

University of Sussex

School of Social Sciences & Cultural Studies

MA in Social Development

“Aid Effectiveness and Poverty Reduction Strategy Papers”

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Summary:

This paper focuses on the new World Bank’s conditionality policy and its impact on the recipient’s degree of compliance. It examines the domestic political factors that may lead governments not to comply with the Bank’s conditions and how this affects the Bank’s enforcement policy. Through comparing the implementation of the Bank’s Poverty Reduction Support Credit in Honduras and Nicaragua, this paper concludes that particular domestic political factors may have a greater influence on the reform outcomes than the conditionality instruments.

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List of Abbreviations

ADELs Local Education Development Associations

AFPs Pension Fund Administrators

BG Budget Support

CACM Central American Common Market)

CAFTA Central America Free Trade Agreement

CONADI Comision Nacional de Inversiones

CONAP Consejo Nacional de Áreas Protegidas

CONAPAS National Council for Water and Sanitation

CNE National Emergency Comission

CPIA Country Policy and Institutional Assessment

DFID Department for International Development

ENACAL National Water and Sewerage Company

EU European Union

FISE Emergency Social Investment Fund

FODIEN Development Fund for Electricity Industry

FSLN Frente Sandinista de Liberacion Nacional

GDP Gross Domestic Product

GNI Gross National Income

HIPC Highly Indebted Poor Countries

IBRD International Bank for Reconstruction and Development

IDA International Development Association

IDB Inter-American Development Bank

IFIs International Financial Institutions

IMF International Monetary Fund

ISS Institute of Social Studies

KFW Kreditanstalt für Wiederaufbau

MDG Millennium Development Goals

MDRI Multilateral Debt Relief Initiative

MTP Medium-term Programme

PLC Partido Liberal Constitucionalista

PRGF Poverty Reduction and Growth Facility

PRSC Poverty Reduction Support Credit

PRSI Poverty Reduction Strategy Initiative
PRSP Poverty Reduction Strategy Paper
SECEP Secretariat for Coordination and Strategy of the President
SIAFI Integrated System for Financial Management
SIARHD Integrated Teacher Administration System
SIDA Swedish International Development Cooperation Agency
SIERP Sistema de Informacion de la Estrategia de Reduccion de Pobreza
SINAPH Honduras National Protected Areas System
SWAPs Sector-wide Approach
UNDP United Nations Development Programme
WDI World Development Indicators

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Preface

The purpose of the paper is to contribute to the academic and policy debate surrounding conditionality and compliance. The paper explores the domestic political factors that may lead governments not to comply with the World Bank's conditions and how this affects the Bank's enforcement policy. In order to execute this analysis, this study focuses on the governments degree of compliance with the World Bank's Poverty Reduction Support Credit in two countries in Central America: Honduras and Nicaragua.

The paper has chosen in particular this World Bank loan as it represents a shift in the Bank's conditionality policy in highly indebted countries with the emergence of the Poverty Reduction Strategy Papers. The PRSC uses 'ex-post conditionality' alongside the ownership rhetoric characterising the new principles in the international aid agenda. The two countries studies were selected due to remarkable similarities and differences in government behaviour in complying with the World Bank. Despite both countries having a high level of poverty and sharing a similar culture, the historic-political path taken by each country leads to significant differences in the government performance with the PRSC conditions. Another feature that influenced the choice was my personal interest in the Latin American region.

The theoretical analysis is based on extensive literature around aid, conditionality and compliance. The examination is based on secondary sources involving a desktop with programme documents, strategic plans, action plans, implementation schedules, programme agreements and files, donor country programmes, progress and evaluation reports and any other relevant document. Most documents or reports are from the World Bank, the IMF, the Honduras government and the Nicaragua government.

I would like to thank my supervisor Andrés Mejia Acosta for his encouragement and his incisive comments on my drafts. I would also like to thank Aaron Schneider for a stimulating conversation and his recommendations. I am grateful to my friends, in particular Efua Prah and Ivica Bogdanic, for their suggestions and their ability to see humour in all circumstances. In addition, I would like to thank my mother Trofimena Fingermañ and my father Luis Fingermañ for their unending support.

1.Introduction

The mixed success obtained from structural adjustment programmes and the consensus around its lack of country ownership have caused a significant shift in the international aid agenda. Many scholars and policymakers have argued that the international financial institutions (IFIs) should de-emphasize the reliance on conditionality instruments to promote significant policy change in developing countries. The World Bank decided to adopt a new conditionality policy, which would have a greater impact on the Bank's enforcement policy and enhance recipient government compliance. In contrast to the previous *ex-ante* conditionality policy in which the Bank would lend money for conditions that the government should comply in the future. The Bank's '*ex-post conditionality*' policy goes alongside the country's ownership rhetoric, which presumes that 'aid effectiveness' may be influenced to the extent that the country owns the reform. The Poverty Reduction Support Credit (PRSC) represents the World Bank's shift in highly indebted countries. This credit supposedly identifies prior conditions to recipient government through actions defined in the country's Poverty Reduction Strategy Paper (PRSP).

The Bank's expectation that "ex-post conditionality" can prevent slippage¹ is not consistent with empirical evidence. Through the analysis of the PRSC implementation in Honduras and Nicaragua, this paper verifies that 'ex-post conditionality' has not had a greater impact on the enforcement policy. The Bank still has permitted slippage in most cases when there are political-economic interests in the area. The lack of credibility in the Bank's enforcement policy alongside to particular domestic political features may increase the chances for non-compliance in both countries at the same time. This paper focuses on two sides of the same coin. It examines the domestic political factors that may lead governments not to comply with the Bank's conditions and how this affects the Bank's enforcement policy. In order to analyse a government's degree of compliance, this study prioritises two relevant domestic political features that may affect reform outcomes: the strength of the patronage-system and the strength of the opposition party.

The research findings show that domestic political factors may have a greater influence on the reform outcomes than the conditionality instruments or the

¹ Slippage is the difference between the number of conditions agreed and the conditions complied. Thus, it means when the country has not complied with all conditions agreed.

enforcement policy. Analysing data from the World Bank and IMF documents, this paper finds that the Bank fails in rewarding countries with higher compliance due to domestic political interests that the World Bank has in the country. The study demonstrates that countries with bad performance tend to receive more aid than countries with a better performance. For example, in the Honduras patronage driven system, conditionality was not enforced but loans were still coming, whereas in opposition-packed Nicaragua, the fear of radicals coming to power made the Bank more lenient on loan conditionality.

The section following this introduction addresses the new international aid agenda in highly indebted countries in order to conceptualise the reader with new principles that influence the World Bank policy. It briefly emphasises in which way the international agenda intended to increase aid effectiveness and conditionality enforcement through the PRSP process in Honduras and Nicaragua. *Section three* focuses on the World Bank's conditionality policy designed to countries under the PRSP programme and the PRSC. This section analyses the extent to which the Bank has bought the new aid rhetoric and to what extent the Bank has decreased its reliance own conditionality. *Section four* aims to study the theoretical debate surrounding conditionality and compliance. Through this examination, this paper suggests a new theoretical framework to analyse the degree of compliance and the Bank's enforcement policy in Honduras and Nicaragua in this new aid agenda. *Section five* discusses the PRSC in both countries and the Bank's enforcement policy in these countries. *Section six* provides an overview of the possible variables that may influence the degree of compliance with PRSC in both countries.

2.The New Aid Agenda

This section provides an overview of the Poverty Reduction Strategy Initiative and the conditions attached to the formulation of the programme. Then, it discusses in more detail the three major principles carried out during the programme design in order to improve aid effectiveness and increase recipient's compliance: country ownership, donor harmonisation or co-ordination and civil society participation. A brief analysis of the contradictions between the development aid rhetoric and PRSP process in Honduras and Nicaragua will be provided.

2.1 Poverty Reduction Strategy Initiative: An Overview

The World Bank and the International Monetary Fund (IMF) launched the Poverty Reduction Strategy Initiative in 1999 in order to design an effective strategy to development aid in highly indebted countries. This initiative recognises many weaknesses of the structural adjustment programmes such as the lack of country's ownership and the cuts made on the social expenditure and attempts to improve development programmes through five principles (IMF and World Bank 1999):

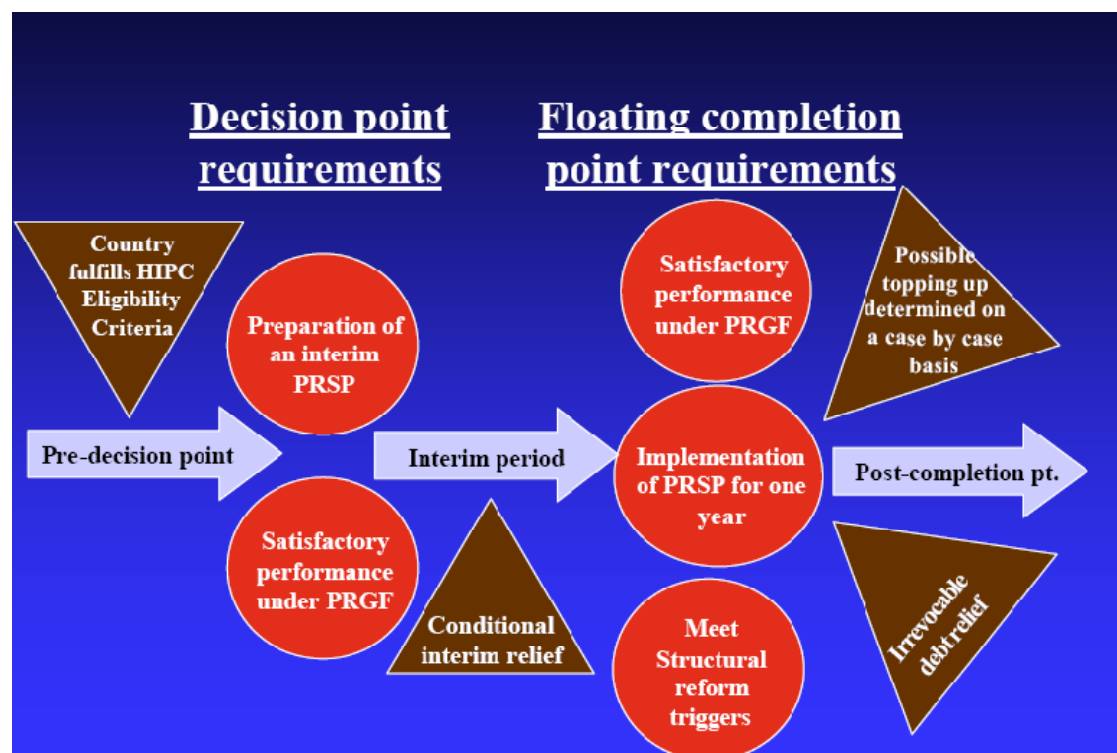
- I. Country-driven, involving broad based participation of civil society;
- II. Results-oriented with emphasis on results for the poor;
- III. Comprehensive, in recognition that poverty is a multidimensional phenomenon, which must integrate an institutional, structural and sectoral approach;
- IV. Partnership-oriented, lending to better donor co-ordination under the recipient leadership;
- V. Based on medium and long-term perspectives for poverty reduction

The PRSI focuses on social aspects, such as education, health, water etc. It considers poverty a multidimensional phenomenon that should be tackled by state policies together to other key stakeholders. Also, it defines that a partnership between donors and recipient governments is the best way to reduce poverty in the long-term. By involving civil society during the programme's design and introducing a greater local ownership on the reforms, PRSI aims to transform relationships between donors

and recipient governments as well as donors, recipient governments and its internal stakeholders (citizens, local organizations, private sector so on) (Gould 2005, Whitfield 2005, Dijkstra 2005).

The PRSI asserts that the formulation of the PRSPs be a pre-requisite to those countries who want to qualify for debt relief under the Highly Indebted Poor Countries (HIPC) programme². As can be seen below, there are two main conditions linked to the HIPC Initiative. First, the country must design a Poverty Reduction Interim and meet a satisfactory performance to the IMF conditions on macroeconomic stability under the Poverty Reduction and Growth Facility (PRGF) loan to reach the Decision Point. Then, the recipient government must implement the PRSP at least for one year and meet the structural reforms under the PRGF to get debt relief under HIPC (Completion Point).

Figure 1: Steps of the HIPC Initiative



Source: IMF 2007 www.imf.org

Moreover, the preparation of the PRSP became also a condition to receive loans or grants from the World Bank, the IMF, the United Nations Development

² The IMF and IDA launched the Highly Indebted Poor Countries programme in 1999 in order to enhance efforts to reduce poverty in low-income countries. Both organisations understood that high debts could make more difficult to developing countries to achieve the long-terms goals on poverty reduction.

Programme (UNDP) and bilateral donors (SIDA, DFID, etc.). The World Bank³ designed a specific credit in 2001, called Poverty Reduction Support Credit (PRSC) in order to share responsibilities with the IMF's credit- PRGF and support PRSP policies. Thus, while the PRGF might support and advice the government on macroeconomic policies and specific structural reforms (tax policy, exchange rate so on), the World Bank under the credit PRSC may give financial support and make recommendations on how to improve the poverty-reduction expenditure, governance and transparency reforms and structural reforms such as privatisation (IMF and World Bank 1999). Both multilateral lending institutions claim that those loans will guarantee a greater leadership to the recipient countries, and thus increase the government degree of compliance (Dijkstra 2005, Killick 2004, Gould 2005). The PRSC lending modality will be further detailed in the next section.

Since 1999, 41 countries were identified eligible to qualify for the HIPC. From those countries already 22 have implemented PRSP “satisfactorily” at least for one year to reach the Completion Point and receive debt relief. From the other 19 countries, 9 have prepared the Poverty Reduction Interim and then achieved the Decision Point while the other 10 have been preparing the Poverty Reduction Interim (See Appendix 1: List of PRSP Countries). In Latin America, only 5 countries met the requirements under the HIPC: Bolivia, Guyana, Haiti, Honduras and Nicaragua. Bolivia, Nicaragua and Honduras are the only countries that have reached the Completion Point in the area, while Haiti and Guyana have arrived at the Decision Point (IMF 2007: website). Hence, both countries analysed on this paper, Honduras and Nicaragua, have achieved the Completion Point, with Nicaragua receiving debt relief on January 2004 almost one year before Honduras (March 2005).

In summary, there are three important aspects that PRSP brings to the aid agenda: civil society participation, donor co-ordination and country ownership. Through those principles, donors assume that loans or grants that respect the PRSP outline might have a greater capacity to enforce the conditions and to expect higher compliance from the government. Thus, PRSP's principles aim to achieve a better aid effectiveness.

2.2 Civil Society Participation

³ The International Development Association (IDA) is the body of the World Bank responsible for lending the PRSC. The IDA is responsible for the poorest' countries in the world.

Multilateral lending institutions claim that civil society “participation” is the most important condition during the PRSPs design. If the recipient does not hold a fair consultation process, both organisations affirm that they will not approve the Poverty Reduction Interim (PRI). As the consultation process has the purpose to give greater local ownership to the poverty reduction policy (IMF and World Bank 1999). However, those institutions do not enforce governments to include the policies suggested by civil society. Usually, either recipient government and donors or only donors set up the agenda that should be discussed with civil society representatives, excluding relevant topics such as structural and macroeconomic policies. In some cases, governments and donors neglect important civil society representatives when their suggestions are not in accordance with the government interests (Guimarães & Avendano & Steveren, & Dijkstra 2003, Guimarães & Avendano & Lathrop & Dijkstra 2004, Guimarães & Avendano 2006)

Many scholars have analysed the consultation process and verified its weaknesses in several countries. For example, in Uganda, Nyamugasira and Rowden (2002) state that the consultation process has not include structural and macroeconomic policies. Both authors verify that these topics have been agreed between the finance minister, the World Bank and the IMF. Honduras and Nicaragua are not an exception. In both cases the same problem can be seen. Seppänen (2003) shows that *the traditional civil society*⁴ was completely excluded from the consultation process in Honduras, while *the new civil society* under the leadership of international non-governmental organisations (INGOs) had a greater “participation” on the direct consultations hold by the municipalities. Eurodad Country Update (2006) shows that several workshops carried out in Nicaragua have not included civil society recommendations as the document ‘was already decide and the consultation was a really signing off’ (Eurodad 2006: 4).

Hence, it seems that PRSP encourages civil society “participation” in terms of defining poverty policy rather than macroeconomic policy. Also, it neglects advices that differ from government’ and donors’ interests, excluding many civil society representatives. However, whether civil society participation can increase the level of

⁴ Seppänen (2003) defines two kinds of civil society in Honduras: the traditional civil society represented by labour unions, professional associations and youth associations. The new civil society represented by INGOs and local NGOs, which usually work directly with INGOs.

compliance to the loans received by the IFIs is questionable. Civil society participation limits to the PRSP design. The actions or conditions defined in the loans agreed between the government and IFIs may differ from the PRSP. As a consequence, civil society is not able to influence in conditions from the loans that may ensure the PRSP implementation.

2.3 Donor Co-ordination

The PRSP programme aims to achieve a greater co-ordination among donors in order to reduce transaction-costs to recipient countries. The main assumption is that a common budget support (BS) and standard reports might bring greater benefits to the recipient government and improve aid effectiveness. Thus, the donors' goal is to reduce administrative, tying and fiscal transaction costs to the recipient government and among donors (Killick 2004). Nevertheless, the extent that donors have bought this new partnership approach is questionable. Killick (2004) argues that the World Bank and the IMF have not properly harmonised their policies. In fact, there still is a weak co-ordination and different or unclear objectives between both institutions. Also, he states that direct BS and sector-wide approaches (SWAPs) tend to impose substantial costs to donors and recipient, as usually there is not convergence among donors' interests in the country. (Killick 2004: 22). Many bilateral donors have to sustain the benefits that BS can bring to aid effectiveness, such as the United Kingdom, the Netherlands, Sweden, Norway, Switzerland and so on. While other donors, such the United States, Japan, Canada and the Southern European countries, have not even seriously considered this possibility as beneficial. This may have a negative influence towards harmonisation and BS execution in areas such as Central America, where US aid has been always large.

Ironically, many donors that encouraged the harmonisation policy have not been able to abandon their institutional interests in favour of achieving a better donors' co-ordination (Dijkstra 2005). Most of aid in low-income countries still goes towards project aid. According to Dijkstra (2005) and Vos et.al (2006), BS has not been implemented in most of countries under PRSP and when it has been implemented, BS has been limited to sectoral projects (Killick 2004, Dijkstra 2005, Guimarães et.al. 2003, Guimarães et.al 2004, Guimarães et.al 2006 Vos et.al 2006). For example, in Honduras most of aid is allocated to individual projects, even though

all the efforts made by the G-17 donor group to harmonise PRSP policies have not been met (Vos et.al 2006). On one hand, this fact benefits the government as it increases the government's ability to not comply with some conditions from different loans that may bring domestic political costs. On the other, it increases the administrative costs to recipient countries.

2.4 Country Ownership

Recipient governments with the participation of key stakeholders should design the PRSP. Donors should become a partner of government strategy without imposing restrictions or conditions. The only conditions should be in “process” and not in the “content” of the programme (Dijkstra 2005). The main conditions in the process are: qualify for HIPC initiative, hold a consultation process during PRSP preparation and have good track record under PRGF loan. The countries who comply with those conditions should qualify for other bilateral grants and the World Bank credit PRSCs. However, as Dijkstra (2005) affirms the degree of ownership on PRSP content is not as high as one would expect. Through her research in Honduras, Nicaragua and Bolivia, she shows that although donors choose the conditions from own country PRSP targets in order to guarantee country leadership and harmonise the targets picked up, donors have prioritised different targets and objectives.

“ PRSP can hardly be considered as “owned” by the countries and even less by the current government, since donor influence on their content has been so strong (...) Picking up targets from PRSP therefore means that donors are setting priorities from among a broad objective of the PRSP. Third, donors are also relating targets to a timeframe, which implies further prioritisation.” (Dijkstra 2005: 458).

Thus, Dijkstra suggests that donors pick up in fact their own targets, highlighting that the lack of ownership on PRSP is due to the donor's capacity of influence in the programme's design. According to her, donors may influence PRSP by participating on the consultation process and sending technicians to help in the programme's design.

2.5 Conclusion

This first section attempted to introduce the principal tensions on PRSP process in Honduras and Nicaragua. Many scholars have addressed the extent to which the PRSP principles, such as civil society participation, country ownership and donor harmonisation, have not been bought by donor community and local government (Cuesta 2004, Cuesta 2005, Dijkstra 2005, Killick 2004 , Gould 2005). The main conclusion is that although there is a new rhetoric, PRSPs have not changed the relationship between donors and governments. The degree of ownership is questionable in Honduras and Nicaragua. Civil society participation has been used as a tool to legitimatise the aid agenda in the both countries. Donors still have different interests and the number of conditions has not decreased to the recipient, in fact, it seems that conditionality has decreased to some extent. This analysis is important to understand how the international financial institutions introduce a new rhetoric in order to shape country priorities. Despite, this issue it is not the main concern of this paper, which aims to address the new conditionality policy of the World Bank under the PRSC and to what extent the Bank's policy have led to a greater degree of compliance in recipient government. It is important to consider how the new agenda has influenced the Bank's policy under PRSC. In the next section, this paper addresses the new lending modality of the World Bank and to what extent this international organisation has decrease its reliance on conditionality.

3. The World Bank's conditionality policy

If one analyses the PRSP and the new aid agenda, without considering the new lending modalities carried out by the World Bank and the IMF, it would seem that the new aid agenda had almost abandoned its confidence on conditionality. Despite the PRSP claims that conditionality only applies to the design, where the country has to hold civil society consultation and maintain a macroeconomic stability, the analysis of World Bank documents show that the Bank still imposes a few conditions on the country. This section will focus on the analysis of the Poverty Reduction Support Credit (PRSC) from the World Bank and to what extent the number of conditionalities has changed after the PRSP adoption.

3.1 Shifting paradigms

The “*Review of World Bank Conditionality*”(2005a) Report shows how the Bank's conditionality policy has completely shifted in the last ten years. The Report states that the Bank designs its conditionality policy in accordance to the country objectives. The conditions attached to the loans do not aim to define government policy, but instead to ensure that the resources are used for the purpose intended by all stakeholders in the country (World Bank 2005a: 4). Since the PRSI, the Bank has profoundly adopted this approach, designing even a new loan to symbolize the shift in the Bank's policy in low-income countries. It is called the PRSC.

3.2 Poverty Reduction Support Credit (PRSC)

The PRSC represents a relatively small share of the International Development Associations (IDA) portfolio in highly indebted countries that helps in the poverty reduction strategy implementation. The eligibility criteria under PRSC includes specific pre-conditions, such as having a good track record under PRGF loan, having held a fair civil society consultation process in PRSP, meeting satisfactorily macroeconomic stability and addressing the actions defined in the medium-term

programme (MTP).⁵ From the actions under the MTP, the Bank defines key actions that the country has to take before receiving the PRSC. Once the country has met those pre-conditions and the key prior conditions/ actions, the IDA defines the amount of aid given to country through the Country Policy and Institutional Assessment (CPIA)⁶. The PRSC usually involves three operations; each operation can include a single tranche loan as well as a multi-tranche loan. If CPIA identifies that the country has a good track record, PRSC may be a single-tranche loan, but in the case that the country has an inadequate track record, the PRSC may include two- tranche or three-tranche loans. Thus, in order to receive the first tranche, the government has to comply with a set of critical prior actions, so then the PRSC-I defines other prior actions (called triggers) based on the MTP to make the disbursement of the second tranche under the PRSC-II.

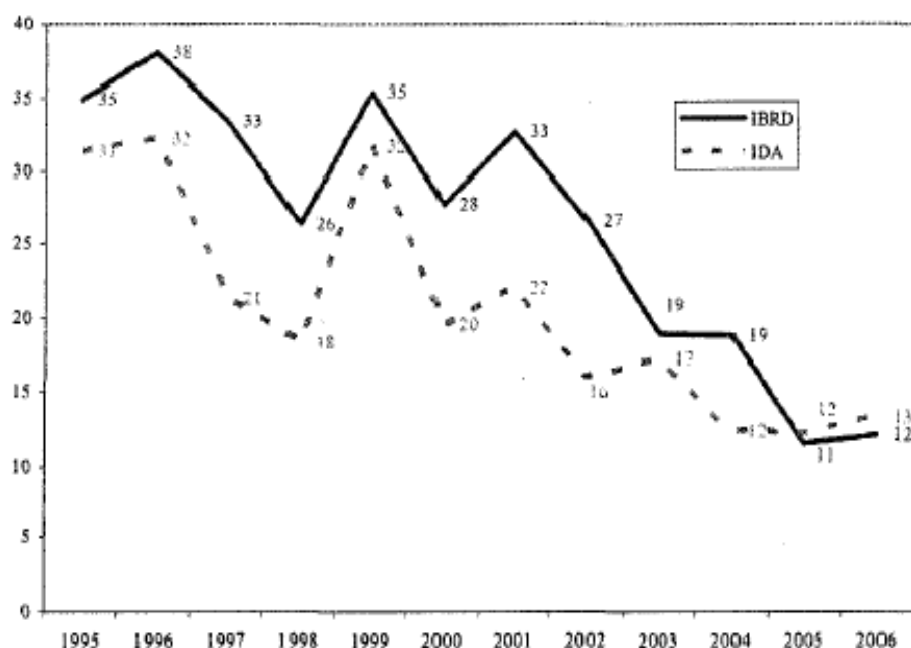
In addition to the key prior actions, the MTP defines benchmarks conditions, which the country should comply during the three years. In the Bank's *Development Policy Lending Retrospective* (2006a) report can be seen how much the number of benchmarks has comparatively increased under the PRSC. The graphs below illustrate that while the average number of conditionalities has substantially decreased (from 32 to 13 conditions), the average number of benchmarks⁷ has risen (from 11 to 32) since 1999.

⁵ The MTP is elaborated from the PRSP in collaboration with government and ministries. The MTP is part in government's Letter of Development Policy or in the "Bank Policy Matrix". The MTP defines indicators and actions that recipient government must undertake in the next three years.

⁶ Country Policy and Institutional Assessment (CPIA) defines the amount of aid that the Bank can offer to the recipient country in the PRSC. The amount of aid relies on the country economic performance and its programme performance. The CPIA rating has 16 indicators, including economic management, structural policies, policies for social inclusion or equity and public sector management and institutions. If the country has a low CPIA rating, the Bank may give less aid than the country wants. This mechanism shows that the Bank has become more selective in the way that he distributes aid in low-income countries (www.worldbank.org). For instance, Honduras rates (3.9) higher than the average of 3.2 for all international assistance borrowers from ODA. (www.oecd.org)

⁷ Benchmarks are non-binding conditions laid out in policy matrix that the Bank request to lend money, particularly, to countries under PRSC. These non-binding conditions usually tend to be prior actions to other institutional policies or reforms.

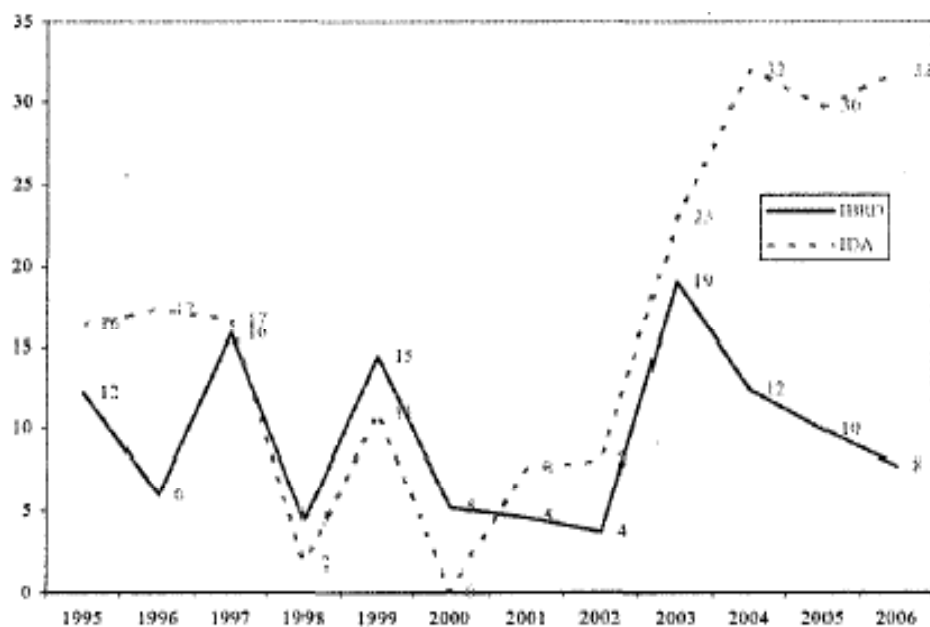
Figure 2: Average Number of Conditions by fiscal year



Note: In total 50 countries under the World Bank lending operations were analysed, from those 23 were IDA countries under PRSC-PRSP.

Source: World Bank (2006a) Development Policy Lending Retrospective

Figure 3: Average Numbers of Benchmarks by fiscal year



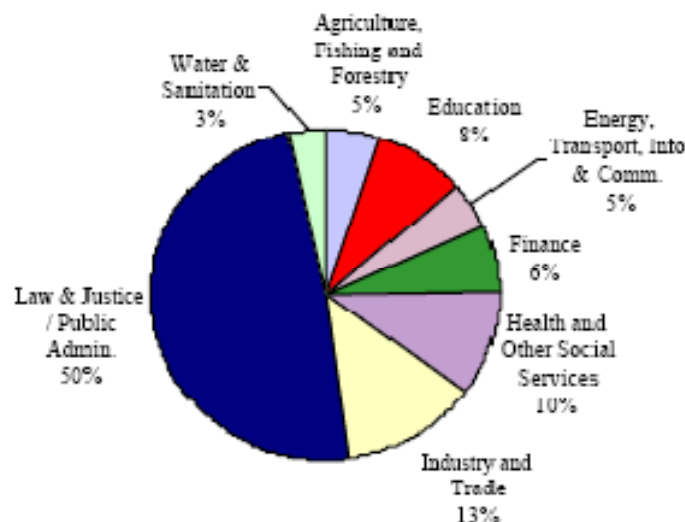
Note: In total 50 countries under the World Bank lending operations were analysed, from those 23 were IDA countries under PRSC-PRSP.

Source: World Bank (2006a) Development Policy Lending Retrospective

By comparing the two graphs it can be seen that the average number of benchmarks in IDA operations has risen in disproportion to the average number of

benchmarks in the International Bank for Reconstruction and Development (IBRD) operations. The IDA has moved towards an ‘ex-post conditionality’ practice in which borrowers only received credit for actions already carried out, while the IBRD has decreased all its conditions. The Bank states that IDA’s benchmarks are non-binding conditions, which the Bank and the government have negotiated during the elaboration of the “PRSC Policy Matrix”. The government collaboration limits to define benchmarks, as the Bank points which conditions are critical or binding to qualify for the PRSC financial support. (Killick 2004, Killick 2002). From those binding measures more than 45% entails public sector reforms, while the other binding actions are distributed among other key sectors, such as health, education, water and sanitation etc (See Figure 4). Normally, social protection and environment conditions are excluded as critical actions. For the Bank, those conditions are considered as benchmarks as they are long-term indicators that cannot be adequately measured after one year.

Figure 4: Distribution of binding conditions in PRSC



Source: World Bank (2005b) Poverty Reduction Support Credit: A Stocktaking

By analysing the World Bank’s reports, it seems that the new policy places country ownership as a central issue in the agenda. In practice, however, the ownership rhetoric is not realistic; the Bank has actively influenced the PRSP elaboration and defined key prior actions/conditions. The notion of borrower ownership is overstated for reasons that serve the interests of the Bank and the

government. This measure protects the Bank from charges that would arise for interfering in the rights of a country's sovereignty, and the recipient may accept the ownership rhetoric to gain easier access to credit, even when the country knows that its objectives are not included in the agenda

The Bank relies on conditionality as much as it used to do during the structural adjustment reforms. In fact, conditions have significantly increased, being attached to the programme content and the process (See Appendix 2: Number of conditionalities of PRSC in Honduras and Nicaragua) (Killick 2004, Killick 2002, Dijkstra 2005). Nonetheless, the Bank's conditionality policy has shifted to *ex-post* to prevent the possibility of a government's bad performance in reform implementation. The Bank states that it will not provide financial credit while the country has not completely accomplished the key prior conditions. If this fact is true, 'ex-post conditionality' as an instrument to avoid the possibility of non-compliance may have better results than ex-ante conditionality practice, as 'ex-post conditionality' increases the Bank's ability to punish slippage through three mechanisms: tranche cancellation, tranche delays and reduced access to repeat lending. This paper will analyse to what extent the degree of compliance with World Bank' conditions have increase in Honduras and Nicaragua after the PRSC. In addition, it verifies to what extent the adoption of 'ex-post conditionality' has a positive impact on the Bank's capacity to punish slippage in the two countries. Before addressing these questions, this paper analyses several theories that have demonstrated in different ways why conditionality policy is ineffective and how domestic political factors may have a greater influence in the reform' outcomes.

4. Conditionality and Compliance

This section explores relevant approaches surrounding conditionality effectiveness and government compliance. All those approaches have analysed the *ex-ante* conditionality inefficiency in securing policy change in the developing world. None of them have properly verified to what extent the use of '*ex-post conditionality*' may have improved the Bank's capacity to persuade its agenda in low-income countries. Despite this fact, those approaches are important for considering the conflict of interests between donor and recipient government, which may remain an important issue even after the adoption of '*ex-post conditionality*' policy. Through the analysis provided in this section, this paper aims to define a more appropriate theoretical framework to study to what extent '*ex-post conditionality*' policy has impacted on donor and government relationships.

4.1 Game theory

The game theory assumes that lenders and borrower governments are rational actors who want to maximise their utility or gain. The outcome of conditionality relies on the strategies pursued by each party (Mosley, Harrigan and Toye 1995). This theory divides the lender-borrower relations in three acts: the negotiating process, the implementation process and the evaluation or monitoring process. In the first act, the negotiating process, donors and recipient attempt to agree on the conditions attached to the loan. If the agreement is successful, both parties set up the prior actions and the post actions to be taken by the government and monitored by the lender. In the second act, the implementation process, the borrower strategically decides which promises made in the first act will be carried out. In the last act, (the evaluation process), the donor decides whether he will grant or refuse further finance in light of the recipient's performance in the second act (Mosley et. al 1995: 69).

According to Mosley, recipients may agree to undertake only a few conditions due to short-term political costs to the government (such as losing the support of powerful interest groups). Governments prefer to take the risk and not comply with few conditions instead of losing their internal political support. Hence, the complying costs are normally greater than the costs of not complying in the short

term. The low costs of non-compliance results from the Bank's inability to enforce the conditionality. The World Bank also wants to maximise the financial aid, as the Bank depends on lending to maintain its profitability. The Bank's preference is to attach as many conditions as it can on the project in order to pursue policy change in the country. However, the Bank's dependency on lending may constrain the enforcement of conditionality, particularly, if the Bank has geopolitical interests in the area. In addition, lenders within the Bank may be pressurised to loan money on a consistent basis, making the Bank's enforcement weak.

Mosley's model is based on the Prisoner's Dilemma in which both parties would have a better benefit cooperating than defeating. However, one party knows that it can achieve greater gain in defeating rather than cooperating. In the lender-borrower relationship, the recipient government is the party that can take more benefits from the conflict. By not complying with the conditions, governments avoid the political costs of the reform. Lenders do not punish the slippage, as they prefer to lend money instead to lose a client. The lack of credibility of the Bank's enforcement strategy gives a stronger position to the recipient during the negotiation and implementation process.

Furthermore, Mosley et. al (1995) consider that the recipient's bargaining strength is relative in each country, as they point out that 'the less the donor needs the recipient – either as outlet for funds or as political ally- and the more the recipient needs the donor-because of the gravity of its debt or foreign exchange position or, because it does not believe that it can borrow from any other source' (Mosley et. al 1995: 74). For instance, Mosley states that in the case of countries with high debt in the balance-of-payment the fear of punishment is greater and cooperation is more likely to be achieved, as those countries may not have another financial resource to borrow money from. In opposition to this example, highly indebted countries tend to not comply with the conditions, as they know that the Bank's ability to punish may be compromised by the payment of the old debt. Through this analysis, the game theory concludes that conditionality is ineffective to enforce borrower's compliance; it suggests that donors should define a shorter list of realistic conditions and be either consistent with the punishment policy or explicitly randomly defined (Mosley et. al 1995: 311).

4.2 Principal–Agent Approach

The principal–agent approach is based on the game theory principles. It also assumes that there is a conflict of interests between donors (Principal) and recipient (Agent). The innovative factor that principal-agent theory brings to the discussion is that this approach considers that there is asymmetric information between the lenders and borrowers. According to Killick, principal (P) wants that agent (A) does certain actions, but A has different objectives from P. A does not have the same interests in complying with P's objectives. A has always more information about its own actions than P. Thus, P intends to induce A's compliance through implementing a system of rewards or punishments. But, given the imperfect information, the system of rewards may increase the likelihood of recipient non-compliance. Through this theory, Killick shows the ineffectiveness of *ex-ante* policy conditionality in 21 countries. Then, he recommends a new model to improve the donors-recipient relationships, which must be based on “four principles: ownership, selectivity, support and dialogue” (Killick 1997: 493, Killick 1995). As can be seen, these principles have substantially influenced the new aid agenda under the PRSP. Particularly, it has reflected to some extent on the World Bank's policy towards a more effective aid. However, whether these principles have been properly adopted in order to improve donors and recipient relationships is questionable.

Dijkstra (2002) also uses this approach to analyse the limitations of conditionality and the bad performance of the structural adjustment programmes in eight countries. Unlike Killick, she includes a political–economic perspective into her analysis and considers in more detail how the content of policy conditionality affects credibility aspects. Dijkstra's model is far more sophisticated than Killick's analysis. According to her, the implementation depends on, the capacity of the state to implement the reforms, the degree of alignment between donors and government interests, the strength of the domestic opposition, the costs of the reform to the government and the opposition, the credibility of donors' advices and the availability of aid in the country (Dijkstra 2002: 313). In addition, she explains that conditionality enforcement may be ineffective due to conflicting objectives between donors and lack of donor co-ordination. The main observation of her analysis is that domestic political factors may have a greater influence on the reform outcomes than the conditionality enforcement.

4.3 Domestic Political Factors Versus Compliance

Both theories drawn above consider that government commitment have a greater impact on the reform implementation than conditions attached to a financial support. By considering these hypotheses, other authors analysed which aspects may positively or negatively affect government commitment toward the reform implementation without emphasising the conflict of interests between donors and recipients. For instance, many authors focus in which way a type of regime can influence government commitment towards reform implementation. Lal argues that authoritarian governments have more power and capacity to enforce policy change in developing countries, thus foreign aid that pursues policy change will have a greater impact during authoritarian regimes (Lal 1983). Dollar and Svensson show that reform implementations tend to be more effective in a democratic country than non-democratic countries (Dollar and Svensson 2000).

Whereas Dollar and Svensson pay more attention on the ways in which a type of regime can affect government commitment to reforms; Dreher analyses how a particular political feature of democracies, such as periodical elections, can negatively influence government compliance with the conditions agreed. His analysis concludes that the conditionality policy leads to recipient' "*moral hazard*" during the elections period (Dreher 2002, Dreher 2003, Dreher 2004, Dreher & Vaubel 2004). Governments know that IFIs might not cancel the financial arrangement during the elections years. Usually, the IMF and the World Bank believe that non-compliance is temporary and will be reversed after elections. Also, both institutions want to avoid instability in the country and increase the incumbent probability to win the elections as this incumbent has agreed to the conditions before. According to them, when the same government is re-elected, they usually do not comply with those conditions, 'because after the election, the perceived trade-off between cheap money and reduce political lenient may have changed, as consequence, IMF cancels the program' (Dreher 2002: 29). The same is true, if a new political representative is elected.

4.4 Domestic Commitments and Conditionality Enforcement in Central America

All those theories bring important aspects to the debate surrounding conditionality and compliance. The game theory shows why recipient's preference is defeatist rather than cooperative. The principal-agent approach includes asymmetric information between donor and recipient as a relevant variable that affects the enforcement of conditionality and decreases the probability of recipient compliance. Finally, Dreher's research points out how political cycles can also lead to government non-compliance. The main feature that those theories have in common is that they all consider domestic political factors as the principal obstruction to reform implementation. The political costs that a reform can bring to domestic politicians may reflect on the degree of implementation in a reform. In addition, they take into account the Bank's weakness to enforce *ex-ante* conditionality and how this fact increases the probability of recipient non-compliance. Even though, focus is paid on a distinct aid agenda where most conditions usually should be complied after the disbursement of the first tranche, this paper considers the fact that domestic political features might still have an impact on the reform's outcomes. It argues that the World Bank may lend money, even when all prior conditions have not been met as the Bank has political interests in the region and internal pressures to lend.

In order to analyse to what extent domestic political features may play an important role in the PRSC outcomes in Honduras and Nicaragua, this paper expands Dijkstra model. It includes to the political-economic perspective some domestic political features that may influence particularly Central America countries. Thus, this paper consider eight propositions to analyse the regional political features in which the three last were included to provide a greater understanding of the Central America countries.

1. Whether the government has capacity to implement the reforms
2. Whether the government is willing to adopt the reform
3. The degree of alignment between donors and government interests
4. The strength of the domestic opposition, the costs of the reform to the opposition.
5. The availability of aid in the country
6. Whether recipient country has or has not a patronage-clientelistic system.

7. Whether the civil society actors have voice in the government
8. To what extent external actors are considered legitimate in the country.

This model will be applied to the two case studies by taking into account the features brought by the new aid agenda. This paper explores the extent in which both governments have implemented the key critical actions defined in the PRSC. Then, it verifies whether ‘*ex-post* conditionality’ policy has been accomplished and to what extent this has increased the World Bank’s ability to enforce conditions and punish slippage. Finally, the paper analyses the extent to which ‘*ex-post* conditionality’ policy has effectively increased the degree of compliance through the model designed above. Before addressing this theoretical model in the case studies, this paper gives an overview of the new aid agenda, which considers the application of three principles.

5. Case Studies

This section aims to analyse the new aid agenda in Honduras and Nicaragua. It gives an overview of the political-economic features in both countries. Then, it discusses to what extent the World Bank has changed its conditionality policy through the analysis of the PRSC.

5.1 Honduras

5.1.1 Country Background

Honduras is one of the poorest countries in Central America. Poverty is widespread, particularly in the rural areas. Despite the Human Development Index increase from 0.563 in 1990 to 0.683 in 2004, Honduras still has about two-thirds of the population below the poverty line⁸. Since PRPS emerged in 2001, income poverty has slightly increased from 65.2% to 65.8% in 2005 and extreme poverty has declined from 48.4% to 47.1% in 2005 (SIERP 2005, ISS 2006). The SIERP Information

⁸ Poverty Line measures the number of people living with less than US\$ 1 per day.

System⁹ shows that inequality, in opposition to the PRSPs expectations, has increased from 56.1% to 58.9% in 2005. The economic trends have been a little more optimistic than the poverty reduction trends since the PRSP adoption. For instance, in 2006, real GDP registered an increase of 5% as compared to 4,1 % in the previous year. Since 2001 the inflation rate has decreased from 9,1% to 5,6 % in 2006 (IMF 2007). The GNI per capita has risen from U\$ 860.0 in 2005 to U\$ 1,120.0 in 2006 (WDI 2006). The foreign direct investment inflow has enlarged from approximately U\$ 281 million in 2000 to around U\$ 464 million in 2005 (WDI 2006) (See Appendix 3: Economic and Social Trends in Honduras and Nicaragua).

Although the country has made efforts to diversify the exports by raising the *maquila* industries and diversifying the natural resources especially during the expansion of the CACM- Central American Common Market¹⁰ (World Bank 2006b), the main export products are still raw materials and agriculture products including coffee, banana, timber and so on. Thus, the country still is significantly vulnerable to external economic shocks or natural disasters. For example, in 1998, the Hurricane Mitch had a serious impact on the country's economy. The high dependence on foreign aid is another factor that makes the country vulnerable. For example, IDA averaged that foreign aid represented approximately 9 % of gross national income during 1994-2003 (World Bank 2006b). The public sectors inefficiency and the low level of human capital are pointed out as relevant constraints to development (World Bank 2006b). As can be seen in the Table 2, Honduras remains ranked below most of countries in Central America in terms of "Voice and Accountability", "Government Effectiveness" and "Rule of Law", except Haiti and Guatemala. In regard to "Political Stability" and "Regulatory Quality", Honduras is only ranked above Haiti and Guatemala.

Table 1: Governance and Anti-Corruption Indicators in Central America

⁹ SIERP National Information System (Sistema de Informacion de la Estrategia de Reduccion de Pobreza) was created by the Honduran Minister of Presidency in order to monitor the impact of PRSP policies.

¹⁰ The CACM was agreement between five countries in Central America: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica (from 1963 to 1969). Honduras is, however, the country that less benefited from CACM. (Booth and Walker 1993)

Governance Indicator	Year	Percentile Rank (0-100)						
		Costa Rica	Dom. Rep.	Guatemala	Haiti	Honduras	El Salvador	Nicaragua
Voice and Accountability	2006	74	53.8	39.9	15.4	37.5	48.1	42.8
	2002	84.6	56.7	36.5	10.1	43.8	50	46.2
Political Stability	2006	79.8	52.9	22.6	9.1	30.8	43.8	31.7
	2002	85.6	51.4	20.2	13.5	37	49.5	42.8
Government Effectiveness	2006	65.4	37.4	28.9	6.2	32.7	46.4	16.1
	2002	69.7	45.5	33.6	4.3	32.2	37.4	22.3
Regulatory Quality	2006	63.9	49.8	51.2	20.5	35.6	56.1	31.7
	2002	66.3	47.3	48.3	15.6	40	55.6	39
Rule of Law	2006	64.8	39.5	14.3	2.4	21.4	37.6	25.7
	2002	68.6	38.1	23.3	0.5	24.3	36.2	28.1
Control of Corruption	2006	67	34	26.7	2.4	22.3	53.9	23.8
	2002	78.2	41.7	34	0	26.2	35.9	39.8

Source: World Bank Governance Indicators 2007

5.1.2 Domestic Political Context

Honduras is a bi-party system represented by the National Party and the Liberal Party. Despite, the National Party having supported a military coup in 1963, there appears to be few major ideological differences between both parties (Booth and Walker 1993, Flora and Torres-Rivas 1989). Unlike El Salvador, Nicaragua and Guatemala, Honduras did not have intense political conflict during the 1980s or the 1990s. Civil society organisations against the government policy were kept small and without capacity to pursue policy change in the country (Booth et.al 1993, Flora et.al 1989). Local elite in both political parties have had a weak participation in policy formulation since the Honduran independence (Booth et.al 1993, Flora et.al 1989, Seppänen 2003, Seppänen 2005, Jackson 2005). As Seppänen (2005: 106) argues ‘the domestic /external boundary has been blurred’, the capacity of influence of external actors have shifted from plantation companies to U.S military forces, from the U.S military forces to the IFIs after the democratisation. Seppänen’s research (Seppänen 2005: 107) highlights that ‘external influences in domestic policy formulation is considered normal and is even celebrated by most political actors, both state and non- state, though for different reasons’.

Thus, in the Honduran political context, external actors tend to be considered legitimate to enforce political change in the country. There is no visible conflict of interests between the elites and the international financial institutions, nor between

civil society organisations and IFIs. The patronage-clientelistic system can be seen as the most important constraint to reform implementation in the country. If the reform proposed does not threaten this system, the Honduran government tends to adopt reforms supported by IFIs (Seppänen 2005, Jackson 2005).

5.1.3 PRSP Brief

Honduras commenced to elaborate the PRSP interim in April 2000, which was approved by the World Bank and the IMF in October 2001. After a few months, national elections were held and the new president elected, Ricardo Maduro (National Party), did not recognise the old PRSP and carried out the National Dialogue with civil society representatives to design a second PRSP. Maduro's administration did not comply with PRGF conditions by increasing the salaries of teachers and health workers. As a result, the PRGF loan (IMF) went off track in 2002 until February 2004 (Dijkstra 2005, ISS 2006a, ISS 2006b, Vos et.al 2006). This fact delayed the implementation of the PRSP and the agreement with the World Bank's loan, the PRSC-I. On February 2004, Maduro finally concluded the consultation process and implemented the PRSP-II. As can be seen in the Table 3, the Honduras PRSP is based on 6 main pillars in accord with the Millennium Development Goals (MDG) goals.

Table 2: Honduras PRSP

Pillar I	Pillar II	Pillar III	Pillar IV	Pillar V	Pillar VI
Accelerating Equitable and Sustainable Growth	Reducing Rural Poverty	Reducing Urban Poverty	Investing in Human Capital	Social Protection for Vulnerable Groups	Guaranteeing Sustainability
Cross Sectoral Themes					
Gender Equity					
Environmental Sustainability					
Decentralisation					

Source: Honduras Progress Report 2004

In order to facilitate PRSP implementation, the government reached a new agreement with the IMF, getting financial credit through the PRGF initiative. A few months later, the government also signed the agreement with the World Bank. Finally, in April 2005, after one year of PRGF implementation Honduras reached the Completion Point of the HIPC Initiative qualifying for debt relief. The Paris Club

cancelled US\$ 1, 061 million of the public external debt, and the World Bank and the IMF annulled approximately US\$ 1,3000 million. Recently, the Multilateral Debt Relief Initiative (MDRI) cancelled around US\$ 1, 4000 million from the Inter-American Development Bank (IDB) debt. By the end of 2005, the main opposition candidate, Manuel Zelaya (Liberal Party), came to power in Honduras. Zelaya administration revised the PRSP strategy in line with an “integrated approach”, which defines a model of growth with equity that focuses on the poor. The new president has not yet reached the second PRSC-II credit.

5.1.4 PRSC I

The PRSC-I agreement was signed two months after the PRGF agreement. The Bank lent a single-tranche¹¹ of US\$ 58 million to Honduras after the government partially met critical prior actions (See Appendix 4: “Honduras Policy Matrix”, including benchmarks and critical triggers to PRSC-II and PRSC-III):

Table 3: Honduras Degree of Compliance with PRSC-I

Key Prior Actions	Degree of Compliance
1. The maintenance of an adequate macro-economic framework	Complied
2. Implemented the Administration Simplification Law (2002), which reduced the time needed to register a business from 129 days to 62 days	Complied
3. Airport concession to the private sector in order o improve efficiency and quality	Partially Complied The concessionaire to the private sector has failed in achieving better quality and efficiency
4. Permitted competition to Hondutel telecommunications company. Conatel has awarded a license to a second cellular telephone operator	Partially Complied Hondutel has lengthy exclusionary period lasting ten years. There is no competition to landline and international call rates, only mobiles.
5. Approved unified property registry law, which consolidates institutional arrangements for land regularization	Partially Complied Government has drawn a draft, and has given the responsibility to the National Property Institute, which has no institutional capacity to fulfill the role

¹¹ Single tranche means when the Bank disburse the entire loan in one time.

6. Recognised Local Education Development Associations (ADELs) as <i>personeria juridica</i>	Partially Complied Until 2005, only 45% of schools have been recognized as <i>personeria juridica</i>
7. Ministry of Education has submitted to the 2003 educational census to the national statistic institute and teachers payroll appears in the SIARHD	Complied
8. Ministry of Health has audited 30% of its human resources. Also, it has issued a resolution stating that personnel transfer will not be permitted without authorization of departmental directors	Partially Complied Post audits have been completed. However, there is evidence of non-compliance with the resolution that prohibits personnel transfer without director authorization
9. Redefined poverty reduction expenditures to improve linkage between poverty spending and PRSP targets	Complied
10. Approved SIAFI law in all central government agencies and includes provisions for multi-annual budgeting, public sector accounting standards and internal controls	Complied
11. Approved “Ley de Reordenamiento del Sistema Restritivo del Gobierno Central”, restoring Executive’s control over civil service wage	Complied
12. Government has presented to Congress legislation, which “ provides the basis for a professional civil service, including merit-based recruitment and promotion and limits the number of political appointment in the civil service	Not Complied The Congress has not approved the “Civil Service Law”
13. The environment ministry has submitted to CONAP a strategic framework and action plan for the SINAPH protected areas	Partially Complied Protected trust areas have been created, but a detailed costing and financing plan is still missing
14. Submitted to IDA the annual PRSP Progress Report	Complied
15. Government has approved “Ley del Fondo para la Reduccion de la Pobreza”	Complied

Source: World Bank (2006) “Honduras Country Assistance Evaluation”; World Bank (2005) “Simplified Implementation Completion Report on the credit of 58 million to the Republic of Honduras-PRSCI”; ISS(2005) “Presupuestar la ERP”

The Table 4 illustrates that the government has not complied with one condition and partially complied with seven conditions, even though the World Bank disbursed the entire loan to the Honduran government. Although, the Bank claims that non-compliance with key prior actions would not enable highly indebted countries to be rewarded with PRSC loan, the Honduran case demonstrates that the Bank has not followed with its own policy. This paper presumes that the reasons for the Bank to maintain the financial assistance in the country are political-economic interests and the Banks' internal pressure to lend (Mosley et.al 1995). However, further research on this issue is needed. The Bank's enforcement policy remains weak in other projects in the country as well. The World Bank's "Country Assistance Evaluation (2006b)" Report states that the partial compliance of PRSC was due to weak institutional governmental capacity to implement reforms (World Bank 2006b). Regardless of the weak government capacity in implementing those projects, IDA kept most projects on track. Thus, the Bank's conditionality policy rather than decreasing recipient bad performance, it has maintained government bad behaviour towards unpopular reforms. The internal political features that have led Honduran government to non-compliance with PRSC key critical actions, is discussed in detail in the next chapter.

5.2. Nicaragua

5.2.1 Country Background

Nicaragua is also greatly affected by human poverty with 46,2% of the total population living with a per capita daily income of one dollar or less in 2005. According to the Human Development Index, Nicaragua ranks slightly above Honduras (0.683) with 0.69 in 2004. Since PRSP implementation the rate of open unemployment increased from 10.8% in 2001 to 12.7% in 2006. The Living Standards Measurement Survey Inequality (LSMSI) seems to indicate that inequality has also risen since 2001 (ISS 2007). In economic terms, Nicaragua has done less well than its boundary neighbour, Honduras. The economic growth shows signs of a slowing down of GDP real of 4% in 2005 and the average annual inflation rate has risen from 8.6% to approximately 10% in 2005 (WDI 2007). The foreign direct investment inflow has declined from US\$ 266.9 million in 2000 to US\$ 241.4 million in 2005. Like Honduras, the main export products of Nicaragua concentrates on the

agriculture sector, including in order of importance: coffee, beef, shrimp, lobster, tobacco, sugar, gold and peanuts. Thus, Nicaragua's economy can also be easily affected by natural disasters and exogenous shocks.

Despite such a bad performance in economic and social indicators, Nicaragua ranked above Honduras in four of the World Bank Governance Indicators, such as "Voice and Accountability", "Political Stability", "Control of Corruption" and "Rule of Law". Nicaragua remained below only in "Government Effectiveness" and "Regulatory Quality" (See Table 2 pp. 26). The main constraints for development in Nicaragua differ from Honduras, where the political opposition do not have strength to play an important role in the reform implementation.

5.2.3 Domestic Political Factors

Nicaragua is a multi-party system composed of three important parties: the Conservative Party, the Liberal Constitutionalist Party (PLC) and the Sandinista National Liberation Front (FSLN) party. Unlike Honduras, Nicaragua had intense internal political conflict that lasted until 1980s, when the FSLN's leader, Daniel Ortega, took the power from the Somoza regime (1936-1979). The FSLN was supported by a popular mass movement and was considered a "socialist" threat to the US policy in the Caribbean Region. In order to destabilise the "socialist" government, the Reagan administration organised military forces in Honduras and economically isolated the country¹². After years of resistance against U.S, Ortega finally announced National Elections in 1990 (Booth et.al 1993, Flora et.al 1989, Anderson & Dodd 2002).

Although there is an unremarkable ideological difference between the FSLN and the Liberal Party at the present time, Nicaraguan society has become polarised between anti-sandinista and pro-sandinista parties (Booth et.al 1993, Flora et.al 1989, Anderson et. al 2002). Civil society organisations have a greater participation in the country's political decisions and the opposition has enough strength in the Congress to constrain reform implementation. Another constraint to reform implementation is the patronage-clientelistic system. Like in Honduras, political parties depend on this system to maintain their position in the electorate. In the last elections, in 2006, the

¹² This period is known as the Contra War.

FSLN leader Daniel Ortega was elected for the first time since the democratic system was adopted in 1990s. The new leader may have more support to implement its own agenda into the country.

5.2.4 PRSP Brief

Nicaragua began to prepare the PRSP interim in 2000, which was approved in September 2001. Unlike Honduras, the newly elected president Bolaños (PLC) agreed to implement the PRSP, established by the previous president in order to guarantee HIPC –II debt relief¹³. Bolaños was able to present a revised PRSP-II including his agenda to the multilateral organisations. The Nicaragua’s PRSP is based on the four pillars below (REF):

Table 4: Nicaragua PRSP

Pillar I	Pillar II	Pillar III	Pillar V
Economic Growth with Equity	Investing in Human Capital	Protection of Vulnerable Groups	Good Governance
Cross Sectoral Themes			
Environmental Protection			
Social Equity			
Decentralisation			

Source: The World Bank www.worldbank.org

The Nicaragua government achieved financial credit from the IMF to implement the reform in 2002. Hence, Nicaragua could reach the Completion Point and qualify for debt relief by January 2004 (one year before Honduras). Despite this, the National Assembly has not approved many of the structural conditions attached to the PRGF in 2004; the PRGF was still on track until the end of the 2004. The PRGF only went off track in 2005, when it was obvious that the Executive did not have enough power to persuade the National Assembly to vote in reforms that would be bring a lot of costs to the opposition (See Appendix 6: A Summary of PRSP in both countries).

5.2.5 PRSC-I Nicaragua

¹³ Nicaragua was qualified for the first HIPC-I debt relief in July 2001 through the implementation of the Strengthen Economic Growth and Poverty Reduction Strategy (ERCERP) programme.

The World Bank decided to finance PRSP implementation with the PRSC loan in 2004, despite the bad performance with the PRGF conditions. The World Bank financed the PRSC-I with the partnership of the German Development Agency – KfW, which provided approximately US\$ 7 million from the US\$ 70 million credit. The PRSC loan was a two- tranche loan due to the bad Nicaraguan track performance in previous programmes (World Bank 2004). The credit defined ten pre-conditions to disburse first tranche of US\$ 35 million, and then it delineated more other 10 conditions to give out the second tranche of US\$ 35 million. The 10 critical prior conditions to receive the second tranche were partially complied by the government. (See Appendix 5: “Nicaragua Policy Matrix” -including benchmarks and critical triggers).

Table 5: Nicaragua Degree of Compliance with PRSC-I

Key Prior Actions	Degree of Compliance
1.The National Assembly approved poverty reduction expenditure of the non-financial public sector of at least 11.6% of GDP	Complied
2. Execution of poverty reduction expenditure represented at least 11 % of GDP	Complied
3.Maintained adequate macroeconomic framework	Not Complied The IMF evaluates that Nicaragua’s economic policy was not in accordance with the structural conditions attached to PRGF loan. For instance, the National Assembly did not approve several laws required to comply with PRGF conditions, such as the Fiscal Responsibility Law and the Tributary Code Law.
4. In accordance with the roadmap for pension reform: (I) the President has reformed decrees 57-2000 and 975 before AFPs start to operate, to reduce the fiscal impact of the pension reform, adjusting the number of year for determining the salary used to calculate pensions rate, (ii) the Superintendence of Banks and Pension have designed a "Chinese Wall" system to prevent the use of inside information between AFPs and companies in the banking system.	Not Complied FSLN approved 340 Law in the National Assembly, which benefits the workers and increases the pension costs. The Executive intends to cancel this law through the 539 Law. However, the Executive needs to establish a pact with FSLN to get the law approved.

5.A Presidential Decree has been issued modifying the regulations of the Law of Municipalities in a fiscally sustainable manner by balancing municipal expenditures with resources transferred to municipalities.	Complied
6.SECEP has implemented regulation of the National System of Public Investment by incorporating all public project into the official registry of public investments, including those financed by grants	Complied
7.The National Assembly has approved enough Revenue to finance 1800 additional schools into the Participatory Education Regime	Partially Complied 413 Ley de Participacion Educativa was approved, however the schools have not been incorporated
8.CONAPAS has approved a National Water and Sanitation Strategy, which defines the role of ENACAL in the urban area and of FISE in the rural area	Complied
9.CONADI has completed demarcation, the Intendencia de la Propriedad has registered al least 5 indigenous territories in Bosawas	Partially complied CONADI has completed demarcation, but the Justice Court has not registered
10.CNE has restructures the rural electrification fund (FODIEN) through (I) the necessary modification of the FODIEN's legal structure, (ii) the entry into effect of rules and procedures for sub-project selection, implementation and monitoring (iii) the establishment of funding, financing mechanism and subsidy allocation criteria for the sub-project (iv) the entry into effect of rule and procedures for FODIEN's management (v) the adoption of a medium-term financing plan of FODIEN, consistent with overall fiscal sustainability	Complied

Source: World Bank (2005) "Nicaragua: PRSC-I Release of Second Tranche-Waiver of One Condition"; (2005) Sistema Nacional de Seguimento de Indicadores a Desarrollo" www.sinasidi.gob.ni

The Nicaraguan government has not complied with two PRSC conditions; the government could withdraw approximately US\$ 66,5 million from the 70 million dollars loan before the PRSC cancellation (World Bank website). The World Bank only cancelled the credit after the IMF decided to cancel the PRGF in the beginning of 2005. Unlike Honduras, the Bank has punished to some extent slippage by cancelling further access to the PRSC-I credit. However, the Bank's decision to cancel slippage was delayed, the Nicaraguan government was able to get almost the

entire financial support before complying with two critical prior conditions. The historical conflicts and instability between the FSLN and U.S government suggests that the delay in the Bank's decision to prohibit further access to credit, may be influenced by political pressures from the member countries rather than the institutional pressure to lend. The Bank's member countries, particularly the U.S government, may have identified that the premature credit cancellation could symbolise the opposition's triumph. It also could undermine the government capacity to negotiate with the opposition. In this case, the Bank's decision was politically strategic, as the last thing that the Bank's member counties wanted was to benefit the opposition.

In addition to the Bank' member countries pressures, Nicaragua also shows that the Bank's policy conditionality has not made a better use of 'ex-post conditionality'. Like Honduras, the Bank has disbursed almost the entire credit without preventing "moral hazard" by recipient country even when the government has not complied with two key prior actions. Also, the Bank has maintained other financial credits in the country increasing the probability of non-compliance in the PRSC credit. In the next section, this paper analyses which domestic political factors have lead both countries to not comply with the reform beyond the lack of the Bank's ability to enforce its own conditions.

6. Comparative Analysis

By analysing PRSC credit in two countries in Central America, it is clear that the World Bank's conditionality policy has not shifted to the same extent that the Bank claims. This fact undermines the Bank's capacity to enforce its own conditions and increases the probability of government's non-compliance. The existing 'ex-post conditionality' policy fails to resolve the conflict of interests between the Bank and the recipients government at least in the two countries studied. Nevertheless, the intensity of the conflict of interests between the World Bank and recipient government varies in the two Central American countries. The different historical political-economic path undertaken by those countries may reflect on the government performance in pursuing reforms suggested by international financial institutions. The conflict of interest in Honduras may be classified lower than in Nicaragua. The

external actors' ability to influence Honduran policies is an issue on which commentators (for example Seppänen (2005) Jackson (2005), Booth et.al (1993) and Flora et.al (1989)) have long agreed; the Honduran government tends to recognise and legitimise the external intervention. As a consequence, the conflict of interest may only arise when the reform can negatively affect the patronage-clientelistic system (Seppänen 2005, World Bank 2006). In contrast to Honduras, the Nicaraguan government has a higher propensity to not completely adhere to external reforms due to the opposition's strength¹⁴. The main Nicaraguan opposition political party, FSLN, tends to avoid reforms that may result in high costs to the party and its popular support.

The PRSC implementation in both countries may confirm this hypothesis. While Honduras has not complied with one single condition, the Nicaraguan government has not complied with two PRSC conditions, if one does not consider the non-compliance with the other many conditions attached to the PRGF programme. In the Honduras case, non-compliance with the "Civil Service Law" indicates that reforms that may negatively impact on the patronage-clientelistic system tend not to be adopted. The "Civil Service Reform" would limit the elite capacity to exchange the main political currency, which is the exchange of governmental positions within the state (World Bank 2006b). Through the exchange of governmental positions, domestic elites have been able to decrease the likelihood of domestic conflicts among different groups in society. This system guarantees "stability" in the country and the electoral victory of one of the two parties every political cycle. The professional managerial and administrative posts in the civil service would decrease the availability of political currencies in the government, thus even if the Congress approves this condition, it is slightly low the chances that the law will be fully implemented.

Another reason for non-compliance with the Civil Service law was the large amount of aid in the country and weak co-ordination amongst donors. The government knew that other financial resources would remain in the country if the Bank resolved to cancel the credit (See Appendix 7: Total Aid in Honduras and Nicaragua). The partial compliance with PRSCs conditions is mainly due to the lack

¹⁴ This paper argues that Nicaraguan has a lower propensity to implement external reform in comparison to Honduras. However, it emphasises that the external actors influence may be higher in some areas in Nicaragua in comparison to other countries in Latin America.

of the government institutional capacity. For instance, the delay in designing an adequate “Property Law” and low efficiency of the airport concession, shows how the government has a weak institutional capacity in adopting reforms that require strong technical ability (World Bank 2006). Hence, in Honduras case, there are four major features that caused recipient’s non-compliance: the patronage-clientelistic system, the availability of aid, a lack of donor co-ordination and weak institutional capacity.

The non-compliance with PRSCs key prior actions have had distinct reasons in Nicaragua, where there is a constant conflict of interest between powerful groups within the state. The polarisation between pro-FSLN and anti-FSLN causes restrictions to reform implementation especially when the opposition has majority seats in the National Assembly. At the time that PRSC was signed, the FSLN had enough seats in the National Assembly to prevent policy change. The Sandinista was able to intercept PRSCs prior conditions and also PRGFs structural conditions. The conditions that the government could comply with were through the use of an Executive decree. For example, FSLN impeded the approval of the “Pension Reform” and organised civil society organisations around the costs that this condition could bring to the poor. The civil society strength in supporting the main opposition party undermined government policy and the international organisations reform in the country. The FSLN has also obstructed the compliance with the macroeconomic stabilisation policy agreed with the IMF and a critical prior condition to the PRSC as many IMF conditions relied on the approval of laws at the National Assembly. For instance, the FSLN has rejected the “Fiscal Responsibility Law” and the “Tribunal Code Law”, leading the country off track at the beginning of 2005. The government also had domestic political constraints to register indigenous areas in the Justice Court after the demarcation. The fact that the government has a weak capacity to negotiate with the opposition in few conditions has been the main argument used by the government to maintain financial assistance. As Dijkstra argues, the Nicaragua case is usually ‘difficult to conclude if the government is unable or unwilling to make a realistic assessment of reform implementation’ (Dijkstra 2002: 316). After the PRGF and PRSC went off track in the beginning 2005, the FSLN and PLC joint a political alliance (the 558 Law “Ley de Estabilidad y Gobernabilidad del Pais”) in order to implement the reforms and guarantee future financial support. Like Honduras, the high amount of aid in Nicaragua has also influenced the opposition’s behaviour

towards PRSCs conditions. The opposition is aware that donors' harmonisation tends to be weak and concentrate on sectoral areas (such as education, health so on), thus the bad performance on the PRSC will not mean a cut in other financial support.

7. Concluding Remarks

This paper sought to analyse the degree of compliance with the conditions attached to PRSC from the World Bank. It discussed the extent to which the World Bank's conditionality policy has improved the government performance and in which way domestic political factors may affect the reform outcomes. The results of this research have indicated that particular political features may have a greater impact on the reform implementation than the enforcement policy. Analysing two different experiences – Honduras and Nicaragua, respectively - this paper has shown that internal political features may vary in each case. For instance, the Honduras case has shown that the government may not comply with those conditions that may affect the patronage-clientelistic system, while Nicaragua tends to not comply with those conditions that go against opposition interests. In the Honduras case it is clear that the main political currency between the two political parties is the exchange of positions in the state. However, the research suggests that in Nicaragua the exchange of positions is not a strong political currency as in Honduras. Thus, it seems that Nicaraguan reforms could only be implemented when the government used its Executive strength.

The reasons for non-compliance do not only rely on the domestic political features although they have a greater influence on the reform outcomes. The weakness of the Bank's enforcement policy contributes to the recipient's bad performance. The main findings have demonstrated that the Bank's shift towards 'ex-post conditionality' in order to increase the degree of compliance has failed. Currently, the Bank still permits the disbursement of aid even when the government has not complied with the key prior actions. Actually, the Bank has rewarded more financial support to Nicaragua than to Honduras. Despite the fact that the Bank has cancelled the PRSC-I in Nicaragua; the Nicaraguan government was able to disburse US\$ 66,5 million dollars, while Honduran government has received a smaller credit of US 58 million. Moreover, the Bank has already signed a new agreement with the Nicaraguan government one year after the cancellation.

The recipient's degree of compliance can only improve if the World Bank makes a detailed assessment of the domestic political features before defining the key conditions. This assessment should include which reforms the country has the

capacity and will to implement. The reforms that represent a “threat” to the domestic political interests should either be delayed or included as a benchmark. The Bank’s other option would be to enforce the key prior conditions by not disbursing the loan to those countries that have completely complied.

It is important to stress that the results of this study involve the PRSC loan and the two countries at a certain period of time. The results may be different when applied to other donors or countries. It is particular risky to assume that in all cases the degree of compliance may be affected by the same domestic political features. Other studies have to consider adequate political factors in order to design an appropriate assessment.

Appendix 1: List of PRSP countries

Completion Point (22 countries)	Decision Point (9 countries)	Pre-Decision Point (10 countries)
<u>Benin</u>	<u>Afghanistan</u>	<u>Central African Republic</u>
<u>Bolivia</u>	<u>Burundi</u>	<u>Comoros</u>
<u>Burkina Faso</u>	<u>Chad</u>	<u>Côte d'Ivoire</u>
<u>Cameroon</u>	<u>Democratic Republic of Congo</u>	<u>Eritrea</u>
<u>Ethiopia</u>	<u>Republic of Congo</u>	<u>Kyrgyz Republic</u>
<u>Ghana</u>	<u>The Gambia</u>	<u>Liberia</u>
<u>Guyana</u>	<u>Guinea</u>	<u>Nepal</u>
<u>Honduras</u>	<u>Guinea-Bissau</u>	<u>Somalia</u>
<u>Madagascar</u>	<u>Haiti</u>	<u>Sudan</u>
<u>Malawi</u>		<u>Togo</u>
<u>Mali</u>		
<u>Mauritania</u>		
<u>Mozambique</u>		
<u>Nicaragua</u>		
<u>Níger</u>		
<u>Rwanda</u>		
<u>São Tomé Príncipe</u>		
<u>Senegal</u>		
<u>Sierra Leone</u>		
<u>Tanzania</u>		
<u>Uganda</u>		
<u>Zambia</u>		

Source: IMF 2007 www.imf.org

Appendix 2: Number of conditionalities of PRSC in Honduras and Nicaragua

Country	Conditionalities First year	Conditionalities Second year*	Conditionalities Third year**	Indicators of Impact Or Effect	Total
Honduras PRSC	76	80	57	56	213
Nicaragua PRSC	37	62	42	56	141

Notes: * For Nicaragua, this information refers to the second path of the PRSC-I, for Honduras it corresponds to PRSC

** For Nicaragua, it refers to the PRSC-II, for Honduras it refers to PRSC

Source: Adapted from Vos & Cabezas 2006

Appendix 3: Economic and Social Trends in Honduras and Nicaragua

	Honduras		Nicaragua	
	2000	2005	2000	2005
People				
<u>Population, total</u>	6.4 million	7.2 million	4.9 million	5.1 million
<u>Population growth (annual %)</u>	2.5	2.2	1.7	0.5
<u>Life expectancy at birth, total (years)</u>	67.3	68.6	68.9	70.4
<u>Mortality rate, infant (per 1,000 live births)</u>	33	31	34	30
<u>School enrollment, primary (% gross)</u>	106	..	103.2	111.8
Environment				
<u>Surface area (sq. km)</u>	112.1 thousand	112.1 thousand	130.0 thousand	130.0 thousand
<u>Agricultural land (% of land area)</u>	26.2	..	57.4	..
<u>Energy use (kg of oil equivalent per capita)</u>	468.8	..	558.5	..
<u>Energy imports, net (% of energy use)</u>	49.5	..	43.5	..
Economy				

<u>GNI, Atlas method (current US\$)</u>	5.5 billion	8.0 billion	3.7 billion	4.9 billion
<u>GNI per capita, Atlas method (current US\$)</u>	860	1,120.00	760	950
<u>GDP (current US\$)</u>	6.0 billion	8.3 billion	3.9 billion	4.9 billion
<u>GDP growth (annual %)</u>	5.7	4	4.1	4
<u>Inflation, GDP deflator (annual %)</u>	9.7	10.3	8.6	10.3
<u>Agriculture, value added (% of GDP)</u>	16.2	13.9	20.1	18.6
<u>Industry, value added (% of GDP)</u>	31.6	31.4	27.2	28
<u>Services, etc., value added (% of GDP)</u>	52.2	54.6	52.7	53.4
<u>Exports of goods and services (% of GDP)</u>	41.3	40.9	23.9	28
<u>Imports of goods and services (% of GDP)</u>	55.2	61.4	51.1	57.6
<u>Gross capital formation (% of GDP)</u>	30.7	29.9	30.2	29.4
<u>Revenue, excluding grants (% of GDP)</u>			18.4	22.4
<u>Cash surplus/deficit (% of GDP)</u>			-3.1	-0.7
States and markets				
<u>Time required to start a business (days)</u>	..	62	..	39
<u>High-technology exports (% of manufactured exports)</u>	0.3	..	4.9	5.2
Global links				
<u>Merchandise trade (% of GDP)</u>	70.9	74.5	62.2	70.3
<u>Foreign direct investment, net inflows (BoP, current US\$)</u>	281.9 million	463.9 million	266.9 million	241.4 million
<u>Long-term debt (DOD, current US\$)</u>	4.8 billion	4.7 billion	5.8 billion	4.4 billion
<u>Present value of debt (% of GNI)</u>	..	36.7	..	46.2
<u>Total debt service (% of exports of goods, services and income)</u>	12.9	7.2	19.7	6.9

<u>Official development assistance and official aid (current US\$)</u>	449.0 million	680.8 million	561.2 million	740.1 million
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Source: The World Bank (2006) www.worldbank.org

Appendix 4: Honduras Policy Matrix* (From pp 45 to 56)

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
I. PRO-POOR GROWTH— INCREASING INVESTMENT AND EMPLOYMENT					
I. A. Macroeconomic Framework		Established and maintained an adequate macroeconomic framework	Maintained an adequate macroeconomic framework	Maintained an adequate macroeconomic framework	
I. B. Investment Climate and Competitiveness					
IB1. Administrative Simplification	Administrative procedures for creating new businesses are complex, lengthy and cumbersome. Problems also exist in key areas such as: exports, customs, fito-sanitary procedures, environmental permits and municipal permits, which all need to be simplified to maximize the impact of CAFTA.	Satisfactory implementation of the Administration Simplification Law (2002), evidenced by (i) the reduction in the time needed to register a typical business in Tegucigalpa from 129 days in 2002 to 62 days in the first quarter of 2004, and (ii) the creation of the Administrative Simplification Committee (CSAE), through an executive decree and a resolution adopted by the National Competitiveness Commission, to coordinate all initiatives for administrative simplification.	(i) Congress has passed a Competition Law which reduces collusive practices and reduces constraints to firm's entry and exit; and (ii) the time to register a typical business has been reduced by 15% in relation to November 2003. Action plans satisfactory to IDA, for administrative simplification in key areas are approved for at least 3 central government entities and 3 municipalities; and the plans are being piloted in at least 3 cases.	Time to register a typical business has been reduced by an additional 15% in relation to November 2003; and government is satisfactorily disseminating information on administrative changes and progress toward simplification. The original pilots have been scaled up; and 3 new action plans in additional key areas are being piloted.	Time to register a typical business has been reduced by at least 30% in relation to November 2003. Simplified procedures in key areas and institutions, reducing times by 30% from the base lines established in plans.
IB2. Transport	High transport costs and low quality of services impede competitiveness of exports and increase the costs of goods and services. High costs, slow procedures and low quality of services at Puerto Cortes impede national competitiveness.	(i) Following consultations with the private sector and other stakeholders and negotiations with the concessionaire, the Congress has issued a decree approving an amendment to the airport concession contract for the Honduran airports, thereby improving the efficiency, quality and regional competitiveness of Honduran airports; (ii) the Executive has issued a decree appointing a public-private monitoring committee to follow up on implementation of the amended airport concession contract. The Executive has presented to Congress the general ports law ("Ley General de Puertos"), which defines institutional responsibilities for policy and regulatory functions, enables private sector participation in the management of ports and establishes parameters and regulations to manage ports in line with international security standards.	(i) A plan for the regulation of the transport sector has been drafted and consulted with all stakeholders; and (ii) work is underway to develop a transport master plan to guide sectoral resource allocation. (i) Congress has approved the general ports law ("Ley General de Puertos"); (ii) the Executive has issued regulations to the ports law and (iii) is satisfactorily implementing, with private sector participation, the plan to improve efficiency and quality of services at Puerto Cortes.	(i) Congress has approved a new framework law for the regulation of the transport sector; and (ii) resources in the transport sector are being allocated in line with the master plan.	Satisfactory legal framework and development strategy are in place for the transport sector Handling costs, turn-around times and service quality at Puerto Cortes have been improved according to planned goals At least 8,842 km of roads are adequately maintained.

Note: Bolded actions are conditions for disbursement of the PRSC credit

Source: World Bank "IDA Document (2004) for a proposed credit in the amount of US\$ 58 million to the Republic of Honduras for a PRSC"

www.worldbank.org

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
		<p>Empresa Nacional Portuaria (ENP) has signed a grant agreement to obtain technical assistance to develop a plan to improve the efficiency and quality of services at Puerto Cortes, including private sector participation, establishing a baseline for measuring efficiency and quality of port services and a dissemination strategy for the plan</p> <p>(i) ENP has prepared a Plan to certify Puerto Cortes, as a secure port, in accordance with international standards, (ii) a Presidential decree has been issued creating the "Comision Nacional de Proteccion Portuaria" and assigning responsibility for Port Certification, and (iii) security services in Puerto Cortes have been reformed.</p> <p>Funding was included in the 2004 budget to maintain at least 50 percent of the total road network (about 6,802km).</p> <p>50 road maintenance microenterprises are operating.</p>	<p>Adequate maintenance of 50 percent of the total road network during 2004; funding is included in the 2005 budget to maintain at least 60 percent of the total road network (about 8,162 km).</p> <p>At least 55 road maintenance microenterprises are operating.</p>	<p>Adequate maintenance of at least 60 percent of the total road network, based on the 2005 budget allocation; funding is included in the 2006 budget to maintain at least 65 percent of the total road network (about 8,842 km).</p> <p>At least 60 road maintenance microenterprises are operating.</p>	
I.B3. Telecommunications	<p>High telecommunication costs, poor service quality and limited access, especially in rural areas, impede growth and competitiveness.</p> <p>The sector must develop a strategic vision for: assigning policy making functions, expansion of coverage, developing a sectoral organizational structure and financing.</p> <p>There continue to be weaknesses in the technical capacity of the regulatory</p>	<p>The Borrower has increased access and efficiency in telecommunications services through the following actions: (i) HONDUTEL has awarded 27 commercialization contracts and 4 interconnection contracts for private operators to provide market-priced, national and local call services; and (ii) CONATEL has awarded a license to a second cellular telephone operator.</p> <p>A Presidential decree has been issued creating a Telecommunications Cabinet for</p>	<p>The Executive has approved a strategic plan for HONDUTEL's transition to financial viability in the post-December 2005 period.</p> <p>The Telecommunications Cabinet has commissioned and is implementing a study to explore</p>	<p>HONDUTEL's monopoly in the international calls segment has been terminated and licenses for new entrants have been granted.</p> <p>The study on sector policymaking and the regulatory agency has been concluded and</p>	<p>At least 150,000 new telephone lines have been installed nationwide, of which at least 10 percent are rural.</p> <p>International phone call tariffs have been reduced by at least 50% relative to March 2004.</p>

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
	agency.	sector policy formulation and an Administrative decree has been issued designating a Technical Secretariat to support it. A consultant contract has been issued by CPME for the design of a Universal Access Telecommunications Fund to expand services to the rural areas.	long term options for institutionalizing sector policy making and strengthening the regulatory agency. Satisfactory implementation of the universal access policy, including the establishment of the Universal Access Telecommunications Fund and the installation of public telephone services in at least 500 rural communities that did not have service as of year end 2003.	disseminated. Government has approved measures to strengthen the regulatory agency Satisfactory implementation of the universal access policy, including the installation of public telephone services in at least 500 additional rural communities that did not have service as of year end 2003.	
<i>I.B4. Power</i>	Inefficiency in electricity distribution, high generation costs, inadequate capacity, insufficient tariffs and an irrational subsidy structure have undermined supply security and reduced competitiveness. These conditions have prevented sustainable coverage expansion in low-income communities, especially in rural areas. The sector must develop a strategic vision for: assigning policy making functions, expansion of coverage, developing renewable energy sources, developing a sectoral organizational structure and financing. The regulatory agency is undermined by: lack of financial autonomy, dependence on the political cycle and insufficient technical capacity for regulation.	Power purchase contracts to independent private producers have been awarded at competitive prices Electricity tariffs have been set in line with the revised formula for automatic cost adjustment Process to separate ENEE's accounts into generation, transmission, dispatch and distribution business units has been initiated through the initiation of a competitive bidding process for a technical assistance contract to help ENEE carry out this task. Ministry of the Presidency has (i) created a technical secretariat through Administrative Decree to support the Energy Cabinet and communicate sector policies, and (ii) begun evaluation of alternatives for expansion of coverage in rural areas.	Government has contracted consultants to carry out studies to improve the targeting of subsidies and the calculation of tariffs to reflect an efficient cost of energy production and distribution, and studies are at an advanced stage of completion. Electricity tariffs have continued to reflect the application of the automatic cost adjustment formula ENEE has contracted consultants for the separation of its accounts into business units (generation, transmission, dispatch and distribution); and ENEE has approved the new structure of separate business units. The Government has approved and disseminated a universal access policy, including coverage targets, policies for expansion and sufficient funding to meet defined goals. Implementation of the loss reduction program.	Tariff adjustments and revised subsidy policies have been implemented and the sector's legal framework has been reformed to ensure independence of the regulatory agency. The Government has approved and implemented the new structure of ENEE. The policy of universal access is being satisfactorily implemented; financing has been provided to expand rural coverage; and rural electrification is being expanded in accordance with planned targets.	Recently awarded contracts to independent power producers meet power demand Transmission and distribution losses have been reduced to 20% Electricity tariffs are close to the efficient energy production and distribution cost levels Rural electrification coverage has increased from 35% to 40% of rural households.
<i>I.C. Land Rights and Access</i>	Land tenure insecurity is a significant disincentive to productive investment in both rural and urban areas. A structural cause of continued absolute rural poverty is the lack of	The Congress has approved a property law, which establishes a unified property registry, and strengthens and consolidates the laws and institutional arrangements for land regularization.	The government has developed the regulations and operational plan for implementing the property law. The government has defined the objectives for institutional strengthening of the SINAP.	Government has met planned targets for strengthening the SINAP.	750,000 land parcels are registered in SINAP under folio real; of these: - 60% are urban parcels - 15% are periurban parcels < 1 ha.

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
	<p>opportunity for the estimated (up to) 250,000 poor rural households with little or no access to land and supporting services for their productive activities. Although the government has put forth much effort in these areas, lack of integrated information hampers the effectiveness of these initiatives.</p>	<p>SGJ and SAG have: (i) launched comprehensive programs for surveying and regularizing the land usage rights of populations on national lands (including in national forests) and (ii) completed an operational plan for regularizing land of indigenous and Afro-Honduran groups.</p> <p>SGJ/ Consejo Nacional de Ordenamiento Territorial (CONOT) has established an Interagency Technical Commission on Lands (CTIT) to support the processes of analysis and consultation in the formulation of a national land policy.</p>	<p>Government has met planned targets for surveying, regularizing, titling and registering the land rights of populations on national lands (including in national forests), and of indigenous and Afro-Honduran groups.</p> <p>CTIT has: (i) submitted to CONOT a national land policy and is formulating plans for its implementation; (ii) developed and begun implementation of a national program to facilitate access to land and support services for the rural poor; and (iii) ensured the operation of the consultation mechanisms for the national land policy and developed a system for monitoring its implementation, including a plan for scaling up promising activities.</p>	<p>Government has met planned targets for surveying, regularizing, titling and registering the land rights of populations on national lands (including in national forests), and of indigenous and Afro-Honduran groups.</p> <p>Government has designed and begun implementation of an operational plan of the national land policy, including improved instruments that facilitate land access, with the support of stakeholders and donors.</p>	<ul style="list-style-type: none"> - At least 25% are rural parcels - 55% of rural parcels occupied by couples are jointly titled - At least 30 additional groups of indigenous communal land have been surveyed and demarcated <p>AFE-COHDEFOR has issued long term forest land exploitation certificates for an area of at least 750,000 has.</p> <p>25,000 forest land parcels have been regularized</p> <p>Successful models for decentralized land access and supporting services have been developed</p>
II. HUMAN CAPITAL AND SOCIAL PROTECTION					
II.A. Education					
<i>II.A1. Community based school management</i>	<p>The centralized management of education has resulted in a lack of accountability and low educational quality, especially in poor rural areas. Decentralization through the development of community managed schools and school networks is a key element of the Government's education reform strategy to improve the quality and responsiveness of education in rural areas.</p>	<p>Local Education Development Associations (ADELs) have been legally established (with "personería jurídica" or with a statement from SGJ certifying that the "personería jurídica" is in process) in at least 2,700 rural schools.</p> <p>The Ministry of Education has approved a strategy and methodology for the organization of rural school networks to reduce the numbers of single-teacher multi-grade schools within the EFA program; and 2 rural school networks have been established in 2 departments.</p>	<p>ADELs have been legally established in at least 50% of rural schools and 75% of ADELs are receiving fund transfers to manage the PEC and all physical resources.</p> <p>(i) 33 rural school networks have been established in 3 departments; and (ii) the MOE has completed a study and action plan on teacher management in community-based models.</p>	<p>ADELs have been legally established in at least 60% of rural schools, are receiving fund transfers to manage the PEC and physical resources, and hire teachers under the teacher management action plan.</p> <p>(i) 50 rural school networks have been established in 5 departments; and (ii) the action plan on teacher management in community-based models is being implemented.</p>	<p>5,000 ADELs are legalized and operating (representing 60% of the 8,000 rural schools in 2003).</p> <p>The proportion of single teacher multi-grade schools in communities with school networks decreases to 70%.</p> <p>Completion rate for rural school increases to 75% (from 69% in 2003).</p>
<i>II.A2. Teacher Allocation and Management</i>	<p>Existing mechanisms for hiring and managing teachers and the lack of good information systems</p>	<p>The MOE has approved the <i>Reglamento de las Direcciones Departamentales de Educación</i>, which assigns key responsibilities</p>	<p>The MOE has implemented the <i>Reglamento</i> and begun the reorganization of all departmental offices, including</p>	<p>The MOE has completed the reorganization of all departmental offices.</p>	<p>100% of department offices are fully functional according to the <i>Reglamento</i>,</p>

THEMATIC AREA	Issues	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
	have led to inefficient resource distribution and poor management of teacher resources. This is a major obstacle to meeting PRSP goals in education. There is a need to strengthen information systems and establish effective teacher allocation and management systems at department and district level to ensure balanced teachers' allocations across areas and schools and higher effective teaching hours.	<p>for planning, resource management and technical/pedagogical supervision to the department level.</p> <p>The MOE has published on its website and has submitted to the INE: (i) the educational statistics database from the 2003 school census, including the analysis of teacher and student distributions, and (ii) the teacher payroll by department as it appears in SIARHD.</p> <p>The MOE has prepared an action plan and terms of reference for a teacher post review (auditoría de puestos) in the departments of Francisco Morazan and Cortes.</p>	<p>corrective mechanisms for non-compliance and staff absences.</p> <p>The SIARHD system has been adapted to require the registration of the center where the teacher is functionally assigned by the Departmental Director and the data is being input at the department level in 9 departments, subject to stringent quality checks from the Ministry of Education.</p> <p>Post reviews have been completed in 5 departments; a teacher reallocation plan based on the result of the 2004 post reviews has been developed and implemented in the departments of Francisco Morazan and Cortes.</p>	<p>Data is being input into SIARHD at department level in all departments, subject to stringent quality checks from the Ministry of Education.</p> <p>Post reviews have been completed in all departments; a teacher reallocation plan has been implemented in 5 departments.</p>	<p>keeping SIARHD up to date on a real time basis and remitting educational statistics in a timely manner to the MOE.</p> <p>90% of teachers work in schools to which they have been formally assigned by the department director, as registered in the SIARHD system.</p> <p>Fulfillment of the 200 day school calendar in 90% of schools.</p>
II.A3. Financial Resources Management	The education sector is not yet programming actions to meet PRSP coverage targets in primary and secondary education. It needs a coherent framework of expenditure management and physical planning to identify the resources and efficiency improvements to meet PRSP goals.	MCE has adopted a policy of incorporating all major donor resources in the education budget and of linking the budget to the PRSP goals.	<p>All donor resources to the sector are incorporated in the education budget, and baseline data have been established for education spending by economic category (salaries/ other current expenditures/ capital) and education level (primary, secondary, etc)</p> <p>Public spending targets consistent with PRSP goals in education have been set by education level and economic category.</p>	Adequate funding to meet public spending targets is provided in the 2006 budget; and the share of the education budget allocated to lower and upper secondary education is increased from 18% in 2002 to at least 20%.	<p>By 2006 Honduras is on track for PRSP.</p> <p>Coverage goals in primary and secondary education (PRSP NER goals: primary (95%); lower secondary (37.3%); and upper secondary (22.3%)).</p>
II.B. Health					
II.B1. Extension of Coverage	A significant number of the poor remain outside of the effective coverage of the health system, and have not experienced the same improvements in their health status as the remainder of the population.	A basic package of primary health services suitable for delivery under contract through NGOs has been designed, and MOH has signed at least 15 contracts with qualified NGOs to deliver the health services package to an estimated population of 225,000 beneficiaries.	The M&E system for the Basic Package program is fully functional and the first impact evaluation has been completed; MOH has signed at least 20 contracts with qualified NGOs to deliver the package; and at least 350,000 beneficiaries are covered by the program.	The program has been adjusted based on the evaluation findings; MOH has signed at least 25 contracts with qualified NGOs to deliver the Package; and at least 500,000 persons are covered by the program.	Number of persons covered, vaccination rates, prenatal care visits, child growth and development visits in the communities covered by these programs.

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
<i>II.B2. Regulation and licensing</i>	The service provision capacity of the health ministry's primary health network is below standard, as shown by the recently completed facility licensing study. There is a need to bring facilities up to acceptable standards through the assignment of sufficient resources based on the service output needed by their client population, and reasonable parameters for efficiency.	The MOH has completed a diagnostic study of all facilities to determine their resource needs to meet licensing requirements and has estimated the costs to upgrade all facilities for compliance over a ten year period.	80 CESARS, 20 CESAMOs and 2 hospitals have been upgraded to comply with licensing requirements.	80 additional CESARS, 20 additional CESAMOs and 3 additional hospitals have been upgraded to comply with licensing requirements.	100% of facilities that have been upgraded fulfill licensing requirements.
<i>II.B3. Human resources for health</i>	Staff management in the health ministry is very weak. Staff information systems are poor, control over staff attendance is weak, the migration of posts towards urban areas is a serious problem and many primary care facilities are closed or have reduced operating hours, resulting in limited service provision.	(i) The MOH has internally audited at least 30% of its human resource staff registries and has adjusted the registries to show the functional assignment of each staff member (where the person really works) (ii) MOH has made budgetary allocations to pay the salaries of this 30% of MOH staff in a manner consistent with the registry and (iii) the MOH has issued a resolution stating that personnel transfers will not be permitted without the authorization of departmental directors and, if applicable, hospital directors.	Post audits have been completed for the remaining 70% of MOH staff.	The remainder of the staff registries have been revised so that they reflect each staff-person's actual place of work. The MOH budget personnel allocation is made to pay work places in a manner consistent with the revised staff registries.	At least 90% of the health ministry staff work in the facilities to which they have been assigned.
<i>II.C. Nutrition and Social Protection</i>					
<i>II.C1. Community-Based nutrition program: AIN-C</i>	Although the proportion of Honduran children under five has improved significantly over the past decade, 34 % are still chronically malnourished. Recent studies have shown that integrated programs for attention to children such as AIN-C can make a major impact on early childhood nutritional outcomes.	The Ministry of Health has inventoried all nutrition programs, with emphasis on those serving children under five years of age, and has estimated the costs of expanding AIN-C to 1,000 communities in the 80 prioritized municipalities.	AIN-C is implemented in 500 communities in the 80 prioritized municipalities. Nutrition indicators standardized and used by all major nutrition programs. A joint POA is developed by all major nutrition programs.	AIN-C is implemented in an additional 500 communities in the 80 prioritized municipalities.	Nutrition status of children under five.
<i>II.C2. School lunch programs</i>	46% of households are in extreme poverty, unable to	School lunch program (<i>Merienda Escolar</i>) has been expanded to	Community-based implementation of school lunch program piloted	Assessment of school lunch pilot program has been completed	Decrease in school dropouts.

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
	provide the basic food needed by all their members. As a result many children arrive at school hungry and unable to learn well. School lunch programs are an important income transfer to these families and improve learning outcomes.	725,000 children (25% increase).	and decision taken about its further expansion.	and, dependent upon outcome, expansion of program by one-third, and total <i>Merienda Escolar</i> coverage to one million children.	Improvements in nutrition status of benefiting students.
II.D. Water and Sanitation	A framework law for the decentralized provision of potable water and sanitation was approved by Congress in October 2003, establishing a planning entity (CONASA) and a regulatory agency. Satisfactory implementation of the law is crucial to the achievement of PRSP goals in water and sanitation.	Core funding has been provided in 2004 for the <i>Ente Regulador</i> to pay for key staff salaries and minimum operating costs.	(i) the Government has issued the regulations for CONASA and the <i>Ente Regulador</i> ; and (ii) the <i>Ente Regulador</i> has issued guidelines for cost reflective tariffs, established performance benchmarks and put monitoring mechanisms in place. (i) CONASA has issued a plan for restructuring SANAA, including transferring SANAA- managed water and sanitation systems to the municipalities; and (ii) CONASA and SANAA are providing technical assistance to municipalities and rural water boards.	(i) The National Water and Sanitation Plan has adequate funding and is being implemented in a satisfactory manner; and (ii) CONASA and SANAA are working with at least 10 rural water boards, with community participation, to improve the sustainability of their water and sanitation services.	Increased number of households with connections to improved water and sanitation services (targets will be established in sector plan) At least 10 water systems have been transferred from SANAA to municipal control, and the municipalities have created the necessary structures for service delivery. Increased number of municipalities and communities meeting service performance parameters as established by CONASA and the <i>Ente Regulador</i> .
III. SUSTAINABILITY - PUBLIC SECTOR MANAGEMENT, GOVERNANCE AND ENVIRONMENTAL SUSTAINABILITY					
III.A. Public Resource Management					
III.A.1. Poverty Targeting and Medium Term Program Budgeting	Inadequate linkage between public spending and PRS goals inhibits PRSP implementation. There is a need to incorporate into the multi-year budget process appropriate programming in relation to PRSP targets.	The Executive has redefined poverty reduction expenditures in its first annual PRSP Progress Report (Appendices C, D and E) to improve linkages between poverty spending and PRS targets. MOF has: (i) expanded the budget classification (economic, functional and programmatic) to improve the	A programmatic budget reflecting PRSP goals has been presented for at least 2 sectors (education, health and/or water and sanitation). A multi-annual budget was presented to Congress with overall fiscal and poverty	A programmatic budget reflecting PRSP goals has been presented for at least 5 sectors. A multi-annual budget was presented to Congress with overall fiscal and poverty	100% of poverty reduction expenditures are tracked in SIAFI and incorporated in the medium-term programmatic budget.

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
		<p>recording of transactions and (ii) prepared a work program for modernizing the Chart of Accounts to improve the quality of financial information recorded in SIAFI.</p> <p>UNAT and MOF have issued and officially presented to all government ministries, civil society and donors, a set of new operational guidelines for the Mesas Sectoriales, developed in consultation with the CCERP.</p>	<p>reducing expenditure targets.</p> <p>UNAT & MOF have initiated sector-wide approaches in at least 2 sectors in consultation with the Mesas Sectoriales</p>	<p>reducing expenditure targets.</p> <p>Sector-wide approaches are operating successfully in at least 2 sectors.</p>	
III.A2. Financial Accountability and Transparency	SIAFI's information base is of mixed quality and often out of date, hampering effective public financial management and transparency.	<p>Congress has passed a SIAFI Law that mandates the use of SIAFI in all central government agencies, and includes provisions for multi-annual budgeting, public sector accounting standards, and internal controls.</p> <p>SIAFI and SISPU have been linked to enhance the management of government public expenditure information.</p>	<p>Government has issued regulations for, and is implementing, the SIAFI law.</p> <p>MOF produces quarterly budget execution reports and cash flow statements.</p> <p>MOF has completed development of an integrated SIAFI, with at least 3 functioning modules (budget, accounting and treasury).</p> <p>MOF and SGJ have prepared a plan to expand SIAFI to municipalities to improve the flow of financial information from local governments.</p>	<p>MOF produces quarterly budget execution reports and cash flow statements.</p> <p>The integrated SIAFI is fully operational at the central level.</p> <p>The SIAFI expansion plan is being implemented successfully.</p>	<p>Created strong legal framework to support Honduras public financial management.</p> <p>Improved government management information systems.</p>
III.A3. Expenditure Controls	Treasury controls of public financial resources are weak.	<p>MOF has prepared a work program for reconciling revenue accounts, including the participation of DEI, BCH and Treasury.</p> <p>MOF has set up a public website detailing the concessionary, non-concessionary and grant financing received from external donors.</p>	<p>The plan for reconciling revenue accounts is being implemented and all internal revenues and expenditures are managed through a Cuenta Unica.</p> <p>MOF has expanded SIGADE to include concessionary, non-concessionary and grant financing from external sources, improving the government's ability to manage and monitor the use of donor resources.</p>	All external resources are managed through the Cuenta Unica.	Stronger financial controls and resource management.
III.A4. Internal and External Audits	The Tribunal Superior de Cuentas (TSC) has been established, but needs to be strengthened to assume its role as the supreme	TSC has implemented at least 50% of its strategic human resource and staffing plan	<p>TSC has completed implementation of its strategic human resource and staffing plan.</p> <p>Regulations to the Ley Organica</p>		<p>Established greater transparency in public financial management.</p> <p>Introduced stronger</p>

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
	oversight agency ensuring accountability. Internal control and internal audit capacity of executing agencies is weak.	TSC presented to Congress the 2002 annual report with reconciled fiscal accounts. TSC approved new Internal Audit regulations for public sector agencies.	del TSC have been implemented. TSC has presented to Congress the 2003 and 2004 annual reports, and published the financial statements of public sector decentralized and autonomous agencies and enterprises. TSC approved new Financial Audit Manual and regulations TSC conducts annual ex-post review audits on government procurement processes and contracts.	TSC is producing semi-annual reports on reconciling the fiscal accounts. TSC implemented Internal Audit regulations in all public sector agencies.	financial controls and resource management.
III.A5. Public Procurement	Public sector bidding is fragmented, costly and non-transparent.	The CPME has continued to implement the Program for Efficient and Transparent State Procurement, as evidenced by: (i) completion of 1,500 procurement audits; (ii) the hiring of two firms to provide technical assistance for procurement systems, control and auditing mechanisms and staff training; and (iii) the design of an electronic public information system for procurement. A Presidential decree has been issued with implementing regulations to the Ley de Contrataciones for the operation of the Oficina Normativa de Contratación y Adquisiciones (ONCAE) and its consultative committee	The CPME has continued to implement the Program for Efficient and Transparent State Procurement and (i) has completed an internal review to take stock of progress in the implementation of the procurement law and (ii) based on the findings, has proposed a revised operational plan. The government has created an electronic public information system for central government procurement and has begun design of an electronic system for procurement transactions that will be administered by the Oficina Normativa de Contrataciones. ONCAE has implemented a satisfactory plan to disseminate new regulations, such as procedural manuals, sample contracts, etc. Review of the government policy for procurement outsourcing to UNDP and submission of a plan to implement recommendations.	Government has implemented an e-government procurement and contract management system. Regulations are being applied satisfactorily in all Central Government agencies. Recommendations for government policy on procurement are being satisfactorily implemented.	Increased transparency and efficiency in public sector procurement.

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
			<p>Government has approved standard bidding documents.</p> <p>Government has initiated development of a strategy to strengthen the procurement systems of municipal governments.</p>	<p>Standard bidding documents are being used in at least 5 sectoral ministries (those likely to develop SWAPs).</p> <p>Government has implemented the strategy to strengthen municipal procurement systems.</p>	
<u>III.B. Civil Service Reform</u>	Public administration (including PRSP implementation) is severely weakened by politicization of civil service appointments, substitution and promotion; fiscal management is weakened by laws that set remuneration independently of the budget process; and an inadequate definition of functions and posts, including insufficient outsourcing, weakens government effectiveness.	<p>Congress has passed the "Ley de Reordenamiento del Sistema Retributivo del Gobierno Central", restoring the Executive's control over civil service wage management</p> <p>The Executive has presented to Congress legislation, which: i) provides the basis for a professional civil service, including merit-based recruitment and promotion; ii) places limits on the number of political appointments in the civil service; and iii) creates a supervisory authority to regulate central government human resources management.</p> <p>The CPME has completed studies to define functional mandates of public entities and issued contracts for the reengineering of the ministries of Education, Health and Agriculture.</p>	<p>Congress has passed the new legislation and the corresponding regulations have been issued; the head of the new civil service supervisory authority has been appointed; and the new law is being satisfactorily implemented.</p> <p>Reengineering of the ministries of Education, Health and Agriculture has been completed and 50% of new appointments to administrative career positions in those ministries have been filled through competitive processes.</p> <p>Reengineering exercises and human resource gap analyses have been initiated in three other major public sector entities.</p>	<p>All new appointments to administrative career positions in the ministries of Education, Health and Agriculture have been filled through competitive processes.</p> <p>The Government reengineered three other entities and filled [50]% of the administrative career positions in those entities through competitive processes.</p>	At least 30% of administrative career positions have been filled through competitive processes under a new civil service framework.
<u>III.C. Environmental Sustainability - Forestry and Protected Areas Development</u>	Overlapping and outdated legal, regulatory, and institutional arrangements in the forestry sector inhibit sector investment and limit its role in poverty reduction via job creation and income earning opportunities.	The Executive has submitted to Congress a forestry-sub-sector legal reform package to rationalize the institutional and regulatory framework by (i) enabling the granting of long-term usufruct rights in forest areas; (ii) providing a framework for benefit sharing from national forest lands with local communities and municipalities;	<p>(i) Congress has approved the forestry sub-sector legal reform package, and SAG has developed the regulations and operational plan for implementing the forestry law;</p> <p>(ii) SAG has completed the preparation of the National Forestry Plan and has prepared an operational plan and initiated its</p>	<p>(i) SAG has met agreed targets for 1st year operation of the restructured AFE-CORDEFOR;</p> <p>(ii) Finance has provided a 2006 budget allocation for AFE-CORDEFOR commensurate with its staffing plan and operational mandate;</p> <p>(iii) The "Junta de Transparencia Forestal" continues to function</p>	<p>Increases in private investment in forest management, conservation and reforestation.</p> <p>Increased participation of the poor in public and private forestry activities</p> <p>Stakeholder surveys</p>

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
		<p>and (ii) establishing an independent oversight mechanism for the management of national forest lands.</p> <p>SAG has implemented the first phase of the restructuring of AFE-COHDEFOR, including the preparation of a financing plan for 2004 to continue the critical reforms.</p>	<p>implementation;</p> <p>(iii) SAG has completed the restructuring of AFE-COHDEFOR;</p> <p>(iv) Finance has made satisfactory budget allocation for 2005 commensurate with its staffing plan and operational mandate;</p> <p>(v) The "Junta de Transparencia Forestal" is functioning effectively;</p> <p>(vi) SAG, in collaboration with the private sector and civil society, has launched a pilot scheme to establish an appropriate and cost-effective mechanism for a green seal of management and forest products from public coniferous forests and has submitted to a relevant international body for approval its national criteria and indicators for coniferous forest management. The Procuraduria del Medio Ambiente has, with civil society participation, developed and submitted to the Executive a program to halt illegal logging in the priority SINAPH areas.</p>	<p>effectively;</p> <p>(iv) SAG, in collaboration with the private sector and civil society, has expanded the pilot forest product green seal scheme to cover other forest types and at least 30% of the public pine forests with management plans have been certified with a plan to cover 100% of the public forest area by 2012. The GOH has satisfactorily initiated the program to halt illegal logging in priority SINAPH areas.</p>	<p>Indicate increased confidence and satisfaction in AFE-COHDEFOR's performance.</p> <p>Decreased illegal logging</p>
	Weak management of the National Protected Areas System (SINAPH) is resulting in continued degradation of protected areas (PAs), loss of biodiversity, and loss of potential employment and other income-earning activities from eco-tourism and other environmental services.	<p>(i) SERNA has submitted to CONAP a strategic framework and action plan for the SINAPH PAs, as well as a long-term financing strategy; and (ii) the Executive has prepared a draft agreement for the creation of a Protected Areas Trust Fund (fideicomiso) to finance the protection and management expenditures in priority SINAPH Protected Areas by government and non-government sources.</p>	<p>(i) The Protected Areas Trust Fund has been created and is satisfactorily functioning with government financing provided as per the commitments in the Decree creating the Fund, including the initial endowment of \$3 million equivalent; (ii) the PA Trust Fund has developed the detailed costing and financing plan for the protection and management expenditures in priority SINAPH PAs and has started to fund management activities under this framework.</p>	<p>The PA Fund continues to function satisfactorily and is receiving funding both from Government and non-Government sources. Government has ensured the satisfactory implementation of the SINAPH strategic plans.</p>	<p>Using the PROARCA system of quantitative measures of the functioning of a protected area system, the SINAPH improves by 10% from a 2004 baseline.</p> <p>Protection and management investments in priority areas of the SINAPH increase by 20% from 2003 baseline, thus generating local economic benefits.</p>
IV. MONITORING AND EVALUATION OF THE POVERTY REDUCTION STRATEGY (PRSP)					
<u>IV.A. Monitoring and Evaluation</u>	Monitoring and evaluation needs to be strengthened	(i) The Executive has completed and submitted to IDA the first annual PRSP Progress Report;	GOH has: (i) completed and submitted to IDA the 2nd PRSP Progress Report, which includes	GOH has completed and submitted to IDA the 3rd PRSP Progress Report, which includes	3 PRSP Progress Reports completed and submitted to IDA, which

THEMATIC AREA	ISSUES	PRSC I	PRSC II	PRSC III	OUTCOME INDICATORS
	Basic service delivery needs to incorporate social accountability.	<p>(ii) Congress has approved the amended "Ley del Fondo para la Reducción de la Pobreza"; and (iii) MOF has established within SIAFI a satisfactory mechanism to tracking the use of HIPC funds.</p> <p>UNAT has implemented SIERP at the national level and has presented a timetable to provide information disaggregated to the municipal level.</p> <p>The Ministry of the Presidency, in coordination with civil society, has: (i) approved a plan for community monitoring of quality and impact of education and health services, and (ii) has initiated implementation of a first phase, including the hiring of consultants to begin survey instrument development and pilot design and ordering the printing of public information posters for monitoring government transfers to ADELs.</p>	<p>total executed public spending and PRSP spending by program, source and economic classification; and (ii) on a quarterly basis, submitted to IDA at least 2 tables showing total public spending and PRSP spending.</p> <p>Disaggregated information in SIERP is provided for municipalities in at least 5 departments. INF will conduct a comprehensive household survey and results will be used to achieve 2 PSAs.</p> <p>The first phase of the community monitoring program has been evaluated and plans for scaling up have been finalized, including the design of redress mechanisms.</p>	<p>total executed public spending and new PRSP spending by program, source and economic classification. Government submits tables, on a quarterly basis, indicating execution of total public spending and PRSP spending.</p> <p>Disaggregated information in SIERP is provided for all municipalities. At least 4 PSAs will be carried-out in 2006.</p> <p>Community monitoring program is institutionalized and is being implemented by the sectors.</p>	<p>include total executed public spending and PRSP spending by program, source and economic classification</p> <p>Community monitoring program implemented in a representative national sample.</p> <p>Improvement in user satisfaction with public health and education services as indicated by the annual community monitoring report cards.</p>
IV.B. Consultation and Public Information	There is a need to build upon and systematize the public consultation processes used in the preparation of the PRSP. These processes should be deepened to improve awareness among key stakeholders at the national, sectoral and local levels.	<p>The Social Cabinet, with the participation of civil society, has established the CCERP as a permanent mechanism for public consultation; and the CCERP is playing an active role in advising on the implementation of the PRSP.</p> <p>A consultant has been contracted to (i) review the various draft laws on Disclosure of Public Information that have been prepared in consultation with stakeholder groups, and (ii) to develop a single advanced draft for review by the Office of the Presidency.</p> <p>The PRSP and 1st PRSP Progress Report along with minutes of the consultations have been published and posted on the SIERP website (http://www.sierp.hn).</p>	<p>The CCERP meets regularly and this consultation process is recorded in the 2nd PRSP Progress Report.</p> <p>The Executive has submitted to Congress a Law on Disclosure of Public Information.</p> <p>The GOH has disseminated the PRS, including goals and targets, to key stakeholders.</p>	<p>The CCERP meets regularly and this consultation process is recorded in the 3rd PRSP Progress Report.</p> <p>Congress has approved the Law on Disclosure of Public Information.</p> <p>The GOH continues to disseminate the PRS to key stakeholders.</p>	<p>CCERP meetings are held at least quarterly for a minimum of 4 meetings per year.</p> <p>National implementation of a systematic, multi-media public information campaign on the PRSP.</p>

Appendix 5: Nicaragua Policy Matrix (From pp 57 to 74)

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
1. BASIC PREMISES: MACROECONOMIC STABILITY AND PROTECTING POVERTY EXPENDITURES							
PRSC Objective: Protect poverty reduction expenditure, while maintaining macroeconomic stability				Overall Outcome: 1. Proportion of people living in extreme poverty decreases from 15.1% in 2001 to 14.3% in 2005. 2. Proportion of poverty-reducing expenditures in relation to GDP increases from 10% in 2002 to 11.6% in 2005. 3. Fiscal deficit as percentage of GDP decreases from 10.5% in 2002 to 6.3% in 2005. 4. Total public debt as percentage of GDP decreases from 206% in 2002 to 116% in 2005.			
Need to increase and protect poverty-related public expenditures to minimize impact on the poor in the event of fiscal shocks.	1.1	Presented report on poverty-focused and overall public spending executed in 2001, to be used as baseline for future expenditure monitoring purposes; Discussed with IDA the public expenditures programmed for 2002 and the 2003 draft budget submitted to the Assembly.	National Assembly has approved a budget for 2004 that is consistent with poverty reduction expenditures of the non-financial public sector of at least 11.4% of GDP.¹	National Assembly has approved a budget for 2005 that is consistent with poverty reduction expenditures of the non-financial public sector of at least 11.6% of GDP.		Public resources devoted to poverty reduction have increased from 10% of GDP in 2002 to 11.6% of GDP in 2005.	MHCF
	1.2			Execution of poverty reduction expenditures of the non financial public sector in 2003 represented at least 11% of GDP.	Execution of poverty reduction expenditures of the non financial public sector in 2004 represented at least 11.4% of GDP.		MHCP
Need to maintain fiscal discipline and decrease internal debt service.	1.3	Implemented adequate macroeconomic framework.	Maintained adequate macroeconomic framework.	Maintained adequate macroeconomic framework.	Maintained adequate macroeconomic framework.	Combined public sector deficit (before grants) as a share of GDP has decreased from 10.5% in 2002 to 6.3% in 2005	Economic Cabinet
Lack of coordination between debt issues for fiscal management and monetary management purposes.	1.4		MHCP and Central Bank have established an internal debt coordination commission.	MHCP and Central Bank have agreed on a coordinated calendar of debt issues for 2005.	MHCP and Central Bank have complied with agreed calendar of debt issues for 2005.	Timing of debt issues for fiscal management and monetary management purposes is well co-ordinated, avoiding negative impact on financial sector.	MHCP/BCN

Note: Bolded actions are conditions for disbursement of the PRSC credit

Source: World Bank "IDA Document (2003) for a proposed credit in the amount of US\$ 70 million to the Republic of Nicaragua for a PRSC"

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ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
Need to improve regulation and functioning of pension system to ensure long term sustainability.	1.5	Created a new Superintendency of Pensions and established its legal basis.	National Assembly has appointed a new Superintendent of Pensions. The organizational structure and staffing of the Superintendency of Pensions has been streamlined, respecting fiscal budget constraints.	Legal provisions to grant protection to staff of the Superintendency of Pensions equivalent to those of the Superintendency of Banks have been approved and published.		Pension system has an independent regulatory authority.	MHCP / INSS / Superintendency of Pensions
	1.6		The Economic Cabinet has approved a roadmap for pension reform, satisfactory to IDA.	In accordance with the roadmap for pension reform: (i) the Presidency has issued decrees, satisfactory to IDA, reforming decrees 57-2000 and 975, before AFPs start to operate, to partially reduce the fiscal impact of the pension reform by, inter alia, adjusting the replacement rate of the compensation bond and the number of years for determining the average salary used to calculate pension benefits, (ii) the Superintendencies of Banks and Pensions have agreed on a satisfactory information sharing system between them, and (iii) the Superintendencies of Banks and Pensions have designed a "Chinese Wall" system to prevent the use of inside information between AFPs and their parent companies in the banking system.	National Assembly has approved parametric changes to the social security legal framework, satisfactory to IDA, aimed at reducing the long-term fiscal deficit arising from the pension reform.	Reduced fiscal impact of pension reform	

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
Law of Transfer to Municipalities introduces fiscal vulnerability.	1.7			A Presidential Decree has been issued modifying the regulations of the Law of Municipalities in a fiscally sustainable manner, by balancing, within the limitations imposed by law, municipal expenditures with resources transferred to municipalities, and the 2005 budget conforms with the approved decree.	The 2005 budgetary execution conforms with the Decree which modifies the regulations to the Municipal Law.	The absorption by the general budget of the fiscal impact generated by the Fiscal Transfers Law reaches 39% of current expenditures and 33% of capital expenditures by 2005.	MHCP
Norms governing municipal indebtedness provide insufficient safeguards for national public finances.	1.8		National Assembly has approved the Public Debt Law, including provisions satisfactory to IDA to strengthen norms for municipal indebtedness.			Total public debt as percentage of GDP decreases from 206% in 2002 to 114% in 2005.	MHCP
2. BUILDING PUBLIC INSTITUTIONS AND GOVERNANCE (Pillar IV of the PRSP)							
PRSC Objective: Improve quality of public sector employment and transparency and efficiency in public financial management and procurement.				Overall Outcome: 1. Public employees incorporated into the administrative career as percentage of total public employees increase from 0% in 2002 to 15%-20 % in 2005. 2. Percentage of foreign resources channeled through CUT increases from 15% in 2003 to 100% in 2005.			
Establishing a Civil Service							

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
Politicization of public employment decisions and lack of an homogeneous salary structure for public sector employees.	2.1	Submitted draft Civil Service Reform Law to the National Assembly (1999), to improve the quality of public administration services.	National Assembly has approved a Civil Service Law satisfactory to IDA.	Presidency has submitted to the National Assembly a 2005 budget reflecting partial implementation of the compensation policy established in the Civil Service Law, consistent with fiscal sustainability.	Between 5,000 and 7,000 public employees have been incorporated into the administrative career, following transparent procedures established in the Civil Service Law.	Between 15% and 20% of public sector employees have been hired on the basis of merit, have job stability and are subject to an equitable civil service pay structure.	MHCP
Public Investment Program and Medium Term Expenditure Framework							
Existence of four different and inconsistent registries of public investment impedes good public investment planning.	2.2	Issued Presidential Decree (SNIP Decree) to obligate all new public investment projects to a technical review and clearance by the National System of Public Investment (2001).	The Presidency has issued a Presidential Decree, satisfactory to IDA, establishing a single, unified official registry of public investments, complementing the regulations of the National System of Public Investments.	SECEP (SNIP) has implemented complementary regulations of the National System of Public Investment by incorporating all public investment projects/programs into the official registry of public investments, including those financed by grants.		100% of the foreign and domestic funded public investment is registered and monitored through a single centralized system, except autonomous entities which do not enter into the budget.	SECEP
Lack of donor coordination.	2.3		SREC has established at least four "Mesas Sectoriales" to coordinate donor assistance under a sectoral approach.	SECEP has initiated the monitoring of sectoral approach initiated in at least one sector.	SECEP has initiated the monitoring of the sectoral approach initiated in at least three sectors.	Three "Mesas Sectoriales" meet regularly to coordinate aid efforts.	SREC/SECEP
Weak legislation with regard to responsibilities of public servants related to fiscal management.	2.4			National Assembly has approved a Fiscal Responsibility Law, satisfactory to IDA, including provisions for the establishment of a Medium Term Expenditure Framework.		Net present value of total public debt as a share of exports has decreased from 693% in 2002 to 275% in 2005.	MHCP

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
No calculation of recurrent costs reduces impact of public investment.	2.5		SECEP has initiated the routine calculation of the recurrent cost implications of the Public Investment Program, and MHCP has initiated plans to create a Medium Term Expenditure Framework (MTEF) on this basis.	Presidency has submitted to the National Assembly the 2005 budget along with medium term expenditure projections.	The execution of the 2005 budget up to the date of the disbursement request has been in line with the MTEF submitted to National Assembly.	95% of new projects in the official registry of public investment are approved with the necessary provisions on incremental current expenditures in the medium term, ensuring their financial sustainability	MHCP/SECEP
Public Sector Financial Management							
Lack of an agreed plan to improve public financial management improvement.	2.6	The GON, through MHCP, expressed a commitment to discuss and implement an action plan based on the findings of the Country Financial Accountability Assessment (CFAA).	MHCP has submitted to IDA a Memorandum of Understanding (MOU) between the GON, IDA and the IDB, and a GON interagency accord, establishing actions satisfactory to IDA to implement recommendations of the CFAA.	GON has implemented first phase of the agreed actions for improvement of public financial management.	GON has shown satisfactory progress in the implementation of second phase of the agreed actions for improvement of public financial management.	Improved efficiency and transparency in the use of public resources.	MHCP (SIGFA)
Need to modernize norms governing public financial management.	2.7			Presidency has submitted to the National Assembly a Financial Administration Law, satisfactory to IDA.	National Assembly has approved a Financial Administration Law satisfactory to IDA.	Improved legal framework for public financial management.	MHCP (SIGFA)
Limited coverage and inadequate presentation format of the national budget.	2.8			MHCP identified and disclosed all public funds in the 2005 national budget document and initiated proper classification of capital and recurrent expenditures.	MHCP prepared satisfactory format and content guidelines for the 2006 national budget document, including identification of budgetary and extra-budgetary funds, breakdowns of current and capital transfers, institutional and functional classifications, and procedures for output monitoring and reporting.	100% of current expenditures classified as capital expenditures in 2002 are identified and classified adequately by 2005.	MHCP (SIGFA)

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
Limited institutional and functional coverage of the GON integrated financial management system (SIGFA) and treasury single account (CUT).	2.9	Implemented SIGFA budget formulation and execution and accounting modules in 31 central government agencies and institutions; budget execution figures are accessible through Internet.		MHCP appraised and enhanced SIGFA's security systems and procedures, and prepared strategy for extending SIGFA/CUT coverage at individual transaction level to noncommercial autonomous and decentralized entities.	The Executive initiated SIGFA/CUT implementation at individual transaction level to INIFOM, IDR, FISE and ENACAL. MHCP implemented human resources and physical assets modules of SIGFA.	Extended coverage of the integrated financial management system from 31 public sector executing units in 2003, to 60 executing units in 2005.	MHCP (SIGFA)
National Treasury can not manage resource allocations strategically.	2.10	Introduced Single Treasury Account (CUT) for all domestic public revenues and expenditures.	All internal revenues and expenditures of the Central Government are channeled through the CUT. MHCP initiated introduction of externally funded revenues and expenditures in the CUT.	MHCP prepared detailed cash flow programs for budgetary releases, and agreed reconciliation procedures with the revenue administration agencies, the Central Bank and other depository banks.	All donor funds channeled through public sector entities are recorded in the CUT, in coordination with GON signatory agencies and donors.	Percentage of Foreign resources channeled through CUT increases from 15% in 2003 to 100% in 2005.	MHCP (SIGFA)
Weak internal control and internal audit capacity in spending entities.	2.11			The Executive prepared and funded action plan to strengthen internal controls and internal audits in at least 10 major central government institutions, and initiated execution of GON-led expenditure tracking surveys.	Action plan to strengthen internal controls and internal audits is under implementation, and feedback from continued execution of expenditure tracking surveys is incorporated.	Increase expenditure tracking from 0 institutions in 2002 to 10 institutions in 2005.	MHCP (SIGFA)
Inadequate government financial statements.	2.12			MHCP restructured government accounting function to focus on analysis and reporting, and prepared an "enhanced budget execution report" for 2003, including a cash balance reconciliation, historical revenue/expenditure trends, and level of payment arrears.	MHCP presented enhanced budget execution report for 2004 with the same detail as the budget document. The Executive has enforced audits and publication of financial statements of public sector decentralized and autonomous entities and state enterprises as of December 31, 2003.	Level of payment arrears has been reduced from 100 million córdobas in 2002 to 60 million in 2005. The execution of domestic and external resources is registered more accurately through a closer supervision of Central Government institutions	MHCP (SIGFA)
Public Sector Procurement							
Lack of accessibility to information on public procurement.	2.13		MHCP has made government contracting information (e-disclosure) available on the		MHCP has integrated into SIGFA government contracting information (e-disclosure) and	Easily available information on public procurement increases transparency and	MHCP

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
			internet.		government purchases module (e-purchase).	lowers costs to public sector through increased competition.	
Procurement law 323 and its regulations need to be improved in line with international practices.	2.14			Presidency has submitted to the National Assembly amendments to Law 323, satisfactory to IDA, incorporating CPAR recommendations.	National Assembly has approved amendments to Law 323, satisfactory to IDA, incorporating CPAR recommendations and the Presidency has issued its corresponding regulations.	Improved procurement law and regulations fosters increased efficiency and transparency in procurement public transactions.	MHCP / OEP
Public sector bidding is costly and complicated.	2.15			MHCP has approved standard bidding documents, and they are being used by all central government agencies, 12 municipalities and 8 autonomous agencies.	Standard bidding documents are being used in 30 additional municipalities and other branches of government have started to use them.	Decrease in time of public purchases.	MHCP
Uncertainties regarding OEP competencies lead to potential duplications with other agencies.	2.16			Presidency has approved an Executive Decree establishing competencies of OEP.			Presidency / OEP
Civic Engagement and Transparency							
Difficulties in accessing information do not allow for proper monitoring of public actions.	2.17			National Assembly has approved a Law on Access to Information, satisfactory to IDA.	Law on Access to Information has been implemented.	Citizens access to public administration increases transparency in public management.	SECEP/ SIGFA- MHCP
Lack of systematic information on poverty indicators.	2.18	Initiated design of a system to monitor the progress made toward achieving PRSP objectives (SINASIP).	SECEP has submitted to IDA a satisfactory proposal for the establishment of a System of Monitoring and Evaluation of PRSP/NDP/MDG/PRSC targets and goals, including criteria for targeting and prioritizing.	System of Monitoring and Evaluation of PRSP/NDP/MDG/PRSC targets and goals has been implemented at the national level.	System of Monitoring and Evaluation of PRSP/NDP/MDG/PRSC targets and goals is implemented at the departmental level in at least 5 departments.	Government, civil society and donors have necessary information to systematically evaluate impact of poverty reduction efforts.	SECEP
Poverty Analysis							

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
Information on fiscal and poverty reducing expenditures are difficult to interpret and untimely.	2.19	Prepare PRSP Progress Report.	MHCP has established a satisfactory system for monitoring poverty reducing and total public expenditures, based on the information provided by SIGFA, the FSS, the criteria for poverty reducing expenditure agreed by the budget advisory group and the implementation of the Treasury's Single Account. The format for the 2004 budget has allowed for clear referencing of poverty expenditures to HIPC debt relief, in accordance with FSS regulations.	SECEP has submitted to IDA the 2003 PRSP progress report, including an analysis of public expenditure in general and poverty reducing expenditures and progress towards achieving the PRSP/MDG/PRSC targets. At least 3 quarterly tables in agreed format, showing total public expenditure and poverty reduction expenditures, have been submitted to IDA.	SECEP has submitted to IDA the 2004 PRSP progress report, including an analysis of public expenditure in general and poverty reducing expenditures and progress towards achieving the PRSP/MDG/PRSC targets. At least 5 quarterly tables in agreed format, showing total public expenditure and poverty reduction expenditures, have been submitted to IDA.	Increased ownership and better timeliness of Public Expenditure Reviews. Clear and opportune information on poverty expenditures.	MHCP / SECEP
Policies are adopted without prior analysis of their potential impact on the poor.	2.20		SECEP has completed Poverty and Social Impact Analysis of tax reform and of education reform.	SECEP has completed Poverty and Social Impact Analysis of public investment program and incorporated the findings of all previous PSIA's into PRSP actions, through the 2003 PRSP Progress Report, preserving fiscal consistency with the macroeconomic framework.		Policies are adopted following analysis of their impact on the poor and appropriate actions are incorporated in the PRSP.	SECEP
Decentralization							
INIFOM and FISE have similar mandates and duplicate activities.	2.21		Government has submitted to IDA a formal agreement between INIFOM and FISE defining the responsibilities of each institution, in relation to their support to municipalities and their level of decentralization.	A legal norm has been approved making the formal agreement legally binding and is reflected in the 2005 budget. Decentralization benchmarks corresponding to the first semester of 2004 have been achieved.	Budgetary execution reflects the new legal norm. Decentralization benchmarks corresponding to 2005 have been achieved.	INIFOM and FISE activities are complementary.	FISE / INIFOM
	2.22		Fiscal Transfers Commission has defined the procedures for the fiscal year closure of municipal budgets.				MHCP / INIFOM

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1 st Tranche	PRSC I 2 nd Tranche	PRSC II	Outcomes / Results	
Legal provisions for participatory planning of municipal investments are not always applied.	2.23			Presidency has approved regulations to the Municipal Law establishing a methodology for participatory municipal investment planning, satisfactory to IDA and KfW.		At least 50% of all municipalities apply legal provisions for participatory planning of municipal investments in a consistent manner.	FISE / INIFOM

3. HUMAN CAPITAL OF THE POOR AND VULNERABLE POPULATION (Pillars II and III of the PRSP)						
PRSC Objective: Improve quality and coverage of social services			Overall Outcome: 1. Primary completion rate has improved from 38.5% in 2002 to 44% in 2005 2. National coverage of potable water has increased from 72.8% in 2002 to 76% in 2005 3. Maternal mortality rate has decreased from 100/100,000 in 2002 to 90/100,000 in 2005			
Basic Education						
Slow implementation of the School Autonomy Law.	3.1	School Autonomy Law (Ley de Participación Educativa, No. 413) and its regulation (Decreto 46-2002) were approved by the National Assembly and signed by the President; trained 2800 school council members on their responsibilities under the new law and its regulation; 20,000 copies of new law published and distributed to school councils, parents, and education staff; 50% of public schools receiving direct financial transfers as provided under the School Autonomy Law and its regulation for managing schools, and said schools have been given and are exercising the power of hiring and firing teachers; a pilot program to analyze the effects of implementing the School Autonomy Law and its regulation is being implemented.	Sufficient financing for the incorporation of 500 additional schools into the Participatory Education Regime in 2004 has been guaranteed.	National Assembly has approved a 2005 budget that allows for the incorporation of 1,180 additional schools into the Participatory Education Regime.	No arrears exist in the execution of budgets for the financing of the schools in the participatory education regime, up to the date of Board Presentation.	Number of children who finish primary school in 6 years has increased from 38.5% in 2002 to 44% in 2005

MECD

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
The lack of evaluation of the quality of educational services leads to low accountability and poor governance in the educational sectors.	3.2		The Ministry of Education has disseminated the results of the national standardized tests in Spanish and mathematics of third and sixth graders, and has given feedback to all participating schools.	National Assembly has approved counterpart funds for externally financed standardized tests in Spanish and Mathematics for third graders in the 2005 budget.	Ministry of Education has publicly disseminated the results of the 2005 tests.	Improved quality of education leads to increase in student achievement, as measured by advancement rate for Grade 3 in rural schools has increased from 80.9% in 2002 to 82.6% in 2005.	MECD
Dispersion of donor resources leads to inefficiency in the use of the resources in the sector.	3.3	Education for All – Fast Track Initiative (EFA-FTI) strategy for improving donor coordination agreed with local donor community.	MECD has presented to donors a Memorandum of Understanding and a multiannual plan (2004-06) for the financing of basic education, linked to results.			Donor assistance is channeled to a country-owned national strategy within the government's budget cycle.	MECD
Health							
Over centralization and inefficient use of resources in health sector.	3.4	Approval by National Assembly of General Health Law (Ley General de Salud); implemented a results-based management system for basic health care in 13 municipalities.	MINSa has initiated implementation of the General Health Law and draft regulations have been issued for the decentralization and strengthening of management of SILAIS and hospitals.	MINSa has adopted criteria for resource allocation, based on the SILAIS needs.		MINSa is exercising its supervisory role in the application of the General Health Law. SILAIS and hospitals have adequate financial management capacity. Better targeting and more efficient use of financial resources for basic health services.	MINSa
Low access of poor to health and nutrition programs.	3.5			MINSa has officially adopted and disseminated the National Health Plan, including financial projections for its implementation.	MINSa implemented a sector strategy to coordinate donor assistance, based on the National Health Plan.	Greater access of population to health and nutrition services in poor areas, as measured by percentage of institutional births which has increased from 49.9% in 2002 to 61.7% in 2005.	MINSa

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
	3.6	Methodology for the evaluation of PHC programs has been defined.		<p>MINSa has approved the basic health and nutrition services model, based on the evaluation of existing programs.</p> <p>MINSa officially has adopted and disseminated the National Health Plan, including financial projections for its implementation.</p>	MINSa has implemented the new model for the delivery of basic health and nutrition services in the communities prioritized by the SWAP.	Immunization (BSG) of children increased from 93.2% in 2002 to 99% in 2005. Polio immunization has increased from 85.3% in 2002 to 94.5% in 2005. Reduction of deaths of children from respiratory illness down from 11.2% in 2002 to 9.7% in 2004.	
Population							
Population policy is not being implemented, and high correlation of number of children and poverty.	3.7		The government institution responsible for coordinating and following up on the implementation of the population policy has been defined.	MINSa has adopted an updated multi-sectoral action plan to execute the population policy with monitorable goals, accompanied by a sufficient and sustainable finance plan.	MINSa has initiated implementation of the action plan and the established objectives up to the disbursement date have been achieved.	Population policy incorporated into national primary health care program to facilitate women's choices and informed decisions concerning family planning needs, as measured by increase in demand for family planning services from 19.8% in 2002 to 24.8% in 2005.	MINSa
	3.8			Government has approved the Reproductive Health Strategy, and the Ministry of Health has integrated it into the primary health provision model.	MINSa has implemented the Reproductive Health Strategy and integrated it into the primary health model in prioritized SILAIS.		
Water and Sanitation							
Insufficient access to water and sanitation services, especially among the poor.	3.9	The estimated percentage of the total national population served by potable water connections has increased by at least 1.4 percentage points per year in each of 2000 and 2001; the percentage of the total national population with access to sanitation services has increased by 0.7 percentage points per year over the period 1998-2001.		CONAPAS has approved a National Water and Sanitation Strategy, acceptable to IDA and KfW, which defines, among other things, the role of ENACAL in the urban area and of FISE in the rural area.	The National Water and Sanitation Strategy have been implemented and its progress and achievement of targets are acceptable to IDA and KfW.	Increase in national coverage of potable water services from 72.8 % in 2002 to 76% in 2005. Increased in water services for rural dispersed areas from 49.8% in 2002 to 54%. Increase in urban population with access to sewage from 32.7% in 2002 to 45% in 2005.	INTERLOCUTOR

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
Need to increase efficiency in the provision of water and sanitation services.	3.10		National Assembly has initiated the discussion of a new water law which would allow signing management contracts for water and sanitation services in Matagalpa and Jinotega, and the operation of the Managua Sewage Treatment Plant.	The bidding processes for the management contracts have been carried out, contracts have been awarded and winning bidders have started to operate the water and sanitation systems in Matagalpa and Jinotega and the Managua sewage treatment plant.		Efficiency of water and sanitation services in Jinotega and Matagalpa increased as established in management contracts improving the quality of the services to the population.	ENACAL
	3.11		An institutional strengthening program for ENACAL, acceptable to IDA and KfW, has been presented to the Economic Cabinet for approval.	National Assembly has passed a modification to ENACAL's Law, allowing the firm to collect delinquent accounts including through legal means and ENACAL's institutional strengthening program has been implemented, in compliance with its performance targets.		Operational efficiency of ENACAL has increased, targets established with INAA have been achieved and quality of services to the population has improved.	ENACAL
	3.12			INAA has initiated its supervisory role over ENACAL in accordance with the General Norm for the Regulation and Control of Potable Water and Sanitation Services.		Improve regulation of the water sector.	
Insufficient financial sustainability of water and sanitation services.	3.13				The tariff regime has been adjusted on the basis of the findings of a PSIA of the water sector reform and other studies.	Increase in financial sustainability of the sector.	INAA
Social Protection							
Lack of a coherent approach to social protection programs dilutes their impact.	3.14	Presented a draft conceptual framework for the design of the social protection policy of Nicaragua.	Social Cabinet has approved a Social Protection Policy (Solidaridad), satisfactory to IDA, including a plan of action for strategic areas.	Social Cabinet has presented a 5-year implementation plan for Solidaridad, including financial projections that have been incorporated into the KATEG Implementation	Solidaridad has been implemented in accordance with plan and budget allocation.	Chronic malnutrition of children (0-5) is reduced from 17.8% in 2001 to 16% in 2004.	SECEP/MIF AMILA

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
				targets for Solidaridad up to date of disbursement have been achieved.			
4. BROAD-BASED GROWTH (Pillar I of the PRSP)							
PRSC Objective: Promote inclusive economic growth				Overall Outcome: 1. Firm registration time has decreased from 28 days for basic procedures in 2003 to 17 days in 2005. 2. Index of non traditional export has increased from 100 in 2002 to 107.6 in 2005 3. Value of foreign private investment has increased from US\$204 million in 2002 to US\$237 million in 2005			
Supportive Environment for Investment and Growth							
Need to determine and agree on top priorities in reform of the investment climate.	4.1	Launched study to determine problems and priority actions for selected clusters; created a specialized Investment Promotion Commission (Pro-Nicaragua) to enhance investment promotion effort, while CEI has been focused better on export promotion; government agreed to the launch of an Administrative Barriers Assessment and to an Investment Climate Assessment.	The Presidential Competitiveness Commission has started meeting regularly.	Program for the reduction of administrative barriers with a time-bound action plan has been agreed with private sector and IDA and is functioning.		Value of foreign private investment has increased from US\$204 million in 2002 to US\$237 million in 2005	MITC and CPC
	4.2		The investment promotion agency, Pro-Nicaragua has begun to function.	CEI has been reorganized and transformed into an export promotion agency.			
	4.3			Government has submitted to IDA a Letter of Intent for the development of the investment climate, including a time-bound action plan based on the recommendations of the Investment Climate Assessment.	Actions as agreed in Letter of Intent initiated.		

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
Lack of competition law and agency to enforce it reduces entry and competition in numerous markets thus raising prices and often lowering quality for consumers.	4.4			Presidency has submitted to the National Assembly a Competition Law satisfactory to IDA, including the creation of an independent agency to enforce rules on competition, consumer protection, administrative simplification, property rights and quality controls.	Regulations of the Competition Law, satisfactory to IDA, have been approved. The Competition Agency has been fully staffed and is functioning.	The agency has initiated 5 industry or firm specific investigations on competition matters and has investigated and ruled on 5 cases of consumer complaints before 2006.	
Need to modernize training system and ensure a well trained, employable workforce.	4.5		GON has submitted to IDA the terms of reference for the diagnostic of INATEC.	GON has designed a reform program for INATEC in agreement with IDA.	GON has completed the agreed reforms of INATEC up to the date of the disbursement request.	Training funds from INATEC to privately provided, demand driven training activities has increased from 50% in 2002, to 75% in 2005	INATEC
Broader Access to Land and Credit							
Lack of titling and demarcation of land inhibits use, investment and functioning of the land market.	4.6		CONADETI has defined the criteria and procedures for land demarcation and titling, including characterization and certification of indigenous communities on the basis of completed socio-economic studies.	CONADETI has completed demarcation, the Intendencia de la Propiedad has titled and the Supreme Court has registered at least 5 indigenous territories in the Bosawas region.	CONADETI has completed demarcation, the Intendencia de la Propiedad has titled and the Supreme Court has registered at least 3 additional indigenous territories in the Atlantic Coast and Bosawas region.	8 indigenous territories and 26,000 indigenous people have completely recognized land rights (demarcated, titled and registered) without pending disputes.	MHCP
Lack of speedy, accurate registries and cadastres increases uncertainty of property rights and induces inefficiencies in the land market.	4.7	Submitted draft of the General Law of Public Registries to the National Assembly.		National Assembly has approved and the Presidency has issued regulations of the Law of Public Registries, satisfactory to IDA.	The new institutional framework for registries, including the link with cadastre, has been implemented through the establishment of the National Directorate of Public Registries and the initiation of operations of the SIICAR.	Time estimated time for registry and cadastre services has been reduced from 90 days in 2003 to 45 in 2005.	MHCP
	4.8		The Presidency has submitted to the National Assembly a draft Cadastre law that renders the cadastre and real estate registry data compatible.	National Assembly has approved the National Cadastre Law satisfactory to IDA.	Regulations of the Cadastre Law have been issued.		

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
Need to strengthen supervision of financial sector institutions.	4.9			Ministerio de Hacienda, SIBOIF y BCN have submitted to IDA a Letter of Intent describing proposals to reform the Borrower's financial system, including a time bound action plan for the carrying out of such reform.		Net credit to the private sector increases from minus US\$114 million in 2002 to plus US\$27 million in 2005.	Banco Central/SHCP
Need to ensure prudential regulations for micro-credit institutions.	4.10			SECEP has submitted to IDA a proposal for a legal and regulatory framework for micro-credit and micro-finance institutions, including institutional responsibilities for their supervision. Superintendent of Banks has initiated implementation of plan to improve credit registry.		Increase the number of points of micro-finance services by supervised and non supervised financial institutions by 10% from 208 in 2003 to 228 in 2005.	SECEP
Increase Productivity of Agriculture and Forestry							
Coherent strategy that encourages significant investment and focuses on high-value added products for international markets does not exist.	4.11		Production Cabinet has approved a sector policy and strategy for the productive rural sector (forestry, agriculture, and technology) including the necessary legal and institutional changes for its coordination (MAGFOR, IDR, FCR, INTA, and INAFOR) and presented it to the "Mesa Sectorial".	The legal and institutional changes for the coordination of the rural productive strategy have been implemented, and the resources for the strategy's implementation have been identified.	Satisfactory execution of the plan according to agreed milestones and indicators.		
	4.12	A draft Forestry law that provides a market-oriented framework for private investors has been submitted to the National Assembly.	Regulations of the Forestry Law satisfactory to IDA, have been issued.	Two decentralized forestry districts are operating: Nueva Segovia and RAAN.	Three additional forestry districts are operating (Areas to be determined).		MAGFOR
Access and Quality of Infrastructure							

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
Low levels of rural access to electricity reduce the ability of the rural poor to improve products and production and storage techniques.	4.13		The 2004 budget includes an allocation of at least US\$5 million for rural electrification.	The 2005 budget includes an allocation of at least US\$7 million for rural electrification.	The 2006 budget includes an allocation of at least US\$8 million for rural electrification.	Supply of electricity to rural households increases from 53.9% in 2003 to 58.8% in 2005.	CNE
	4.14	ENEL'S power generating operations have been assigned to four successor companies of ENEL, two of which have been either sold to the private sector or are being operated by the private sector.		CNE has restructured the rural electrification fund (FODIEN), in consultation with MHCP, through: (i) the necessary modifications of the FODIEN's legal structure, based on its evaluation, (ii) the entry into effect of rules and procedures for sub-project selection, implementation and monitoring, (iii) the establishment of funding, financing mechanisms and subsidy allocation criteria for sub-projects, (iv) the entry into effect of rules and procedures for FODIEN's management, and (v) the adoption of a medium-term financing plan of FODIEN, consistent with overall fiscal sustainability.		Sustainable increase in rural electrification coverage.	CNE
Poor access to information inhibits poor (especially rural) farmers from having pricing information and marketing crops.	4.15		Presidency has issued a decree creating the telecommunications investment fund (FTTEL).	The first bidding process to assign the investment fund (FTTEL) has been published.	TELCOR has prepared an official document containing sector policies and guidelines for opening the telecommunications market.	50% of all villages with 1000+ inhabitants will have access to telecommunications services through at least one public telephone.	MHCP
	4.16	The Government has divested 51 percent of ENITEL shares.	Sale of 49% of the Nicaraguan Government's shares of Enitel (URETEL) has been initiated.	Sale of 49% of Enitel's (URETEL) shares concluded.			URETEL

ACTIONS AND PROGRESS BENCHMARKS							Lead Agency
Issue	No.	PSAC	PRSC I 1st Tranche	PRSC I 2nd Tranche	PRSC II	Outcomes / Results	
Poor maintenance of roads increases transport costs and thereby reduces income of rural farmers.	4.17	Launched a road maintenance fund to establish a sustainable road maintenance system; advanced program of rationalization of state-owned construction companies (COERCOs) in transport ministry.	Government has submitted to the National Assembly an amendment to the law that created FOMAV, satisfactory to IDA.	National Assembly approved an amendment to the law that ensures financing FOMAV satisfactory to IDA.	FOMAV has started to receive the resources established by the amendment to the law and has contracted road maintenance activities for 1200 KM of roads with microenterprises and private contractors.	FOMAV has contracts for road maintenance of 1200 kms of roads, helping to lower shipping costs, creating temporary employment opportunities.	MTI

Appendix 6: A Summary of PRSP and IMF/World Bank credits

	Honduras	Nicaragua
PRSP Interim	March 2000	August 2000
HIPC Decision Point	July 2000	December 2000
PRSP I Approved	October 2001	September 2001
HIPC Completion Point	March 2005	January 2004
IMF Data of Arrangement	PRGF 2004	PRGF 2002-2004 PRGF Dec 2005
IMF OFF Track	From 2001 to 2004	From 2004 to 2005
PRSC I Data of Arrangement	May 2004	December 2003
PRSC OFF Track	-	2005
PRSC I Amount Approved	US\$ 58 million	US\$ 70 million
PRSC I Amount Drawn	US\$ 58 million	US\$ 66,5 million
PRSC II Data of Arrangement	-	October 2006

Source: IMF website www.imf.org ; World Bank “IDA Document (2004) for a proposed credit in the amount of US\$ 58 million to the Republic of Honduras for a PRSC”; World Bank “IDA Document (2003) for a proposed credit in the amount of US\$ 70 million to the Republic of Nicaragua for a PRSC”, Dijkstra, G and Kristin Komives (2006) “ La Responsabilidad de Reducir la Pobreza” in Evaluacion de las Estrategias de Reduccion de Pobreza en America Latina -Informe Regional 2006: Sida.

Appendix 7: Total Aid in Honduras and Nicaragua in 2005

	Honduras	Nicaragua
Total aid from all countries (US\$ million)	681	740
Total aid as proportion of GDP (percentage)	8,21%	15%
The 10 biggest donors and the amount of aid (US\$ million)	IDA 144	IDB 108
	Japan 103	U.S 102
	Spain 95	Italy 81
	U.S 88	IDA 66
	IDB 43	Spain 60
	UK 30	EU-Comission 53
	Canada 29	Japan 49
	EU-Comission 28	Sweden 41
	Germany 24	Denmark 37
	Italy 24	Netherlands 34

Source Adapted from Sida

www.sida.se/shared/jsp/download.jsp?f=nicaragua_en.pdf&a=32744

http://www.sida.se/shared/jsp/download.jsp?f=honduras_en.pdf&a=32743

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