural development project in Rivas.

<sup>104</sup> This rule specified that all equipment (above a certain amount) bought for an intervention financed by the EC should have a European origin. The rule permitted derogations and was recently rendered more flexible, but many examples can still be found of equipments that could not be replaced or maintained because spare parts are not available in the country.

<sup>105</sup> These are “Living with Dignity in Globalisation Times” and “Coffee: an Example of Production and Responsible consumption”.

<sup>106</sup> Many examples concerning the use and abuse of norms of origin in PRRAC interventions can be found in the PRRAC final evaluation (2009 p. 53).

<sup>107</sup> For example, the “*Censo Agropecuario*” project or DECOPANN

<sup>108</sup> A case in point, according to the 1998 country evaluation, is the much debated decision to construct a new road from Matagalpa to Jinotega instead of repairing the old one.

<sup>109</sup> This was not always the case in the past. Many important changes in organisation and procedures have provoked difficulties between HQ and the Delegation, for example when financial regulations were reformed in 2002 and in

Within the Delegation responsibilities are also regarded as clear. They are assigned by sectoral specialisation, and not on an instrument (or budget-line) basis. Task Managers are thus in charge of different projects financed from different budget lines (NGO, food security...) <sup>110</sup>. This division of roles allows a higher level of coherence, at least within the main sectors and insofar as there is good exchange of information (see below), although frequent re-organisations and high staff turnover represent a continuous challenge. The devolution process also improved significantly the execution and follow-up of interventions by Delegation staff by reducing the reaction time and increasing the quality of decisions, although the inevitable transition period provoked some difficulties in follow-up and budget execution. Interviewees also mention progresses in coordination between projects, particularly in the area of rural development and at least since 2006.

According to interviewees, for certain interventions' experiencing particular difficulties the Delegation has demonstrated its capacity to intervene positively. For example it has played an arbitration role in insulating intervention objectives from political pressures <sup>111</sup>. Nevertheless the quantity of projects managed (numerous and small), the pressure on disbursement imposed by headquarters, and the procedures relating to minimisation of fiduciary risks, combine to result in follow-up based on means and control of rules, and a lack of attention to the results and effects of the interventions.

**There is room for improving information exchange in order to improve implementation.**

Exchange of information within the Delegation takes place at Head of Department level on a regular basis (weekly). However interviewees mention a lack of information-sharing at the level of operational Departments, between task managers, and within teams <sup>112</sup>.

Important in this respect is also the fact that there is no centralised system of archiving or even of simple information management (such as a common network) at Delegation level. CRIS, although improving, does not compensate for this lack as it is not yet a fully reliable instrument, still contains errors and blanks, and is not generally used to archive documents. Staff members store documents on an individual basis and according to personal rules. There is thus very little institutional memory which would permit easier capitalisation on past experience. The most reliable information source is ROM which, however, has its own limitations (it is not intended to be an information-sharing system). <sup>113</sup>

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2007, or at the beginning of the devolution process, when activities and responsibilities were revised at a time when the Delegation had not yet been staffed for its new responsibilities.

<sup>110</sup> But with some exceptions, such as ECHO.

<sup>111</sup> This role was positively mentioned in the evaluations of « Censo agropecuario » and PRODELSA,

<sup>112</sup> Easy access to relevant information is a major efficiency factor: it permits avoidance of duplication, erroneous decisions or wasted time.

<sup>113</sup> Transmitting information through time (vertical information sharing) is as important as transmitting information between staff at one moment of time (horizontal information sharing): both have an important effect on efficiency.

#### **4.7.3 The shift to Budget Support: BS transactions costs are higher than expected during the initial phases of GBS, but fall significantly thereafter (JC7.4)**

In terms of efficiency, the progressive shift to a Budget Support modality overcomes the common causes of delay mentioned above for traditional interventions. No study on budget support transaction costs is available for Nicaragua, but most of the interviewees from institutions engaged in BS confirm one of the conclusions of the 2006 evaluation of BS: namely that those transaction costs are relatively higher than expected during the initial phases of GBS, but fall significantly thereafter. However costs are lower than for other aid modalities, for both donors and government, but more for the former than for the latter.

In 2006 the Budget Support Group examined means of improving the Performance Assessment Matrix (PAM) and reduced the number of indicators from 74 to 52. In 2008 the GoN negotiated a further reduction from 52 to 27 indicators in order to reduce the transaction costs of BS supported by the GoN. This shows that donors and GoN are conscious of the cost problem and are determined to tackle it.

#### 4.8 EQ 8 : on cross-cutting issues: Gender, environment and decentralisation

**EQ8. To what extent were issues relating to gender, environment and decentralisation taken into account in the design and implementation of the interventions?**

*The question examines gender and environment, the two issues for which mainstreaming is required in all communitarian policies as established in the Treaty. Decentralisation is also covered, as it was explicitly mentioned as a cross-cutting issue in the 2002-2006 CSP.*

##### **Summary box EQ 8 on Cross-cutting Issues: Gender, Environment and Decentralisation.**

**Gender** was taken into account in EC interventions both through small specific interventions and through widespread transversal inclusion (“mainstreaming”). Women’s empowerment was explicitly mentioned as an objective of many interventions. Nevertheless at implementation level the majority of interventions focused more on women’s participation (selection of beneficiaries) than on promoting gender equality. Support through women’s organisations, combining inclusion of women in income-generating activities with attention to distribution of roles between men and women and advocacy of gender equality, was an exception in this respect and offered visible and tangible results. Overall the EC’s efforts, even if significant, could not reverse the recent deterioration of Nicaraguan trends in respect of gender equality, as illustrated by the abolition of legal therapeutic abortion and the conflict between GoN and certain women’s organisations.

**Environmental protection** has been supported through small specific interventions but has been poorly mainstreamed. The attention given to the issue varied across the areas of intervention. Budget support and good governance interventions did not address environment, while interventions in infrastructures have respected national environmental norms. For rural development, despite consideration of specific measures in intervention design, only minor measures have actually been implemented (with the exception of specific projects in biological agricultural production). Interventions have on the contrary mostly promoted extensive agriculture, thereby potentially increasing the pressure on the agricultural border. Overall the EC interventions have not taken environmental protection sufficiently into account to contribute to advancement of the debate in the national context, despite the crucial environmental challenges faced by Nicaragua.

EC support for **decentralisation** has consisted mainly of support to local authorities through various non-specific interventions (“mainstreaming”): DRIs, PRODELISA, PRRAC. The decentralisation process was directly supported by the PAPSE and the PAPND. Nevertheless the process has been partly abandoned by the present government in favour of a more centralised model.

##### **4.8.1 Wide mainstreaming of gender but not always with positive results in terms of promotion of gender equality<sup>114</sup>. Degradation of the issue in the national context (JC 8.1 and 8.4)**

<sup>114</sup> Women’s average income is 20% lower than men’s average income and women suffer many forms of discrimination (see Annex 8, I 8.5.1). A gender approach is therefore important in of the context of the fight against poverty.

EC interventions in Nicaragua commonly included gender issues in their design. The issue was supported through a double approach<sup>115</sup>:

- **through specific interventions:** of the 133 interventions supported in Nicaragua, 13 specifically concern gender. These represent 9.7% of projects and account for 2.5% of commitments (see table below) from which it can be concluded that projects were numerous but relatively small in financial terms. All these projects were financed through thematic budget lines. The interventions concerned domestic violence, sexual exploitation and reproductive health but also covered income-generating activities and advocacy capacity for women organisations; *and*
- **through transversal inclusion in non-specific programmes (“mainstreaming”):** across the projects analysed (13 in all) examples of non-consideration of gender issues in design have been rare (general budget support and roads). The majority identify specific related measures or components (9/13), while in nearly half the cases (4/9) gender has even been included as a specific objective. This is remarkable as non-specific interventions usually only include a brief reference to gender equality in the documents, after which very little activities actually address the issue (in only two out of the 13 was this the case).

**Figure 4.8: Specific interventions for cross-cutting issues**

	Committed	Share of total commitment	Number of projects	Share of total projects
Gender	9,733,303.70	2.5%	13	9.7%
Environment	11,433,074.46	3.0%	18	13.5%
Decentralisation	1,122,776.34	0.3%	2	1.5%
ALL INTERVENTIONS	417.449.349,58	100%	133	100%

Source: Authors’ calculations on the basis of the project title list in annex

At implementation level the non-specific projects analysed (13) focused principally on improving women’s participation but in the main have not promoted gender equality. Three situations were encountered:

- **No specific activities** are planned and gender is only tackled mechanically through indicators of participation rates. This was not a very frequent situation (FOSED), and the approach contributed neither to real equity nor to sensitisation.
- **Positive discrimination is adopted towards women**, which has become a major criterion in the selection of beneficiaries or for which specific components were identified. This was the case with many projects in productive sectors that dedicated extensive resources to women (DRIs, PRODELSA), particularly in the area of access to credit. Women’s participation has increased but the absence of follow-up and specialised advice to beneficiaries resulted in practice in reinforcement of traditional female roles rather than promotion of gender equality and female empowerment.
- **Women’s participation is combined with gender equality considerations** beyond traditional men-women role distribution (“*Por una vida digna en tiempos de la globalización*”,

<sup>115</sup> Cross-cutting issues could be tackled through specific actions or through mainstreaming. A mainstreaming approach involves the issue being transversally considered in all interventions. For gender mainstreaming see related communications: "Incorporating equal opportunities for women and men into all Community policies and activities" - 21 February 1996 (COM(96) 67) and "Gender Equality and Women Empowerment in Development Cooperation" - 8 March 2001 (COM 2001 100).



*PPDDHH, Servicios legales*). This applied mainly to interventions through women's groups. Particular visibility and success in the advancement of gender equality was achieved when combining the strengthening of advocacy capacity with specific measures for women's empowerment in income-generating activities and practical consideration of men-women role distribution and equal opportunities ("*Por una vida digna en tiempos de la globalización*").

Overall the advances made through this approach could not reverse the recent deterioration in gender equality in the national context, particularly given the abolition of legal therapeutic abortion and the controversial measures taken against certain women organisations within the framework of the confrontation between some civil society organisations and the GoN. The DEC expressed strongly its opposition to these drifts.

#### **4.8.2 Protection of the environment has been mainly promoted by specific interventions (JC 8.2 and 8.4)**

The issue has been poorly mainstreamed and has been mostly supported through small specific interventions.

Of all the EC interventions in Nicaragua over the period covered, 18 specifically concerned protection of the environment. This represents 13% of projects and accounts for 3% of commitments (see table above), from which it can be concluded that projects were numerous but relatively small in financial terms. All the projects were financed through thematic budget lines. The interventions mainly concerned environmental resource protection (10), promotion of sustainable urban life schemes (2), and also biological agricultural production (6) with particular success in organic and environmental-friendly coffee production (i.e. *Café: un ejemplo de producción y consumo responsable*).

For the non-specific interventions analysed (13), consideration of the issue in design and implementation varied across the areas of intervention. In particular:

- The issue is not considered **in budget support and good governance** interventions at either the design or implementation stages.
- The majority of interventions in **rural development** provided in their design for specific measures addressing the issue, but in terms of implementation only minor activities were undertaken. Yet the majority of projects analysed in this sector (with the exception of specific projects in biological agricultural production mentioned above) have promoted reactivation of production through extensive agriculture rather than in improving production conditions and intensification. This approach could increase the pressure on the agricultural border at the expense of the tropical forest.
- Finally, the **infrastructure** interventions (roads, PRRAC) have respected the national environmental norms.

Overall, EC interventions in environmental protection did not reach a sufficient critical mass to contribute to advancement of the debate. Nationally the issue has not received very much attention in recent years. Nevertheless Nicaragua faces major environmental challenges, principally in water pollution and in the reduction of the tropical forest area.

#### **4.8.3 Strong support to local capacities (JC 8.3 and 8.4)**

Decentralisation is not a standard cross-cutting issue but was proposed as such in the 2002-2006 CSP in support of the national decentralisation process.

Over the period the approach followed by the EC relied on an increase in local authorities' capacity through mainstreaming rather than through specific programmes:

- Only two **specific programmes** were identified; both targeted institutional strengthening of local authorities, accounted for less than €1m each, and were financed through the NGO thematic budget line (see table above).
- Various programmes had **specific components** devoted to strengthening the capacities of the municipalities as key actors in local development. This was particularly the case with the PRRAC (PRIESO, PROMAPER), the PRASNIC, the PAPU (Proyecto de Apoyo a las Poblaciones Urbanas), the DRIs and the PRODELSA. The support for the justice sector also addressed the importance of increased local coverage.
- The EC has directly supported the **decentralisation process** through the PAPND and the PAPSE, for each of which a proportion of the variable tranches was related to advancement of decentralisation indicators.

Following various achievements in decentralisation (*Ley de Descentralización*<sup>116</sup>, *Ley de transferencia municipal*), the process has been partly abandoned by the current government which advocates a more centralised model. Various donors have noted an increase of the fiduciary risk when supporting municipalities, which would be linked to higher permeability of public institutions to political pressures.

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<sup>116</sup> There is no such decentralisation law in Nicaragua, but various laws referring to municipalities, a law on Autonomous Regions and a law on decentralised State Entities (Ley 290 of 1998). See Vol. II Annex 8, I-8.5.1 c)

#### 4.9 EQ9: The "3Cs" (coordination, complementarity and coherence)

**EQ9 To what extent was the EC strategy designed and implemented in coordination with Member States and other donors so as to foster complementarities? To what extent are other EC policies coherent with the EC cooperation strategy in Nicaragua?**

*This question assesses the level of application of the "3Cs" principle: (i) the level and efficiency of coordination and complementarities with other donors, (ii) the value added by the EC resulting from this coordination, (iii) the coherence between the EC development strategies and other communitarian policies and (iv) the coherence between national and regional strategy<sup>117</sup>.*

##### **Summary box EQ 9 on the 3Cs principle (coordination, complementarity and coherence)**

Progress in coordination of the design and the implementation of the EC strategy with other donors is clear, but not enough so as to foster complementarities which remains a distant goal.

- First the general context has been favourable, at least since 2002, driven by some key initiatives of the GoN and by the international environment (Rome, Paris, Accra). Donors in Nicaragua reacted positively, albeit unevenly, and most of the Paris Declaration indicators on harmonisation and alignment showed an improvement between 2005 and 2007. The improvement is stronger (albeit starting from a lower level) for the EC than for other donors. By the same token, all-donor cooperation with Nicaragua offers many examples of efforts towards harmonisation and alignment, at different levels and with different instruments.
- Second, according to documentary evidence, the EC plays an increasingly visible role in promoting cooperation between donors and alignment with the GoN. This role can be illustrated by many examples (e.g. the EC Blue Book initiative) but it also promotes "de facto" complementarities. Mainly because of an improvement in communication and in sharing of information, overlapping seems to have diminished, even if negative examples can still be found. On a more proactive note the EC and other EU donors are taking the very first steps towards implementation of the EC Code of Conduct which, following the Accra Agenda, would promote a division of labour between countries and cooperation organisations so as to direct resources in accordance with their respective comparative advantage. These first steps imply an improvement in transparency and in information sharing, a reduction in the number of focus sectors and a first assessment of donor comparative advantage. No real division of labour has yet been implemented between donors or with the GoN, and given the different interests of the main actors, the road ahead promises to be long.
- As for coherence between EC policies and its cooperation strategy, Nicaragua is not a competitor country for the EU (no competition in agricultural exports or imports, no major migration flow to the EU, no quick spread of agro-fuel crops). Therefore and for the moment, coherence is not a key problem for these issues. One exception is the focus by the EC and Member States on respect for fundamental democratic principles, which can hamper long-term stability in bilateral cooperation relations when it is judged that these principles are no longer being respected.

<sup>117</sup> This last part has been omitted in the following text because no evidence has been found that regional strategy is explicitly taken into account in the design and implementation of EC interventions.

#### 4.9.1 According to the Paris Declaration Monitoring, progress is still weak in the case of harmonisation but stronger in the case of alignment; improvements are stronger for the EC than for other donors (JC 9.1)

The following table shows some of the results of the 2005 and 2007 surveys of the Paris Declaration Monitoring for Nicaragua in order to underscore the levels and evolution of three indicators of harmonisation and four indicators of alignment, and compare EC results with those of other donors.

**Figure 4.9: Results of surveys on monitoring Paris Declaration in Nicaragua**

Indicators		2005 EC	2005 ALL DONORS	2007 EC	2007 ALL DONORS	2010 PD GOAL
3	Aid is on budget	49%	73%	63%	87%	87%
4	Technical Assistance is coordinated	26%	29%	24%	45%	50%
5A	Aid uses national PFM systems	30%	44%	58%	48%	63%
5B	Aid uses national procurement systems	24%	28%	48%	45%	na
6	Number of existing parallel PIU (Project Implementation Unit)	7	107	0	49	36
7	Aid is predictable	52%	70%	55%	74%	85%
9	Aid follows a Programme-Based Approach	20%	48%	45%	46%	66%
10A	Missions are coordinated	29%	9%	33%	20%	40%
	Total number of missions	7	356	3	257	
10B	Analytical work is coordinated	0%	53%	60%	52%	66%
	Number of coordinated a.w.	0		5		

*Source: Author's in base of the results of the 2005 and 2007 monitoring of the Paris Declaration*

Although EC aid was performing better than the donor average in only two indicators in 2005, it was performing better than or equal to the average in respect of six out of seven indicators of harmonisation and alignment in 2007. According to the PD surveys, the progress made by the EC in harmonisation and alignment was more rapid than those of other donors during those two years.

At an all-donor level, harmonisation and alignment are still rated as “low” (albeit in progress), even if most of the documentary evidence points to progress in coordination between donors and with the GoN.

The table above shows that on the EC side all three **harmonisation** indicators (9, 10A, 10B) show a clear improvement. EC has been catching up other donors on harmonisation. Two of the three indicators for “all donors” register little progress. The only real progress relates to the share of coordinated missions which increased from 9% to 20%, while the two others slightly decreased.

As for **alignment** (indicators 4, 5A, 5B, 6), on the EC side the improvement is spectacular for indicators 5A, 5B and 6. However, less EC technical assistance was coordinated in 2007 than in 2005 (indicator 4). At an all-donor level the general finding of the 2005 survey is that the level of alignment of ODA with public regulations and policies was weak since aid continued to be very fragmented and parallel to the national systems despite recent efforts to improve that situation. On the other hand the 2007 survey offers a more optimistic view: all four indicators of alignment used by the Paris Declaration (PD) show an improvement, sometimes very significant, between 2005 and 2007

As already stressed the proportion of aid on budget has grown significantly (indicator 3), while predictability of ODA showed very little improvement (indicator 7).

#### **4.9.2 Donor coordination has improved and offer concrete results; efforts toward complementarity have just started (JC 9.1, 9.2 and 9.3)**

##### **On coordination**

At an all-actor level, many examples of coordination between donors and with the GoN can be found, which offer a picture more optimistic than the results of the PD surveys:

- An important coordination framework was established in 2003 by the GoN in the form of a Global Donors Round-Table and its six sector round-tables. They were intended to be a platform for dialogue, discussion and agreement on sector-based strategies and policies. These round-tables offered concrete results in the form of sector plans or common financing in the education, health, rural development and governance sectors.
- The GoN, working closely with a group of lead donors, developed a *National Action Plan for Harmonisation and Alignment 2005-2007*, adopted by all parties in November 2005.
- Another coordination framework is the Budget Support Group which includes nine donors and which designed, with the GoN, the JFA and monitored its result through the PAM.
- The functioning of the BS Group shows that donors have reached a high degree of coordination and are able to conduct dialogue with the GoN from a common position. This was confirmed by the decision to suspend budget support which was not a collective decision as such, but which was very much the result of a shared analysis of the political situation of Nicaragua.
- Examples of delegated cooperation<sup>118</sup> are: from the Netherlands to Canada (PROASE); from the Netherlands to COSUDE and from DFID to GTZ (transition in municipal governments); from DFID to the PAM and to Finland (common fund on civil society).
- Many examples were found of joint action between donors. This was especially true of the education common fund between Canada, the Netherlands and Denmark (PROASE)<sup>119</sup>.
- At a lower level, common action between donors was evident in the sectors of energy, environment, micro-finance, water and sanitation, private enterprise, and rural development. These joint measures could take the form of common financing of an institution (“Campesino a Campesino”) or a common project, for example.
- Finally many initiatives are being taken to improve communications, share information (EU Blue Book), coordinate emergency interventions (hurricane Felix), execute joint missions, and conduct analysis and sometimes audits and evaluations. This progress in information-sharing is leading naturally to a reduction in conflicts and overlaps. But interviewees did mention overlapping in studies, in technical assistance, and in seed production; and a risk of overlapping in aid to RAAN and RAAS (Atlantic region).

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<sup>118</sup> Donor ‘A’ delegates its cooperation to donor ‘B’ when A transfers to B financial resources executing an intervention commonly agreed on and using the procedures of donor B.

<sup>119</sup> And also with a common fund in the health sector (Sweden, Austria, The Netherlands, Finland, WB); with a common fund in rural development with Finland, Denmark, COSUDE, Norway (PRORURAL); with 3 small common funds managed by NGOs on governance, gender and anti-corruption.

### **On complementarities**

Proactive search for complementarities has taken place among the EU donor community in Nicaragua. The donors embraced the Code of Conduct on Complementarities and Division of Labour in Development Policy adopted in May 2007. Consequently a working group was formed to establish a preliminary mapping of EU cooperation (priority sectors, funding, modalities). Also the donors were requested to self-assess their comparative advantage in a given sector. Furthermore an extensive survey was carried out among all EU donors on their status *vis-à-vis* each of the 11 principles of the EU Code of Conduct. The results show how far the donors and GoN are from strategic complementarities between interventions, but also show what could be a path to improving these complementarities. The next step was to launch the EU Blue Book for Development Cooperation which is an important information tool (see JC 9.4).

No formal agreement has yet been reached on applying the European Code of Conduct in Nicaragua. Therefore, no real division of labour has been implemented between donors or with the GoN, but some donors are restricting the number of their sectors of intervention and delegated cooperation is gaining importance.

#### **4.9.3 EC is increasingly pro-active but is not yet involved in joint financing (JC 9.4)**

The EC role in coordination gained in importance during the period considered. The 2002-2006 CSP noted that *“systematic and coherent donor coordination has not yet been institutionalised in Nicaragua”* (p.20) in spite of the numerous coordination fora set up by donors. It also stressed that *“the Commission’s involvement in the coordination machinery has not been as great as it could be”* and that *“Government needs to coordinate donors better in formulation of their aid programmes”*. Before the devolution process started in 2003, EC had less capacity to be a pro-active partner in coordination enhancement.

The 2007-2013 CSP reviews the progress achieved in coordination, the role of the EC in the process, and the successes to which led *“the dynamism of coordination of cooperation and the dialogue with the Government”* (p.18). It also states that *“In 2002, the Member States financed altogether 170 projects for a total amount of US\$ 146m. As a result of increased coordination, the number of projects was reduced to 78 in 2004”*. (p.17).

The EC exercises an increasingly visible role in promoting cooperation between donors, especially amongst MS, and alignment with the GoN. According to interviewees, this role constitutes its main added value in this field. It can be seen at various levels:

- For the first time the 2007-2013 EC strategy was subject to consultations (not negotiations) with the GoN, other donors and civil society. This is a clear improvement over previous strategies.
- The Delegation is currently managing the coordination (“enlace”) of three out of the four active sectoral round-tables, namely those concerning education, rural development (PRORURAL) and small private enterprises (PROMIPYME).
- The Delegation has taken on the presidency of the BS Group and its role in Budget Support is recognised by almost all the other agencies active in this field. Budget Support is the main way in which the EC supports progress in harmonisation, alignment and ownership.
- The EC took the initiative of trying to put the EU Code of Conduct into practice by supporting the first working group in June 2007, and by launching the first-ever EU

Blue Book for Development Cooperation in April 2008<sup>120</sup>.

- In 2007 the EC headed the initiative of a regional coordination group which includes 14 different donors.
- The EC took the initiative in coordinating aid to RAAN following hurricane Felix.
- The EC facilitates the monthly meetings of the EU Heads of Mission and Heads of Cooperation.
- Other agencies have a positive opinion of the EC coordination role. Some add that the EC “could do more” or “should be more pro-active”.

However the following also apply:

- The recognised qualities and role of the EC as a coordinator is not matched by a parallel role in common financing. It does not take part in the numerous joint financing schemes already cited, partly for strategic reasons (option of Budget Support rather than common funds) or procedural reasons (difficulties in joining a common fund or delegating cooperation)<sup>121</sup>.
- There is no common agenda between Member States, partly because where a common agenda exists (the Budget Support Group, for example), participants include as well MS as non MS. However coordination between MS, in the form of information exchange, is intensive.

#### **4.9.4 Most other communitarian policies have slight impact on Nicaragua but the defence of democratic principles has a big impact (JC 9.5).**

Most other Community policies have only slight impact as relations between the EU and Nicaragua, beyond the limits of development aid, are not as extensive. This is particularly the case with trade: only 14% of Nicaraguan exports are destined for the EU.

Generally EU policies are coherent with the EC development strategy in Nicaragua and this coherence has improved in recent years. As an illustration, trade policy has integrated social and environmental issues, while the CAP reform, which will be completed in 2011, has drastically reduced export subsidies. An exception is European support to agro-fuels which could have an impact on worldwide food prices, especially on maize<sup>122</sup> which is one of Nicaragua's main crops.

The general principles of good governance are stated in the preamble of the JFA on budget support signed by all donors active in this area, and constitute a precondition for disbursement. On these grounds most members of the BS Group suspended or restricted their contributions from 2008, which illustrates a major difference between the views of some donors and that of the GoN on the role of external aid.

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<sup>120</sup> The Blue Book provides an overview of the strategic focus of EU donors and a detailed account of ODA delivered. A database was created (ODAnic) and is freely accessible on the net. The Blue Book principle is now being applied in some African countries and in Nicaragua it will be extended to other donors who want to join the initiative: WB, Japan, USAid, Iceland, Canada, UNDP, COSUDE... EC is currently the facilitator of the working group on the Code of Conduct.

<sup>121</sup> The lack of coordination between the EC support to good governance through NGOs (through the call for proposal system) and the common fund on good governance financed by nine other donors lead to overlapping between both initiatives.

<sup>122</sup> See Annex 1, I 9.5.1, table EQ 9.6





## 5. Overall assessment

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The objective of this chapter is to offer a general assessment of the EC's cooperation with Nicaragua on the basis of two criteria which either feature throughout the document or which were not analysed as such but on which the evaluation can offer value added, namely:

- the effectiveness of the interventions;
- the lessons which can be learned on the different types of budget support applied in Nicaragua.

### 5.1 Effectiveness

The question of effectiveness is treated at two levels:

- (i) Has the EC delivered what it committed itself to?
- (ii) What are the main factors which affect effectiveness and impact?

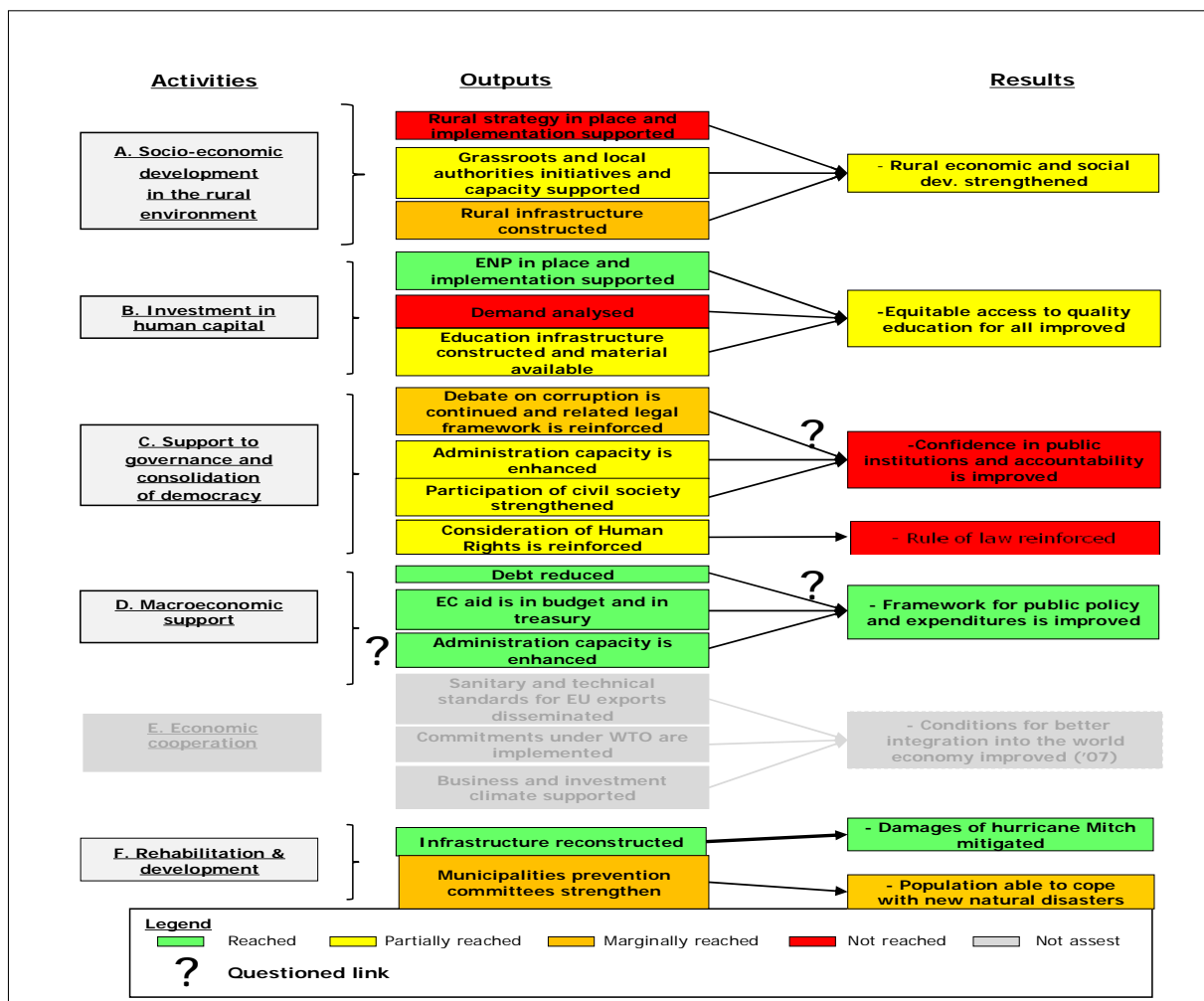
#### 5.1.1 Has the EC delivered on its commitments?

**EC cooperation has delivered most of what was originally committed but the results vary considerably from one sector to another. While they are good in GBS and mixed in rural development, education and rehabilitation, they are rather limited in good governance.**

This assessment is based both on a comparison between the EC's planned results for the period covered as reconstructed in the intervention logic, and on the results stemming from the answers to the five "sectoral" questions. A more detailed assessment is presented in Conclusions 4 to 6.

The following figure presents a simplified answer to the above question. It also shows that significant differences exist between outputs and results: good outputs do not necessarily yield good results, nor do unsatisfactory outputs necessarily yield bad results. This is mainly because of an unfavourable context (good governance), or because the expected results were beyond the reach of the means invested. This is clearly the case with disaster prevention and with interventions on good governance, education and, to some extent, in rural development. Finally, in the case of budget support there is not always a clear direct causal relationship between activities and outputs, or between outputs and results.

Figure 5.1: Outputs and results reached



### Rural development:

Interventions have been successful and strengthened rural development in some sectors (high-quality coffee chains), for some services (micro-finance and extension), and for some beneficiaries (producer organisations). In general, interventions were more effective when they were in support of local organisations' own initiatives. The many interventions in rural development were widely scattered and did not follow any common strategy which might have increased their global impact.

### Education

PAPSE I – a Sectoral Budget Support programme – underpinned the 2004 Common Working Plan (PCT), while PAPSE II aims at underpinning the 2007 Institutional Development Plan (PDI). In a parallel effort, PRRAC provided educational infrastructure and equipment in Nueva Segovia and RAAN, as well as support for the development of the RAAN curriculum. Globally, access to quality education for all did not improve much during the period evaluated, which does not mean that PAPSE had no impact but rather that for various reasons progress in the education sector has been lower than expected and concerned more with the quantity than with the quality of education services.

## **Good governance**

Positive impacts were evident at local level (infrastructure and equipment for the justice sector) and through the strengthening of some institutions such as *inter alia* NGOs and indigenous peoples' organisations. An additional unexpected result was achieved: the design of a Justice Sector Plan. At a global level good governance did not improve in Nicaragua over the period under consideration; indeed confidence in public institutions has declined while neither accountability nor the rule of law have improved. The EC interventions were unable to reverse this trend.

## **Budget support<sup>123</sup>**

Impact and effectiveness are very difficult to measure, but the EC delivered what it promised (up until 2008) and the expected results were achieved: debt was reduced, alignment improved significantly, and administrative capacity improved globally although unevenly. PFM capacity increased over the period.

## **Rehabilitation and development**

PRRAC achieved more than merely overcoming the damage caused by hurricane Mitch; it was conceived as a development programme. It improved the quality of health services in Managua, educational infrastructure and equipment in Nueva Segovia and in RAAN; and it built houses, massive water and sanitation infrastructures, and provided equipment to three municipalities. Institutional capacity-building components did not achieve the desired goals, except in the case of health services in Managua. Disaster preparedness received limited attention.

### **5.1.2 What are the main factors which affected effectiveness and impact?**

**The reasons for differences in effectiveness and impact are variable and can be attributed to the context, to the national counterparts, to the beneficiaries, to the design of the interventions, or to other factors. While the national context at the end of the period is certainly more challenging than a few years before, clear progress has been made thanks to the devolution process which permitted more decisions to be taken locally.**

According to the analysis of the five main areas of intervention, the factors which have most influenced effectiveness and impact are as follows, with examples:

#### **Factors linked to the national counterpart**

- Strong experience and expertise of the national counterpart in certain sectors: *De Campesino a campesino; Apoyo a la promoción y defensa de los derechos de los pueblos indígenas y afrodescendientes de la Costa Caribe de Nicaragua; PPDDHAC; Por el derecho a una vida digna.*
- Strong administrative capacity (financial monitoring, reporting): *Proyecto Fortalecimiento de la Administración de justicia en Nicaragua*; this is especially true of all BS programmes which also need strong technical capacity.
- Strong involvement of the national counterpart interested in improving delivery of public services: some projects with municipalities are positive examples; PRRAC is an example *a contrario*.

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<sup>123</sup> This issue will be further discussed in 5.2.

### **Factors linked to the context and to alignment on government strategy**

- Favourable political context: PAPND benefited from strong support from a government (Bolaños) which needed budget support for political reasons. The following government (Ortega) engaged in confrontation with donors on budget support for political reasons. By the same token the limited global progress shown in the education sector stemmed essentially from an unfavourable political and economic context prior to 2007. Another counter-example was PRRAC-PROMAPER which was based on creation of a decentralised water office which was out of line with the Government's strategy.
- Favourable institutional context, for example control of corruption and stable institutions: PRODELSA is also an example of how institutional changes can hamper full attainment of results initially identified as relevant<sup>124</sup>.
- Favourable market trends: *Café - un ejemplo de producción y consumo responsable*.

### **Factors linked to the beneficiaries**

- The local population participates in the intervention: "*De campesino a campesino*";
- The need for the intervention is strongly felt by the population: PPDDHAC; Apoyo a la promoción y defensa de los derechos de los pueblos indígenas y afrodescendientes de la Costa Caribe de Nicaragua.
- Interventions address pre-existing organisations and not organisations created "*ad hoc*" for the specific project: *Por el derecho a una vida digna*; *Café - un ejemplo de producción y consumo responsable*; some microfinance components of DRIs are examples *a contrario*.

### **Factors linked to the design or methodology of the intervention**

- Objectives are realistic and attainable: PAPSE is a negative example.
- Design gives adequate incentives: flaws in the designs of PAPSE (variable tranche indicators too numerous and some based on poor quality statistics, an over-rigid system) and PRRAC (centralised management modality) hampered the policy dialogue and the incentives for improving target reach.
- Coherence of the methodology: some interventions in rural development containing a micro-finance component incorporated opposing rules in respect of the cost of credit (subsidised or not).

### **Other factors**

- Good cooperation and coordination between main stakeholders: the first years of the Matagalpa-Jinotega road project are a negative example.
- Quality and permanence of project staff. A positive example is PRRAC-FORSIMA.

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<sup>124</sup> The case of the Matagalpa-Jinotega Road could also be an example *a contrario* but is much debated: some argue that it would have been more efficient to repair the old road than to build a new one and that the decision was made on political grounds (see the 1998 evaluation report and also ROM reports on this intervention), while technical studies show that the new road was the best option.

## 5.2 The application of budget support to Nicaragua

The objective of this section is to draw out a few general lessons from the EC Budget Support experience in Nicaragua. These lessons can be summarised as follows:

- (i) despite all its technicalities, budget support is a highly political issue;
- (ii) sectoral budget support programmes offers some advantages but raise some specific difficulties;
- (iii) the EC budget support system, which consists of separating fixed tranche disbursements from variable tranches, show some specific difficulties.

### 5.2.1 Budget support as a political matter

#### *Per se*, budget support is a modality particularly exposed to political decisions

In assessing budget support, one should bear in mind the political difference between the Bolaños presidency (2002-2006) and the Ortega presidency (2007 onwards). During the first period there was good understanding and cooperation between the donor community – especially the Budget Support Group - and a politically weak<sup>125</sup> government. In contrast, during the second period budget support was accepted by the new government because it could finance its priorities, but some representatives of GoN rejected, at least in part, policy dialogue and conditionality as unacceptable meddling in Nicaragua's internal affairs. The current GoN views alignment as support for independently-designed public programmes rather than for plans stemming from a policy dialogue. Even so, since 2007 budget support changed from a donor-driven to a government-driven process. At the same time as appropriation of the process increased, confidence between GoN and donors decreased until an open crisis broke out.

But aside from this crisis, predictability of budget support has not been very high in Nicaragua at an all-donor level. Representatives of the ex-government, considered as donor-friendly, all recall pressures and delays in disbursements, not always caused by previously-agreed technical conditions. *Per se*, budget support is a modality particularly exposed to political decisions.

The existence of “fundamental principles” (conditions linked to principles of democracy and good governance) in the JFA constitutes an illustration of the link between budget support and political appreciation. Reference to these principles, quite exceptional in a JFA signed by multilateral donors, entails two risks:

- the risk of an open crisis between donors and the GoN as occurred in 2008;
- the risk of non-coordinated or contradictory actions on the donor side.

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<sup>125</sup> “Weak” because the government enjoyed very scarce support from Parliament and had no significant social base in the country.

## **5.2.2 Advantages and difficulties associated with Sectoral Budget Support**

The differences between general (GBS) and sectoral budget support (SBS) programmes may be so tenuous that there can be no practical difference between GBS clearly directed towards a sector (as is PAPND, at least partially) and SBS such as PAPSE. Both modalities are more efficient when they are part of a collective action: a budget support group such as exists in Nicaragua for general support, or a sectoral approach including donors active in one sector.

However, on the premise that GBS has a general objective and the SBS a sectoral objective, the differences would be as follows:

- SBS permits support for a concrete sectoral strategy which may include important elements of reform and of capacity-building. Therefore it is often oriented towards more precise proposals and objectives than is general support. This is the case with PAPSE I which had four precise specific objectives.
- The capacity-building should improve the capacity of a public service to prepare, execute and monitor a sectoral plan. Therefore it should almost naturally contain an element of sustainability. This was included both in the PAPSE design and in the objectives of PAINIC which offered TA to the Education Ministry.
- The policy dialogue which is concentrated around a sectoral strategy and the monitoring of its realisation should be easier than in the case of general budget support since its objectives are more precise (the questions to be discussed are more limited) and indicators should be easier to define.

However its application to Nicaragua shows that this kind of budget support also gives rise to specific difficulties:

- A fundamental principle of non-targeted budget support is that the budgetary allocation between sectors or ministries should respect Government priorities. Therefore SBS disbursements do not provoke an automatic increase in the sectoral budget. Because funds are transferred to the general Treasury Account, are managed by the Minister of Finance, and normally respect the budget allocation proposed by Government and agreed by Parliament, the sectoral Ministry does not “see” the funds and may well not “feel” any difference in financial terms. This may (and often does) provoke an incentive problem: the staff (in the sectoral Ministry) preparing, executing and monitoring a sectoral plan do not automatically perceive a link between its efforts (failures or successes) and the budget allocated. For example, the failure or success of MINED (ex-MECD) in meeting the targets conditioning the disbursement of the variable tranche of PAPSE affects the Minister of Finance (MHCP) more than the MINED itself. This problem was clearly viewed by the designers of PAPSE who tried to tackle it through disbursement conditions<sup>126</sup>. This means that sectoral ministries will often prefer modalities such as common funds, project financing or some forms of targeted budget support, rather than non-targeted BS, because the firsts will add

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<sup>126</sup> This problem was tackled in the PAPSE I DTA by conditions to FT disbursements related to “Positive appreciation of MECD budget appropriation, where PAPSE resources contribute to secure, increase and improve expenditures in the Education sector”.

automatically to the sectoral budget without passing through an extra negotiation inside the Government.

- As there are at least two main actors<sup>127</sup> involved on the Government's side of a sectoral support (the Ministry of Finance and the sectoral Ministry), this incentive problem will be reduced or worsen depending on relations between these actors. Generally, in order to be successful a sectoral strategy has to be backed by a real political will and not depend solely on the initiative of a few persons. For this reason this instrument can be viewed as more suitable with a government that follows strong reform objectives.
- Few mechanisms<sup>128</sup> can be or are included in BS indicators which would improve the quality of budget preparation<sup>129</sup>. As a result strategy and reforms are too often prepared by a team (often a Minister and its advisers) but lack continuity when this team changes and when the new team does not take upon itself the same strategy. A case in point is PAPSE I which was prepared and executed by a team in the Ministry of Education between 2002 and 2005, but suffered a setback in the policy dialogue in 2005 and 2006 when a new team failed to exhibit the same motivation as the previous one. This risk of discontinuity is inherent in budget support (it is linked to the normal functioning of democracy); it can be reduced but not eliminated.

### **5.2.3 The fixed and variable tranches system**

**In Nicaragua, the EC budget support system consisting in separating fixed tranche disbursements from variable tranche shows some specific problems:**

All EC budget support programmes use a similar approach in separating disbursements into fixed and variable tranches. This is in response to a wish to combine in a single modality the needed predictability and flexibility<sup>130</sup> of cooperation, creation of progressive incentives to attain established targets, linkage of disbursements to rigorous and objective criteria rather than to subjective decisions and a more comprehensive policy dialogue<sup>131</sup>. What are the results of this system?

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<sup>127</sup> In some cases such as PAPAJ (budget support to justice administration), six public institutions, all pertaining to the same justice sector, are involved apart from the Ministry of finance. But in reality all the Ministers are actors in a budget support programme if the budget allocation reflects a consensus inside the Minister's cabinet.

<sup>128</sup> One exception is PAPSE I who conditioned the disbursement of the first Fixed Tranche (FT) to an improvement of the timeliness of transfers from the MHCD to the MINED (conditions for the release of the second instalment (7.5M€) of the fixed payment for FY 04 (15M€)).

<sup>129</sup> In Nicaragua the systematic underestimation of budget expenditures caused by earmarked expenditures is a factor of inefficiency because the budget presented to Parliament does not reflect exactly the GoN's priorities.

<sup>130</sup> Flexibility because the variable tranche system permits to disburse a fraction of the amounts committed. It is not an "everything or nothing" alternative which practically amounts in disbursing "everything" because the sanction of disbursing "nothing" seems often exaggerated.

<sup>131</sup> More comprehensive because this dialogue should, in theory, apply both to the strategic level (sectoral policy and planning) and to the execution level (attainment of agreed targets)

Its application in Nicaragua reveals the following problems:

- It is a complicated system with too many indicators and conditions. However important progress has been made in reducing the number of indicators of the variable tranche from 25 in PAPSE I to 9 in PAPSE II.
- The EC is the only donor to apply this system, which is not in line with the principles of harmonisation and alignment.
- As already stressed, the weak quality of education statistics and the direct link between disbursement and unreliable indicator performance tends to sideline policy dialogue in favour of disputes on technical details.
- By evaluating in year 'n' the results of year 'n-1', and applying the decision to year 'n+1', a budget may be cut when it is most needed or a sanction may be imposed when the problem is already solved. Some stakeholders feel this system is too rigid, excessively based on short-term results, and does not provide sufficient basis for drawing up a medium-to-long-term policy. In short it may create wrong incentives.
- The decision to transfer at the end of the programme all disbursements not made during the programme on account of non-attainment of some targets (as in PAPSE I), cancels out the few incentives which may have been created by the conditional disbursement mechanism.



## 6. Conclusions

The conclusions refer to the analysis developed in the previous chapters. Each conclusion is based on one or more Evaluation Questions (from EQ1 to EQ9) and some refer also to the Overall Assessments (OA1 and OA2). The references are indicated by their number. Each conclusion is given a priority, from more (XXX) to less (X) important.

### 6.1 Conclusion 1: on the relevance of the general strategy

<b>Importance: X</b>	<b>Basis: EQ1</b>
<b>The EC strategy was in line with the national poverty reduction strategies and it generally reflected what is known about the main needs and priority of the population.</b>	

The EC strategy in Nicaragua was in line with the national poverty reduction strategies which, until 2006, were accepted by the donor community. However it is difficult to assess to what extent these strategies respond to the priorities of the population because, whether they were based on a clear identification of the population's priorities is a matter of debates. Even so, in such a poor country as Nicaragua these needs and priorities concerning employment, health and education are well known. The 2007-2013 CSP passed through an extensive consultation process which at least permitted the main stakeholders to express their priorities.

The successive CSPs assessed the need for alignment on national development strategies, but such alignment is difficult to achieve in a scenario of rapidly changing public policies coupled with an international cooperation programme which is risk adverse and often slow to adapt.

The period under review<sup>132</sup> has seen some key strategic changes in the EC strategy such as the shift to budget support (2004), abandonment of rural development as one of the focal sectors of EC cooperation (2007), and support for the business and investment climate as a new focal sector (2007). All these changes are attributable to changes in the national, European and international contexts, to newly-available analyses or information, and above all to changes in EC policies. None of the changes in priorities has been subject to agreement between donors, nor have they been motivated by comparative advantage or division of labour.

### 6.2 Conclusion 2: on rural development

<b>Importance: XX</b>	<b>Basis: EQ2, OA1</b>
<b>EC interventions achieved a number of positive results in rural development but lacked both a global strategy which would replace the former DRI strategy, and any element of learning from past experience or from continuing successful experiences.</b>	

<sup>132</sup> It should also be noted that at least until 2006 the CSP strategies did not include budget lines as important as rehabilitation or NGOs.

The analysis carried out shows positive results from EC interventions in terms of relevance and effects. These are significant, for example, in the areas of micro-finance, coffee processing facilities, extension services based on peasant organisations and reactivation of the production frontier permitting an increase of the cultivated area. Also, EC support was based on a much-needed multi-actor approach involving public institutions at centralised and decentralised levels, as well as actors from civil society (NGOs, peasant associations, cooperatives, etc.). Effectiveness was clearly enhanced by (or in some cases hampered by the lack of) some factors such as participation of existing organisations, coherence of the methodology, strong national counterparts and favourable market trends. The main flaws in the interventions analysed are the lack of a global strategy, of continuity of successful processes and of learning from experience.

By downscaling EC support in the rural sector, which is no longer a focal sector in the 2007-2013 CSP but continues to be widely supported through the non-State actor programme, there is a risk that these weaknesses will not be overcome but rather reinforced.

The importance of rural development comes from its economic and social role in Nicaragua and from its potential for poverty reduction. The EC has supported this sector in Nicaragua for many years through a multi-actor approach. This has allowed it to gain a comprehensive, thorough understanding of the national context. In addition, the EC's worldwide expertise and systematisation in the field could provide substantial support.

The main conclusion is that the abandonment of this sector as a priority for the development of Nicaragua is not justified by the results obtained from the EC interventions in rural areas, especially in the Center interior.

### 6.3 Conclusion 3: on budget support (general and sectoral)

Importance: <b>XXX</b>	Basis: <b>EQs 4, 6, OA 2</b>
<p><b>The General Budget Support (PAPND) and Sectoral Budget Support (PAPSE) were relevant and coincided indeed with a clear improvement in PFM. PAPSE encountered specific difficulties due to internal and external causes and remained the only BS in education.</b></p> <p><b>The EC technical assistance programme attached to budget support offered weak general results but showed some significant successes whenever it provided high quality assistance in response to a clear demand.</b></p>	

Both budget support programmes were relevant because they started during a period of fiscal imbalance, they were requested by the GoN, they were coordinated with other important donors and they took place when Nicaragua was implementing an ambitious programme of improvements in public finance management (PFM). The PAPND can be viewed as successful because, at least between 2002 and 2008, PFM improved insofar as:

- external assistance was increasingly included in public policy and public finance processes;
- policy preparation, implementation and monitoring improved;
- the share of poverty-related public expenditure increased.

But it is difficult to prove a causal link between budget support and progress in PFM since no counterfactual exists. However, most stakeholders stress the quality of the policy dialogue, and the representatives of the previous government recall the importance of the

incentives attached to the BS programme, implying an implicit link between budget support and PFM achievements. On the other hand there is no way of isolating the influence of the EC from that of other donors.

PAPSE confronted a difficult context and most of its specific objectives were not met because these were not very realistic. This intervention has had positive effects through the sectoral round-table policy dialogue during its initial (2003-2005) and more recent (2007-2008) periods.

The EC Technical Assistance programme to BS (PAINIC) has not succeeded when its importance was not recognised by the GoN, although it had some small but significant success in the Ministry of Finance, in the elaboration of a plan for the Justice Sector and in an institutional analysis of the public rural sector. It also facilitated the application of BS support after 2006, when a new government came to power.

The two budget support interventions analysed show that differences between general and sectoral BS can be tenuous and less important than the number, quality and coordination of stakeholders in a BS programme. Sectoral budget support such as PAPSE should show advantages in terms of preparation, policy dialogue and monitoring, but it was not backed by a continuous and strong political will and therefore showed mixed results in education indicators. It also suffered from the complexity of its initial design (too many indicators – but PAPSE II showed a clear improvement in this regard), the poor quality of statistics on education, incentives problems linked to the very functioning of the variable tranche system itself, and the fact that EC remains the only donor to offer a sectoral BS in education.

#### 6.4 Conclusion 4: on the link between relief, rehabilitation and development

Importance: XX	Basis: EQ5
<p><b>PRRAC showed important results but the concept of LRRD was scarcely applied in Nicaragua. Four assessments support this conclusion: (1) following hurricane Mitch, the EC intervened with a multiplicity of instruments including various budget lines and various time spans from short relief to long term development; (2) there were no linkages between relief operations, rehabilitation and development and very little coordination between them; (3) PRRAC was designed more as a development programme parallel to the ALA interventions but it lacked coordination both with aid developed through the CSP, and with the GoN; and (4) this lack of linkage and coordination culminated in a set of problems which hampered the effectiveness of the EC interventions.</b></p>	

1. One of the issues the EC addressed during the period was the response to the damage caused by Hurricane Mitch. This was one of the first EC interventions in response to a major natural disaster after the conceptualisation of LRRD. The EC deployed a full range of instruments, offering thereby a comprehensive response from relief to long-term development. These included relief interventions (ECHO), food security, a reconstruction programme directed towards medium- and long-term development (PRRAC), an increase in grants through the NGO budget line, and participation in the HIPC initiative.

2. There was no linkage (no common strategic design) between relief<sup>133</sup>, rehabilitation and development and no formal coordination mechanism either.
3. PRRAC was designed more as a development programme than as a rehabilitation intervention. It lasted for 7 years<sup>134</sup> but was never fully coordinated with other EC programmes, particularly the CSP strategy. It used a centralised aid modality and moreover was not coordinated with the GoN, except at the final stage (closure phase) of the latest projects.
4. The main problems which stemmed from the non-application of the LRRD concept are the following:
  - insufficient focus on preparedness;
  - insufficient information-sharing which affected the quality of identification and formulation of PRRAC interventions;
  - no continuum between relief and rehabilitation, for both conceptual reasons (PRRAC is not a rehabilitation programme strictly speaking) and practical reasons (no coordination between them);
  - lack of ownership and sustainability because of the lack of relationships between national institutions.

## 6.5 Conclusion 5: on efficiency

<b>Importance: X</b>	<b>Basis: EQ7</b>
<p><b>The devolution process and the use of budget support have improved efficiency but at the level of traditional projects no real progress has been observed. At DEC level efficiency has increased but some problems, mostly related to information, remain.</b></p>	

Efficiency has been enhanced by the devolution process started in 2002 and especially by the use of budget support since 2004. However there has been no progress in efficiency at the level of traditional projects which continue to suffer from implementation delays due to unrealistic design, staffing problems, slow adaptation to procedural changes, weakness of local institutions, and non-adaptation of EC procedures to the local realities. Furthermore, the high number of projects seems to overload the capacity of the Delegation. Given the pressure to reduce fiduciary risks, it results in a follow-up focused more on means and control than on results and effects.

At the Delegation level, efficiency has increased but some progress can be made in information sharing and management (system of archiving or information storage<sup>135</sup>).

<sup>133</sup> Only informal exchanges of experience have come to light, in particular between ECHO and the Food Security Budget Line.

<sup>134</sup> From first identification in April 1999 with the COM 1999/201, starting operations in December 2001 to end of implementation end 2008.

<sup>135</sup> CRIS is not yet fully reliable and is not generally used to archive documents. There is thus very little institutional memory; lessons of successes and failures are not easily passed on either through time (vertically) or via the staff (horizontally).

## 6.6 Conclusion 6: on coordination and complementarities

<b>Importance: XXX</b>	<b>Basis: EQ2, 3, 9</b>
<b>The EC has made major efforts to improve dialogue with other donors and with GoN, to collect and share information, and improve coordination and alignment. But these efforts have not yet led to practical measures improving complementarities and division of labour between donors.</b>	

After the Bolaños government took some important initiatives with the establishment of the Donors Round-Table in 2002, coordination between donors and alignment on public policies improved, and most of the Paris Declaration indicators showed progress between 2005 and 2007. But this improvement has not yet resulted in real complementarities (i.e. a division of labour) between donors. Even so, examples of delegated cooperation, common funding or other types of joint action are more frequent than in the past. Crisis situations such as that experienced between GoN and donors since 2008 are also favourable to joint action.

On the EC side major efforts have been made in dialogue with other donors and with the GoN, and in sharing of information. This has led to progress in *'de facto'* complementarities such as lower levels of conflict and overlapping, and a reduction in the total number of projects financed by the EU Member States. The EC is also exercising a more proactive role, *inter alia* in budget support, in coordination of different round-tables, and in various initiatives such as consultations in the CSP preparation process, the EU Blue Book, regional coordination group, and disclosure of the EU Code of Conduct.

All these efforts have still not yet resulted in practical measures such as delegated cooperation, joint financing schemes, other forms of joint action or some kind of a common agenda between the Member States. Complementarities are still a long way from being achieved.

Moreover budget support is by far the main means by which the EC supports progress in harmonisation, alignment and ownership. In this sense, a major reduction in the use of this modality would also constitute a setback in progress towards the application of the Paris Declaration principles.

Coordination with civil society, while intensive in crisis situations, lacked continuity during the evaluation period, especially in the areas where cooperation with NGOs is important, namely good governance and rural development.

## 6.7 Conclusion 7: on cross cutting issues

<b>Importance: X</b>	<b>Basis: EQ8</b>
<b>Interventions on gender showed tangible results when they offered support through women's organisations. But others were disappointing in terms of gender equality. Support to environmental protection was not given enough importance and support to decentralisation suffered from recent changes in public policies in this matter.</b>	

Gender was taken into account through small specific interventions and also through widespread mainstreaming. Results were visible when support was given through women's organisations combining inclusion of women in income-generating activities with attention to distribution of roles between men and women and advocacy of gender equality. But these cases were rather exceptional.

Environmental protection was essentially tackled through specific interventions and was poorly mainstreamed. Overall the EC interventions have not taken environmental protection sufficiently into account to contribute to the advancement of the debate despite the crucial environmental challenges faced by Nicaragua.

Support to decentralisation was mainly given through non-specific interventions directed towards the strengthening of municipalities. This support showed various achievements but is difficult to continue because of the recent change in public policy towards decentralisation.

## 6.8 Conclusion 8: on added value

<b>Importance: XX</b>	<b>Basis: EQ2, 3, 4, 5, 6, 9</b>
<p><b>The main EC value added is rather at supra-sectoral than sectoral level: it stems from its financial critical mass, its capacity to convene and to coordinate, its legitimacy and its potential political weight. In contrast, in each main sector or area of intervention, EC cooperation offers some value added, but in none of them does it offer clear expertise which would naturally result in any specific advantage at sectoral level.</b></p>	

According to interviews with other donors and representatives of civil society, the EC's importance is recognised mainly for its financial, coordination and convening capacity. The EC is therefore expected by other donors to play a special role in these respects, it is recognised for its efforts and it enjoys a high degree of legitimacy among Member States.

At sectoral level an analysis of EC added value has been undertaken in five areas of EC intervention. For each area the evaluation concludes that EC has offered some value added (mostly as innovative interventions or a particular success or achievement which other donors could not offer), but also that it has been limited by other factors (see conclusions 2, 3 and 4). Therefore it is not possible to conclude that the EC's cooperation with Nicaragua has clearly demonstrated, at sectoral level, an expertise which resulted "naturally" in a specific advantage which no other donor can offer<sup>136</sup>. However in some areas such as rural development or in Budget Support, the EC has accumulated an experience or can offer expertise which is appreciable and often acknowledged by other donors.

<sup>136</sup> However, regional cooperation, which is not covered by this interventions, is probably a real comparative advantage enjoyed by the EC.



## 7. Recommendations

The Conclusions of the evaluation lead on to certain recommendations which are presented in the present chapter, cross-referenced back to the conclusions. These recommendations concern both the Delegation and headquarter (DG RELEX and EuropeAid), so they have not been differentiated according to each of these actors.

The evaluation team is conscious that the Delegation faces important constraints and that these stem partially from the political evolution of Nicaragua and the public policies being applied. It is very difficult to forecast the future of this evolution and therefore some recommendations may become obsolete or unrealistic.

<b>Recommendation 1 on strategy</b>	<b>(basis: C1, C6, C7)</b>	<b>Priority: XXX</b>
<b>Make sure focal sectors are chosen where EC can offer a recognised expertise and where other donors are less active.</b>		

More generally, past experience (and learning from experience) and the strategies of other donors should be taken into account when deciding priorities. Over the period covered the EC has demonstrated added value in certain areas of intervention although with shortcomings that hampered results. These shortcomings could be overcome through a learning-from-experience process and consequently improved EC added value instead of entering into new areas without previous experience, such as business and investment climate. The EC is taking a leading role in the process of promoting complementarities and can apply this principle to itself by actively searching for complementarities with other donors. By the same token, extensive consultation with all the main stakeholders, which preceded the preparation of the last CSP, constituted a positive example which can be enhanced through more frequent consultations with civil society.

<b>Recommendation 2 on rural development</b>	<b>(basis: C1 and C2)</b>	<b>Priority: XX</b>
<b>Consider returning to rural development as a focal sector and maintain a multi-actor approach. Concentrate interventions on thematic rather than geographical basis.</b>		

Four main reasons justify giving priority to rural development:

1. Agriculture and livestock is the most important sector in terms of production, exports and employment. Poverty is concentrated in rural areas and interventions in rural development are the most effective means of fighting poverty.
2. The EC and other donors have accumulated substantial and diversified experience in this field which can be drawn upon at relatively low cost in order to define best practice.
3. An active sectoral round table (PRORURAL) is coordinated by the EC and includes a common fund.
4. Rural development is a priority of the current government which has adopted a more proactive stance on the matter.

As regards the main conditions for a successful EC contribution:

1. A multi-actor approach is recommended since (i) rural development is an area where complementary public and private investments are both needed and (ii) Nicaragua has a very active network of social organisations with experience and capacity. It is not recommendable to concentrate financial resource only on private organisations or only on SPAR<sup>137138</sup>. The EC Financial Regulation allows some flexibility on this respect<sup>139</sup>.
2. Concentration on a thematic basis is recommended because of the mixed success of the DRI model (geographical concentration) and as it allows the EC to use and enlarge its own best practice and develop complementarities between actors (State and non-State) and instruments (ALA, NGO, Food Security...). This is not contradictory with the need to work locally with rural organisations since a thematic approach is always also located geographically.
3. A clear implementation strategy should be designed, defining those aspects<sup>140</sup> of rural development to be given priority, and indicating how, where and by whom. The needs of the population (demand-side), and the interventions of other donors and of GoN (supply-side) should be taken into account in the design of an operational strategy and the design of the interventions. All interventions should be included in this strategy whatever the origin of the funds is (geographical or thematic programmes). Success factors, as listed in OA1 (OA 5.1.2) should be integrated into intervention methodology. High priority should be given to rural organisations' own initiatives.

<b>Recommendation 3 on coordination and complementarities</b>	<b>(basis: C6)</b>	<b>Priority: XXX</b>
<p><b>Identify clearly the EC rules and regulations which hinder orienting coordination towards more concrete results linked to collective action such as delegated cooperation and joint financing schemes. Render regulations flexible enough in order to encourage cooperation based on complementarities, joint measures and a common agenda between the Member States. Establish closer links with civil society, especially in the areas of good governance and rural development.</b></p>		

These concrete results relate to:

- a decision to reduce the number of focal sectors so as to facilitate a division of labour between donors;
- identification of a sector in which the EC seeks to establish a comparative advantage based on recognised value added;

<sup>137</sup> More generally the recommendation would be to ensure respect for the complementarity of SC strengthening, with government-oriented cooperation. This recommendation applies not only to rural development but also to the “good governance” sector.

<sup>138</sup> Support for the public sector rural credit fund would require careful monitoring of beneficiary selection mechanisms along with active dialogue on the criteria for allocation of funds

<sup>139</sup> Consultations with the EC legal service at HQ confirms that Non-State Actors may be financed directly through the geographical programme if the CSP considers this modality and if this financing passes through a call for proposals.

<sup>140</sup> The main aspects in which the EC could intervene are land tenure, irrigation, micro-finance, rural infrastructures and extension services.



- application of delegated cooperation<sup>141</sup> and participation in common funding including those managed by NGOs;
- progress toward definition of a common agenda between Member States.

These concrete measures should ensure effective progress toward complementarities.

As far as permitted by the framework of the Financial Regulation laid down by the EU MS through the European Council, rules should facilitate delegated cooperation and participation in common funding.

<b>Recommendation 4 on approach or modalities of intervention</b>	<b>(basis: 0A2, C1, C3)</b>	<b>Priority:XXX</b>
<b>Do not abandon budget support but avoid concentrating more resources on this modality. Maintain the option of applying the “project approach” but mainly through other forms of collective cooperation (see recommendation on coordination) so as to diversify the modalities used. Choose modalities according to the local context and in coordination with other donors.</b>		

This recommendation stems mostly from the following considerations:

1. The examples of PAPSE and PAPND show that the success of a budget support approach depends very much on strong political will and on the choices of other donors. When the EC is the only donor acting through budget support, the modality loses part of its potential strength and there is less progress towards harmonisation and alignment. Therefore the possibility of close donor coordination should be an important criterion in the choice of a budget support modality.
2. Diversification is also necessary for political reasons, as more traditional modalities are less exposed to the political environment. This can be viewed as a key factor in the context of continuity of cooperation.

<b>Recommendation 5 on budget support</b>	<b>(basis: OA5.2 and C3)</b>	<b>Priority:XX</b>
<b>Simplify the double tranche system so as to make it more effective as an important development modality. For each BS intervention and in coordination with other donors, choose carefully a few targeted indicators which present no measurement problems or error margins that will invalidate their use.</b>		

This recommendation is based on the conclusion that the double tranche system may offer specific disadvantages (OA 5.2.4), but also that the use of targeted indicators may be improved by reducing the overall number of indicators and improving their selection and measurement method as was done in PAPSE II<sup>142</sup>.

<sup>141</sup> New regulations applied since 2008 render delegated cooperation easier, especially for “received cooperation” (if a Member State wishes to delegate its cooperation to the EC).

<sup>142</sup> Indicators may even be reduced to the Millenium Goals indicators and measurement may be entrusted to independent and impartial organisations.

<b>Recommendation 6 on linking relief, rehabilitation and development</b>	<b>(basis: C4)</b>	<b>Priority:XX</b>
<b>Draw on the very diverse experience of post-Mitch interventions in Nicaragua in order to learn from these experiences and improve future interventions.</b>		

The first comprehensive evaluation of PRRAC is taking place in 2009. Its results should offer important lessons for making the LRRD concept more applicable and for improving the efficiency of post-disaster interventions.

Some specific recommendations stemming from the country evaluation but coherent with the 2009 PRRAC general evaluation are the following:

- Be sure that the LRRD concept is known and understood by all actors and that the consequences are acted upon (common strategic design).
- Establish and maintain close relations with Government and national institutions so as to enhance ownership and sustainability.
- During the development phase, do not neglect disaster prevention and preparedness even if these activities yield little obvious reward<sup>143</sup>.
- Ensure that formal systems of coordination and information sharing are functioning, especially during the transition phases between relief and rehabilitation, and between rehabilitation and development.
- Identify post-disaster long-term interventions once the situation is normalised. This will enhance quality of design, beneficiary participation and the commitment of the authorities.

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<sup>143</sup> 'Little reward' because these are 'invisible' activities whose effectiveness is difficult to measure.