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REPUBLIC OF NICARAGUA

COUNTRY STRATEGIC OPPORTUNITIES PAPER

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CURRENCY EQUIVALENTS

Currency unit	=	Cordoba oro (NIO)
USD 1.00	=	NIO 16.85
NIO 1.00	=	USD 0.059

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

CAFTA	Central America Free Trade Agreement
COSOP	country strategic opportunities paper
DANIDA	Danish International Development Assistance
FUNICA	Nicaraguan Foundation for Technical, Agricultural and Forestry Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NDP	National Development Plan
PBAS	Performance-Based Allocation System
PRODESEC	Programme for the Economic Development of the Dry Region in Nicaragua
PRORURAL	Productive Rural Development Programme
PRSP	Poverty Reduction Strategy Paper
RUTA	Regional Unit for Technical Assistance
SDC	Swiss Agency for Development and Cooperation
TAF	Technical Assistance Fund Programme

GOVERNMENT OF THE REPUBLIC OF NICARAGUA
Fiscal Year

1 January – 31 December

COUNTRY MAP



Source: IFAD mission.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

PORTFOLIO OVERVIEW

Region: Latin America and the Caribbean

Country: Nicaragua

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
Agricultural and Industrial Rehabilitation Programme	IDB	IDB	HC	19 Dec 79	23 Jan 80	14 Sep 83	G - I - 20 - NI	SDR	400 000	100
Agricultural and Industrial Rehabilitation Programme	IDB	IDB	HC	19 Dec 79	23 Jan 80	14 Sep 83	L - I - 30 - NI	SDR	9 300 000	100
Integrated Rural Development Project for the Pronorte Region	IFAD	BCIE	I	17 Dec 81	16 Nov 82	30 Apr 95	L - I - 89 - NI	SDR	9 600 000	100
Project for the Capitalization of Small Farmers in the Tropisec Area of the Segovias – Region I (TROISEC)	IFAD	CAF	HC	02 Dec 93	27 Feb 95	31 Dec 02	L - I - 346 - NI	SDR	8 250 000	99
Rural Development Project for the Southern Pacific Dry Region	IFAD	CAF	HC	07 Dec 95	21 Feb 97	30 Sep 03	G - I - 20 - NI	USD	55 000	100
Rural Development Project for the Southern Pacific Dry Region	IFAD	CAF	HC	07 Dec 95	21 Feb 97	30 Sep 03	L - I - 406 - NI	SDR	8 250 000	94
Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	IDA	IDA	HC	09 Dec 99	20 Jun 01	31 Dec 13	G - I - 466 - NI	SDR	150 000	100
Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	IDA	IDA	HC	09 Dec 99	20 Jun 01	31 Dec 13	G - I - 92 - NI	USD	75 000	85
Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	IDA	IDA	HC	09 Dec 99	20 Jun 01	31 Dec 13	L - I - 529 - NI	SDR	10 150 000	13
Programme for the Economic Development of the Dry Region in Nicaragua	IFAD	BCIE	HC	10 Apr 03	17 Aug 04	31 Mar 11	L - I - 610 - NI	SDR	10 250 000	6

Note: BCIE = Central American Bank for Economic Integration; CAF = Andean Development Corporation; HC = highly concessional; I = intermediate; IDA = International Development Association; IDB = Inter-American Development Bank.

EXECUTIVE SUMMARY

1. Nicaragua is the second poorest country in the Latin America and the Caribbean region, with a per capita GNI of USD 740 in 2003. Over the last thirty years, Nicaragua has fallen victim to civil war, natural disasters, economic mismanagement and political instability that have disrupted the national economy. However, important changes have occurred in recent years. The country has been experiencing economic growth, macroeconomic stability, and governance and institutional change, and has been benefiting from debt relief and an aid harmonization and alignment process. While the present political instability does not favour rapid reform, the harmonization and alignment process provides a sound basis for government reforms. In 1999, Nicaragua was declared eligible for the Debt Initiative for Heavily Indebted Poor Countries (HIPC). In January 2004, Nicaragua reached completion point under the Initiative. Debt relief for the country amounted to USD 3.7 billion (58% of total debt) equivalent to 90% of GDP. Since 2002, the Government has been implementing a policy package designed to improve public-sector management and state modernization. These transformations have significantly increased the potential for poverty reduction, and have called for the preparation of a new IFAD country strategic opportunities paper for Nicaragua.

2. During 2003 and 2004, GDP increased by 7.5% over the previous year. Prospects are even better for the next few years. Agriculture is a leading sector in the economic recovery process with increases of 9% over the two-year period. The sector's performance can be attributed to higher international prices and improved access to markets. Coffee, sugar cane, sesame, tobacco, beef, poultry and dairy are the fastest growing products. Nicaragua has also signed the Central America Free Trade Agreement (CAFTA). This opens up market access but poses fresh challenges that will need to be addressed with appropriate policies. The country is seeking to create a positive investment climate by improving governance and transparency, privileging access to CAFTA markets, and pursuing institutional reform and public accountability.

3. **Poverty in Nicaragua.** Forty-six per cent of the population live below the poverty line (2001) and 15% live in extreme poverty. In 2005, Nicaragua ranked 112th on the Human Development Index, moving up six places since 2004 with an index of 0.690. It is grouped among countries with a "medium" level of human development, along with most of the countries in the Latin America region. Poverty is nevertheless a major problem faced by Nicaraguan society, especially in rural areas. The incidence of poverty in rural areas is more than twice as high (64%) as in urban areas (29%). The key economic activities of the rural poor consist of cultivation of basic grains for subsistence, wage-earning activities and self-employment, although basic grains have performed erratically in the past few years. Rural households have lower educational levels and larger families than urban households. Rural heads of households have received, on average, less than three years of schooling and each family has an average of 5.8 members, of which 3.4 are adults. Off-farm activities are widely practised. In 79% of rural households, at least one family member earns permanent or temporary wages; 40% from agricultural labour, 37% from non-agricultural activities and 23% are self-employed.

4. **Gender, rural women and vulnerable groups.** Population groups most affected by poverty are children under 15 and woman-headed households. The country's unemployment rate is 12%, but it exceeds 20% for poor households. An estimated 17% of rural households are headed by women. Women household heads (urban and rural combined) have a lower educational level than men, as they drop out of formal education earlier to help with household duties. Women have fewer employment opportunities than men and receive 20% less income for the same tasks. Early motherhood worsens their prospects. Forty-five per cent of rural women are illiterate. Poor women have limited access to family planning methods and bear more reproduction risks. They also have a lower level of participation in local organizations than men. Domestic violence has increased and about 30% of women have reported some type of violence.

5. In terms of achieving the Millennium Development Goals (MDGs), Nicaragua has made modest progress in the eradication of extreme poverty. As the Poverty Assessment of the World Bank states, the MDGs that may possibly be achieved are reductions in extreme poverty and under-five mortality, and sustainable access to water and sanitation. It is unlikely that the targets for universal primary enrolment, maternal mortality and infant mortality will be reached. The targets concerning access to reproductive healthcare services and eradication of chronic malnutrition and illiteracy are unlikely to be achieved. The lack of progress in reducing mortality, diarrhoea and acute respiratory infection among children under five; in increasing access to reproductive healthcare services, water and sanitation; and in reducing illiteracy is cause for special concern.

6. Today conditions in Nicaragua are favourable for economic and social development, for the following reasons:

- **The current economic context.** Access to international markets, increased export prices, debt relief, macroeconomic stability and competitiveness favour private business and the investment climate and provide resources for public investment in infrastructure, poverty reduction and human capital improvement. The most dynamic sectors of the economy are agriculture, fisheries, tourism and textiles. In this context, opportunities exist for growth in employment and for linking small rural producers with business networks and clusters.
- **Strategy for poverty reduction.** The Government, with strong donor support, has made significant progress in formulating and implementing policies focused on poverty reduction and economic development. It has prepared a National Development Plan (NDP) 2005-2009, which is also referred to as a second-generation Poverty Reduction Strategy Paper (PRSP). The Ministry of Foreign Affairs is leading a harmonization and alignment initiative, based on a system of sector-based round tables that aim to coordinate inter-institutional and donor cooperation. The institutions that make up the agricultural public sector, i.e. the Ministry of Agriculture and Forestry, the National Forestry Institute, the National Institute for Agricultural Technology, and the Rural Development Institute, have prepared a sector-wide approach for the agricultural and forestry public sector entitled the Productive Rural Development Programme (PRORURAL).
- **Improved governance.** The country has initiated a process of institutional reform, public-sector modernization and improved governance, and is pursuing transparency and accountability. This process will further enhance the investment climate and growth prospects. New regulations include laws on decentralization, government auditing and accounting, evaluation of public expenditures and fiscal reform.
- **Aid efficiency.** Government plans incorporate an ongoing process of policy dialogue, donor coordination, and harmonization and alignment. Improved aid efficiency and effectiveness are envisaged.
- **Restructuring the agricultural public sector.** The rural development institutional support system is the weakest feature in the rural development framework. The main constraints relate to inappropriate institutional design, overlapping of functions, scant accountability and absence of incentives for results management. However, in the context of general institutional reforms, the country is restructuring the agricultural public sector with the support of donors, particularly within the Ministry of Agriculture and Forestry, and the Rural Development Institute.

7. IFAD has been collaborating with the Government of Nicaragua's rural development efforts since the early 1980s and has cofinanced six rural development projects, totalling USD 74 million. Five of these were implemented in different zones of the dry region; the sixth project was a national rural credit programme. There are two ongoing operations: the Technical Assistance Fund Programme

(TAF) for the Departments of León, Chinandega and Managua and the Programme for the Economic Development of the Dry Region in Nicaragua.

8. IFAD has gained significant experience and knowledge regarding territorial policies for local poverty reduction, which represent substantial value added in providing support to a rural development sectoral approach in Nicaragua. The most important lessons learned over the last decade are related to project implementation, mainly in terms of knowledge management, innovations and best practices regarding local institutions. IFAD's knowledge base also supports decentralization of project decisions and local participation in allocation of project funds; provision and delivery of non-financial services; transferring agricultural technology; promoting rural financial services and competitive financing; facilitating access to markets; mainstreaming gender issues; and enhancing natural resource management.

9. IFAD has gathered considerable experience in building partnerships with the Government and their donors in the joint processes of project formulation and implementation. Partnerships have increased IFAD's influence and catalytic role, facilitating the inclusion of the rural poor's agenda into the Government's development priorities.

10. IFAD will cofinance the implementation of the PRORURAL programme, alongside a number of bilateral and multilateral donors. This programme, together with the Medium-Term Expenditure Framework, supports improved donor coordination in agriculture and forestry development for the period 2005-2009. While cost estimates are still being worked out, the overall budget for PRORURAL is expected to be around USD 411 million. To ensure financing for the five-year plan, the Government should obtain USD 200 million from donor sources, since the balance of USD 211 million is being provided through ongoing projects and the national budget. A group of 18 donors have stated their willingness to participate in a common fiduciary arrangement and cofinance the plan. Dialogue currently under way includes the establishment of common fiduciary criteria, a code of conduct and a memorandum of understanding between the Government of Nicaragua and donors.

11. Given the limited financial resources available to Nicaragua under the Performance-Based Allocation System (PBAS) criteria, IFAD's comparative advantage is its experience in the country and the knowledge it has gained in promoting decentralized rural development, specifically income-generating activities and employment opportunities for the rural poor and their organizations. IFAD's strategic focus will be its catalytic role and partnership with the Government and the group of donors involved in the formulation of the PRORURAL programme.

12. **IFAD's overall strategic objective** in Nicaragua is to mainstream the rural poor into the process of local and national socio-economic development. **IFAD's goal in the country** is that rural development policies incorporate IFAD's experience in promoting income-generating activities and employment opportunities for the rural poor, and in reducing gender inequality and vulnerability. The proposed strategy supports, in part, the specific objectives of the PRORURAL programme of increasing capitalization of rural families and asset-building (specific objective 2), accelerating technology innovation (specific objective 3) and formulating adequate rural development policies (specific objective 7). The priorities proposed in the new strategy are based on: (i) the Government's strategy as expressed in the NDP and the PRORURAL programme; (ii) IFAD's overall strategic objectives; and (iii) the Fund's regional objectives for Latin America and the Caribbean.

13. **IFAD's strategic thrust** will have three main outputs to promote innovation and improve efficiency in territorial interventions. It will: (i) improve the processes, mechanisms and incentives for promoting access to markets by the rural poor; (ii) improve the capacity and efficiency of local rural development institutions that facilitate market access for the rural poor; and (iii) scale up innovative

field-based strategies, knowledge and best practices into national and regional rural development policies in order to allow for continuous innovation inflows to rural areas.

14. The climate of economic growth in Nicaragua, combined with progress in governance and institutional reform and the reinforced partnership between Government, donors and the private sector, provide opportunities to link the poor into value-added chains and business networks as microentrepreneurs or employees. Achieving these goals will require strengthening coordination between central institutions and territorial operations by scaling up knowledge and innovations. IFAD is participating in policy dialogue aimed at improving coordination between national and territorial policies.

15. **Territories.** IFAD's interventions will be focused on the marginal and vulnerable regions prioritized by the Government. Even in the present context of economic growth, the risk of permanent exclusion of poor marginal areas from development policies persists. IFAD will support government efforts to improve institutional partnerships at the local level and increase investment in infrastructure and in human and social capital. In line with IFAD's mandate, the **target group** in Nicaragua is the rural poor. These are landless or small farmers, microentrepreneurs, agricultural or non-agricultural workers, and migrant workers. IFAD focuses particularly on the most vulnerable groups of women, children and young people.

16. **Lending framework.** At its September 2005 meeting, the Development Committee explored approaches to improving aid effectiveness and identified possible ways to progress towards achieving the MDGs in the poorest countries. The Committee considered establishing "blending" arrangements that could provide an innovative way to leverage current aid flows, underlining that in the poorest countries such as Nicaragua, a mix of concessional loans and grants could help scale up investment to attain the MDGs and address development financing needs that are inadequately met in the current system. It is in this context that the proposed IFAD lending framework will fund activities to strengthen the capacity of public and private local institutions to support the rural poor in increasing their incomes, and to improve knowledge management and develop innovative mechanisms and processes that raise the efficiency of rural development interventions. In terms of reaching the MDGs, the use of blending would probably best address the needs of the rural poor by improving the poverty indicators in rural areas. The actual levels of concessional loans and grants in the blend will need to be determined during the formulation of IFAD's proposed participation in the PRORURAL programme.

17. With a country performance rating of 4.267, PBAS indicators for Nicaragua are slightly below the average observed values for the Latin America and the Caribbean region. With respect to the broad framework indicator (score 3.69) and the portfolio performance indicator (score 5), Nicaragua fares above the regional average. Nonetheless, because of its small population, Nicaragua only qualifies for a base lending scenario of USD 1.56 million per year. Three lending scenarios with performance triggers are envisaged: if conditions remain in the "base case", a new intervention would be considered over the next three to five years. In the "low case" scenario, there would be a decrease in effective investment opportunities for IFAD and the value of the intervention would drop. In the "high case" scenario, the annual lending increases would go towards expanding the geographic coverage of IFAD interventions, according to the priorities of the Government and IFAD

REPUBLIC OF NICARAGUA

COUNTRY STRATEGIC OPPORTUNITIES PAPER

I. INTRODUCTION

1. In October 2003, the Government of Nicaragua formed five sectoral round tables to discuss policies and strategies in the framework of the National Development Plan (NDP). In the context of the **competitiveness round table**, a **rural development sub-table** was established. The Ministry of Agriculture and Forestry assumed leadership of the rural development sub-table and expressed its intention to harmonize foreign aid allocated to the rural sector by formulating a rural development sector-wide approach, prepared jointly by the Government, donors, and civil-society and private-sector representatives. Eighteen donors¹ participated in the discussions, which spanned two years. A first draft was published in July 2005.

2. The last country strategic opportunities paper (COSOP) for Nicaragua was approved in 2002. A new IFAD strategic programme is now needed, in light of the significant changes to the country's social and development policy frameworks in the last two years. There have been particular transformations in terms of economic growth and macroeconomic stability, governance and institutional change, aid harmonization and alignment by donors, and external debt relief. These radical changes have significantly increased the opportunities for poverty reduction, and call for the presentation of a new COSOP.

3. An IFAD mission visited Nicaragua in May and July 2005 and conducted meetings and interviews with government authorities, officials and technical staff; project staff in the field; grass-roots organizations; NGOs; and municipalities. The mission also met with multilateral and bilateral development agencies, and visited ongoing projects and areas with investment potential.

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background²

4. The Republic of Nicaragua covers an area of 121 000 km² and has a total population of 5.48 million (2003). Over the last thirty years, the country has fallen victim to civil war, natural disasters, economic mismanagement and political instability. As a result, the national budget and balance of payments experienced severe and long-lasting deficits that pushed the country into continuous indebtedness and macroeconomic instability. In 1990, the Government called for free elections, and a new government was elected in 1991. With the help of strong external support, the Government established its priorities as: consolidating domestic peace and democracy, assuring macroeconomic stability and initiating state reform. However, the adjustment process, combined with

¹ The Austrian Development Cooperation, the Canadian International Development Agency (CIDA), Danish International Development Assistance (DANIDA), the Department for International Development (DFID) of the United Kingdom of Great Britain and Northern Ireland, the European Commission, Finland, the Food and Agriculture Organization of the United Nations (FAO), the German Agency for Technical Cooperation (GTZ), the German Development Service, IFAD, the Inter-American Development Bank (IDB), the Inter-American Institute for Cooperation on Agriculture (IICA), the Japan International Cooperation Agency (JICA), the Spanish International Cooperation Agency (AECI), the Swedish International Development Cooperation Agency (SIDA), the Swiss Agency for Development and Cooperation (SDC), the United States Agency for International Development (USAID), and the World Bank.

² See Appendixes I and VI for additional information.

inadequate policy implementation, led to severe recession, a drop in GDP, and increased unemployment and poverty levels.

5. Nicaragua has sought to offset continuous financial deficit through debt and donations. In the first half of the 1990s, external debt represented more than six times the country's GDP. At that time, negotiation allowed for partial cancellation and restructuring of debt. By 1999, the country needed more than 10% GDP annually in new loans or grants to finance public expenditure. That year, Nicaragua was declared eligible for the Debt Initiative for Heavily Indebted Poor Countries (HIPC). In 2001, IFAD agreed to grant debt relief to Nicaragua under the Initiative. The country reached completion point under the Initiative in January 2004. Total debt relief amounted to USD 3.7 billion (58% of total debt), equivalent to 90% of GDP. Annual debt-service savings amount to more than 5% of GDP.

6. As a result of the global financial crisis from 1998 to 2002, Nicaragua experienced a deterioration in its terms of trade; financial crisis and bank collapse; increasing fiscal and external deficits; unemployment; and a drop in both investment and consumption. In 2001, as a condition of eligibility for the HIPC Debt Initiative, Nicaragua prepared its first Poverty Reduction Strategy Paper (PRSP) and signed a letter of intent with the International Monetary Fund (IMF) for the Poverty Reduction and Growth Facility. Since 2002, the Government has been implementing a policy package designed to improve public-sector finances and restructure domestic debt. By 2003, the terms of trade had begun to improve, and the country was benefiting from greater access to regional and international markets, which allowed for a healthier balance of payments.

7. During 2003 and 2004, GDP increased by 7.5% over the previous year and preliminary 2005 data indicate a 5% growth for the year. Nicaragua has achieved macroeconomic stability and it is positioned to enter into a phase of sustained growth. The country is seeking to create a positive investment climate through improving governance and transparency, institutional reform and public sector accountability and privileged access to the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) markets (see Box 1).

Box 1: Dominican Republic-Central America-United States Free Trade Agreement

The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) was signed in August 2003 but has not been ratified by all member countries (including Nicaragua). The agreement was negotiated to provide all parties "with the same set of obligations and commitments," "but with each country defining its own separate schedules for market access on a bilateral basis". To address asymmetrical development and transition issues, CAFTA specifies rules for tariff phase-out schedules, in addition to transitional safeguards and tariff rate quotas for sensitive goods. Duty-free treatment will be delayed for more sensitive products, and in some cases, the complete tariff reduction will be postponed for 12 years.

During the CAFTA negotiation process, Nicaragua succeeded in protecting sensitive products such as basic grains, fruits and vegetables. The country will also preserve 100% of tariff benefits obtained through the Caribbean Basin Initiative consisting of ten years of tax relief for all industrial products made in Nicaragua; a special preferential tariff agreement for textiles; and reinforcement of labour and environmental laws. Although there is no comprehensive evaluation of the potential impact of CAFTA, most analysts agree on the positive effects on economic growth and investment. Primary sector exports benefiting the most will be beef, dairy products, fish, tropical fruits and traditional exports (such as coffee, tobacco, and sugar).

8. In terms of achieving the MDGs, Nicaragua has made modest progress in the eradication of extreme poverty. According to the Poverty Assessment of the World Bank, the MDGs that may possibly be achieved are reductions in extreme poverty and under-five mortality, and sustained access to water and sanitation. It is unlikely that the targets for universal primary education improved maternal health, and reduced infant mortality will be reached. The targets concerning reproductive healthcare services and the eradication of chronic malnutrition and illiteracy are highly unlikely to be achieved. The lack of progress in reducing mortality, diarrhoea and acute respiratory infection among

children under five; in increasing access to reproductive healthcare services, water, sanitation; and in reducing illiteracy is cause for special concern.

B. Agricultural Sector

9. Agriculture plays a key role in the Nicaraguan economy, and in 2004, it accounted for 22% of GDP and provided 42% of national employment. Agriculture was a leading sector in the economic recovery of 2003-2004 with production increases of 9% over the two-year period. The sector's performance is attributed to higher international prices and external demand. Coffee, sugar cane, sesame, tobacco, beef, poultry and dairy were the fastest growing products in 2003 and 2004.

10. Basic grains, which are the rural poor's main subsistence crops and are primarily destined for the domestic market, had an erratic performance. Problems during the cultivation period were registered, including flooding, drought, plagues and inappropriate seed. In 2003, the value of grain exports increased by 2.9%, but these values were offset by an 8.9% increase in imports over the same period. Exports are principally beans and maize, while imports are mostly destined for animal feed.

11. The livestock sector has grown significantly over the past ten years. In this period, poultry production increased from 10.8 million pounds (lb) to 126.7 million lb, and beef production rose from 114.3 million lb to 133.9 million lb. The most significant change for the dairy sector was the increase in production and exportation of cheese and cream. In 1993, exports of these two commodities totalled USD 16 000, while 2002 data cites the value of these exports at slightly over USD 19 million. National milk production increased from 47 million gallons in 1993 to 72 million gallons in 2003.

12. Agricultural performance and competitiveness in Nicaragua are mostly explained by natural resource endowment rather than technology adoption, modernization, quality improvements or lower transaction costs. There is vast opportunity for development based on knowledge, human and social capital, and improved management.

C. Rural Poverty

13. With an estimated per capita GNI of USD 740 (2003), Nicaragua is the second poorest country in Latin America (after Haiti). Forty-six per cent of the population live below the poverty line (2001) while 15% live in extreme poverty. The incidence of poverty is more than twice as high in rural areas (64%) as in urban areas (29%). According to the nationwide living standards measurement surveys carried out in 1993, 1998, 1999 and 2001, Nicaragua has made progress in poverty reduction. The proportion of the total population living in poverty fell from 50% in 1993 to 46% in 2001, while the proportion of those living in extreme poverty declined from 19% to 15% over the same period. However, the overall number of people living in poverty increased. Nicaragua is among the 25% of countries with the greatest inequality in income distribution; and according to the Food and Agriculture Organization of the United Nations (1998), Nicaragua is one of the 14 countries in the world most vulnerable to food insecurity because of climate instability and land degradation.

14. Rural households have lower educational levels and larger families than urban households. Rural family heads have received, on average, less than three years of schooling and each family has an average of 5.8 members, of which 3.4 are adults. The key economic activities of the rural poor include wage-earning, self-employment and agricultural production, mainly of subsistence crops such as basic grains. Off-farm activities are practised widely. In 79% of rural households, at least one family member earns permanent or temporary wages: 40% from agricultural labour, 37% from non-agricultural activities, and 23% from self-employment.

15. **Gender, rural women and vulnerable groups.** The population groups most affected by poverty are children under 15 and women-headed households. The country's unemployment rate is 12%, but it exceeds 20% for poor households. An estimated 17% of rural households are headed by

women. Women household heads (both urban and rural) have a lower educational level than men, as they drop out of formal education earlier to help with household duties. Women have fewer opportunities for employment than men and receive 20% less income for the same tasks. Early motherhood worsens their prospects. Forty-five per cent of rural women are illiterate. Poor women have limited access to family planning methods and bear more reproduction risks. They also have a lower level of participation in local organizations than men. Domestic violence has increased, and about 30% of women have reported some type of violence.

16. The latest living standard measurement survey identified three categories of rural poor: (i) landless agricultural wage-earning households; (ii) small farmer households; and (iii) households that combine agricultural wage-earning with on-farm activities. The last group is considered the poorest in rural Nicaragua. Almost 75% of the households in this group are considered poor, and 39% live in extreme poverty, which is the highest rate of all categories. These households include both landowners (45%) and tenants (61%) and are located predominantly in the central and northern dry region.

17. Nicaragua experienced mass emigration during the 1980s as a result of civil war and civil insecurity. Today, there are 2 million Nicaraguans living abroad. Most of those who migrated had economic means, a university education or were of European ancestry. Largest numbers of expatriated Nicaraguans are found in Canada, Costa Rica, Mexico, Spain and the United States of America. One in every five Nicaraguan households receives remittances from abroad. Remittances to Nicaragua in 2004 amounted to USD 810 million, equivalent to 20% of the country's GDP. Remittances are highly concentrated in two countries, Costa Rica and the United States. One problem facing Nicaraguan migrants is the high cost of money transfers. The reduction of transaction costs combined with strategies to encourage productive investment could support local and community development.

18. **The causes of poverty** are complex and diverse. Specific causes include: (i) physical isolation; (ii) limited access to natural resources; (iii) high vulnerability and food insecurity; (iv) constraints on market access and scarce opportunities for wage earning and entrepreneurship; (v) low provision and quality of public services, such as education, health and legal services; (vi) inadequate provision of infrastructure, in terms of roads, communications, electricity and water supply; (vii) minimal access to civil rights and citizenship resources (justice and security); and (viii) exclusion from national policymaking. As a result, the poor are severely constrained and there are few initiatives to develop local representative organizations and social capital. The civil war in the 1980s, the economic collapse after 1987, structural reform throughout the early 1990s and environmental disasters, such as Hurricane Mitch, have worsened the conditions of the rural poor.

D. Constraints on and Opportunities for Rural Poverty Reduction

19. **Economic context.** The current economic context – greater access to international markets, increased export prices, macroeconomic stability, provision of debt relief and greater competitiveness – constitutes a conducive private business and investment climate and is generating resources for public investment in infrastructure, poverty reduction and human capital enhancement. Favourable opportunities exist for the most dynamic sectors of the economy, such as agriculture, fisheries, tourism and free-zone textile industries. Macroeconomic stability is among the goals set in the letter of intent signed with the International Monetary Fund (IMF) for the Poverty Reduction and Growth Facility. While the present political instability does not favour rapid reform, the harmonization and alignment process provides sound basis for government reform. The HIPC Debt Initiative released the country from a debt of USD 3.7 billion, and provides budgetary savings of USD 205 million per year, representing an important contribution to the Government's poverty reduction plans. In addition, the country will benefit from a United States Millennium Challenge Account investment of USD 130 million. The DR-CAFTA represents an important opportunity for Nicaragua, with its vast

natural resource endowments, and will create opportunities to increase employment and promote linkages between small farmers and business networks and clusters.

20. Although DR-CAFTA tariff liberalization will not be completed for 12 years, the liberalization process still poses challenges for Nicaragua. The main risk for the rural poor relates to the low competitiveness of basic grains against the United States grain supply. Nevertheless, small farmers grow crops and crop varieties – mainly maize and beans – that are traditional ethnic foods in Nicaragua and Central America, and these products are also important for Central American immigrants in the United States and Europe. The commercial liberalization of crops originating from other competitive countries such as the United States does not represent a major threat to national production because these products are mainly destined for animal feed.

21. **Improved governance.** The country has initiated a process of institutional reform and public-sector modernization and improved governance, and is pursuing greater transparency and accountability to further enhance the investment climate and the opportunities for sustainable economic growth and employment. With support from the international community, Nicaragua has developed a dynamic national and sectoral planning framework and has approved a set of institutional reform regulations in order to improve governance and modernize public administration. The new regulations include laws on municipal decentralization, auditing and accounting, evaluation of public expenditure, fiscal reform and transparency. This reform process involved the participation of various government institutions, political parties, the private sector and civil society.

22. **Aid efficiency.** Improved aid efficiency is envisaged as a result of an intense process of policy dialogue, donor coordination and harmonization and alignment. On the basis of the NDP 2005-2009, the agencies that make up the agricultural public sector have prepared a sector-wide programme for the agricultural and forestry public sector entitled the Productive Rural Development Programme (PRORURAL).

Box 2: Rural Development Sector Institutional Framework

The Performance-Based Allocation System (PBAS) sectoral analysis has shown that the main constraints on the implementation of policies and projects for poverty eradication are essentially linked to the design and management of public institutions. Specifically: (i) institutional weaknesses in central Government to implement policies; (ii) fragmentation of projects and programmes for the rural sector; (iii) the need to strengthen processes to ensure equitable access and transparency in the administration of public resources; and (iv) lack of institutional and policy continuity between successive governments. Other constraints identified were: (i) limited access to land and water for agriculture; (ii) lack of investment incentives for rural business; (iii) limited access to agricultural inputs and product markets; and (iv) lack of accountability and transparency in rural institutions.

However, over the last two years, substantial progress has been made towards improving strategic planning, policymaking, coordination and management. The process of coordination and harmonization and alignment between donors and the Government will harmonize rural development strategies and improve transparency and accountability with regard to public resources. The sectoral analysis noted progress in the following areas: (i) the formulation of a national development policy framework and a sectoral strategy; (ii) provision of a coordination mechanism for public-sector, private-sector and international agencies; (iii) efforts towards accountability in central Government; (iv) municipal-level budget resource allocation and the establishment of civil participation councils, which have increased local involvement in decision-making; and (v) territorial development plans that strengthen local ownership and effectiveness of public investments.

23. **Restructuring the agricultural public sector.** The rural development institutional system is the weakest feature in the rural development framework. Institutional design constraints, overlapping of functions, scant accountability and lack of incentives for results management are some of the principal restrictions (see Box 2). However, with donor support, the agricultural public sector is being

restructured, particularly the Ministry of Agriculture and Forestry and the Rural Development Institute.

E. National Strategy for Rural Poverty Reduction³

24. **Poverty and development policies.** In 2001, within the framework of the HIPC Debt Initiative, the Government presented its PRSP and more recently, the first draft of its NDP 2005-2009, or the “second-generation PRSP”. The NDP aims to reduce poverty by: (i) boosting competitiveness and economic growth; (ii) modernizing the public sector; (iii) strengthening governance; (iv) targeting social service provision at the neediest sectors of society; and (v) improving coordination and partnership with and among international development agencies. Currently, the Government is completing consultations on the NDP, which will be presented to the IMF and the International Development Association (IDA) later this year.

25. **Coordination among government agencies.** Various government agencies are implementing actions to support national and sectoral planning and greater management efforts are being made to implement a comprehensive public-sector information⁴ system. Specific indicators are being applied to ensure that policy objectives are consistent with the MDGs. The Ministry of Finance has made progress in the implementation of a standardized public expenditure accounting system, which serves most government agencies.

26. Based on a presidential decree that established a system of sector-based round tables, the Ministry of Foreign Affairs is leading a harmonization and alignment initiative to coordinate inter-institution and donor cooperation. The objective is to provide an instrument to ensure effective policy and aid coordination. The Ministry of Development, Industry and Commerce chairs a round table on productivity and competitiveness that, in turn, coordinates the agroforestry sub-table *Agroforestral*, which is presided over by the Ministry of Agriculture and Forestry.

27. **Rural sectoral policy.** The institutions that make up the agricultural public sector (the Ministry of Agriculture and Forestry, the National Forestry Institute (INAFOR), the National Institute for Agricultural Technology (INTA) and the Rural Development Institute) have prepared a sector-wide approach for the agricultural and forestry public sector entitled the Productive Rural Development Programme (PRORURAL). The main goal of the PRORURAL programme is to promote competitive and environmentally sustainable agricultural products and services, while maintaining and expanding participation in national and international markets. During the programme implementation period (2005-2009), the agricultural public-sector agencies will carry out strategic activities grouped into seven components⁵: (i) promoting sustainable forestry development; (ii) increasing capitalization of rural families; (iii) accelerating technology innovation; (iv) improving plant and animal health standards; (v) expanding and rehabilitating production infrastructure; (vi) modernizing public institutions; and (vii) formulating rural development policies.⁶

28. This programme, along with the Medium-Term Expenditure Framework, supports improved donor coordination in agricultural and forestry development for the period 2005-2009. While cost

³ See Appendix III for additional information.

⁴ Recently, the Ministry of Agriculture and Forestry requested the cooperation of the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty Alleviation Projects in Latin America and the Caribbean (PREVAL) and the Regional Unit for Technical Assistance (RUTA) in the technical design and implementation of the Learning, Impact Evaluation and Management System (SISEVA) of the PRORURAL programme.

⁵ Issues related to child labour are considered part of national policy and are therefore incorporated into the policies of each agricultural public-sector agency.

⁶ See Appendix II PRORURAL logical framework.

estimates are still being worked out, the overall budget for the PRORURAL programme is expected to be around USD 411 million. To ensure financing for the five-year programme, the government should obtain USD 200 million from donors, since the balance of USD 211 million is being provided through ongoing projects and the national budget. A group of 18 donors (including IFAD) have stated their willingness to participate in a common fiduciary arrangement and cofinance the programme. Dialogue currently under way includes the establishment of common fiduciary criteria, a code of conduct and a memorandum of understanding between the Government of Nicaragua and donors.

III. LESSONS FROM IFAD EXPERIENCE IN THE COUNTRY

29. Since the 1980s, IFAD has cofinanced six rural development projects, totalling USD 74 million. Two of these are ongoing: the Technical Assistance Fund Programme (TAF) for the Departments of León, Chinandega and Managua; and the Programme for the Economic Development of the Dry Region in Nicaragua (PRODESEC).

30. The early projects featured a direct implementation strategy and service provision (technology, training, organizational support and credit) through a project implementation unit. Positive results were obtained in promoting rural organization; developing financial service institutions; adopting new technologies to increase food security; building rural roads; and managing natural resources and watersheds.

31. In the mid-1990s, a second generation of projects introduced the concept of a rural services market, that is, demand-led services and privatization of field operations to improve incentives and reduce project staff levels. This brought significant improvements in market access for rural organizations. More recently, IFAD began implementation of the PRODESEC programme, which promotes linkages between the rural poor's productive activities and markets. Initial results have been positive at the territorial level where cooperation has been established with local institutions, municipalities, NGOs and central government agencies.

32. The most significant lessons emerging from operations in Nicaragua concern project implementation, in particular: operational mechanisms, best practices, institutional support, innovations in delivering related services, technology transfer, market access, gender issues, natural resource management and rural financial services.

33. **Inclusion of the rural poor in the policy agenda.** IFAD's focus on the rural poor, and particularly on women and vulnerable groups, has contributed to their inclusion in Nicaragua's national development policies. The NDP and the PRORURAL programme promote the establishment of linkages between the rural poor and dynamic sectors of the rural economy with the purpose of facilitating the rural poor's access to growing economic opportunities.

34. **Participation of the rural poor and decentralization.** Key to IFAD's rural development initiatives is the participation of rural poor men and women in defining and implementing their own proposals. Ongoing IFAD projects encourage local ownership by engaging rural poor organizations in decision-making, along with local government and representatives of service suppliers. The PRORURAL programme endorses the strategic significance of empowerment, decentralization and the rural poor's participation in decision-making.

35. **Technology and natural resource management.** The strategy adopted in the TAF programme has evolved into a policy instrument to promote technical innovation. The TAF programme has been operating with support from IFAD, the World Bank, the Swiss Agency for Development and Cooperation (SDC) and more recently from Danish International Development Assistance

(DANIDA).⁷ The programme has extended its initial coverage in the western region to the northern region of the country. Technical innovation is a requisite to enhance competitiveness and access to expanded domestic and international markets.

36. **Transparent and competitive mechanisms for allocation of funds.** Competitive funds have proved an appropriate tool in addressing beneficiaries' needs. The process is based on the capacity of grass-roots organizations to formulate viable proposals to strengthen small businesses. The experience of the TAF programme in competitive fund management and the lessons learned represent an important asset to support policymaking in rural areas of Nicaragua. Transparency of procedures (rules and information) is a key prerequisite for attaining positive and sustainable results.

37. **Rural financial services.** IFAD's experience in Nicaragua has shown the feasibility of providing sustainable and effective financial services to the rural poor if an appropriate financial system is adopted. The system, which initiated in the mid-1990s, is based on a second-tier credit fund that provides financial resources to first-tier regulated and non-regulated institutions under secure prudential rules.

38. **Harmonization, alignment and partnership.** Dialogue between donors and the Government has led to the alignment of donor programmes and projects with national policies and has resulted in increased aid efficiency. IFAD is in constant dialogue with the Government and donors to coordinate field interventions and strategic planning. These coordination efforts have increased IFAD's influence and facilitated the inclusion of the rural poor into the Government's development priorities. This has helped deepen dialogue with the Government and other donors on development strategy and implementation.

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Proposed Thrusts⁸

39. IFAD has been collaborating with the Government in its rural development efforts since the early 1980s and has gained significant experience and knowledge regarding territorial policies for poverty reduction, which represent substantial value added in supporting the rural development sectoral approach in Nicaragua. IFAD has also gathered considerable experience in building partnerships through formulating and implementing projects jointly with the Government and other donors. Partnerships have increased IFAD's influence and catalytic role, facilitating the inclusion of the rural poor's needs in the Government's priorities.

40. IFAD will cofinance the implementation of the PRORURAL programme alongside a number of bilateral and multilateral donors. The PRORURAL programme, along with the Medium-Term Expenditure Framework, provide support for improved coordination and complement donor assistance in sustainable agriculture and forestry for the period 2005-2009. Given the limited financial resources available to Nicaragua under the PBAS, IFAD's comparative advantage is its in-country experience and the knowledge it has gained in supporting decentralized rural development, specifically through income-generating activities and enhancing employment opportunities for the rural poor and their organizations. IFAD's strategic focus will be its catalytic role and partnership with the Government and the group of donors involved in the formulation of the PRORURAL programme.

⁷ As part of the Government's rural development policy, the TAF programme was recently expanded to another region of Nicaragua under an agreement between the Government, the Nicaraguan Foundation for Technical, Agricultural and Forestry Development and DANIDA.

⁸ See Appendixes II and IV for additional information.

41. **IFAD's overall strategic objective** in Nicaragua is to mainstream the rural poor into the processes of local and national socio-economic development. **IFAD's goal in the country** is to ensure that national rural development policies incorporate IFAD's experience and knowledge in income-generating activities, enhancing the rural poor's employment opportunities and reducing gender inequality and vulnerability. The proposed strategy supports, in part, the PRORURAL programme's specific objectives of increasing capitalization of rural families and asset-building (specific objective 2); accelerating technology innovation (specific objective 3); and formulating adequate rural development policies (specific objective 7).

42. The priorities proposed in the new strategy are based on: (i) the Government's strategy as expressed in the NDP and the PRORURAL programme; (ii) IFAD's overall strategic objectives; and (iii) the Fund's regional objectives for Latin America and the Caribbean, which stress the importance of strengthening sustainable income-generating activities in rural areas.

43. **IFAD's strategic thrust** will have three main outputs:

- **Improve the processes, mechanisms and incentives for promoting access to markets by the rural poor.** IFAD's actions will promote access by the rural poor to assets and opportunities with a view to improving their capacities as individuals and as groups. Requirements within the agricultural sector are: greater access to technology; investments and technical services for the incorporation of value-added through processing and/or diversification of products; improved access to markets; and increased financial resources. There are particular opportunities to develop non-agricultural rural activities in the areas of local service delivery; tourism and tourism-related services; extractive use of natural resources; and environmental services. The following issues are relevant and need special attention in IFAD operations: (i) linkages between the rural and urban sectors; (ii) internal and external migration; (iii) participation in goods, services and employment markets; and (iv) linkages between dynamic and non-dynamic sectors of the economy. Rural women are more vulnerable than men and IFAD's project interventions need to include mechanisms that compensate for women's disadvantaged position.
- **Improve the capacity and efficiency of local rural development institutions that facilitate market access for the rural poor.** IFAD will improve the capacity and efficiency of local public and private institutions to facilitate market access for the rural poor. In addition, IFAD will promote synergies and partnerships among all stakeholders involved in local poverty reduction. Coordination between national and territorial policies will also be enhanced. Current proposals for regional, departmental and municipal development plans in Nicaragua could present opportunities for local interventions by IFAD.
- **Scale up innovative field-based strategies, knowledge and best practices into national and regional rural development policies in order to allow for continuous innovation inflows to rural areas.** IFAD must continue to play its catalytic role of including the rural poor in the national policy agenda. Along with partner donors, the Government's local institutions and rural organizations, IFAD will promote knowledge dissemination through the systematization of innovative field experiences that improve the effectiveness and quality of rural development interventions. Policy dialogue and partnership will facilitate the replication of best practices and their incorporation into national rural development policies. Essentially, the course of action will entail reliable monitoring, results measurement techniques, and technical, auditing and learning processes.

44. **IFAD's target group and intervention areas.** In line with IFAD's mandate, the target group in Nicaragua is the rural poor. These are landless or small farmers, microentrepreneurs, agricultural or non-agricultural workers, and migrant workers. Special emphasis is placed on the most vulnerable

groups of women, children and young people. Since the beginning of its operations in Nicaragua, IFAD has been committed to promoting rural development in marginal and vulnerable regions. Even in the present context of economic growth and better prospects, the rural poor still risk being excluded because of insufficient investment in human capital and infrastructure. IFAD will continue to target its activities at the poorest regions of the country, in accordance with the Government's priorities, and with the objective of giving the more isolated rural poor the opportunity to benefit from national development.

B. Main Opportunities for Innovations and Project Interventions

45. Three main sets of opportunities for IFAD intervention are present in Nicaragua: (i) the process of economic growth and structural reform; (ii) increasing alignment and coordination between donors and national policies; and (iii) IFAD's experience and lessons learned over two decades of rural development interventions.

46. **Macroeconomic opportunities.** Prospects for economic development and poverty reduction in Nicaragua are promising. Economic trends and new global market opportunities mean greater macroeconomic stability, increased social and infrastructure expenditure, improved competitiveness and the creation of employment opportunities for small rural producers. This process opens up new opportunities for the rural poor to access markets, if the appropriate support mechanisms are provided. The country has initiated a process of deep institutional reform, which will further enhance the favourable business climate.

47. **Harmonization and alignment.** The Government and donors have initiated a process of policy dialogue and partnership. This has led to an ambitious process to harmonize poverty reduction plans, which will allow for greater efficiency of foreign aid (see Box 3).

Box 3: Harmonization and Alignment Process in Nicaragua

As part of the Monterrey Consensus (2002), and as set out in the Rome Declaration (2003) and the recent Paris Declaration (2005), the international development community has made a commitment to increasing the development impact of aid. An ambitious programme of action has been developed, led by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). Nicaragua is a pilot country for OECD/DAC donor harmonization initiatives. Under the PRORURAL programme, there are approximately 18 donor agencies actively supporting the Government's rural development strategy. Some specific examples of government donor cooperation include: (i) more frequent and regular communication and sharing of operational information and reports; (ii) an increasing number of projects cofinanced by more than one donor agency, such as the multidonor Agricultural Technology Project supported by the World Bank, the SDC, IFAD and DANIDA; (iii) the preparation of joint comments and suggestions on the PRORURAL programme; (iv) joint government-donor missions in October 2004, February 2005 and August 2005 to review and enhance the Government's proposals; (v) the unique multidonor-funded inter-agency team (the Regional Unit for Technical Assistance - RUTA), which provides technical assistance and capacity-building to the Central American agricultural/rural development sectors (RUTA offers considerable potential for accelerating enhanced harmonization and alignment and supporting cross-fertilization, since the Ministers for Agriculture make up RUTA's Board of Directors; and (vi) the joint preparation and future signature of a Code of Conduct and a memorandum of understanding among the major donors financing the PRORURAL programme.

Source: Global Donor Platform for Rural Development Working Paper: Assessment study on H&A [harmonization and alignment] in Rural Development in four pilot countries – Burkina Faso, Cambodia, Nicaragua and the United Republic of Tanzania. March 2005.

48. **IFAD's experience and knowledge.** IFAD's main strengths lie in its extensive operational experience and knowledge of promoting rural development at the territorial level. Over the past two decades, the Fund has developed a process to identify best practices, and promote learning, knowledge management and implementation of innovative mechanisms in successive operations.

These experiences give IFAD a substantial comparative advantage in implementing government poverty reduction policies at the territorial level. Knowledge and innovations should be scaled up so that they can be utilized in implementing national policies.

C. Outreach and Partnership Possibilities with NGOs and the Private Sector

49. Nicaragua has a wealth of private-sector and grass-roots organizations, which provide a solid basis for the implementation of rural development initiatives. Opportunities exist for IFAD to form alliances with private-sector organizations to improve their capacity to support IFAD projects. There are more than 300 NGOs operating in Nicaragua and many of these are now supplying services that the Government no longer provides to the rural poor.

50. The main grass-roots organizations in the country are the National Union of Agricultural and Livestock Producers; and the Union of Producers of Nicaragua, which represents medium- and large-scale farmers. The membership-based cooperative organizations take in more than 1 000 agriculture cooperatives. The Nicaraguan Union of Coffee Producers and the Association of Producers and Exporters of Non-Traditional Products have research centres and support producers in commercial processes.

51. These farmers' organizations and NGOs are shifting their focus to providing more market-oriented and demand-driven services. While they have developed the capacity to implement project activities, specific action is needed to strengthen managerial aptitude to provide more effective services for the rural poor. More efforts and knowledge are needed to link small farmers' organizations with businesses (for example supermarkets, small and medium traders, manufacturers and exporters).

52. Opportunities exist for local small business development. The sharp rise in the demand for food in Nicaragua is a result of urbanization, income growth, diversification of consumption and modernization of food commercialization chains. In addition to increasing domestic food consumption, regional demand, from the CAFTA countries, is growing very fast. Many small farmers' groups have been incorporated into value chains through traders, small manufacturers and wholesalers. Linking small farmers into agricultural value chains is a strategy that should be developed at the local level.

53. The farmers' organizations discussed above, are represented on the steering committee of the Nicaraguan Foundation for Technical, Agricultural and Forestry Development (FUNICA)⁹. IFAD continues to work on building a network to support rural development and market linkages at the local level in order to promote income-generating activities. In parallel, FUNICA is acting as a public policy forum for discussions on enhancing the private-sector institutional framework. Mechanisms and incentives within the private sector still need improvement if the potential effectiveness of the private sector is to be realized.

54. IFAD has played a strategic role in Nicaragua in consolidating rural financial services. The Peasant's Development Fund (FONDECA), a second-tier fund established through two IFAD projects (now closed) and the Rural Financial Services Support Programme (SERFIRURAL) play an important role in rural finance.

⁹ The Government of Nicaragua, IFAD, the World Bank, the SDC and DANIDA supported the establishment of FUNICA. The foundation is currently composed of 25 institutions (government representatives, the private sector, civil society and universities) and administers public funds for the implementation of competitive funds for technical assistance and agricultural research.

D. Opportunities for Linkages with Other Donors and Institutions¹⁰

55. Insufficient coordination between donor and government policies during the 1990s jeopardized the effectiveness of development interventions and their long-term results. At present, the Government is leading coordination efforts among the various donors in order to increase aid effectiveness. A board of government officials and representatives of 18 donor agencies are discussing a rural development sector-wide approach guided by the principles of the PRORURAL programme. IFAD is currently piloting a field presence initiative in Nicaragua with the objective of maintaining a constant dialogue with the Government and other donors, and of supporting project implementation.

56. IFAD has cofinancing experience in Nicaragua with bilateral and multilateral donors: the World Bank, Inter-American Development Bank (IDB), European Union, World Food Programme (WFP), SDC and Central American Bank for Economic Integration (BCIE). It is also collaborating with the United Nations Development Programme (UNDP) and FAO. IFAD has developed a strategic relationship with the World Bank as cofinancier and the cooperating institution of the TAF programme. The IDB is the main financier of the Rural Development Institute and an ideal partner in the implementation of the PRODESEC programme. The IDB has cofinanced the Rural Development Project for the Southern Pacific Dry Region. IFAD cofinanced the PRODESEC programme with BCIE and maintains a strong relationship in the country and in the region. The European Union, which cofinanced the Project for the Capitalization of Small Farmers in the Tropiseq Area of the Segovias – Region I (TROPISEC), is also a key donor in the country.

57. Multilateral or bilateral donors are cofinancing projects and programmes that complement IFAD's country programme. The IDB is supporting the Rural Development Institute in a programme to strengthen rural infrastructure, which will promote market linkages, especially in isolated rural areas. The IDB is also supporting institutional reform of the Rural Development Institute. IFAD and the IDB are cofinancing a Rural Development and Remittances Project to improve the economic impact of remittances. The World Bank, together with IFAD, the SDC and DANIDA, is supporting the Ministry of Agriculture and Forestry and FUNICA in a Programme for Agricultural Technology Development and Adoption, which is an essential element in facilitating access to markets. The World Bank is implementing a Land Tenure Regularization Project, which is needed to improve land tenure security and promote rural and agricultural investments. There is also a strong microfinance movement supported by various donors, including IFAD through the second-tier FONDECA and the SERFIRURAL technical assistance grant. RUTA is a regional project of the governments of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. It is cofinanced by these seven governments and a group of partner agencies (IDB, the International Bank for Reconstruction and Development (IBRD), DFID, FAO, IFAD, the International Food Policy Research Institute (IFPRI) and the Inter-American Institute for Cooperation on Agriculture (IICA).

E. Areas for Policy Dialogue

58. Policy dialogue between IFAD and the Government, donors and the private sector could deal with:

- **Sectoral policies.** The Government has requested the international community to coordinate technical and financial assistance for the rural sector in order to implement a rural development sector-wide approach that is aligned with the objectives and strategy presented in the PRORURAL programme. IFAD has participated in this dialogue and will continue to do so by contributing its experience, gained from more than 20 years of field

¹⁰ See Appendix V for additional information.

operations. The scaling up of lessons learned along with its field experience represent IFAD's main contribution to the dialogue.

- **Rural development institutional reform.** Weaknesses in institutional design, incentives and management at present are limiting rural development policy implementation. The PRORURAL programme recommends institutional reform to facilitate coordination between territorial activities and the central policy institutions, with the technical and financial support of donors. IFAD's country programme will support reforms in the rural public sector, improving the effectiveness of each institution involved and strengthening coordination between central institutions and the territories. At the territorial level, IFAD will promote dialogue to facilitate progress in reaching rural development objectives. This will deal with human capital, citizenship, gender equity, social and physical integration, employment, market access, income-generating opportunities, food security, reducing vulnerability and natural resource management.
- **The learning process,** drawing on local experiences in rural development interventions, needs to be sustained to allow for long-lasting gains in efficiency. Mechanisms for inter-agency communication are needed to scale up field activities effectively. Through its country programme, IFAD will support this process of knowledge dissemination, scaling up and communication of best practices to promote rural development.

F. Action Areas for Improving Portfolio Management

59. In the current context, IFAD's portfolio management should focus on: (i) improvement of operational capacity; (ii) full implementation of planned activities; and (iii) monitoring of results and impact. Based on lessons learned by IFAD in Nicaragua, the following areas should receive attention: (i) improvement of coordination among institutions and strengthening of national entities; (ii) creation of new instruments and methodologies to improve the access of the rural poor to assets and services; and (iii) using IFAD's regional programmes to improve the managerial, monitoring and evaluation capacities of projects. Particularly relevant among these are: the Network of IFAD-Supported Projects in Latin America and the Caribbean (FIDAMERICA), the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty Alleviation Projects in Latin America and the Caribbean (PREVAL), RUTA, the Rural Development and Remittances Project, and the SERFIRURAL programme.

60. IFAD activities have suffered delays at project start up. It usually takes more than one year to begin operations in the field. Lack of coordination among public institutions sharing project implementation responsibilities also causes delays. In future interventions, IFAD will have a more active role during pre-implementation through the direct support of IFAD's field presence officer. Furthermore, with the implementation of the PRORURAL programme, such hold-ups may be reduced.

61. IFAD has selected the PRODESEC programme in Nicaragua as the first Results and Impact Management System (RIMS) pilot benchmark survey in the Latin America and the Caribbean region. A survey was carried out in 900 households covered by the programme. There are two RIMS indicators for IFAD projects directly related to the MDGs: (i) improvement of rural household assets and (ii) infant malnutrition reduction. Support for RIMS implementation has come from the United Nations Children's Fund (UNICEF), PREVAL and PRODESEC's programme management unit. Results will be used as baseline values for the programme.

G. Tentative Lending Framework and Rolling Programme of Work

62. Within the opportunity framework presented in this COSOP, IFAD's lending programme will support the strategic development thrusts by: (i) improve the processes, mechanisms and incentives for promoting access to markets by the rural poor; (ii) improve the capacity and efficiency of local rural development institutions that facilitate market access for the rural poor; and (iii) scale up innovative field-based strategies, knowledge and best practices into national and regional rural development policies in order to allow for continuous innovation inflows to rural areas. Government leadership of poverty reduction within the Medium-Term Expenditure Framework will support improved coordination and complement assistance by IFAD and other donors in sustainable rural development for the period 2005-2009.

63. At its September 2005 meeting, the Development Committee¹¹ explored approaches to improving aid effectiveness and identified possible ways to progress towards realizing the MDGs in the poorest countries. The Committee considered establishing innovative "blending" arrangements to leverage current aid flows underlining that in the poorest countries, such as Nicaragua, a blend of concessional loans and grants could help scale up investment to achieve the MDGs and address development financing needs that are inadequately met in the current system. It is within this context that the proposed IFAD lending framework will fund activities to strengthen the capacity of public and private local institutions to support the rural poor to improve their incomes; and enhance knowledge management and develop innovative mechanisms and processes to increase efficiency of rural development interventions. Such blending arrangements will be particularly effective in improving the poverty indicators in rural areas. The actual levels of concessional loans and grants in the blend will need to be determined during the formulation of IFAD's proposed participation in the PRORURAL programme.

64. The PBAS country performance rating for Nicaragua (score 4.267) places it slightly below the average observed values for the Latin America and the Caribbean region. With respect to the broad framework indicator (score 3.69) and the portfolio performance indicator (score 5), Nicaragua fares above the regional average. Nonetheless, because of its small population, Nicaragua only qualifies for a base lending scenario of around USD 1.56 million per year.

65. In addition to providing the necessary information to determine the PBAS rating, the rural development sector framework assessment carried out for this COSOP allowed for intensive policy dialogue in Nicaragua. Based on this assessment, three lending scenarios with performance triggers are envisaged.

¹¹ Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries, 25 September 2005, Washington, D.C.

Lending Scenario	Performance Triggers	Score
Base Case	<ul style="list-style-type: none"> • Maintaining rural development sector framework conditions, particularly in the areas of: <ul style="list-style-type: none"> (i) macroeconomic policies reinforce rural smallholders' competitiveness; (ii) infrastructure and land-titling programmes for the rural poor implemented by third parties; and (iii) representation of rural organizations within advisory and executive government boards is improved. • An IFAD portfolio that is free of projects with major problems or projects at risk. 	3.50 3.50 3.63 5.00
Low Case	<ul style="list-style-type: none"> • Deteriorating rural development sector framework conditions: <ul style="list-style-type: none"> (i) macroeconomic policies reinforce rural smallholders' competitiveness; (ii) infrastructure and land-titling programmes for the rural poor implemented by third parties; and (iii) representation of rural organizations within advisory and executive government boards is improved. • IFAD portfolio contains projects with major problems and projects that have not improved for three or more years. 	3.00 3.00 3.00 3.00
High Case	<ul style="list-style-type: none"> • Improving rural development sector framework conditions: <ul style="list-style-type: none"> (i) macroeconomic policies reinforce rural smallholders' competitiveness; (ii) infrastructure and land-titling programmes for the rural poor implemented by third parties; and (iii) representation of rural organizations within advisory and executive government boards is improved. • All projects in IFAD portfolio improving for three or more years. 	4.50 4.50 4.00 5.00

66. If conditions remain as outlined in the “base case”, a new intervention would be considered over the next three to five years. In the “low case” scenario, effective investment opportunities for IFAD would be reduced and the size of the intervention would drop. In the “high case” scenario, the annual lending increases would go towards expanding the geographic coverage of IFAD interventions, according to the priorities of the Government and IFAD.

COUNTRY DATA

NICARAGUA

Land area (km² thousand) 2003 1/	121	GNI per capita (USD) 2003 1/	740
Total population (million) 2003 1/	5.48	GDP per capita growth (annual %) 2003 1/	-0.3
Population density (people per km²) 2003 1/	45	Inflation, consumer prices (annual %) 2003 1/	5
Local currency	Cordoba Oro (NIO)	Exchange rate: USD 1 =	NIO 16.85
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1997-2003 1/	2.6	GDP (USD million) 2003 1/	4 083
Crude birth rate (per thousand people) 2003 1/	29	Average annual rate of growth of GDP 1/ 1983-1993	-2.6
Crude death rate (per thousand people) 2003 1/	5	1993-2003	4.3
Infant mortality rate (per thousand live births) 2003 1/	30	Sectoral distribution of GDP 2003 1/	
Life expectancy at birth (years) 2003 1/	69	% agriculture	18
Number of rural poor (million) (approximate) 1/	n/a	% industry	26
Poor as % of total rural population 1/	n/a	% manufacturing	15
Total labour force (million) 2003 1/	2.17	% services	56
Female labour force as % of total 2003 1/	38	Consumption 2003 1/	
Education		General government final consumption expenditure (as % of GDP)	16
School enrolment, primary (% gross) 2003 1/	109 a/	Household final consumption expenditure, etc. (as % of GDP)	73
Adult illiteracy rate (% age 15 and above) 2003 1/	33 a/	Gross domestic savings (as % of GDP)	11
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2003 1/	605
Malnutrition prevalence, height for age (% of children under 5) 2002 2/	20 a/	Merchandise imports 2003 1/	1 887
Malnutrition prevalence, weight for age (% of children under 5) 2002 2/	10 a/	Balance of merchandise trade	-1 282
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2003 1/	8 a/	before official transfers 2003 1/	-1 299
Physicians (per thousand people) 2003 1/	2	after official transfers 2003 1/	-780
Population using improved water sources (%) 2000 2/	77	Foreign direct investment, net 2003 1/	201
Population with access to essential drugs (%) 1999 2/	0-49	Government Finance	
Population using adequate sanitation facilities (%) 2000 2/	85	Cash surplus/deficit (as % of GDP) 2003 1/	-1
Agriculture and Food		Total expenditure (% of GDP) 2003 1/	n/a
Food imports (% of merchandise imports) 2003 1/	15	Total external debt (USD million) 2003 1/	6 915
Fertilizer consumption (hundreds of grams per ha of arable land) 2003 1/	280 a/	Present value of debt (as % of GNI) 2003 1/	40
Food production index (1999-01=100) 2003 1/	126	Total debt service (% of exports of goods and services) 2003 1/	12
Cereal yield (kg per ha) 2003 1/	1 954	Lending interest rate (%) 2003 1/	16
Land Use		Deposit interest rate (%) 2003 1/	6
Arable land as % of land area 2003 1/	16 a/		
Forest area as % of total land area 2003 1/	27 a/		
Irrigated land as % of cropland 2003 1/	4 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2005

2/ UNDP, *Human Development Report*, 2004

LOGICAL FRAMEWORKS
COSOP Logframe (To be completed during formulation)

Strategic Objective for Nicaragua Country Programme	Verifiable Indicators	Means of Verification	Assumptions/Risks¹
Rural poor men and women are mainstreamed into processes of local and national socio-economic development.	<ul style="list-style-type: none"> Percentage of population with income inferior one dollar a day decrease in line with the MDG target of the NDP of 25% in 2015 from 45% in 2001. Decrease of prevalence of child malnutrition will be in line with the target of the NDP-O of 15.5% in 2006 from 17.8 in 2001. Decrease of rural youth unemployment rate in line with target of NDP (not yet defined, 20% in 2001). Increase of school enrolment in line with target of NDP-O of 89.7% in 2008 from 83.5% in 2003. 	<ul style="list-style-type: none"> Surveys of the GON to measure Ling standards (EMNV) implemented every 4 years. National System for monitoring Development Indicators (Presidency of Nicaragua- SINASIA-SECEP). Surveys by the Ministry of Industrial Promotion and Commerce (MIFIC). Surveys of Ministry of Education. Benchmark Survey, mid-term survey and final survey of RIMS impact indicators. 	
Country Purpose			
Rural development policies incorporate IFAD's experience and knowledge in income generating activities and employment opportunities for the rural poor (men and women).	<ul style="list-style-type: none"> % of public investments geared towards income generating activities and employment opportunities for rural poor % of local development plans show productive and income generation activities for rural poor Incremental increase in income by % of rural poor resulting from income generating activities and employment opportunities 	<ul style="list-style-type: none"> Annual figures of public investments by Min.Fin. in rural poor areas Figures of regional and local development plans Random Survey on source of income combined with RIMS Benchmark Survey 	<ul style="list-style-type: none"> The government agenda for rural development and the harmonization and alignment process stay a high priority. The sectoral MTEF provides support for improved coordination and co-financing.
Outputs (Strategic Development Thrusts for Nicaragua)	Verifiable Indicators	Means of Verification	Assumptions/Risks
1. The rural poor (men and women) have improved access to income generating opportunities in a market led context.	<ul style="list-style-type: none"> Increase number of agricultural and non-agricultural SMEs linked to markets. Increase of volume and value of products in local, national and international markets commercialised by rural poor. No of competitive business networks with participation of rural poor functioning. Increased number of rural poor with access to public services and appropriate incentive systems. Increased number of rural poor addressed by adequate employment assistance services. 	<ul style="list-style-type: none"> Baseline Survey, mid-term survey and final survey of IFAD programmes. Market studies by implementing service providers. M+E data of IFAD's programme monitoring system. M+E data of service providers. 	<ul style="list-style-type: none"> Infrastructure and land titling programmes for rural poor implemented by third parties (PBAS C (iii)). Laws and regulations are favourable for public and private investments in rural areas with high concentration of poor (PBAS (C(ii)))

¹ Based on PBAS, see paragraphs 25 and 69 of main text.

Strategic Objective for Nicaragua Country Programme	Verifiable Indicators	Means of Verification	Assumptions/Risks ¹
<p>2. Decentralized institutions and rural organizations are strengthened to promote market access and improve local investment climate.</p>	<ul style="list-style-type: none"> • Increase of presence and/or coverage of public institutions, private sector provider (share of 25%) and rural organisations with market focus. • Accountability and M+E mechanisms within reporting frameworks put in place. • No/value of pro-poor public/private investments started or expanded at local level. • Decision-making for economic development in public sector based on proposals presented by rural poor organisations 	<ul style="list-style-type: none"> • Baseline Survey, mid –term survey and final survey of IFAD programmes. • Monitoring data of programme implementing institutions. • Data on municipal level by Min. of Commerce/Trade. 	<ul style="list-style-type: none"> • Representation of rural organization within executive or advisory government board for rural development improved (PBAS (A(ii))).
<p>3. IFAD field based results are scaled up into national and regional rural development policies.</p>	<ul style="list-style-type: none"> • IFAD experiences, innovations and best practices considered in national development programmes. • IFAD’s projects/programmes are part of national rural development plans coordinated with other donors. • IFAD’s loans within national medium-term expenditure frameworks and annual budgets. • M+E systems established in IFAD operations for performance, transparency and accountability are reflected in national monitoring system. 	<ul style="list-style-type: none"> • Follow-up documents of NDP. • Annual programme of NDP. • Strategic programmes and documents of GON. • Budget of GON. • Documents of Monitoring Units of national development institutions. • Quotations of strategic documents elaborated by other donors. 	
<p>Key Activities:</p> <ul style="list-style-type: none"> • Design and implement IFAD operations in line with harmonization and alignment process (SWAP). • Support the institutionalization of knowledge management based on IFAD projects in the national rural development process. • Monitor PBAS indicators and identify key policy areas. • Support policy dialogue between private sector, local institutions, rural organizations and central authorities. • Target IFAD programmes in line with NDP. • Promote income generating activities of IFAD programmes in a socially and environmentally sound way. 			

PRORURAL Logical Framework

Narrative	Objectively Verifiable Indicators	Means of Verification	Critical Assumptions
<p>Development Objective The production and productivity of rural sector goods and services increased, in a competitive, environmentally sustainable manner with larger participation in internal and external markets generating increased incomes</p>	<p>NPV of the agricultural sector increased by at least 6.24% annually in real terms</p> <p>Productivity of main agricultural has increased by 1%</p> <p>Annual growth rate of real agricultural income is at least 3% for both sexes</p> <p>Trade balance of horticultural produce and beans improved by 50%</p> <p>Environmental indicators of project components are met at least by 80%</p> <p>Slash and burn agriculture reduced by 50%</p>	<p>National accounts</p> <p>Economic indicators of the Central Bank</p> <p>Living standards measurement surveys</p> <p>Employment statistics</p> <p>Project reports</p> <p>Annual temperature measurements</p>	<p>Political stability</p> <p>Global climatic changes do not affect Nicaraguan agricultural and forestry potential</p> <p>Citizen insecurity does not effect agricultural business ventures</p> <p>World markets for agricultural and forestry products are liberalized</p> <p>Environmental contamination does not affect agricultural businesses significantly</p> <p>Rural households have access to basic services</p>
<p>Specific Objectives SO1 Sustainable development of the forestry sector furthering adequate management of natural forests, plantations and agro forestry systems</p>	<p>Increased forest cover by 60 000 hectares</p> <p>Reduced deforestation from 70 000 hectares to 40 000 hectares</p> <p>Value of exports of forestry products increased by 100% on a baseline of USD 6.7 million in 2004.</p>	<p>Forestry maps</p> <p>Nicaraguan environmental indicators</p> <p>Annual INAFOR reports</p>	<p>There is a sufficient level of private investment in forestry plantations and agro forestry systems</p>
<p>SO2 Increased capitalization of the financial and physical assets families and agri businesses while promoting the use of clean technologies which are environmentally sustainable</p>	<p>Value of assets of poor producers with potential increased by 20%</p> <p>Value of the assets of medium sized producers increased by 25%</p>	<p>Annual MAGFOR and IDR reports</p> <p>INEC surveys</p>	<p>Entrepreneurial management capacity of participating producers is improved</p> <p>Effective control by producers of their means of production ,</p>
<p>SO3 Accelerated processes of technological innovation which are friendly to the environment including research, technical assistance and education throughout agricultural clusters and chains prioritized by the NDP in rural territories</p>	<p>At least 80% producers and providers of services satisfied with the services they received</p> <p>At least 80% of producers who receive assistance from INRA and FAT adopt at least 2 new techniques</p>	<p>INTA and FUNICA data bases</p> <p>External evaluations</p> <p>Adoption research</p> <p>Producer surveys</p>	<p>Favourable climates</p> <p>Accessible credit</p> <p>Land tenure security</p> <p>Access to markets and productive infrastructure</p> <p>Macroeconomic stability</p>

Narrative	Objectively Verifiable Indicators	Means of Verification	Critical Assumptions
<p>SO4 Fulfilment of international plant and animal health standards</p>	<p>Up to 98% of all shipments of agricultural products pass inspections All exporting companies have their plants certified</p>	<p>DGPSA, MIFIC and MINSA reports Data bases of the Animal and Plant Health services</p>	<p>WTO member countries disseminate transparently and in a timely manner their animal and plant health measures and regulations</p>
<p>SO5 Expansion and rehabilitation of basic infrastructure for the production of goods and services of the rural sector based on expressed demand by population groups in territories with greater possibilities</p>	<p>At least 80% of beneficiaries of investments are satisfied with the services they received</p>	<p>IDR reports Municipal records Directed surveys</p>	<p>Coherence with local development plans Local population and local governments participate in the maintenance of infrastructure</p>
<p>SO6 Modernization and institutional strengthening of the agricultural and forestry public sector in its relationship with the private sector</p>	<p>Participating agricultural and forestry public sector institutions have completed their institutional modernization plans including decentralization, legal frameworks and improvements in managing financial and human resources At least 80 % of international donor agencies and the public sector institutions are satisfied with the performance of instruments for implementation and monitoring of the project</p>	<p>Modernization plans of participating institutions Legal instruments Human resources data bases Institutional budgets</p>	<p>The donor community maintains harmonization and alignment in relation to e GON rural sector policies Political will to keep to agreements and legal and institutional reforms Available financial resources to maintain the reform process Possibility to apply a modern policy for managing human resources in the context of the Civil Service Law</p>
<p>SO7 Formulation and implementation of a rural development policy and strategy and coordination in the implementation of strategic and operational plans of the institutions of the agricultural public sector</p>	<p>More than 60% of the members of the Production Council are satisfied with their participation in the formulation and implementation of rural sector policies and strategies At least 90% of donor agency representatives who participate en the rural development sub table have aligned their cooperation strategies with GON sector policies 100% of expenditures of institutions implementing the project correspond to the PMGP</p>	<p>Specific surveys Minutes of meetings of the Production Council Minutes of the meetings of the Rural Development donor sub table Reports on budgetary implementation</p>	<p>Political stability</p>

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities	Threats	Remarks
Secretariat for Coordination and Strategy of the Presidency (SECEP).	Small institution, high technical level, effective, negotiates with the highest political levels and with international development agencies in matters relating to macroeconomic policies. Bears strong influence on Government's decisions and policies.	Has limitations in its implementation capacity. Is weak at coordinating, monitoring and controlling other government agencies.	Responsible for the implementation of the SGPRS and for the elaboration and consultation process of the NDP. Bears a strong influence on the Government's decisions and policies. Interested in promoting the development of conglomerates of dynamic activities (the so-called <i>clusters</i>), which would generate employment opportunities for the poor sectors of society.	Changes in political orientation that modify its institutional role. The new role given to SECEP to follow-up on investments may lead to a duplication of roles.	It is possible and very convenient to involve SECEP in the programming and monitoring of IFAD-financed projects and programmes.
Ministry of Foreign Affairs (MRE).	Interlocutor with international development agencies. Has taken a very active role in the coordination of the <i>Sectoral Boards</i> .	Has weak technical capacity, although there have been improvements over the past few years in this respect.	Together with SECEP, plays a key role in the coordination between international development agencies' activities and the NDP and EDRP.	Relatively weak due to the powerful influence of some 'heavy-weight' international development agencies.	Maintaining and deepening linkages will be essential in a scenario of increased donor coordination.
Ministry of Agriculture, Livestock and Forestry (MAGFOR).	Responsible for policymaking and rule-setting for rural and agricultural development. Experienced and highly-skilled technical staff. Through its Policy Office, is responsible for the formulation of the EDRP proposal and for coordinating the corresponding consultation process in the <i>Sub-Board for Productive Rural Development</i> (part of the NDP).	Low implementation capacity. Organizational and bureaucratic deficiencies reduce its efficiency. Specialized mainly in agricultural development, with limited experience in rural development. Has difficulties in leading the consultation process for the EDRP.	Plays a key role in development strategy-formulation and policymaking, knowledge management, technical training, natural resource management, and project implementation management and follow-up.	Difficulties in coordinating with other governmental instances, most notably SECEP and, particularly, IDR.	Contributing to MAGFOR's strengthening in formulation, implementation and monitoring of policies seems to be a strategically relevant support area.
Ministry of Natural Resources and Environment (MARENA).	Responsible for environmental policymaking, regulations and guidelines, as well as for the monitoring and overseeing of these. Has a direct management and/or management oversight role over protected natural areas. Has branches covering the entire country.	Limited operational control capacity over individuals' private actions and operations in rural areas of the country, particularly in what concerns the application of law/regulations on the exploitation and use of natural resources.	The main opportunity and, at the same time, main challenge is to achieve compatibility between economic activities and the conservation and/or recovery of environmental assets. The EDRP puts forward a starting point (<i>Strategic Zones</i>).	Policy-coordination problems between MARENA and MAGFOR, or between MARENA and other governmental instances dealing with economic development.	In some areas of the country, coordination with MARENA is key for IFAD.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)

Institution	Strengths	Weaknesses	Opportunities	Threats	Remarks
Rural Development Institute (IDR)	Implementing institution of rural development, production-related and infrastructure projects, with support from various external co-financing sources. Has developed expertise in resource management and project implementation. Wide territorial coverage.	Has weaknesses in the areas of strategies, knowledge management and methods for development promotion. This limits its capacity for policy implementation. Continues to be an aggregate of projects that are scarcely articulated with one another. Has problems in monitoring project activities, consolidation of results, and continuity of actions once projects are closed.	IDR and the Government show interest and willingness in advancing towards a progressive integration of projects. The goal of this integration would be to institutionalize project actions, within the framework of strategic programmes.	Highly dependent on external funds. There are risks concerning the continuity of an operational framework based on an aggregate of projects rather than on an integrated development action. Difficulties for coordinating efforts with other governmental instances.	Currently, it is IFAD's main implementing agency in the country and it is expected to remain so in the future. Its institutional strengthening is important.
Nicaraguan Institute for Agricultural and Livestock Technology (INTA)	Wide coverage (90 branches all over the country). Has made progress in technological development in products of interest to small- and medium-scale producers. Still has an incipient orientation in what concerns the promotion of products with market demand/potential.	There has been a loss of qualified staff.	There are possibilities for coordination with various actors in the agricultural and livestock sector.	Budget highly dependent on resources coming from international development agencies.	Has had an active participation in the establishment and implementation of FUNICA.
Nicaraguan Institute for Municipal Public Works (INIFOM)	Implementing agency of support programmes to municipalities. Operates with resources from various international development agencies. Has been able to institutionalize all projects implemented (those dealing with its operational areas).	Has been influenced by political interventions.	Develops an institutional strengthening programme of its own which is targeted at municipal governments, with resources from various agencies. The emphasis of this programme is on the development of the municipal governments' capacities to generate and manage financial resources by their own means, and on making these financial resources independent from the national budget.	Has been perceived as a political platform for Government positions, a fact which has decreased the credibility of its actions.	Deals with funds received from various development agencies and manages them jointly under a single budget.
Association of Municipalities of Nicaragua (AMUNIC); Mayor's Offices (municipalities); and associations of municipalities (national and departmental)	Some departments and/or municipalities, have developed participatory processes for the drafting and consultation of development proposals, with a high degree of social consensus. Are close to potential beneficiaries.	Have limited resources and have weaknesses in technical capacities. Have varying levels of political power as well as varying implementation capacities for municipal-level development initiatives and for coordination with other municipalities.	The recent approval of financial transfers from the national government to municipal governments represents an opportunity for increasing the bargaining power of the latter in the decision-making process.	A higher availability of resources without the corresponding managerial capacities is a threat in what concerns the prudent management of these resources.	The Mayor's Offices (municipalities) are potential coordinators of development actions in some areas of the country.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)

Institution	Strengths	Weaknesses	Opportunities	Threats	Remarks
Nicaraguan Investment Corporation (FNI – <i>Financiera Nicaragüense de Inversiones</i>)	Reknewed financial institution, manages second-tier funds. Operates with other financial institutions that provide credit on an efficient and sustainable basis.	Few linkages with its clientele. Does not have field offices/branches.	Knows the clientele of financial institutions that deal with the Rural Development Fund (FONDECA) and manage FONDECA's resources.	Subject to political pressures. It could function as a state-owned development bank.	Manages FONDECA's funds serving as a second-tier-fund entity.
Commercial banks	Have been developing themselves quite successfully and are reaching out to the agricultural sector.	Credit given for the agricultural and livestock sector is still very limited.	Some are willing to initiate operations in rural areas.		
Microfinance institutions	Through various projects, IFAD and other agencies have contributed to the development and strengthening of rural financial services. In some areas, microfinance institutions make a significant amount of financial resources available to poor sectors that have income generating activities capacity and potential for income generating activities development.	There are no supervisory agencies for microfinance institutions. There is no specific legal framework for informal financial institutions establishing criteria and standards. A legal act in this regard has been recently approved but is still not effective. This act, when effective, will exclude microfinance institutions from raising savings capital from individuals.	Programmes supported by IFAD and other agencies contribute to an expansion of financial services offered, to a wider geographical coverage of these services, and to improvements in procedures.	Main risks refer to: (a) the conflict between the needed strengthening of microfinance institutions and the scope of the services they offer; and (b) the excessive growth of these institutions in relation to their capacities.	IFAD has accumulated a significant experience in this field. There are relevant lessons learned for both on-going and future project interventions.
Grassroots organizations	There are about 1 000 rural cooperatives (600 of which are members of the FENACOOB). They include about 40 000 families and have wide territorial coverage. Five large membership-based organizations (APPENN, UNAG, UNAPA, UNICAFE and UPANIC) represent about 60% of all agricultural and livestock producers.	Many of them had an approach geared towards serving membership-based organizations rather than developing production-related services. Recently, due to market demands and the new context in place, they have adopted a more market-oriented and demand-driven approach.	A legal act on cooperatives is currently being drafted. Previous experiences supported by IFAD have shown that there is good capacity in existing organizations to absorb project activities.	Weaknesses in managerial capacities.	Specific actions are needed in order to strengthen the managerial and income generating activities capacities of these organizations. The mapping of existing organizations is recommended. This mapping exercise would be useful to various programmes.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)

Institution	Strengths	Weaknesses	Opportunities	Threats	Remarks
Private commercial, industrial and services companies	May represent a demand for farmers' and/or rural wage labourers' products.	There have been weak linkages with small rural producers. The salary levels offered by these companies are not attractive to wage labourers, who, as a result, prefer to migrate/emigrate.	Their distribution all over the country represents an opportunity for the development of productive agricultural activities and/or employment-generation. The NDP and the EDRP propose the build-up of "clusters" with private companies. These companies and the clusters formed by them are portrayed as Nicaragua's "engines of economic growth" in the NDP and EDRP.	If grassroots organizations are weak, private agents are able to offer unfair commercial and/or employment conditions, restricting possibilities for a fair distribution of the locally-generated income.	The mapping of existing organizations is recommended. This mapping exercise would be useful to various programmes.
Private not-for profit organizations; NGOs	There are numerous private organizations operating in the country (more than 300 NGOs). They are particularly effective when they articulate their actions with those of grass-roots organizations. In many cases, they have built capacities of beneficiaries and generated relevant information and analysis.	Many times they have substituted grassroots organizations, and this has decreased the credibility of their work.	Lessons can be derived from the experiences accumulated by these organizations. These lessons can constitute the base upon which to implement local development initiatives. They can be appropriated by development projects to offer income generating activities support and knowledge-based services.	In many cases, face difficult financial situations, with a high dependence on external resources.	IFAD's actions could also be targeted at the capacity-building of these organizations, so that they would become 'better' allies of grassroots organizations and end users.
Several mixed institutional instances (national and local) of relatively wide-scope coordination and integration	Several coordination and integration instances have been recently formed. Consultation processes and proposal-making for development actions that require a relatively high level of social consensus are carried out within these instances. This has been observed, at different intensity levels, at the national, sectoral and local levels (departmental and/or municipal).	In some instances, there is a risk of substituting the government's guiding role by asymmetries in power and institutional capacity in relation to multilateral or bilateral development agencies.	These instances and the proposals agreed upon in them are, at least potentially, more solid and lasting in face of changes in key positions in government. The recently approved <i>Citizen's Participation Act</i> is soon to be enforced.	Changes in political orientation that would discontinue or otherwise reduce the role played by these instances.	IFAD's actions will take into account these institutional consultation and coordination instances as well as the proposals resulting from these processes.

IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

The proposed opportunities in the present COSOP are fully in line with the IFAD corporate strategy, as well as the regional strategy for Latin America and the Caribbean. **The strategic objective for the Nicaragua Country Programme** is to empower rural poor men and women to be integrated into the processes of local and national socio economic development.

Strategic framework for IFAD 2002/06. (Quotations).	Strategic development thrusts for Nicaragua:
<p>"Increasingly, projects need to make effective links to the policy level, using knowledge generated in a more catalytic manner. As progress is made, IFAD's advocacy work will become less a matter of direct dialogue between IFAD staff and government officials than an outcome of its support to the capacity-building of poor people's organizations</p>	<p>In the context of the GON National Development Plan and the Rural Sector Plan (PRORURAL) IFAD will accomplish a catalytic role, by means of scaling up field results – good practices, innovations and knowledge – into national and regional rural development policies. IFAD has accumulated important knowledge from the implementation of six projects in the country, which will enhance field interventions and will strengthen partnership with GON agencies, the private sector and donors.</p>
<p>"One of the most important factors leading to entrenched poverty is access to natural resources such as land, water and forests.....In their efforts to raise agricultural productivity or to diversify incomes, the poor often need investment and working capital. ... Assistance needs to focus on developing professional and responsive rural finance institutions... Efforts to increase agricultural productivity can only be effective if they are linked to an appreciation of market potential... Transport infrastructure is also critical for developing links to the outside world".</p>	<p>At field level, IFAD programme will promote and improve access of rural poor men and women to income generating opportunities in a market context. The programme will administrate resources to support local demands to access natural resources and financial services, to build infrastructure, to increase productivity, diversification and quality of products, to reduce transaction costs and to access to local business networks</p>
<p>... the poor need to be provided the chance to build individual and collective capabilities in order to gain access to economic opportunities and basic social services and infrastructure. Lack of strong social organization makes it difficult for the poor to exploit potential opportunities within their communities and to develop links with external partners....enhancing the human and social capital base of the rural poor will also enable them to interact with those wielding power on a more equitable and informed basis.</p>	<p>To improve the rural poor access to social and economic development opportunities, the national public institutions, local governments, grass root organizations and the private business sector will be supported to promote market access and improve local investment and socio economic development climate.</p>

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/synergy potential
The World Bank	<p>Broad Based Access to Financial Services project for providing equitable access to competitive financial services for low income houses and SMEs; <u>PSTAC</u>¹ to increase public sector labour productivity, improve PS investment management and ensure PRSP implementation; <u>PRSC I</u> for PRSP implementation and fostering improved SWAPs; <u>Land Administration Project (PRODEP)</u> to improve the security of land tenure and boost investment in agriculture; <u>Poverty Reduction and Local Development Project</u> – PRSP support through subproject financing, improvement of basic social services, participatory municipal planning, M&E of social safety nets, and institutional strengthening; <u>2nd Rural Municipal Development Project</u> that includes a component for decentralization of environmental management; and <u>Competitiveness Learning and Innovation</u> for testing private-public partnerships for consensus and reform on business issues including the development of business clusters and competitiveness policies.</p> <p>Pipeline projects include an <u>Agricultural Technology Program supporting PRORURAL</u> (cofinanced by IFAD) and a <u>Forestry and Agroforestry Development Program (PROFORESTAL)</u></p>	National.	Ongoing.	Already exists and Very high.
Inter-American Development Bank	<p><u>Gender and Municipal Development</u> technical cooperation to promote municipal development interventions that meet the needs of women and enable their full participation in the development process; <u>Cleaner Production Methods to Enhance Competitiveness (MIF)</u>; <u>Strengthening in the Area of Commerce and the Environment/CAFTA</u> supporting MARENA in environmental matters in FTAs and institutional strengthening; <u>NDP Sectoral Programming and Prioritization</u> technical cooperation for reform and modernization of the state; <u>PPP Road Program for Competitiveness</u>²</p> <p>Remittances and Rural Development Program The Multilateral Investment Fund (MIF) of the IDB and IFAD financed a program on remittances and rural development in LAC</p>	National	Ongoing.	Very high.
European Union (EU)	<p>Supporting SWAPs; MoU with the GON operations that correspond to: ‘local development in a rural environment’, support for rural land-use planning’, ‘education’; and actions from other budget lines in food security, decentralised cooperation, tropical forests, and governance.</p> <p>The work programme from the country strategy focuses on: (1) Socio-economic development in rural areas through rural and agricultural policy, local development project, Matagalpa Jinotega road, TA for budgetary support and SWAP; (2) Human development through sectoral policy education; (3) support to good governance; and (4) Macro-economic support through HIPC participation, reorientation of FEPEX</p>	National.	Ongoing.	Very high.
		National.	Ongoing.	

¹ Public Sector Technical Assistance Project.

² Puebla-Panama Plan Highway Project to Promote Competitiveness

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED (CONTINUED)

Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/synergy potential
UNDP	<p>Implementing agency for government programmes. Channels resources from multilateral funds (for instance, Global Environmental Facility -GEF).</p> <p>Binational project for the management of the Río San Juan Basin (Nicaragua – Costa Rica), with resources from GEF and in the framework of UNEP's (United Nations Environment Programme) activities.</p> <p>Project to be implemented by MARENA, MAGFOR and IDR, with the cooperation of GEF (via UNDP), FAO and IFAD.</p> <p>Competitiveness Promotion Programme, through MIFIC.</p> <p>Supports and provides technical assistance for Citizenship programmes, municipal strengthening, coordination with the External Cooperation</p>	<p>Binational river basin area.</p> <p>National.</p> <p>National</p>	<p>Ongoing.</p> <p>Ongoing.</p>	Very high.
FAO	Food Security Programme.	4 municipalities, shares some project areas with PRODESEC.	Ongoing.	Very high.
World Food Programme (WFP)	Assistance to vulnerable groups (children, pregnant women and those breast-feeding, people with a high risk of malnutrition) in areas stroke by natural disasters, droughts and inundations (USD 65.5 million in 1990-2003).	National.	Ongoing.	Very high.
BCIE	<p>Provides funds to the Central American Micro and Small Enterprises Support Programme (PROMYPE), which are earmarked for credit and institutional support to some 15 entities that work with small- and medium-sized enterprises (approximately 80% of them are rural).</p> <p>Has approved USD 5 million over 5 years for the Rural Credit Fund, earmarked for small- and medium-sized agricultural producers and for export promotion of their products.</p> <p>Binational border development project (Nicaragua – Costa Rica and Nicaragua – Honduras).</p> <p>Acts as a trust agent in the management of funds deriving from Nicaragua's debt relief with Costa Rica. Funds are to be channelled to border areas between Nicaragua and Costa Rica.</p> <p>\$10 mm credit to Banistmo de Nicaragua to support the country's productive sectors by improving investment climate, creating new employment opportunities, and increasing competitiveness</p>	<p>National.</p> <p>National.</p> <p>Binational.</p> <p>Binational.</p>	<p>Ongoing.</p> <p>Ongoing.</p> <p>To be implem'd.</p> <p>To be implem'd.</p> <p>To be implem'd.</p>	<p>Already exists, co-finances PRODESEC.</p> <p>Very high.</p>
Organization of Petroleum Exporting Countries (OPEC)	Support to transport infrastructure; some projects implemented through IDR.	National.	Ongoing.	
Development Cooperation Association for Africa and Latin America (ACRA) (Italian NGO)	Programme for the rehabilitation of rice cultivation, with IDR. Supports small productive and infrastructure projects.	Department of Río San Juan.	Ongoing.	
Spanish International Cooperation Agency (AECE) Spain	<p>Araucaria Project: capacity-building and support to economic activities in valuable and fragile natural areas.</p> <p>Through Solidarity International, has a project for municipal strengthening.</p> <p>Support to transport infrastructure.</p>	<p>Department of Río San Juan.</p> <p>Various municipalities.</p> <p>Various municipalities.</p>	<p>Ongoing.</p> <p>Ongoing.</p> <p>Ongoing.</p>	

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED (CONTINUED)

Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/ synergy potential
Swedish International Development Cooperation Agency (SIDA) Sweden	Priority issues: health, education, governance, and, to some extent, infrastructure. Supports a 10-year, USD 30 million programme (FONDEAGRO), being implemented by MAGFOR. Provides support to the institutional strengthening of the Nicaraguan Association of Microfinance Institution (ASOMIF), together with DANIDA.	Departments of Jinotega and Matagalpa. National.	In its third implementation year (out of 10). Ongoing.	
Government of Austria	Various projects dealing with sustainable management of natural resources and subsistence agriculture.	Department of Río San Juan.	Ongoing.	
Canadian International Development Agency (CIDA)	Support amounting to USD 5 million annually in 2002-2007 for investment projects in water infrastructure, sanitation, energy, and socioeconomic assistance to the poor population on the Atlantic coast.	Atlantic coast	Ongoing.	
Swiss Agency for Development Cooperation (SDC) Switzerland	Has a wide cooperation programme with the rural sector, including services, integrated pest management, hillside agriculture, rural finance, and environmental services. Supports the PNTFA. Provides financing to Government and civil society organizations. Proposes to maintain its current strategy.	National, regional.	Ongoing.	Already exists (FAT). Very high.
DANIDA (Denmark)	Agricultural Sector Support Programme – Phase I (PASA I). PASA II – 4 components: agricultural technology, rural financial services, sectoral support, management and monitoring (USD 20 million over 5 years). Environmental Sector Support Programme (PASMA): includes support to MARENA’s institutional strengthening, co-financed with the Finnish International Development Agency (FINNIDA). Also provides support to small development initiatives all over the country. Support to transport infrastructure.	National. National. National.	Closes June 2004. 2004 – 2009. Ongoing.	Very high, has common project areas with PRODESEC; channels funds through FUNICA for an expansion of project area served by FAT.
Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/ synergy potential
Department for International Development (DFID) (United Kingdom)	Has a regional office in Managua since 2001. Programmes are linked to the SGPRS (aiming at improving the access of the poor to economic opportunities). Provides support to GON’s HIV/AIDS and violence-related programmes. Through RUTA, carries out a Sustainable Livelihoods Survey in 56 communities.	National. National	Ongoing. Implemented.	High.
FINNIDA (Finland)	Has a general approach to support the GON in rural development policies – holistic approach. FOMEVIDAS: Project to be implemented by IDR (FINNIDA will contribute EUR 8 million over 4 years). IDR will implement the first phase of a 10-year project dealing with human capital and employment. Co-finances with DANIDA support to MARENA (PRO-AMBIENTE Programme).	Departments of Boaco and Chontales.	Ongoing.	Very High

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED (CONTINUED)

Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/ synergy potential
German Technical Cooperation Agency (GTZ)	<p>Finances two projects that are currently being implemented by IDR, namely the Rural Development Project in the León and Chinandega Regions (PROCHILEON) and the Sustainable Natural Resources Management Project in the Southwest of Nicaragua (SUROESTE). still on</p> <p>-Program for Local Development and Fiscal Transparency -Natural Resource Protection and Rural Development in the Bosawas Zone -Sustainable agriculture and forestry in Rio San Juan -Rural Development Project Chinandega-Leon (PROCHILEON) -Rural capacity building (PROCARU) -Local level monitoring of ERCERP (PRSP) on the part of bilateral civil society</p>	Departments of Chinandega, León, and South western Nicaragua.	Ongoing.	High. Common project areas with PRODESEC.
Government of Japan	<p>One of the largest bilateral donors (since 1990, it has contributed USD 30–USD 40 million annually). Six activity areas: health, education, agricultural development, infrastructure and transport, natural disasters, and governance.</p> <p>Programmes with IDR amounting to USD 5 million annually.</p> <p>Line of support to communities through local governments and NGOs (in 2003, 62 projects totalling USD 4 million).</p> <p>Has approved the financing of 15 bridges in the Acopaya – San Carlos highway. In this respect, will deal with/finance the execution of transport infrastructure works only.</p>	<p>National.</p> <p>National. 87 municipalities.</p> <p>Departments of Chontales and Río San Juan.</p>	<p>Ongoing.</p> <p>Ongoing. Ongoing.</p> <p>To be implemented.</p>	
Government of Norway	Moving towards a higher level of budget support to the GON. Currently, USD 4 million annually are provided in bilateral support to the National Budget, and USD 4 million annually are provided to the private sector and NGOs. Priority issue: fight against corruption. Priority issue in the productive sector: sustainable use of natural resources.	National.	Ongoing.	
Government of The Netherlands	Micro-, small- and medium-sized Companies Support Programme, together with IDB and GTZ. Support to the institutional strengthening of ASOMIF, together with SIDA. SNVa/ – Support to local management and economic development, taking account of environmental and gender aspects. SNV is moving towards an independent income generating activities model for service delivery.	<p>National.</p> <p>National. Municipalities of North and Sud east (Depts. of Nueva Guinea and Río San Juan).</p>	Ongoing. Ongoing. Dutch support until 2005.	High.
United States Agency for International Development (USAID)	Development Assistance Programme plans providing support amounting to USD 271 million for 2004-2008. Target areas: governance, health and education; economic growth through diversification and commercial openness; natural resource management; and food aid.			

APPENDIX VI

THE CONSULTATION PROCESS

1. The consultation process was developed through supervisory missions by the CPM, with support from the Field Program Officer and specific COSOP missions.¹ Consultation activities involved identification and exchange with national players and development agencies based in country. The main themes were the economic, social and political climate; existing rural poverty reduction policies; boosting agriculture; competitiveness of small rural enterprises; and rural employment.
2. In September 2004, Nicaragua developed the PBA that were updated during this year's missions to incorporate the policy and priority changes that have taken place—to specifically, take into account the National Development Plan and PRORURAL. In order to develop and update the PBAs, representatives from public, and private agencies, civil society and IFAD financed teams participated. The IFAD representatives, through bilateral meetings or joint working groups, provided information, opinions, and proposals relevant to their work in the country and specific to the rural sector.
3. **Private sector, unions, and civil society.** The main national labour unions were consulted during the mission and the PBA updates. These are: National Union of Farmers and Cattle-Breeders (UNAG); Nicaraguan Agricultural and Livestock Producers Union (UPANIC); Nicaraguan Coffee Producers Union (UNICAFE); and the Nicaraguan Association of Producers and Exporters of Non-Traditional Products (APPEN). These unions represent approximately 80% of small and medium producers and rural enterprises; manage centers for research and service provision and they support their members in productive and commercial processes.
4. Approximately 300 NGOs currently offer services to the rural sector. Some of these NGOs have a national reach and are very well known while the majority concentrate their activities in one territory and depend on external financing. The missions also worked closely with other major development organizations, specifically NITLAPAN (part of the Central American University-UCA) and CIPRES (Center for the Training of Rural Workers, Small-Scale Enterprises, and Service Providers).
5. **National Government Agency Dialogue.** All IFAD missions to Nicaragua and field program officers have maintained active consulting groups with the government authorities. Regarding the COSOP, working groups were developed in order to specify the IFAD and GON shared objectives within the new policy priorities. The GON is promoting several sectoral investment programs to provide coherent micro-entrepreneurial, environmental and competitive policies in the development of the rural productive sectors. This initiative has facilitated a growing coordination between the international financing agencies for complementary activities and, in some cases, direct support of the national budget.
6. The sectoral Roundtables and Sub-Roundtables convened by the GON, are the spheres/outlets through which the international financial institutions and the IFAD missions and CPM work and coordinate—specifically, the Production and Competitiveness roundtable (under MIFIC coordination) for discussion on proposed sectoral programs. IFAD participated in at least four working groups in the sectoral roundtables over the course of the Nicaragua missions. Discussions were related to the progress in the preparation of PRORURAL, opportunities in IFAD's field of work, and possible co-financing mechanisms.

¹ Two IFAD missions to Nicaragua were carried out over the months of May and July 2005 with the objective of completing the country's Strategic Opportunities Document.

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7. The national entities that met to establish and maintain the dialogue were: The Coordination and Strategy Secretariat of the Presidency (SECEP)—the driving force behind the National Development Plan (NDP) and the current PRORUAL; the Ministry of Foreign Relations, through the Board of Multilateral Administration; and the Ministry of Agriculture, Livestock and Forests (MAGFOR). MAGFOR has assumed the leadership role in the finalizing of PRORURAL and the multi-annual budget that will be presented to the National Assembly. Other agencies that maintain a permanent dialogue with IFAD include the Ministry for the Promotion of Industry and Trade (MIFIC)—that coordinates the Cabinet for Production and Competitiveness; the Rural Development Institute (IDR); the Nicaraguan Agricultural Technology Institute (INTA); and the Nicaraguan Institute for Municipal Promotion (INIFOM).

8. There has also been an ongoing dialogue with the project units financed by IFAD that includes staff from completed IFAD projects, with whom relations are still maintained. The contributions of the current PRODESEC and FAT-FUNICA were valuable for analyzing current priorities, learning from past experiences and for elaborating on proposals based on lessons learned.

9. **Consultation with donor agencies.** The diversity and range of the financing and cooperation agencies illustrates the need for coordination in Nicaragua. IFAD needs to continue exploring and defining the reach of future relations. Working groups were formed with the agencies over three of the main themes: PRORUAL implementation and financing; rural financial services; and rural development—specifically, the role of public and private entities.

10. Other areas for dialogue arose over the course of the mission, related to the entities that have had or maintain areas of coordinated work with IFAD like the BCIE, World Bank, IDB, UNDP, and FAO. With the World Bank, the strategic relationship has continued through PTA co-financing (part of FUNICA and FAT), in this framework the necessary harmonization and alignment for the new policy proposals was analyzed. With BCIE, there exists a large trajectory of co-financing in the country including the current PRODESEC, within which possible adjustments and necessary harmonization were analyzed to adequately implement actions in the PRORURAL framework.

11. Coordination with the IDB (past co-financier of PROSESUR), and the EU (co-financer of TROPISUR) was fundamental given the important participation of both as financers of IDR programs. IFAD has maintained an important dialogue and coordination with these agencies, particularly the IDB because of its role as principal financier and as institutional support to IDR.

12. The bilateral agencies opened an interesting sphere in the rural sector. The coordination and dialogue developed during the missions was very important for IFAD, especially the dialogue with the SDC, Denmark, Sweden, Netherlands, and Finland. Of particular relevance is the Joint Mission carried out in May with the Swedish Embassy, DANIDA, Finland Development Cooperation, SDC and IFAD, to identify joint coordination and co-financing areas in the PRORURAL framework. Switzerland and Denmark supported FUNICA's institutional development and the consolidation of FAT as an innovative mechanism for the provision of services. Finland, as co-financer provided institutional support for IDR. Other agencies including Germany, Canada, Spain and Norway are also relevant in financing the rural sector. At this time, they are analyzing possible ways to continue their cooperation.

