



## **Progress report on the fight against poverty:**

# **The role of economic growth, human capital, and social protection**

**Government of Nicaragua**

**Document prepared for the Consultative Group Meeting  
Washington D.C. May 23-24, 2000**

## Contents

	<b>Page</b>
<b>I. Introduction: motivation of the report and chief points</b> .....	<b>4</b>
<b>II. Government commitment, grassroots participation</b> .....	<b>5</b>
<b>III. Information and signs, hurdles, and causes of poverty</b> .....	<b>7</b>
A. Information available to analyze poverty and analytical strength.....	7
B. Attributes of the poor.....	8
C. Evolution of poverty.....	9
D. What the government has done and hurdles hindering the eradication of poverty.....	10
E. Causes of poverty.....	12
F. Conclusions.....	12
<b>IV. Goals, targets for the year 2005, and intermediate indicators</b> .....	<b>13</b>
<b>V. Strategic action plan: programs and macroeconomic and fiscal impact and financing</b> .....	<b>14</b>
A. Broad based economic growth.....	15
B. Greater and better investment in human capital.....	16
C. Better protection for vulnerable population.....	18
D. Cross-cutting themes.....	19
E. Macroeconomic and fiscal impact and financing.....	20
<b>VI. Participatory monitoring and evaluation</b> .....	<b>20</b>
<b>VII. What we have learned and next steps</b> .....	<b>21</b>

## TABLES

1. Selected socioeconomic and demographic attributes of the poor and extremely poor.....	23
2. a. Poverty and extreme poverty, in percent of total population.....	24
b. Poverty gap.....	24
3. Long term goals for the year 2015, targets for the year 2005, and intermediate indicators.....	25
4. Main economic indicators.....	26
5. a. Pillar 1: broad based economic growth.....	27
b. Portfolio of programs to execute pillar 1.....	28
6. a. Pillar 2: greater and better investments in human capital.....	29

	b. Portfolio of programs to execute pillar 2.....	31
7.	a. Social infrastructure.....	32
	b. Portfolio of programs to execute social infrastructure.....	32
8.	a. Pillar 3: better protection for vulnerable populations.....	33
	b. Portfolio of programs to execute pillar 3.....	33
9.	a. Cross cutting themes: environment and vulnerability.....	34
	b. Portfolio of programs to execute environment and vulnerability.....	34
10.	a. Cross cutting themes: decentralization.....	35
	b. Portfolio of programs to execute decentralization.....	35
11.	Poverty Strategy Reduction Time Line.....	36

## **I. Introduction: motivation of the report and chief points**

1. This is a work in progress report of Nicaragua's fight against poverty. The report developed from slow and open discussions with many people and institutions. Discussions started in October 1999 and still continue. The report contains a diagnosis and proposed solutions that emerged from the discussions to strengthen the strategy to reduce poverty.
2. The Government presents the progress report in this Consultative Group meeting to inform donors and to receive feedback. In so doing, the Government of Nicaragua honors the agreement it made in the Consultative Group Meeting of Stockholm in 1999. The Government will use feedback on the document as it drafts the Interim Report for the HIPC Initiative to be presented later this year. This report should serve as one more mechanism to improve the coordination between the World Bank, the International Monetary Fund, bilateral donors, academics, and the Nicaraguan public and Government in our mutual fight against poverty.
3. The documentation differs from previous Government documents on social policies in the following ways: (1) it contains explicit, measurable goals to reduce poverty, (2) it grew out of many more discussions with a broader range of stakeholders, (3) it includes a strategy for participatory formulation and monitoring of programs, and (4) it puts poverty in the center stage as a separate subject – it does not bury it as part of social-sector reform.
4. The strategy to strengthen the attack on poverty has unfolded in two stages. During the first stage, the Government opened a wide debate about the causes and possible solutions to poverty. During the second stage, which is still unfolding, the Government is trying to identify intermediate targets, match programs with resources, and develop a participatory system for monitoring progress and evaluating the impact of programs. The document contains an overview of both stages. The reader will note that the range of topics covered in sections IV-VI are still under discussion.
5. The Government of Nicaragua would like to take this opportunity to thank the generous technical, financial, and logistical support that international organizations, and bilateral donors have offered us and continue to offer us in preparing this strengthened strategy to reduce poverty. The Government would also like to acknowledge the National Council for Economic and Social Planning (Consejo Nacional de Planificaci?n Econ?mica Social, CONPES) and the numerous citizens and institutions of civil society that have taken part in the discussions on poverty reduction.
6. To implement the strengthened strategy, the Government of Nicaragua invites bilateral donors and multilateral organizations to: (1) continue supporting Government reforms to accelerate broad-based economic growth, improve human capital, and strengthen the safety net of the poor, (2) help the Government improve the analysis of poverty – its causes, symptoms, monitoring, and evaluation, and (3) condone Nicaragua's foreign debt under the initiative for Heavily Indebted Poor Countries (HIPC). Without

substantial debt relief, present and future governments will find it hard to eliminate extreme poverty.

## **II. Government commitment, grassroots participation**

7. The strategy to fight against poverty in Nicaragua grew out of many discussions, with a broad range of organizations and people inside and outside the government, with foreign governments and institutions, and with international organizations. The discussions started during the preparations for the Consultative Group Meetings of 1998 (Geneva) and 1999 (Stockholm). Many points of this progress report go back to those discussions.

8. In 1998, for example, the Government of Nicaragua started to promote dialogue about the reform of health care with citizens, labor unions, non-governmental organizations, and donors in departments, municipalities, and in the Atlantic Coast. During the same year, the Government organized meetings with citizens and organizations across the nation to elicit opinions about improvements in education. After Hurricane Mitch in late 1998, the Government organized a Presidential Commission composed of six Consultative Councils to identify the needs of stakeholders. The Consultative Councils worked on a plan for reconstruction and transformation that included the rehabilitation of physical infrastructure, strengthening safety nets, reversing environmental degradation, coordinating foreign aid, improving production, and keeping open the channels of communication between the Government and the public. Each council met with citizens and organizations to develop policy recommendations, which the Government presented during the Consultative Group Meeting of Stockholm.

9. Although many ideas of the report can be traced back to discussions held as far back as 1998, most crystallized in many formal discussions held since October, 1999, with the public, all branches of the government, non-governmental organizations, and donors. The Interim Poverty Reduction Strategy Paper that the Government will present later this year contains information for each meeting held, including comments made by participants on draft position papers of the government. The Government has posted earlier drafts of its position on poverty on the web (<http://www.mipres.gob.ni>) and received many valuable comments which have been incorporated.

10. In late 1999 the Government deepened its discussion of poverty. It did so by reassessing its thinking on poverty. The Economic and Social Cabinets discussed the topic with technical personnel of line ministries and representatives from municipal and regional governments and autonomous agencies. The Government met with representatives of bilateral donor and multilateral organizations in Nicaragua to discuss ideas and receive feedback. Some of these groups have helped the Government by providing technical and logistical assistance.

11. To institutionalize the process of participation and consultation on poverty with a broad range of stakeholders, the Government in February, 1999, created the National Council for Social and Economic Planning (Consejo Nacional de Planificaci?n

Economía Social, CONPES). CONPES advises the President of the Republic on the formulation and evaluation of social and economic programs, makes recommendations on the annual budget, and monitors the stabilization and structural adjustment programs and programs requiring foreign assistance. The Council, which has legal standing under the Constitution, contains 31 members that represent a wide array of institutions and groups within and outside the government, including leaders of non-governmental organizations, labor unions, political parties, academic groups, private sector associations, regional governments and community organizations. In addition, it can call on other organizations for consultations or to elicit expert opinions, effectively acting as a blue-ribbon panel in the fight against poverty. The National Council for Social and Economic Planning started working in October 1999. Since then it has held many meetings to elicit views about the causes and possible programs to reduce poverty. The National Council has presented specific recommendations to improve the strategy.

12. In preparing the strategy, the Government has held a total of about 200 formal (sometime plenary) working sessions, seminars and workshops with public officials, groups of citizens, and donors. The number underestimates the true amount of consultation and the influence that ideas outside of the Government have had since it excludes informal meetings, one-on-one discussions, and meetings with technical personnel.

13. In terms of location, most of the meetings took place in Managua. Yet the Government realizes the importance of consulting with people outside of Managua. It has invited mayors and Departmental Secretaries of the Government to come to Managua and share their views on poverty reduction. We have taken those opportunities to inform them of what the Government plans to do. Armed with that understanding, officials have returned to their communities to explain the strategy to their constituencies and receive feedback. The Government is searching for inexpensive ways to consult with people and institutions outside of the capital. One possibility under discussion is to help create associations similar to the National Council for Social and Economic Planning that would work at the level of the department, municipality, or region.

14. All these discussions have improved the quality and breath of the work on the strategy in ways too numerous to count. A comparison of this document with earlier drafts, or even with the discussion of social issues presented at the last two Consultative Group Meetings, reveals the progress made in putting poverty in the center stage. Many topics that received passing mention in the past, such as indigenous issues, vocational training, family violence, population growth, transparency, have gained salience from the consultations.

15. The participatory approach to include the views of people outside the government will continue. The National Council for Social and Economic Planning will continue to serve as a conduit between the Government and society, funneling ideas into the Government and making the Government's ideas known to citizens. We also have conducted workshops with the media and disseminated information. As we enter the second stage of the consultative process, the Government is seeking to broaden the role of

the public by including them in the monitoring and evaluation of programs. We hope donors will accompany the Government of Nicaragua in this effort so that the Poverty Reduction Strategy Paper (PRSP) provides a financially viable proposal of programs and projects.

### **III. Information and signs, hurdles, and causes of poverty**

16. This section contains a discussion of the quality of the information available to analyze poverty, attributes and evolution of the poor, what the government has done to combat poverty, selected hurdles hindering the eradication of poverty, and the causes of poverty. We find that poverty correlates with inadequate economic growth and opportunity, low schooling, poor health, and vulnerability.

#### **A. Information available to analyze poverty and analytical strength**

17. Analysis of poverty in Nicaragua could rest on stronger empirics. The collection of systematic information on measures of poverty is recent. Since researchers lack consensus on how to measure outcomes and determinants, research results cannot be easily compared, making it difficult to see trends or draw lessons for policy. Unlike other nations, the Government does not yet carry out systematic surveillance of the same people and households over time to see how and why they might slip in and out of poverty. In cooperation with international organizations and donors, the Government has started to design better systems of surveillance and strengthening the capacity to do policy analysis.

18. We base the analysis for this progress report on the results of the Living Standard Measurement Surveys of 1993 and 1998 conducted with the support of the World Bank and other donors. Since the two surveys contained many similar questions, they have made it possible to gauge progress, albeit over the recent past. We also draw on the results of a demographic and health surveys done in 1995 and 1998.

#### **B. Attributes of the poor**

19. One can measure poverty in several ways, each with advantages and disadvantages. For pragmatic reasons, in this progress report we equate poverty with low consumption and extreme poverty with even lower consumption. Low and lower refer to expenditures needed to obtain minimum caloric requirements (2,200 kilocalories) and basic necessities (e.g., clothing) and amount to US\$403 (poor) and US\$212 (extremely poor) per capita in 1998 dollars. Using the above definitions and drawing on the recent surveys, we find that poor and extremely poor people have one or more of the following attributes (Table 1):

20. **Economic.** Poverty is a rural problem. Two out of every three poor people live in the countryside and 70% of the rural population is poor. The poor live mainly in the central region and Atlantic Coast, rely on agriculture, and lack safety nets in times of

need. In one study surveyors asked rural people to list recent mishaps. Most (53%) mentioned crop losses from droughts, pests, and diseases. When faced with such shocks, a quarter of respondents lowered their consumption and 38% said they had to weather the spell on their own, without help from anyone or anything. A quarter of extremely poor women in the countryside are unemployed, compared with six percent of non-poor rural women. Poor and extremely poor women have the highest under-employment rates of the nation (about 42%).

21. **Demographic.** Poor households contain more people (6.7-7.7) than non-poor households (4.7), their adults have almost twice the number of dependents per head (defined as people under the age of 16), and their adolescent girls have the highest fertility rates of Latin America. Poor women are less able to plan for their families. They have less access to information on family planning, use contraceptives with less frequency, and face higher reproductive risks. Not surprisingly, they have higher child and maternal mortality rates.

22. **Human capital.** Twenty seven percent of poor children and 36% of extremely poor children suffer from chronic malnutrition. Poor children are more likely to suffer from stunting. Poor women are more likely to suffer from anemia, to experience domestic violence, and are less likely to consume iodized salt. The children of extremely poor households report illness with 50% greater frequency than the children of non-poor households, and, when sick, the non-poor are 50% more likely to consult with health-care personnel than the poor. About 20% of the population in Nicaragua is illiterate, but the share is twice as high among the extremely poor. About half of school-aged children (6-18 years) in extreme poverty do not attend school, compared with only 16% for their non-poor counterparts. Poor and extremely poor people have only 3.1-2.3 years of education, about half of the national average and much below the threshold of four years of schooling needed to acquire cognitive skills useful later in life. More than half the children who abandon school do so for economic reasons.

23. **Access to public services.** The poor have little access to safe water, sewers, or health-care facilities. To obtain health care, extremely poor households must travel three times the distance, and spend three times as much as non-poor households. One third of extremely poor women receive no prenatal care and one half deliver their babies without benefit of institutional facilities. Extremely poor women are only half as likely as non-poor women to be attended by physicians when giving birth. About a third of the poor lack access to latrines, 57% lack access to electricity, and 94% use firewood for cooking. The present level of safe water coverage among the poor is 74% and 67% for poor rural areas.

### C. Evolution of poverty

24. The previous sketch glosses over the historical roots of poverty in Nicaragua. We now provide a historical sketch of poverty and recent signs of improvements. We do so to offer a more nuanced view of poverty.

25. Even though real income per capita has recovered at a rate of close to 2% per year during 1994-1999, it fell continuously by 5.7% per year between 1978 and 1993. During the 1960s the income of a Nicaraguan was 11 times lower than the income of a citizen from the United States. At present, the income of a Nicaraguan is 70 times lower. Today Nicaragua together with Haiti rank as the poorest nations of Latin America. Though skewed, Nicaragua's income distribution is comparable to that of other Latin American nations.

26. Since the mid 1990s, Nicaragua's economy has shown progress. A comparison of household surveys done in 1993 and 1998 suggests that the share of people living in poverty in Nicaragua fell from 50.3% in 1993 to 47.9% in 1998 (Table 2.a). What is more important, the share of people in extreme poverty dropped from 19.4% to 17.3% over the same period. Between 1993 and 1998 poverty in the countryside and cities fell by 7.6 and 1.4 percentage points. The strongest reductions took place in Managua and in the central region. The rural central region had a reduction in extreme poverty of almost 15 percentage points. Over these years the poor became less poor as poverty intensity fell from 21.6% to 18.3 % (Table 2.b).

27. Access to public services has also improved. During 1993 -1998 the illiteracy rate fell from 23% to 18.8% in the nation and from 46% to 35% in the countryside. The average number of school years finished increased from 4.5 to 4.9 years for people older than 10. The improvement was more marked for non-poor rural people, among whom schooling increased by 0.6 years. Fertility declined sharply, from 2.9 births per women in 1993 to 2.5 births per women in 1998. Death rates for children under five years of age and for children in general have improved. Immunization rates among rural poor children resemble the national averages. DPT and polio vaccination rates for children between 12 and 23 months of age are slightly higher for the rural non-poor than for the urban non-poor.

28. Owing to the history of poverty in Nicaragua, it is not surprising that poverty should remain widespread despite these signs of progress. Because of rapid population growth the number of poor people increased from 2.1 million in 1993 to 2.3 million in 1998, and the number of people living in extreme poverty increased by 20,000 during the same period to reach 830,000. The share of people in extreme poverty in the Atlantic Coast increased by 11 percentage points during 1993-1998. A survey that tried to capture the perceptions of the poor toward their situation suggests that the poor think that social infrastructure has improved but they also think that their access to those services has not improved.

#### **D. What the government has done and hurdles hindering the eradication of poverty**

29. Here we advance several possible reasons for the decline in poverty between 1993 and 1998 and summarize some actions the Government has taken and continues to take to reduce poverty in an explicit way.

30. **Macroeconomic and sectoral reforms.** Much in the same way one can trace poverty in Nicaragua from the late 1970s until the 1990s to the collapse of the economy from war and from poor management of the economy, so too one can trace the reduction of poverty during 1993-1998 to broad-based economic recovery brought about by prudent economic policies and greater respect for the rule of law.

31. After more than a decade of economic contraction, Nicaragua's economy started to grow in the mid 1990s. Consumption per capita grew at an average annual rate of 1.9%. Preliminary analysis suggests that improvements in consumption have been more marked among the poor. The real gross domestic product per capita grew at an average annual rate of 3.5% during 1994-1996, and increased to 5.5% during 1997-1999. Unemployment fell from 17.1% to 10.7% during 1997-1999. In rural areas employment in agriculture increased by almost 180,000 additional jobs, even though real wages in farming fell. During 1994-1999 agriculture grew by 9.6% per year in real terms owing to high prices for crops (chiefly coffee and sugar), expansion of the agricultural frontier, and to agricultural policies that untied many knots that had been hindering the potential of agriculture.

32. The gains reflect a package of reforms that the Government undertook as part of an agreement with the International Monetary Fund and the World Bank, with the support of the Inter American Development Bank and bilateral donors for Heavily Indebted Poor Countries. Nicaragua's macroeconomic and sectoral reforms are one of the most ambitious programs of structural adjustment and economic reforms in Latin America.

33. The reforms have strengthened the private sector and made more efficient the use of resources in the public sector. Prudent monetary and fiscal policies allowed the Government to control inflation. The Central Bank regained its autonomy and the Central Government has no access to credit from it. The privatization and closure of some state banks and the passage of several new banking laws have stimulated the growth of private financial services.

34. The reforms have reduced the role of the government, promoted privatization, and strengthened private enterprises. New tax and investment policies have stimulated investment and competition, and produced greater equity in tax treatment. The Government removed trade restriction and subsidies and put in place a 1.5% duty draw back on exports. Despite tight fiscal policies, the government increased public expenditures in fields of education and health. From 1994 until 1999, public savings increased from 2.4% to 8.4% of GDP and public expenditures in social sectors increased from 12.1% to 17.2% of GDP.

35. Structural reforms also have included the passage of modern legislation affecting financial services, banking, pensions, and foreign investments. The Government has designed several new laws - some passed, others in the draft stage, and still others under review by the National Assembly - to induce greater transparency in the management of public resources, more accountability in the work of public officials, and more efficiency

in the use of public funds. Besides these reforms, the Government put in place many explicit policies in favor of agriculture.

36. **Targeted interventions.** Besides putting in place explicit pro-agricultural policies and implementing a bold stabilization and structural adjustment program, the Government has tried to reduce poverty through other reforms targeted at the neediest.

37. Targeted interventions to reduce poverty have included increased social expenditures in social services through the Supplementary Social Fund, direct food transfers, and help in farm investments to some of the more vulnerable groups. The Social Investment Fund has built and refurbished many schools, health posts, sewers, water systems, and latrines creating some temporary employment along the way. Investment in municipal infrastructure and investment in the reforestation of water basins has generated employment and reduced vulnerability of the poor, while strengthening local participation. Demand driven funds for rural and agricultural development have improved the productivity and income of small and medium size farmers with productive potential. Last, the Government has started to put in place a new social safety net to reduce the intergenerational transmission of poverty, by introducing incentives so parents find it attractive to send their children to school, and promote modern health practices among the extremely poor.

38. **Hurdles hindering the eradication of poverty.** Despite progress, the eradication of poverty faces several constraints that the Government intends to overcome as it implements its strengthened strategy to reduce poverty. During the 1980s the country experienced a brain drain, deterioration of physical capital and infrastructure, growing population pressure on natural resources and the environment, loss of competitiveness from technological stagnation, and erosion of the judicial system and property rights.

39. The burden of foreign debt also hinders the fight against poverty because it absorbs scarce resources. Nicaragua's external debt amounts to US\$ 1,300 per capita. In 1999 payment for the external debt amounted to 59% of the country's social expenditures or 38% of exports. Payment for the external debt will rise to 62% of social expenditures and 48% of exports if Nicaragua has to service the debt in full.

## **E. Causes of poverty**

40. Like any poor nation, Nicaragua's poverty grows out of a complex web of causes. Some of the causes are intractable and will require a concerted effort and sustained attention over many years. For brevity's sake we put emphasis on only a few linked causes that bear in a direct way on the subsequent discussion of goals, targets, and intermediate indicators.

41. Based on the experience of nations such as Nicaragua, a growing consensus has emerged that political turbulence and macroeconomic mismanagement hurt economic growth because, as in Nicaragua, they discourage domestic and foreign investment, and

contribute to brain drain. Nicaragua's recovery since the mid 1990s owes a great deal to the growing respect for the rule of law and to the implementation of judicious economic policies, as explained above.

42. Further, low public investments relative to the rest of Latin America in agricultural research, extension, and training, low investments in education, nutrition, and health, and inadequate safety nets, have all contributed to poverty. Rates of return to primary schooling for women and men in Nicaragua hover between 6% and 14% so one can safely conclude that part of the reason for low income relates in a direct way to little schooling. We also know that worldwide social rates of return to agricultural research and extension average about 50% and that improvements in the technology for cultivating staple crops eaten by the poor raise real wages, so it is reasonable to assume that some of the poverty can be traced to the shortage of technological innovations.

## **F. Conclusions**

43. The fact that emerges from this review of the historical and contemporary evidence and from the numerous consultations made is that poverty lies mainly in the countryside and links tightly with poor human capital and little economic growth. The poor are unschooled and lack access to modern health services and modern farm technologies. They produce with archaic technologies. The poor are very exposed to unforeseen mishaps, such as illness, theft, fire, or crop loss. The analysis also shows that if the nation enjoys political and economic stability poverty wanes.

44. The Government then needs to follow three simple but overwhelmingly important steps to reduce poverty: (1) generate broad-based economic growth galvanized by the modernization of the countryside, (2) improve the human capital of all, but particularly of the rural poor, and (3) try to ensure an adequate safety net so those at the bottom do not slip further down. The three steps fit with the themes stressed in the earlier Government reports to the Consultative Group Meetings of Geneva and Stockholm, and with the International Development Goals (IDGs). In the next section we define the goals in more detail and explain the indicators the Government intends to use to gauge progress in reducing poverty during the next 3-5 years.

## **IV. Goals, targets for the year 2005, and intermediate indicators**

45. In the previous section we documented the extent, symptoms, location, and causes of poverty. Through consultations, research, and a bit of pragmatics and hard reasoning, the Government has arrived at six goals, each linked to targets and measurable intermediate indicators. The Government's ultimate goal is to cut extreme poverty by at least a half by the year 2015. The rate is consistent with the IDG's for poor countries. To reach the goal inter alia Nicaragua needs economic growth of about 5.5% per year. Other international goals are: (1) reduce by 2/3 infant mortality and mortality of children under 5 years, (2) reduce maternal mortality by 3/4, (3) provide universal primary education for

all children, (4) eliminate gender disparities in primary and secondary education, (5) provide access to reproductive services to all people of appropriate age, and (6) have a sustainable development strategy being implemented by the year 2005.

46. Table 3 contains a summary of the goals that emerged from participatory consultations and that fit with international standards. That information is summarized in the column called “Goals”. Each goal has associated with it conservative preliminary targets for the year 2005 that the Government has set for itself and will be future evaluated. The third column of Table 3 (Intermediate Indicators) includes the outcomes that we need to monitor for each target and goal.

47. **Goal 1: reduce extreme poverty by 25% by the year 2005.** The Government wishes to reduce the share of people in extreme poverty from 17.3% to 12.9% of the total population of the country by the year 2005. Intermediate indicators include: (1) an average annual growth rate of 2.9% per capita in GDP during 2000-2005, and (2) an increase in the share of expenditures in health, education, and housing from 44% to 52% of total public expenditure. We are discussing realistic targets for schooling in the countryside and for public health interventions for children under three years of age.

48. **Goal 2: increase net primary school enrollment rate from 75% to 81% by the year 2005.** Intermediate indicators for this goal include: (1) raising by one percentage point per year the number of children finishing the third grade, (2) raising by two percentage points per year the number of children who finish primary school in six years, (3) putting in place a system to measure academic achievement so that it starts to operate by the year 2001, and (4) continuing to assure that we have equality of access to avoid gender disparities in schools.

49. **Goal 3: reduce maternal mortality from 139 to 126 per 100,000 live births by the year 2005.** To accomplish this goal we will try to increase the share of women giving birth in hospitals and clinics and to ensure that pregnant women have a minimum number of prenatal visits with health workers before giving birth. We are discussing the intermediate indicators we shall use.

50. **Goal 4: reduce infant mortality from 40 to 32 per 1,000 live births and mortality of children under five years of age from 50 to 37 per 1,000 live births.** To accomplish these goals we intend to monitor the following indicators: (1) increase by two percentage points per year the share of rural households with access to safe water and (2) increase by one percentage point per year the share of urban households with access to sewers. We are working on intermediate indicators for vaccination and for the reduction of chronic malnutrition.

51. **Goal 5: increase access to reproductive services.** To accomplish this goal, the government will monitor: (1) the increase in coverage of reproductive health in the rural sector and (2) the reduction in the gap of unsatisfied needs in reproductive health care services. We are still discussing the percentage change for these two intermediate indicators.

52. **Goal 6: strategy for sustainable development being implemented by the year 2005.** The Ministry of the Environment and Natural Resources (MARENA) is developing Nicaragua's Environmental Plan for the period 2000-2005. The Plan will be the core of the national strategy for sustainable development, which will focus on the implementation of policies and public investments to ensure a more rational use of natural resources. The Government will have ready such a strategy by the year 2001 and initiate its implementation.

## **V. Strategic action plan: programs and macroeconomic and fiscal impact and financing**

53. In this section we discuss the steps to reach the goals, targets, and intermediate indicators. We have organized the discussion of this section around the three pillars of the attack on poverty: (1) broad-based economic growth, (2) greater and better investments in human capital, and (3) better protection for vulnerable populations. For each of the three pillars we discuss the programs the Government plans to carry out. Tables 5 through 10 contain a summary of the strategy, objectives and policy actions for each of the three pillars and cross cutting themes and include preliminary estimates of the amounts to carry out the programs, and the amounts already committed for the period 2000-2004. Further evaluation of the investment portfolio will be conducted over the next three months.

### **A. Broad-based economic growth**

54. The first pillar, broad-based economic growth, emphasizes the implementation of a macroeconomic program of stabilization and structural reform together with concrete actions in the modernization of the countryside and the development of small and medium businesses in towns and cities. Agriculture and small and medium businesses have the potential of reducing unemployment and underemployment because they are labor intensive. The countryside contains most of the nation's poor, but also has a high potential for economic growth.

55. To lay the groundwork for general economic growth, the Government will focus on the following medium-term goals: (1) an annual rate of economic growth of 5.5% on average for the period 2000-2005 and the attendant expansion of employment, (2) an inflation rate close to industrial country levels, and (3) an increase in expenditures in social sectors equal to 52% of total public spending by 2005. We hope to obtain the resources to expand social expenditure through lower debt burden through the HIPC Initiative (Table 4).

56. To reach the medium-term goals the Government will continue deepening its program of structural reform. Complementary reforms will encourage the development of a financial and capital market, raise foreign investment, and increase the protection of private savings through stricter banking legislation. The Government will continue to

improve the legal system of property rights through the recently established National Center for Real Estate Claims and by strengthening courts and developing new mechanisms for mediating conflicts over property, particularly land. Many laws have been passed or are under review in the National Assembly that deal with transparency, accountability, and human rights. The passage of these laws and their implementation will increase trust, a precursor of investment.

57. The Government will provide incentives for the development of eco-tourism and agroforestry in the Atlantic region because the region has seen a sharp recent increase in poverty. With representatives of the private sector, the Government will work on the removal of bottlenecks that hinder the expansion of maquila, tourism, agroindustry and forestry resources, in line with the agenda for competitiveness of the Central American Presidents

58. In the rural sector the Government will create incentives to improve competitiveness, promote diversification of productive activities, and implement demand-driven programs targeted to small and medium producers with potential for growth. In regions without potential for agricultural growth, the Government will promote non-agricultural activities particularly by attracting private investment. It will invest in rural energy, telecommunications and infrastructure.

59. To improve efficiency the Government will continue financing land titling. This project will soon enter its third phase, which will cost about US\$40 million for the period 2000-2004. The project is a lynchpin for generating broad-based growth since it signals respect for the rule of law.

60. The Government implement a recently negotiated project for the development of new research and extension capacity in agriculture. That project will cost US\$ 160 million over a period of 16 years (with a first phase that cost US\$38 million) and will guarantee that, over the long run, Nicaragua gains the capacity to: (1) produce technologies suited to the country's varied ecologies and in demand by producers and consumers, (2) the trained cadre of extension officers needed to ensure technologies reach those most in need of it, and (3) strengthen the institutions that will carry out in research and extension in agricultural and natural resources. The Government supports the development of new production technologies in agriculture because the agricultural frontier has reached its limit and improvements in agricultural productivity has the potential to lower pressure on natural resources.

61. Last, the Government will repair and expand the network of roads and ports, particularly to and within some of the poorest areas, including the Atlantic Coast, which remain linked with the rest of the economy in a tenuous way. Those investments will help to lower transport costs and food prices for poor consumers, increase profits among rural producers, and help all exporters.

62. To carry out the programs discussed in this section will require a total of US\$519 million, of which US\$270 million has been committed.

## **B. Greater and better investment in human capital**

63. The second pillar of the strategy consists of improving the human capital of the poor so that they can improve their productivity, income, and welfare. Investments in human capital will go to improve: primary education, preventive health, child nutrition and access to potable water, sewers, and affordable housing.

64. **Education.** The main problems afflicting education include illiteracy, low educational attainment, poor quality, and inefficiency. The goal of the educational reform is to make better use of resources and make education more relevant and consistent with the economic reality of the country.

65. To overcome the hurdles the Government plans to: (1) accelerate schools decentralization by fostering the participation of parents in school management, (2) expand the coverage and quality of education, and (3) modernize the sector by dividing responsibilities, with the central government overseeing evaluation and communities taking charge of the day-to-day management of schools.

66. Improvements in education include the following: (1) reform of the curriculum, (2) training of rural educators, (3) vocational training to offer students skills relevant for today's job market, (4) expansion of pre-school education, and (5) creation of a second shift for students to increase coverage. The amounts needed to carry out these objectives are estimated to reach US\$277 million, of which US\$186 million have already been committed.

67. **Health.** The health system faces problems related to communicable diseases, environmental-related diseases, and high vulnerability of selected groups. Despite recent improvements in the country's health indicators, the health system faces problems of inefficient resource allocation, inadequate management of services, and low quality of services delivered.

68. The strategies for the health sector include: (1) to improve the coverage and quality of health care for women of reproductive age, small children, and adolescents, and (2) to encourage private and public coordination in the provision of health care. The participation of other actors (e.g., non-government organizations, private suppliers) in the provision of services will improve the efficiency, coverage, and quality of the system. Greater attention will be given to the change of behavioral patterns within households, a larger involvement of community actions and modernization of the sector.

69. **Nutrition.** Malnutrition in Nicaragua has remained at the same levels for the past few decades. The emphasis in food distribution programs during the last few years has been insufficient to reverse the trend. Actions within communities and inside households are necessary to modify negative household behaviors and to promote the growth of healthy children. In the medium term we aim to improve coordination among the sectors

involved. Special attention will be given to the prevention of malnutrition among the young. The estimated cost of the programs for health and nutrition is US\$160 million, of which US\$142 million has already been committed.

70. **Social infrastructure.** The emphasis will fall on the provision of safe water and housing. Since the availability of safe water is essential for better health, the strategy will emphasize the expansion in the provision of clean water in rural areas, which has the largest deficit. The amount estimated to expand potable water services, especially in the concentrated-rural and semi-urban sectors, is US\$277 million. A lower amount (US\$37 million) would be required for dispersed rural settlements. Other strategies to expand basic infrastructure include ensuring the financial and institutional sustainability of local water supplies and fostering better water conservation practices. Committed resources amount to US\$181 million.

71. The strategies in housing are to strengthen the sector's legal framework and to establish the Nicaraguan Institute of Rural and Urban Housing as policy maker, supervisor, promoter, and administrator of targeted interventions. The amounts required are the following: US\$48 million to improve rural and urban housing, US\$94 million for housing for poor families, and US\$18 million for other housing projects. Committed resources amount to US\$13 million.

### **C. Better protection for vulnerable population**

72. The third pillar of the strategy consists of enhancing the protection of vulnerable groups against unforeseen natural or economic mishaps. The programs to reduce vulnerability complement programs of broad-based economic growth and investments in human capital because they help prevent the deterioration of the human capital of the poor. The programs focus on extremely poor people, such as children under five years of age, landless workers, the homeless, the aged, and the infirm. The Government puts women in the center stage of these programs because they generally underwrite the welfare of the household.

73. To reduce the vulnerability of the poor, the Government is moving on three fronts. First, the Government is modernizing, strengthening and consolidating public institutions responsible for social safety nets. The Government needs to enhance its analytic capacity so it can more precisely identify vulnerable populations and formulate, carry out, and evaluate public policies to reduce their vulnerability. Second, the Government is improving its system of identifying and targeting interventions, and the quality of the programs it carries out. It needs better capacity to assess the cost effectiveness of different interventions, such as direct transfers or programs of seasonal employment. Analysts will need to differentiate with clarity between transfers that the Government needs to make unconditionally (such as those that are given to households in marginal environments after severe droughts) and more targeted interventions to help poor people move out of a temporary slump. At present, the Government is trying to identify vulnerable groups using a new poverty map. Much of the analysis of vulnerable

populations has been done at the level of municipalities, but the Government now has the information to bring down the analysis to smaller geographical units and particular social groups. Third, the Government is strengthening the institutional capacity of local governments and communities so they can formulate plans to reduce vulnerability, and strengthen local social bonds.

74. The programs under this pillar total about US\$203 million and include programs to improve the quality of targeting (US\$88 million), of which the bulk (90%) will go to programs to protect the human capital of children and adolescents, and to increase expenditure per capita levels in critical social services (US\$ 102 million). Programs to strengthen institutional capacity and local participation are expected to cost US\$13 million.

## F. Cross-cutting themes

75. Several common themes recur in each of the three pillars of this strategy, including population, social equity, environment, and decentralization. Most of these themes have been reviewed in the accompanying paper *One Nation, Many Voices*.

76. **Population.** Nicaragua's population is young and growing fast, particularly in rural areas. Population growth may create additional difficulties for the effort to bring quality services to the poor. To overcome this obstacle, the Government proposes to work on the following areas: (1) include reproductive health messages and services in public programs in education, nutrition, and health of the poor, (2) create incentives for responsible parenting, and (3) take into account demographic dynamics as it puts in place land use plans.

77. **Social equity.** A second theme that cuts across the pillars concerns unequal access to knowledge, economic opportunities, and social services among social groups, between women and men, between indigenous and non-indigenous population, between the young and the old. To overcome the impasse, the Government proposes to work on the following areas: (1) incorporate marginalized and disadvantage groups from the outset in the design of programs to reduce poverty and (2) identify and remove discrimination.

78. **Environment.** The injudicious use of natural resources has increased the vulnerability of groups and environmental degradation. To overcome the impasse, the Government proposes to work on the following areas: (1) rehabilitate degraded watersheds through the use of technologies and farming practices that are gentler on the environment, (2) develop a plan to manage forests and put in place policies that could lower population pressure on natural resources, (3) strengthen local governments so that they have direct stewardship over the management of their resources, and (4) promote environmental education.

79. **Decentralization.** Decentralization forms part of the broader program to modernize the state. The various projects and laws to encourage decentralization that are being introduced, try to enhance the capacity of local governments so that they can take control

over the management of their resources. The reforms try to bring decision-making powers on many fields closer to the direct users and beneficiaries. Decentralization empowers communities and brings about greater shared responsibility and accountability between the central and regional government. The Government proposes to work on the following areas: (1) accelerate the modernization of public institutions, and (2) continue strengthening local governments.

#### **E. Macroeconomic and fiscal impact and financing**

80. Since the mid 1990s Nicaragua has managed its economy in a judicious way. We have learned that macroeconomic mismanagement and fiscal indiscipline wreck havoc on the economy, society, and polity. We have followed a cautious approach to the investments needed to reduce poverty. The Government has not asked: What are the macroeconomic and fiscal consequences of the plan to reduce poverty? Rather, we have turned that question on its head and asked, instead: Given the fiscal and macroeconomic constraints facing the nation, what is the most the nation could spend fighting poverty without jeopardizing the nation's economy? Seen this way, the plan we are proposing meshes with broader constraints.

81. However to implement programs to reduce poverty will require an amount that exceeds Nicaragua's own resources, even with disciplined public spending. The World Bank and the International Monetary Fund have made an assessment that Nicaragua cannot honor in full its foreign debt. The HIPC Initiative provides a way out of the impasse. In September 1999, Nicaragua became eligible for the HIPC Initiative and as explained before is implementing a program of actions including this poverty reduction strategy to access to this initiative soon. As discussed earlier, honoring the debt in full will deflect resources from expenditures in fields such as education that galvanize long-term economic growth.

#### **IV. Participatory monitoring and evaluation**

82. The success of the strategy will depend on four determinants: (1) close coordination, (2) major adjustments, (3) broad cooperation and participation, and (4) good technical capacity and information.

83. **Close coordination.** The Presidency of the Republic through the Social and Economic Cabinet will coordinate the strategy. They will draw on the Technical Secretariat of the Presidency, the Central Bank of Nicaragua, the Ministry of Finance and Public Credit, and the Ministry of Foreign Affairs in technical inputs.

84. **Major adjustments.** Adjustments will need to be made to the strategy and goals as they unfold, allowing for fine tuning of initial goals and programs. To make adjustments, the Government will need timely information, which will come from surveillance and evaluation of impacts. Surveillance will focus on the monitoring of intermediate targets.

The Government will develop a plan to assess the impact of programs particularly the ones with the largest effect on poverty reduction.

85. **Broad cooperation and participation.** The Government will need cooperation of civil society and donors to carry out the strengthened strategy. This will happen not only through consultations, but also through participation in the monitoring, and in the selection of programs. The National Council of Economic and Social Planning will represent the public when monitoring the strategy. The National Council will draw on technical assistance of the United Nations Development Program.

86. **Good technical capacity and information.** To implement the strategy the Government needs to strengthen technical capacity and information to improve the formulation, implementation, and evaluation of programs. This will require strengthening the following: (1) the National System of Public Investments (SNIP) of the Technical Secretariat of the Presidency to avoid duplication of efforts and to monitor and evaluate performance of programs, (2) the technical skills of ministries, (3) the technical capacity of participants to identify households, municipalities, and vulnerable groups, (4) the technical capacity of local communities to plan, identify, and monitor regional plans, and (5) different types of information systems at the local, regional and national level.

## VII. What we have learned and next steps.

87. Casual observations, analysis of empirical information, and many discussions point to four findings about the correlates of poverty. Poverty lies deeply entrenched in the countryside, is associated with little schooling and poor health and nutrition, and becomes more pronounced when the polity and the nation's economy do poorly. The poor, at least in the countryside, are inadequately insured against idiosyncratic and generalized misfortunes. They have few social networks, assets, and institutions to fall back on during lean spells.

88. The diagnosis led us to identify three pillars in the fight against poverty: (1) increase broad-based economic growth, (2) improve the human capital of the poor, and (3) enhance the protection of the poor most likely to slip further into poverty. We went on to present an investment program for each of the three pillars and cross cutting issues. We ended by stressing that the programs would not create macroeconomic imbalances because the Government is designing them with macroeconomic restrictions in mind, but that they will require relief from foreign debt under the HIPC Initiative.

### Next steps:

89. **With respect to the document:** The Government is in the process of consulting the part of this progress report that deals with goals, action plan, and implementation. After this consultation and further technical analysis, the Government will rank programs and include them in the Government budget for fiscal year 2001. The Government of Nicaragua plans to present an Interim Poverty Strategy Paper to the Executive Boards of

the International Monetary Fund and the World Bank by August, 2000 in the context of Nicaragua's access to the HIPC initiative.

90. **With respect to the consultation process:** Through the National Council for Social and Economic Planning, the Government will continue eliciting reactions to the draft of both the interim and final Poverty Reduction Strategy Paper. Consultations will include the poor, donors, and experts at the regional and local levels. We will carry out focused studies to answer pending questions if needed.

91. **With respect to monitoring targets, intermediate indicators, and the investment portfolio:** A consistency analysis will be done so that the targets of the strategy, the determinants of those targets, and the costs of achieving specific goals are fully accounted for. In this way the impact of the investment portfolio will be maximized. A list of projects will be developed to help rank investments consistent with the targets.

92. Through the National Council for Social and Economic Planning we will incorporate citizens and donors in the design of a system for monitoring progress and evaluating the impact of programs. Table 11 contains a timeline of the steps that we propose as part of the process of formulation and consultation of the Poverty Reduction Strategy Paper.

**Table 1: Selected socioeconomic and demographic attributes of the poor and extremely poor**

<b>Attributes</b>	<b>Measure</b>
<b>Economic</b>	2/3 of poor live in rural areas 70% of rural population is poor 38% of households had to weather agricultural shocks without help from anyone
<b>Demographic</b>	Bigger households (6.7-7.7) than non-poor (4.7) High dependency ratios High fertility rates Maternal mortality of 139 per 100,000 live births
<b>Human capital</b>	Chronic malnutrition among children (%): 19.7 - national 26.7 - poor 35.7 - extremely poor Illiteracy (%): 18.8 - national 37.6 - extremely poor Poor and extremely poor have only 3.1-2.3 years of education Share of school age children out of school (%): 28.2 - national 49.1 - extremely poor
<b>Access to public services</b>	29.0% of the poor lack access to latrines 56.7% of the poor lack access to electricity 94.3% of the poor use firewood

Source: Living Standards Measurement Survey (LSMS) 1998 and Ministry of Health (MINSA) 1997

**Table 2.a: Poverty and extreme poverty, in percent of total population**

	Extreme Poverty			Poverty		
	1993	1998	Change	1993	1998	Change
<b>National</b>	19.4	17.3	-2.1	50.3	47.9	-2.4
<b>Urban</b>	7.3	7.6	0.3	31.9	30.5	-1.4
<b>Rural</b>	36.3	28.9	-7.4	76.1	68.5	-7.6
<b>Managua</b>	5.1	3.1	-2.0	29.9	18.5	-11.4
<b>Pacific</b>						
Urban	6.4	9.8	3.5	28.1	39.6	11.5
Rural	31.6	24.1	-7.5	70.7	67.1	-3.6
<b>Central</b>						
Urban	15.3	12.2	-3.1	49.2	39.4	-9.8
Rural	47.6	32.7	-14.8	84.7	74.0	-10.7
<b>Atlantic</b>						
Urban	7.9	17.0	9.0	35.5	44.4	8.9
Rural	30.3	41.4	11.1	83.6	79.3	-4.3

Source: Living Standards Measurement Survey 1993 and 1998

**Table 2.b: Poverty gap<sup>1/</sup> (in percent)**

	1993	1998	Change
<b>National</b>	21.8	18.3	-3.5
<b>Urban</b>	10.9	9.9	-1.0
<b>Rural</b>	37.1	28.3	-8.8
<b>Managua</b>	9.5	5.1	-4.4
<b>Pacific</b>			
Urban	9.4	12.6	3.2
Rural	32.3	26.0	-6.3
<b>Central</b>			
Urban	19.4	14.3	-5.1
Rural	45.3	30.9	-14.4
<b>Atlantic</b>			
Urban	12.1	17.5	5.4
Rural	35.9	37.3	1.4

<sup>1/</sup> Percentage of increase in expenditure needed to reach poverty line

Source: Living Standards Measurement Survey 1993 and 1998

**Table 3: Long term goals for the year 2015, targets for the year 2005, and intermediate indicators<sup>1/</sup>**

<b>GOALS</b>	<b>TARGETS BY YEAR 2005</b>	<b>INTERMEDIATE INDICATORS</b>
<b>REDUCE EXTREME POVERTY BY 50%</b>	<ul style="list-style-type: none"> <li>Reduction in extreme poverty by 25%</li> </ul>	<ul style="list-style-type: none"> <li>Increase expenditures in social sectors from 44% to 52% of the budget by 2005</li> <li>2.9% average per capita GDP growth 2000-2005</li> <li>x% increase of years of schooling in rural areas by 2003</li> <li>x% children under 3 years covered by an effective growth promotion program by 2003</li> </ul>
<b>UNIVERSAL COVERAGE ON PRIMARY SCHOOL ENROLLMENT</b>	<ul style="list-style-type: none"> <li>Increase in the net enrollment rate in primary schools from 75% to 81.2%</li> </ul>	<ul style="list-style-type: none"> <li>Increase by 1 percentage point yearly the 3rd grade promotion rates in rural areas</li> <li>Increase by 2 percentage points yearly of children who complete primary school in 6 years</li> <li>Implement the system of academic achievement and measure its progress by 2001</li> </ul>
<b>REDUCTION OF MATERNAL MORTALITY</b>	<ul style="list-style-type: none"> <li>Reduction of maternal mortality from 139 to 126 per 100,000 live births</li> </ul>	<ul style="list-style-type: none"> <li>x% deliveries with at least x prenatal care visits</li> <li>x% increase in institutional deliveries</li> </ul>
<b>REDUCTION OF INFANT MORTALITY AND MORTALITY OF CHILDREN UNDER FIVE</b>	<ul style="list-style-type: none"> <li>Reduction of infant mortality from 40 to 32 per 1,000 live births</li> <li>Reduction of mortality of children under 5 years from 50 to 37 per 1,000 live births</li> </ul>	<ul style="list-style-type: none"> <li>x% of children between 12-23 months with the vaccination cycle completed</li> <li>Reduction of chronic malnutrition by x% by 2003.</li> <li>Yearly increase of 2 percentage points in access to water and sanitation in rural areas, as percentage of population</li> <li>Annual increase of 1 percentage point in the access of sewage in urban areas, as percentage of the population</li> </ul>
<b>PROVIDE ACCESS TO REPRODUCTIVE HEALTH SERVICES FOR ALL INDIVIDUALS OF APPROPRIATE AGE</b>	<ul style="list-style-type: none"> <li>Increase access to reproductive health care services by x%</li> </ul>	<ul style="list-style-type: none"> <li>x% increase of annual coverage of reproductive health in the rural population</li> <li>Reduction of the gap of unsatisfied needs to reproductive health care services by x% by year 2006</li> </ul>
<b>SUSTAINABLE DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>Start implementing a sustainable development strategy by the year 2005</li> </ul>	<ul style="list-style-type: none"> <li>Strategy of sustainable development by the year 2001</li> </ul>

<sup>1/</sup> In the process of formulation and consultation

Source: International Development Goals, Central Bank of Nicaragua, ENACAL and Ministries of Health, Education, and Environment and Natural Resources

**Table 4: Main economic indicators**

	1999 <sup>1/</sup>	2000	2001	2002	2003	2004	2005
Real GDP (annual percentage rate)	7.0	5.5	6.0	5.8	5.7	5.5	5.5
Agriculture real GDP (annual percentage rate)	7.8	8.7	8.0	7.3	6.7	6.5	6.5
Real GDP per capita (annual percentage rate)	4.3	2.7	3.2	3.1	3.0	2.8	2.8
Inflation rate	7.2	8.0	7.0	5.0	3.0	3.0	3.0
External current account (percent of GDP)	-49.4	-40.3	-38.2	-35.1	-32.9	-31.1	-29.1
External debt (millions of US dollars) <sup>2/</sup>	6,360	6,617	6,751	6,855	6,973	7,090	7,209
Gross reserves (months of imports)	3.1	3.8	3.8	3.8	3.8	3.9	3.9
Central government deficit (percent of GDP)	13.5	11.3	11.2	8.5	7.1	7.1	4.9
Social expenditure (percent of total public expenditure)	44.3	44.5	43.1	46.5	48.5	48.6	52.2
Total public expenditure (percent of GDP)	38.6	36.7	36.2	33.6	32.2	32.2	29.9

<sup>1/</sup> Actual

<sup>2/</sup> Before debt relief

Source: Central Bank of Nicaragua



**Table 5.a Pillar 1: Broad based economic growth**

STRATEGIES	OBJECTIVES	POLICY ACTIONS
		<ul style="list-style-type: none"> <li>● Create a resource management fund for technological innovation and dissemination with private sector participation</li> <li>● Strengthen technical capacity and ability to respond to producers demands in rural areas</li> <li>● Rebuild regional training and vocational promotion centers</li> <li>● Facilitate the acquisition and diffusion of new technologies and encourage their adoption among low-income producers through direct transfers of inputs, assets, technical assistance, and other methods</li> </ul>
<b>1.5 Promote organizations or enterprises that increase employment, exports and competitiveness of small and medium-size enterprises</b>	<ul style="list-style-type: none"> <li>● Develop the sector's enterprises taking into account their situation and potential</li> </ul>	<ul style="list-style-type: none"> <li>● Support the development of export-oriented small and medium-size enterprises</li> <li>● Support the development of small enterprises that have good potential</li> </ul>
<b>1.6 Give priority to actions that have a large impact on the sector's competitiveness</b>	<ul style="list-style-type: none"> <li>● Improve the competitiveness of small and medium-size enterprises</li> </ul>	<ul style="list-style-type: none"> <li>● Facilitate small and medium-size enterprises access to updated information on markets</li> <li>● Strengthen enterprises organization and technical assistance</li> <li>● Modernize the regulatory framework</li> <li>● Promote the financing, quality and innovation of small and medium-size enterprises as well as their vertical integration with larger enterprises</li> </ul>
<b>1.7 Improve institutional coordination</b>	<ul style="list-style-type: none"> <li>● Strengthen the institutional framework in order to provide better assistance to small and medium-size enterprises</li> </ul>	<ul style="list-style-type: none"> <li>● Strengthen local organizations that give support to small enterprises</li> <li>● Improve coordination among NGOs, local governments and the central government to assist small and medium-size enterprises</li> </ul>
<b>1.8 Caribbean Coast development</b>	<ul style="list-style-type: none"> <li>● Encourage private and public investment and economic development in the region</li> </ul>	<ul style="list-style-type: none"> <li>● Strengthen regional institutions and authorities</li> <li>● Implement the Law of Autonomy</li> <li>● Strengthen property rights</li> <li>● Support the development of timber commercial activities in indigenous communities and eco-tourism</li> <li>● Guarantee food security through production programs, commercialization, and other activities</li> </ul>

**Table 5.b: Portfolio of programs to execute pillar 1 – Broad based economic growth**

	<i>Millions of US\$</i>			
	<b>Total Proposed 2000-2004</b>	<b>%</b>	<b>Financed 2000-2004</b>	<b>%</b>
<b>Economic Growth and Rural Development</b>	<b>519.0</b>	<b>100.0</b>	<b>270.0</b>	<b>100.0</b>
<b>Increase efficiency</b>	295.7	57.0	123.9	45.9
Land use and titling	41.5	8.0	2.7	1.0
Financial and agricultural services	64.5	12.4	55.7	20.6
Commercialization and agroindustry	72.1	13.9	12.9	4.8
Infrastructure	117.6	22.7	52.6	19.5
<b>Increase equity</b>	185.7	35.8	108.5	40.2
Agricultural and natural resource development	86.1	16.6	19.1	7.1
Livestock growth	53.3	10.3	43.1	16.0
Rural extension and institutional strengthening	46.3	8.9	46.3	17.1
<b>Livestock and farm technology</b>	37.6	7.2	37.6	13.9

**Table 6.a Pillar 2: Greater and better investments in human capital**

STRATEGIES	OBJECTIVES	POLICY ACTIONS
<b>2.1 Education</b>		
<b>2.1.1 Strengthen parents participation</b>	<ul style="list-style-type: none"> <li>● Improve family and community participation</li> <li>● Improve operational efficiency and financial management of schools</li> </ul>	<ul style="list-style-type: none"> <li>● Strengthen training activities for school councils parents and principals</li> <li>● Expand and consolidate school autonomy</li> </ul>
<b>2.1.2 Improve the teaching and learning process</b>	<ul style="list-style-type: none"> <li>● Improve the quality of education</li> <li>● Improve relevance of the teaching/learning process</li> </ul>	<ul style="list-style-type: none"> <li>● Reward teachers with performance based stipends</li> <li>● Improve teachers' initial and continuous training</li> <li>● Expand access to textbooks and educational materials</li> <li>● Evaluate elementary curricula reform</li> <li>● Initiate secondary school curricula reform to make it more suitable to local characteristics</li> </ul>
<b>2.1.3 Increase school coverage</b>	<ul style="list-style-type: none"> <li>● Expand school services</li> </ul>	<ul style="list-style-type: none"> <li>● Expand preschool education using various delivery models</li> <li>● Increase the use of double shifts in school</li> <li>● Expand the number of schools using the multi-grade model in the rural areas</li> <li>● Involve the community in supplying classrooms in private properties</li> <li>● Rehabilitate, replace, and build infrastructure (plant facility)</li> </ul>
<b>2.1.4 Modernize the educational Sector</b>	<ul style="list-style-type: none"> <li>● Design a new model for delivering public education services in which the central office is in charge of financing and regulating, supervising, norming and evaluating educational services</li> </ul>	<ul style="list-style-type: none"> <li>● Design and implement a National Assessment System</li> <li>● Design and implement an Informational Management System</li> <li>● Complete a National Education Plan that will articulate the various subsystems reaching consensus in the rationalization of financial resources</li> <li>● Elaborate a General Education Law</li> </ul>
<b>2.2 Health, population and Nutrition</b>		
<b>2.2.1. Improve coverage and quality of reproductive health services for women of reproductive age</b>	<ul style="list-style-type: none"> <li>● Reduce the high rates of maternal and infant mortality, as well as the high incidence of transmitted diseases</li> </ul>	<ul style="list-style-type: none"> <li>● Develop information systems to strengthen the monitoring and evaluation and feedback of the programs</li> <li>● Define and put in place a functional system of reference and counter-reference to improve the monitoring of patient services</li> <li>● Improve programs of counseling and reproductive services with qualified personnel</li> <li>● Develop human resource policy of the sector to improve the distribution of personnel according to demand.</li> <li>● Adopt alternative modalities for service delivery in remote areas</li> <li>● Develop sectorial investment policy to increase coverage</li> </ul>
<b>2.2.2. Improve the capacity of households to care for their own health</b>	<ul style="list-style-type: none"> <li>● Change sanitary behavior and habits in the families to improve the state of health and nutrition</li> </ul>	<ul style="list-style-type: none"> <li>● Strengthen the sanitary education and nutritional programs at the community and household level</li> <li>● Develop an investment plan for the delivery of safe water and sanitation in rural areas and marginalized urban areas</li> <li>● Support investments in epidemic monitoring systems which provide information to families, communities and authorities</li> </ul>
<b>2.2.3. Modernization of the health Sector</b>	<ul style="list-style-type: none"> <li>● Strengthen MINSA's capacity to adopt its normative and financial role and promote</li> </ul>	<ul style="list-style-type: none"> <li>● Legal reform with emphasis in the decentralization of service delivery</li> <li>● Strengthen MINSA's ability to adopt new modalities of</li> </ul>

**Table 6.a Pillar 2: Greater and better investments in human capital**

STRATEGIES	OBJECTIVES	POLICY ACTIONS
	a pluralist supply of health services	organization, management and planning <ul style="list-style-type: none"> <li>● Design a basic package of health services</li> </ul>
<b>2.3.1 Nutrition and food security</b>	<ul style="list-style-type: none"> <li>● Reduce the high levels of chronic and acute malnutrition particularly in children under 5 years old.</li> </ul>	<ul style="list-style-type: none"> <li>● Improve the strategy to promote safe childhood growth at the community level</li> <li>● Improve integrated services of illnesses common in childhood</li> </ul>
<b>2.3.2 Promote prevention of malnutrition of the new generations</b>	<ul style="list-style-type: none"> <li>● Reduce high levels of malnutrition</li> </ul>	<ul style="list-style-type: none"> <li>● Emphasize actions targeted strictly to children under 36 months, pregnant and lactating women</li> <li>● Promote activities to change practices and behavior in feeding, hygiene, preventive health, and care of children and of pregnant and lactating women</li> <li>● Fortify sugar with vitamin A, flour with iron and salt with iodine and guarantee quality standards and increasing coverage in most needed areas</li> </ul>
<b>2.3.3. Promote measures at the household and community level</b>	<ul style="list-style-type: none"> <li>● Promote the prevention of malnutrition</li> </ul>	<ul style="list-style-type: none"> <li>● Build upon the lessons of the pilot project of community participation in nutrition issues</li> <li>● Promote safe childhood growth at community level, follow up of weight increase during pregnancy, and support during the lactation period</li> <li>● Promote education based in changing behavior at the family and community level</li> </ul>
<b>2.3.4. Improve coordination of nutritional programs in the medium term</b>	<ul style="list-style-type: none"> <li>● Articulate the activities carried out by other sectors</li> </ul>	<ul style="list-style-type: none"> <li>● Articulate actions of rural development such as access to credit, increase production levels, diversification of crops and improvements in market access.</li> <li>● Target health activities in the prevention of illnesses and improve the coverage and quality of basic health services.</li> <li>● Emphasize access to safe water and sanitation.</li> <li>● Introduce in the school curricula education for health with prevention of malnutrition as well as in adult literacy programs</li> </ul>
<b>2.4.1 Sexual and reproductive health as a key investment in human capital</b>	<ul style="list-style-type: none"> <li>● Improve the incorporation of sexual and reproductive health actions in programs of education, health and nutrition of the poor</li> </ul>	<p>Promote the delivery of basic services:</p> <ul style="list-style-type: none"> <li>● Preventive, basic and emergency health services, including reproductive health</li> <li>● Nutritional programs through education and food aid for pregnant and lactant women</li> <li>● Safe water and sanitation</li> <li>● Promote sexual education to strengthen self-esteem, parental responsibility, family integration and family planning</li> </ul>
<b>2.4.2 Promote responsible family behaviors among vulnerable groups</b>	<ul style="list-style-type: none"> <li>● Design and implement incentives to reward responsible family behavior among vulnerable groups as a protection mechanism of its human capital</li> </ul>	<ul style="list-style-type: none"> <li>● Improve the capacities of vulnerable households to care for their own health;</li> <li>● Prevent family violence and implement a caring system for its victims</li> <li>● Expand educational and working opportunities for poor young women</li> </ul>
<b>2.4.3 Promote territorial planning, including demographic dynamics</b>	<ul style="list-style-type: none"> <li>● Design strategies for the sustainable use of natural resources considering demographic dynamics.</li> </ul>	<p>Promote the design and implementation of territorial schemes that include:</p> <ul style="list-style-type: none"> <li>● Trends in population growth as a product of natural (fertility and mortality) and social (migration) phenomena</li> <li>● Productive potential and environmental restrictions to the use of land</li> <li>● Requirements for improving social and productive infrastructure, particularly of migratory poles</li> </ul>

**Table 6.b: Portfolio of programs to execute pillar 2 – Greater and better investment in human capital**

**HEALTH**

<i>Millions of US\$</i>	<b>Total Proposed 2000-2004</b>	<b>%</b>	<b>Committed 2000-2004</b>	<b>%</b>
<b>Total</b>	<b>159.4</b>	<b>100.0</b>	<b>141.7</b>	<b>100.0</b>
<b>Improve coverage and quality</b>	87.2	54.7	81.1	57.2
Rehabilitate primary healthcare services	32.1	20.1	30.1	21.2
Strengthen SILAIS	30.2	18.9	30.2	21.3
Rehabilitate hospitals in the Atlantic and R. San Juan	1.2	0.8	0.4	0.3
Strengthen immunization coverage	3.3	2.1		
Reproductive healthcare services	9.1	5.7	9.1	6.4
Technical cooperation	11.3	7.1	11.3	8.0
<b>Prevention and control of epidemics</b>	24.4	15.3	15.0	10.6
<b>Modernization of the sector</b>	47.8	30.0	45.6	32.2
Modernize the sector	45.6	28.6	45.6	32.2
Epidemic monitoring and control	2.2	1.4		

**EDUCATION**

<i>Millions of US\$</i>	<b>Total Proposed 2000-2004</b>	<b>%</b>	<b>Committed 2000-2004</b>	<b>%</b>
<b>Total</b>	<b>276.9</b>	<b>100.0</b>	<b>186.4</b>	
<b>Improve quality</b>	90.3	32.6	90.3	48.4
<b>Increase coverage</b>	167.6	60.5	94.4	50.6
Rehabilitate and replace school plant facilities	128.8	46.5	81.3	43.6
School equipment	18.9	6.8	8.4	4.5
Increased school coverage	9.9	3.6	4.7	2.5
Promote sports in school	10.0	3.6		
<b>Modernization of the sector</b>	19.0	6.9	1.7	0.9
Modernize sector	8.0	2.9	1.0	0.5
Technical and vocational education	11.0	4.0	0.7	0.4

**Table 7.a Social infrastructure**

STRATEGIES	OBJECTIVES	POLICY ACTIONS
<b>3.1 Expand the provision of safe water and sanitation to rural areas</b>	<ul style="list-style-type: none"> <li>● Increase coverage of safe water and sanitation in the rural sector</li> </ul>	<ul style="list-style-type: none"> <li>● Interinstitutional coordination with the participation of civil society to identify demands and ensure sustainability of the system</li> </ul>
<b>3.2 Recover and protect water basins and other water sources</b>	<ul style="list-style-type: none"> <li>● Water basin conservation</li> </ul>	<ul style="list-style-type: none"> <li>● Promote programs to decontaminate water basins, especially those damaged by hurricane Mitch.</li> <li>● Better management of unprotected or deteriorated basins</li> </ul>
<b>3.3 Ensure the financial and institutional sustainability of local systems of water provision</b>	<ul style="list-style-type: none"> <li>● Institutional reorganization and strengthening of local water provision systems</li> </ul>	<ul style="list-style-type: none"> <li>● Support municipalities to ensure the sustainability of water provision systems in rural communities</li> <li>● Promote an integral approach to water provision, sanitation, health, education, community involvement and water basins management</li> </ul>
<b>3.4 Encourage good habits in the use of water</b>	<ul style="list-style-type: none"> <li>● Water conservation</li> </ul>	<ul style="list-style-type: none"> <li>● Continue implementing initiatives that provide information on the correct use of water and the costs of water provision</li> </ul>
<b>3.5 Strengthen the housing sector's legal framework</b>	<ul style="list-style-type: none"> <li>● Encourage internal savings and the provision of public and private financing for housing</li> </ul>	<ul style="list-style-type: none"> <li>● Introduce laws that stimulate and regulate the housing sector</li> </ul>
<b>3.6 Establish INVUR as policy maker, supervisor and promoter for housing development</b>	<ul style="list-style-type: none"> <li>● Norm and regulate the development of the housing sector</li> </ul>	<ul style="list-style-type: none"> <li>● Strengthen the institutional capacity of INVUR</li> </ul>
<b>3.7 Manage efficient housing subsidies</b>	<ul style="list-style-type: none"> <li>● Facilitate house construction by low income families</li> </ul>	<ul style="list-style-type: none"> <li>● Provide demand driven targeted subsidies</li> <li>● Support subsidized housing for poor families</li> </ul>
<b>3.8 Oversee private financing of houses</b>	<ul style="list-style-type: none"> <li>● Increase the supply of funds for housing projects</li> </ul>	<ul style="list-style-type: none"> <li>● Promote the development of a private mortgage market and the consolidation of the legal framework including property rights, information rights and safe transactions</li> <li>● Assist in the professionalization of the real state guild and emission of residential property titles.</li> <li>● Promote a private housing fund to allow the government's participation in financing houses through commercial banks and other authorized financial institutions</li> </ul>

**Table 7.b: Portfolio of programs to execute social infrastructure cross cutting theme**

<i>Millions of US\$</i>		<b>Total</b>	<b>%</b>	<b>Committed</b>	<b>%</b>
		<b>2000-2004</b>		<b>2000-2004</b>	
<b>Social Infrastructure</b>		<b>438.1</b>	<b>100.0</b>	<b>181.1</b>	<b>100.0</b>
<b>Water and Sanitation</b>		277.0	63.2	167.6	92.5
Urban and rural concentrated		219.7	50.1	130.3	71.9
Disperse rural		37.3	8.5	37.3	20.6
Environmental sanitation		20.0	4.6		
<b>Housing</b>		161.1	36.8	13.5	7.5
Housing self construction		18.1	4.1	3.8	2.1
Improving rural and marginal urban housing		48.1	11.0		
Promotion of social interest housing		94.8	21.6	9.7	5.4

**Table 8.a Pillar 3: Better protection in vulnerable populations**

STRATEGIES	OBJECTIVES	POLICY ACTIONS
<b>4.1 Modernize the institutional framework of the social protection systems</b>	<ul style="list-style-type: none"> <li>Strengthen institutional capacity to formulate and coordinate policies and programs</li> <li>Reduce adjustment costs of the poor to crisis situations through temporal and direct interventions</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the Family Ministry and consolidate the instances of coordination of social and economic policy directed at the extremely poor and vulnerable groups</li> <li>Build an exhaustive cadastre of existing projects and programs</li> <li>Analyze key social risks vis-à-vis existing programs to determine their pertinence and relevance</li> </ul>
<b>4.2 Improve the quality and targetting of social protection programs</b>	<ul style="list-style-type: none"> <li>Design the interventions in social protection based on the specific vulnerability and risks characteristics</li> <li>Target accurately vulnerable groups and the obstacles to benefit from Human Capital Investments</li> <li>Increase the welfare to a minimum level that guarantees the survival of the poor and helps avoid the loss of human capital</li> </ul>	<ul style="list-style-type: none"> <li>Identify regionally the profiles of vulnerable groups</li> <li>Orient social protection programs towards schemes that promote changes in behavior and strategic investments in the human capital of the poor</li> <li>Design more appropriate mechanisms that transfer benefits (e.g.; market mechanism, direct transfers)</li> </ul>
<b>4.3 Strengthen community participation and social solidarity in the protection of vulnerable groups</b>	<ul style="list-style-type: none"> <li>Make possible the sustainability of the interventions through participation and mechanisms of social solidarity</li> </ul>	<ul style="list-style-type: none"> <li>Check the programs and promote more sustainable schemes with the international community</li> <li>Strengthen local capacities to participate in the attention to vulnerable groups</li> <li>Promote increasing budgetary spending to widen the coverage of social protection programs</li> </ul>

**Table 8.b: Portfolio of programs to execute pillar 3 – Better protection in vulnerable populations**

<i>Millions of US\$</i>				
	<b>Total 2000-2004</b>	<b>%</b>	<b>Committed 2000-2004</b>	<b>%</b>
<b>Total</b>	<b>203.2</b>	<b>100.0</b>	<b>66.4</b>	<b>100.0</b>
<b>Modernization of the institutional framework</b>	12.7	6.3	2.0	3.0
<b>Improve quality</b>	88.4	43.5	25.1	37.8
Develop the human capital of children and adolescents	71.4	35.1	22.1	33.3
Overcoming women's poverty	4.5	2.2		
Labor insertion of the handicapped	6.5	3.2	2.0	3.0
Work creation	6.0	3.0	1.0	1.5
<b>Widening coverage</b>	102.1	50.2	39.3	59.2
Supplementary Social Fund	94.7	46.6	34.6	52.1
Assistance to children and women at risk	5.9	2.9	4.3	6.5
Assistance to old persons and the ill	1.5	0.7	0.4	0.6

**Table 9.a Cross cutting themes: Environment and vulnerability**

STRATEGIES	OBJECTIVES	POLICY ACTIONS
<b>5.1 Environmental protection and restoration</b>	<ul style="list-style-type: none"> <li>● Reduce the environmental deterioration</li> <li>● Promote the ecological restoration of productive areas</li> </ul>	<ul style="list-style-type: none"> <li>● Formulate the preliminary project for the Water Resource Law</li> <li>● Protect and manage water basins</li> <li>● Prevent and control of forest fires</li> <li>● Reduce deforestation and the advance of the agricultural frontier</li> <li>● Rehabilitate contaminated environments</li> <li>● Conservation of genetic biodiversity</li> </ul>
<b>5.2 Management and conservation of forests</b>	<ul style="list-style-type: none"> <li>● Promote the sustainable management and biodiversity</li> <li>● Offer environmental services</li> </ul>	<ul style="list-style-type: none"> <li>● Formulate the forestry development law</li> <li>● Conservation of the forests ecosystems</li> <li>● Promote indigenous communities forestry practices</li> <li>● Promote commercial plantations and eco-tourism</li> </ul>
<b>5.3 Strengthen local and institutional management</b>	<ul style="list-style-type: none"> <li>● More capacity for local environmental control and regulation</li> <li>● Risk reduction</li> </ul>	<ul style="list-style-type: none"> <li>● Improve intergovernmental and inter-institutional coordination and capabilities</li> <li>● Strengthen the municipal environmental communities</li> </ul>
<b>5.4 Environmental education</b>	<ul style="list-style-type: none"> <li>● Develop a culture of social responsibilities and accountability</li> <li>● Environmental promotion</li> </ul>	<ul style="list-style-type: none"> <li>● Encourage programs for integrated environmental education</li> <li>● Develop systems of environmental information</li> </ul>
<b>5.5 Land use and human settlements</b>	<ul style="list-style-type: none"> <li>● Improve the use of management of natural resources</li> <li>● Prioritize the location of human settlements</li> </ul>	<ul style="list-style-type: none"> <li>● Mapping and land use information</li> <li>● Develop participative processes</li> </ul>

**Table 9.b: Portfolio of programs to execute environment and vulnerability cross cutting theme**

<i>Millions of US\$</i>				
	<b>Total 2000-2004</b>	<b>%</b>	<b>Committed 2000-2004</b>	<b>%</b>
<b>Total</b>	<b>142.2</b>	<b>100.0</b>	<b>34.8</b>	<b>100.0</b>
<b>Environmental management</b>	66.7	46.9	34.8	100.0
<b>Strengthening environmental protection and disaster prevention</b>	15.0	10.5		
<b>Financial mechanisms for sustainable development</b>	11.0	7.7		
<b>Environmental ordering and restoration of hydrographical basins</b>	22.5	15.8		
<b>Management of renewable natural resources</b>	27.0	19.0		

**Table 10.a Cross cutting themes: Decentralization**

STRATEGIES	OBJECTIVES	POLICY ACTIONS
<p><b>6.1 Accelerate the modernization of public institutions</b></p>	<ul style="list-style-type: none"> <li>● Improve efficiency in the provision and quality of services</li> <li>● Promote a culture of responsibility and accountability</li> </ul>	<ul style="list-style-type: none"> <li>● Consolidate the decentralization process</li> <li>● Complete the regulatory process for intergovernmental and inter-institutional relations between local, regional and central governments</li> <li>● Develop and strengthen technical, administrative and financial capacities</li> </ul>
<p><b>6.2 Continue strengthening local governments</b></p>	<ul style="list-style-type: none"> <li>● Strengthen local governments and community participation</li> <li>● Develop institutional local administrative and fiscal capacities</li> <li>● Communicate and disseminate information for local participation</li> <li>● Implement municipal development plans</li> </ul>	<ul style="list-style-type: none"> <li>● Strengthen the local environmental capacities and systems</li> <li>● Develop and implement the municipal system of public investment</li> <li>● Develop the cadastre system with physical, legal and fiscal functions</li> <li>● Strengthen local and regional governments in the Atlantic Coast</li> <li>● Coordinate and supervise the activities of the central government in the territory</li> <li>● Promote the participation of citizens in governmental and social control responsibilities</li> <li>● Approve the municipal administrative career law</li> </ul>

**Table 10.b: Portfolio of programs to execute decentralization cross cutting theme**

	<i>Millions of US\$</i>			
	Total 2000-2004	%	Committed 2000-2004	%
<b>Decentralization</b>	<b>146.6</b>	<b>100.0</b>	<b>55.2</b>	<b>100.0</b>
<b>Municipal Development</b>	146.6	100.0	55.2	100.0
Municipal promotion	8.6	5.9	3.8	6.4
Municipal infrastructure	25.9	17.7	25.9	43.8
Municipal development	39.1	26.7	29.5	49.8
Protierra II	73.0	49.8		

**Table 11. Poverty Reduction Strategy Time Line**

Area/Task	2000							2001			
	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
<b>1. Poverty Reduction Strategy Paper Progress Report</b>											
Draft Presentation (Profile, Strategy, Goals and Programs) to the Government											
Distribution to the Socio Economic National Planning Council (CONPES)											
Presentation of the Progress Report to CONPES											
Presentation of the Progress Report to Foreign Donors											
<b>2. Preparation of the Interim Progress Reduction Strategy Paper (IPRSP)</b>											
<b>3. Poverty Reduction Strategy Paper (PRSP)</b>											
Final Draft Presentation to the Government											
Distribution to the Socio Economic National Planning Council (CONPES)											
Presentation to CONPES											
Presentation to Foreign Donors											
Preparation of the full PRSP											
<b>4. Goals and Targets</b>											
Estimation of the cost of meeting targets											
Intersectoral work to estimate intermediate indicators											
<b>5. Investment Portfolio</b>											
Completion of first detailed Cadaster of Projects to set Priorities											
Reprioritization of Investment Projects and Preparation of Budget 2001											
Articulation of the Municipal Investment System and SNIP											
Final investment portfolio for full PRSP											
<b>6. Consultation Process</b>											
Consultation with CONPES											
Consultation with Donors											
Regional Consultation Process											
Consultation with the Poor											
Comments Incorporation											
<b>7. Workshops and Seminars</b>											
For Civil Society Representatives											
For the Media											
<b>8. Monitoring</b>											
Design of Information System and Participatory Process											
Monitoring through CONPES											
Impact Evaluation Studies											