Board Meeting of April 9, 1998
Statement by Pieter Stek

Nicaragua - Country Assistance Strategy & Financial Sector Adjustment Credit

Let me start by thanking Management and staff for the informative and considered strategy for Nicaragua for the coming years. I hope that the discussion in the Board will clarify a couple of questions I was left with after having read the document.

The Country Assistance Strategy

The development agenda in Nicaragua remains formidable notwithstanding the progress achieved during the preceding three years. The poverty level is very high, external viability is expected to be achieved only in the long run, and macroeconomic imbalances remain large. I find the broad-based response by the Bank group appropriate as outlined in para 49 of the document and in the Country Program Matrix (Annex B1). I endorse the lending program and the non-lending services planned to underpin achieving the objectives of the current CAS.

Given the relatively young IDA portfolio in Nicaragua as well as the expanding lending program, I very much welcome the re-opening of the resident mission in the country.

The CAS document conveys the importance for Nicaragua of continuing to pursue aggressive structural adjustment in the coming years in order to sustain high growth rates and achieve HIPC eligibility. In this respect I am somewhat puzzled by phrasing the overall objective of the CAS as “helping Nicaragua to graduate from transition to market economy status”. This is a somewhat vaguely defined objective while in the case of Nicaragua it seems far more urgent to reduce the country’s dependence on external aid by the combination of profound domestic reforms and further debt reduction.

Another problem I have with this, supposedly joint IDA-IFC CAS, is the role IFC is expected to play in fostering private sector development in Nicaragua. Phrasing like “IFC could help expand...” or “IFC is uniquely placed to...” (Annex C, para 29 and 30) are not necessarily informative on what exactly IFC’s role is going to be in this particular country over this particular period. I realize that it may be difficult for IFC to commit ex ante to specific operations, given that its outputs are very much dependent on the local and foreign sponsors. It might be advisable that IFC defines its corporate
strategy in a country in terms of according prioritized inputs, if not outputs. It should be possible for us, as a Board, to be presented with meaningful Bank group strategic documents. I am convinced that on the basis of the progress already achieved in opening up the economy, IFC could make an important contribution to the private sector development in Nicaragua.

**The Financial Sector Adjustment Credit**

I support the proposed Financial Sector Adjustment Credit for Nicaragua. The financial sector reform program which this credit will support is expected to enhance the regulatory capacity of the authorities and to contribute in a meaningful manner to two of the CAS objectives: strengthening macroeconomic stability and facilitating private banking in the rural sector. Rural sector development on its part is at the core of the poverty alleviation program in Nicaragua.

I am in agreement with the assessment that the measures to be supported by the credit will promote the financial sector reform but will need to be deepened over the next years, perhaps with additional financial support from IDA.