

## SUMMARY

### Summary Mid-Term Review Document

#### Nicaragua Country Strategy Paper 2007-2013

#### 1. UPDATE OF COUNTRY MAIN DEVELOPMENTS

Until 2007, the cooperation between Nicaragua's government and the EC was fluid in all its aspects. However, as from early 2008, there have been growing concerns regarding the observance of underlying principles, such as respect of human rights, rule of law and democratic processes. Following the November 2008 municipal elections EC and the other donors decided to suspend budget support disbursements. This context has induced a thorough refection on aid delivery modalities which is still on going.

Stimulated by the negotiations of the Association Agreement EU-CA, regional integration received a renewed impetus in the latest period and achieved important advances. In political terms, progress was made in the definition of regional priorities as well as sector-specific strategies on core topics, such as regional security, social cohesion, energy and agricultural policy.

Nicaragua's **economic context** is marked by economic growth that has outpaced population growth, but has not been high enough to bring about a substantial reduction in poverty levels. The country is highly dependent on remittances (about 12% of GDP) and donations from industrialised countries (about 4% of GDP and 16% of the central government's total budget).

In the economic policy area, Nicaragua has made progress in macroeconomic stability and fiscal sustainability. The current IMF Poverty Reduction and Growth Facility (PRGF) programme's first review was completed in October 2008. Due to the political turmoil and institutional paralysis that followed the last municipal elections, the second PRGF review only took place in November 2009. However, the economic global downturn and vulnerability to external shocks coupled with the dependence on foreign aid and remittances to finance the fiscal deficit, poses serious threats to a sustainable macroeconomic framework. Moreover, the suspension of a portion of foreign aid could further exacerbate the risks.

The situation in terms of **social cohesion and poverty**, described in the CSP, remains globally valid, with the exception of the stronger emphasis put by the government, since 2007, on social development in its policies. The main social policy reforms have taken place in education and health, providing free and universal access.

#### 2. PERFORMANCE ASSESSMENT

Over the last years, national policies have been putting a strong emphasis on the **education** sector. Since 2007 the new administration redesigned the policy for primary and secondary education, stressing the importance of universal and free education, quality of education and the elimination of illiteracy. The institutional development plan 2007-2011 is the main sector policy reference and despite some shortcomings, it should generally steer Nicaragua towards the education-related MDGs.

**Economic and trade issues.** The current economic global crisis is having a serious impact on the Nicaraguan economy. There is wide recognition of the capacity of the primary sector to create more and better employment and to boost exports, thus contributing to alleviate

poverty, especially because most agricultural exports are being produced by small and medium farmers, being their specific contribution to exports more than 50% and to basic food production more than 90%.

Despite the worrying trend in the **governance** area, some formal headway in this field has been made (e.g. the drafting of the Plan Justicia (2007)). However, achievements are often questionable at the level of implementation. In general, it is still possible to facilitate positive reforms by providing cooperation in some specific aspects, such as local governance and institutional support.

### **3. CONCLUSIONS OF THE MID-TERM REVIEW**

Given the present economic, political and social context, the focal sectors of the CSP for the period of 2007-2013 are confirmed with some adjustments, in particular as regards the implementing modalities. New regional and sub regional priorities will be integrated in the existing focal sectors. A summary table of the financial breakdown by focal area is attached to this document.

### **4. PRESENTATION OF THE SECOND NATIONAL INDICATIVE PROGRAMME**

#### **4.1 The sectors of cooperation**

The focal sectors for intervention will remain education, governance and institutional support and economic and trade issues (socio economic development).

EC interventions will be integrated in donor coordination mechanisms in line with the Paris Declaration and Accra Agenda. Aid delivery modalities will be adapted to the political and institutional context.

##### **4.2.1 Education**

Main priorities and goals: The global objective is to raise the quantitative and qualitative level of education and in particular vocational education.

Specific objectives and target beneficiaries: The EC will continue to support and co-finance the 2001- 2015 National Education Plan, with a special emphasis on primary and secondary schools as well as vocational training based on an assessment of the private sector's needs. Particular attention will be paid to the educational MDGs and to the quality of teaching and curriculum.

Sector allocation: Interventions in this sector will amount to 35% of the total envelope given to Nicaragua.

##### **4.2.2 Governance and institutional support**

Main priorities and goals: The global objective of this area is to strengthen the institutional capacity and governance of Nicaragua. The attainment of these objectives is linked to the current political situation and its evolution. Civil society needs to be involved in policy making and implementation.

Specific objectives: (i) to pursue the effective implementation of rule of law, especially at the local level of the territory (ii) to improve the functioning of institutions which are key to guarantee citizens' rights and the rule of law.

Actions that could be financed relate, among options to be evaluated in a changing governance context, to: local governance, national police and safeguarding the rule of law,

and capacity building for improved governance of key public authorities. Additional areas for intervention in governance could be considered, if the conditions allow.

Sector allocation: Good governance and institutional support could account for 17.5% and 5% of the National Indicative Programme, respectively.

#### 4.2.3 Economic and trade issues

Main priorities and goals: In this sector, the main objectives are to contribute to the improvement of the socio-economic conditions of Nicaragua and to foster economic growth through the strengthening of the business and investment climate.

Specific objectives: The EC will support the socio-economic development of the country in alignment with the National Development Strategy. The situation in terms of social cohesion and poverty, described in the CSP, remains globally valid, with the notable exception of the stronger emphasis put by the new government, since 2007, on social development in its policies. As stated in the National Human Development Plan of 2008, this focus should be implemented through improved social services and social security, food security, water and sanitation and energy. The EC will provide assistance to the implementation of some of the key social policy reforms and productive infra structures programmes.

As regards the business and investment climate, the country needs to consolidate its policy planning capacity, cushion the possible integration shocks and maximise its benefits. The coherence with international and regional commitments, in particular with the negotiations of the Association Agreement, is essential and opens the doors to a wide range of actions.

Sector allocation: Around 42.5% of the National Indicative Programme could be allocated to economic issues.

#### Financial breakdown of focal areas

Sectors CSP 2007-2013 (Million €)	NIP 1 (M€)		TOTAL
	2007-2010	2011-13	NIP 1+2 (M€)
<b>Governance (17.5%) and institutional support (5%)</b>			
<b>Governance</b> <i>including Institutional Support</i>	22.7	25.45	48.15
<b>Education (35%)</b>			
<b>Education</b>	44.8	30.1	74.9
<b>Economic and trade issues (42.5%)</b>			
<b>Socio-economic development</b>	46.9	44.05	90.95
<b>Investment climate</b>			
<b>TOTAL</b>	<b>114.4</b>	<b>99.6</b>	<b>214</b>

