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NICARAGUA

Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

Prepared by the Staffs of the International Monetary Fund and
the International Development Association[1]
(In collaboration with the Staff of the Inter-American Development Bank)

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Contents Page

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I. INTRODUCTION

1. **In September 1999, the Executive Boards of the IDA and the IMF discussed the preliminary document on the Heavily Indebted Poor Countries (HIPC) Initiative for Nicaragua** (EBS/99/165,8/24/99 and IDA/Sec M99-541). Executive Directors agreed that Nicaragua should be eligible for assistance under the Initiative in view of its status as a Poverty Reduction and Growth Facility (PRGF)-eligible and IDA-only country, its track record of reforms, and an unsustainable debt burden under both export and fiscal criteria. Executive Directors acknowledged Nicaragua's progress in stabilizing the economy and carrying out structural reforms. They agreed that Nicaragua could reach the decision point as soon as the conditions proposed by the staffs in the preliminary document have been fulfilled, and stressed the importance of taking steps to improve governance before the decision point is reached.

2. **The pending condition for reaching the decision point is the completion of the reviews under the PRGF-supported program.** Important reform legislation specified in the preliminary document has been approved and is being implemented. This involves the three bills to strengthen the financial system, the public sector procurement law, and the social security reform law. Also, satisfactory progress is being made in improving governance, particularly in the areas of transparency and accountability in the use of public funds, resolution of outstanding property claims, and improving the efficacy of the Comptroller's Office (CO). Substantial progress has been made toward the preparation of a Poverty Reduction Strategy Paper (PRSP) by preparing a document that goes well beyond the basic requirements for an Interim-PRSP. The reviews of the PRGF-supported program are expected to be completed around mid-December provided that the pending prior actions have been taken, including putting in place satisfactory resolution plans for dealing with the weak commercial banks.

II. BACKGROUND AND ADJUSTMENT RECORD

3. This section briefly discusses the social policies and evolution of poverty during the 1990s (based on the recently concluded poverty assessment by the World Bank) and summarizes Nicaragua's macroeconomic and structural policy record in 1997–2000, with emphasis on policies implemented since September 1999.[2]

A. Social Policies and Poverty Evolution

4. **Social policies in the 1990s sought to increase equity, effectiveness, and accountability in the delivery of education and health services, improve access to social infrastructure, and foster rural development.** Special emphasis was given to the provision

[2] Nicaragua's track record of reform was extensively discussed in the Preliminary HIPC document (EBS/99/165; 8/24/99 and IDA/Sec M99-541; 8/24/99).

of primary education and basic health services targeted at rural municipalities. In education, budgeting was made more equitable, administration of schools started to be transferred to the local level, and incentives for improving teacher performance were introduced. Also, two-thirds of primary schools were rehabilitated and revised textbooks provided to students in grades one through six by late 1998. In the health sector, the reforms focused on the rehabilitation of primary care centers and hospitals in poor areas, the introduction of an integrated primary health care model, and preparation for the decentralization of the health system with a better-defined role for private providers. Measures to promote rural development included the creation of a system of agricultural extension, steps to encourage improvements in agricultural technology, a support program for the small-scale grain farmers, and the provision of economic and social infrastructure to poor rural communities.

5. **The general economic recovery and social policies implemented in the 1990s resulted in a modest decline in overall poverty in Nicaragua, but the record across regions varied greatly** (Box 1). Between 1993 and 1998, the share of Nicaragua's population living below the poverty line declined from 50 to 48 percent, while the share living below the extreme poverty line declined from 19 to 17 percent (see tabulation on page 6). However, the absolute number of persons in poverty increased, reflecting in part incomplete coverage and inefficiency in the delivery of essential social services, an inadequate social safety net, and very high fertility rates among the poor. Poverty declined in rural areas and in the central highlands, but rose in the urban Atlantic and, except for Managua, in the urban Pacific regions.

Box 1. Nicaragua's Poverty Profile

Nicaragua is one of the poorest countries in Latin America. Almost 48 percent of the population falls below the poverty line and 17 percent falls below the extreme poverty line. The poor are largely concentrated in rural areas (where about 70 percent are poor versus 30 percent in urban areas), and in the central region of the country (where 47 percent of the extreme poor reside). They mainly depend on agriculture for their incomes, and their consumption is concentrated on food and housing.

- **Social conditions in Nicaragua:** (i) Fertility rates are about twice the Latin American average and 50 percent of the population is under 17 years of age; (ii) Nicaragua exhibits a high incidence of domestic violence, which raises broad concerns about women's status and a lack of social cohesion; (iii) Malnutrition is widespread (approximately 20 percent of children under five are chronically malnourished, or stunted, and this share rises to 36 percent among the extreme poor); (iv) Nicaragua suffers from elevated levels of infant mortality and maternal mortality, and a high prevalence of infectious and parasitic diseases; and (v) Nicaragua exhibits a high illiteracy rate, few years of schooling (the national average is 4.9 years) and great social disparities in education attainment levels (average schooling is only two years among the rural poor).
- **Some positive trends:** (i) The share of Nicaragua's population living below the general and extreme poverty lines declined between 1993 and 1998, by 2.4 and 2.1 percentage points. Although modest, these declines are statistically significant; (ii) Most of the gains in poverty reduction have occurred in rural areas as a result of a recovery in agriculture. Urban poverty has increased in the Pacific and Atlantic regions; (iii) Social outcome indicators and coverage of basic social services have generally improved during the 1990s (immunizations, malnutrition, and infant mortality), with gains driven by improvements in rural areas; (iv) Gains in preschool enrollment were almost exclusively rural, and predominantly benefited the poor; and (v) The global fertility rate declined significantly, from 4.6 births per woman in 1993 to 3.9 births in 1998.
- **Perceptions of the poor:** In spite of the measured gains made in reducing poverty during 1993–98, qualitative analyses show that the poor associate the 1990s with a decline in their well-being. What can explain this finding? *First*, the task of rebuilding Nicaraguan families and society, damaged during a decade of civil war, insecurity, and violence, is just beginning. Keeping in mind that per capita real GDP in Nicaragua fell by over 50 percent from 1978 to the early 1990s, a 7 percent income improvement (as happened in 1993–98) is likely to pass unperceived. *Second*, the risks faced by Nicaragua's poor may have increased during the 1990s. The replacement of a socialist state by a private market economy has opened greater prospects for growth and economic opportunity, but it has left the poorest with virtually no formal safety nets to protect them. *Third*, the poor see improvements in infrastructure, but they do not perceive that their access to the services of that infrastructure has improved. The private costs of social services have risen, perhaps becoming prohibitive for the extreme poor, while rehabilitated facilities in many cases lack key inputs for operating, e.g., teachers, trained health staff, textbooks, or medicines.
- **Measuring poverty:** The Nicaragua Poverty Assessment measures poverty with reference to a poverty line based on consumption expenditures. The **poverty line** is defined as the level of total per capita annual expenditures at which an individual obtains the minimum daily caloric requirement (2,226 calories per adult) as part of an entire consumption basket that also includes nonfood items. The **extreme poverty line** is defined as the total annual per capita cost of satisfying this minimum daily caloric requirement, ignoring other nonfood consumption. A person consuming less than this amount per annum cannot meet his/her minimum daily caloric requirement, even if the entire consumption budget is devoted to food. The poverty line for Nicaragua in 1998 was calculated at 4,259 córdobas and the extreme poverty line at 2,246 córdobas. (For reference purposes, GDP per capita in 1998 was 4,719 córdobas, or US$446.)

Source: World Bank.

Incidence and Evolution of Poverty in Nicaragua: 1993–98

	Extreme Poverty Headcount Index (Percent)			Poverty Headcount Index (Percent)			Contribution to Change in Poverty	
Region	1993	1998	Change	1993	1998	Change	Extreme Poverty	Poverty
National	**19.4**	**17.3**	**-2.1**	**50.3**	**47.9**	**-2.4**	...	...
Urban	7.3	7.6	0.3	31.9	30.5	-1.4	...	...
Rural	36.3	28.9	-7.4	76.1	68.5	-7.6	...	...
Managua	5.1	3.1	-2.0	29.9	18.5	-11.4	-12.9	-45.5
Pacific								
Urban	6.4	9.8	3.5	28.1	39.6	11.5	38.2	79.2
Rural	31.6	24.1	-7.5	70.7	67.1	-3.6	-30.2	-7.8
Central								
Urban	15.3	12.2	-3.1	49.2	39.4	-9.8	-2.8	-13.8
Rural	47.6	32.7	-14.8	84.7	74.0	-10.7	-54.1	-29.4
Atlantic								
Urban	7.9	17.0	9.0	35.5	44.4	8.9	29.1	20.8
Rural	30.3	41.4	11.1	83.6	79.3	-4.3	32.7	-3.5

Sources: World Bank: Nicaragua Poverty Assessment 2000 (Report No. 20488-N1); and Nicaragua Poverty Assessment 1995 (Report No. 14038-N1), based on data from the National Statistics and Census Institute.

6. **Social outcome indicators and the coverage of basic social services have generally improved during the 1990s**. Both infant and child mortality rates decreased by 20 percent between 1993 and 1998, and preschool enrollment increased substantially. Through 1997, significant gains were also evident in access to prenatal care, institutional births, and physician attention during childbirth. In all cases, the gains were driven by improvements in rural areas, reflecting in part government efforts to expand social services in these areas. With the exception of a significantly expanded road infrastructure, access to other infrastructure services by the poor only improved modestly, as investments in infrastructure mainly appear to have kept pace with population growth.

7. **Hurricane Mitch did not significantly change Nicaragua's overall poverty profile**. Hurricane Mitch had a terrible human and physical impact, killing 3,000 persons and displacing 870,000. Nevertheless, Nicaragua's post-Mitch poverty characteristics remain broadly as they were before the hurricane.

8. **Nicaragua's recent gains have not been fully recognized by the poor**. This emerges from the Qualitative Poverty Assessment carried out by the World Bank in 2000, which focused on the poor's perception of factors (risk, vulnerability) that make them poor.

The poor's perception of the risks to their livelihood apparently increased during the 1990s, possibly reflecting the large structural changes that were under way.

B. Record of Macroeconomic Performance and Structural Reforms

9. **In the 1990s, Nicaragua made important progress in the areas of macroeconomic stabilization and structural reform.** Since the beginning of the decade, financial policies were strengthened, price controls eliminated, and the foreign exchange and trade systems liberalized. Government revenue has been strengthened. A program of public asset divestment was implemented, and public employment and military outlays were reduced substantially. Private banks were allowed to operate again, public banks were liquidated or sold, the superintendency of banks was created and is being strengthened, and a new legal and regulatory framework for the financial sector was put in place. Appendix I provides the record of structural and social sector reforms and indicates the main challenges ahead. These policies have been supported by the IMF's ESAF and PRGF programs, the IDA, and the IDB structural adjustment and sector loans.

10. Prudent macroeconomic policies and comprehensive structural reforms over the past seven years resulted in a dramatic improvement in economic performance. Inflation was reduced sharply to 10 percent annually in 1995–97 and 7 percent in 1999, while output growth recovered to about 4½ percent annually in 1995–97 and gained momentum, reaching 7 percent in 1999. Investment rose rapidly, reaching 27 percent of GDP a year in 1995–97 and an exceptional 43 percent of GDP in 1999, aided by strong inflows of private capital and official aid.[3] National saving, negative for several years, recovered to about 3 percent of GDP in 1995–97 and increased to about 9½ percent of GDP in 1999. The rate of open unemployment, which peaked at 22 percent in the early 1990s, declined to 11 percent by 1999.

C. Recent Economic Developments

11. **In 1999, the economy recovered strongly from the adverse impact of Hurricane Mitch aided by substantial external assistance and a strong increase in private capital inflows.** Domestic demand increased markedly, agricultural output recovered and construction activity boomed, while inflation decelerated from 18½ percent during 1998 (reflecting temporary food shortages in the wake of Hurricane Mitch) to 7 percent during 1999. However, toward the end of 1999 policy implementation weakened resulting in a higher fiscal deficit than in the PRGF-supported program, delays of some structural measures and concerns about governance. The consequent delays in disbursements from the IDB and IDA resulted in larger-than-programmed domestic financing of the public sector and a shortfall relative to the target for the central bank accumulation of net international reserves.

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[3] Ratios to GDP are affected by a substantial underestimation of GDP. The relatively high level of investment in 1999 reflects large outlays on post-Hurricane Mitch reconstruction and a one-time large private investment in an electrical plant.

12. **In early 2000, there were further macroeconomic slippages** as fiscal outlays increased, inflation accelerated, and the external position weakened. Credit continued to expand vigorously, leading to increases in the share of risky assets in bank portfolios. Moreover, the passing of constitutional changes that risked weakening key democratic institutions raised serious concerns about governance among the international community, which led to a slowing of aid flows. **However, since April, the government has satisfactorily implemented a policy package that is helping to bring performance back on a path toward fiscal and external viability**. Measures to improve government revenue and restrain public expenditure and private sector credit growth have started to bring financial performance back toward the program path; advances in social security reform and the privatization of the public utilities were also made.

13. **Steps toward improved governance** included the implementation of the new law on government procurement, the establishment of property arbitration centers and property courts, approval of a law on the settlement of administrative disputes, and improvements in control and transparency of government finances. Following an investigation of corruption allegations by the CO, the government fined and removed from office several senior officials. Revisions of the CO's internal regulations and the implementation of an action plan for the restructuring and strengthening of the CO are expected to bolster its role in promoting good governance.

14. **In August 2000, concerns regarding fragility of the banking sector were heightened by the sharp deterioration in the financial condition of the largest commercial bank**, allegedly due to fraud and mismanagement. The authorities took swift and decisive action by intervening the bank and initiating criminal proceedings against the former managers and directors of the bank. The central bank guaranteed all deposits of the bank and, subsequently, stepped up open market operations to limit initial deposit flight and capital outflows. Actions are being taken to improve the overall health of the banking system and increase confidence, including the implementation of plans for strengthening the health of weak banks. Also, a program is being implemented to strengthen the bank superintendency (with IDA and IDB assistance).

15. In September, the distribution units of the state-owned electricity company (ENEL) were privatized and the authorities intend to privatize the generation units in early 2001. Recent efforts to divest the telecommunication company (ENITEL) did not succeed as only one bid substantially below the reservation price was received. The authorities are presently reexamining the divestment strategy with a view to offering the company for sale again in the first half of 2001.

III. Medium-Term Challenges And Policy Outlook

16. **Despite the progress that has been made thus far, many challenges remain to sustain broadly based strong growth and make it more effective in reducing poverty. To consolidate macroeconomic stability,** the public sector deficit needs to be kept at levels that can be financed with concessional foreign financing and that are consistent with a declining

net present value of the debt-to-GDP ratio after HIPC debt relief. To this effect, the efficiency of tax revenue collection needs to be increased, nonpriority government spending restrained, and the allocation and effectiveness of government poverty alleviating expenditures improved. **Conditions for facilitating private investment and competitiveness also need to be improved**. This requires the prompt implementation of actions to bolster the health of the banking system; completion of the privatization process to provide better and lower cost energy and telecommunications services; expansion of transportation infrastructure (e.g., ports and roads), particularly in the rural areas; resolution of property rights; modernization of the judiciary and public safety services; and assistance to small farmers and other small businesses in accessing credit, better product distribution, and adoption of new technology.

17. **Poverty reduction and improvements in social indicators can only be sustained through continued policy effort and sustained and coordinated support by the international community**. The reduction of poverty in the 1990s was largely driven by the rapid growth of rural household incomes, attributable to rapid agricultural sector growth in the context of favorable export prices, the end of civil war, and increases in labor participation rates. These price and labor trends cannot be counted on to persist indefinitely. Also, the recently observed declines in the fertility rate remain concentrated among the nonpoor. Until this decline also takes hold among the poor, it will continue to represent a major constraint on poverty reduction. Finally, problems in the social sectors—including low salaries for teachers and health workers, high administrative costs, inefficient management, and the absence of systematic program evaluation—will constitute bottlenecks for the future expansion of social services if not addressed in time. Sustaining the momentum of poverty reduction will largely depend on maintaining strong economic growth, especially in rural areas, improving the efficiency of social service delivery, and reducing fertility rates among the poor. It will also require the establishment of a social protection mechanism that is effective in promoting changes in behavior that permit a faster escape from poverty.

A. Roadmap to Poverty Reduction

18. **The government's recently issued document ("A Strengthened Poverty Reduction Strategy"), which it has submitted as an Interim-PRSP, sets out a strategy to address the main challenges** described above.[4] The document is based on a sound analysis of Nicaragua's poverty and was prepared with participation of civil society. It rests on four programmatic pillars: (i) sustaining broad-based economic growth and structural reform; (ii) raising the amounts and quality of investment in human capital, particularly of the poor; (iii) improving the protection of vulnerable groups; and (iv) strengthening institutional capacity and good governance, together with three cross-cutting themes relating to environmental

[4] See Nicaragua—Interim Poverty Reduction Strategy Paper (EBD/00/82, 9/22/00) and Joint Staff Assessment of the Interim-PRSP (EBD/00/81, 9/22/00 and IDA/Sec M2000-552; 10/2/00).

sustainability, social equity, and decentralization. The government's poverty-reduction targets aim to achieve the OECD-DAC International Development Goals by the year 2015, as well as to substantially improve the population coverage of safe water and sanitation and to reduce child malnutrition and illiteracy in reflection of Nicaragua's specific conditions and needs. The authorities expect to complete the full PRSP soon, in consultation with donors and civil society through the National Economic and Social Planning Council (CONPES).[5] The Joint Staff Assessment concludes that the I-PRSP provides a sound basis for completing a fully participative PRSP and reaching the decision point under the HIPC Initiative. The government's poverty-reduction strategy will continue to be supported by the IMF, IDA, and IDB programs (Boxes 2 and 3).

B. Macroeconomic Framework

19. The preliminary medium-term macroeconomic scenario elaborated with the authorities indicates a continuation of prudent fiscal and monetary policies aimed at sustaining fast output growth and consolidating stabilization (Table 1).[6] The policies will seek to facilitate growth in real consumption per capita of about 2½ percent a year, which is essential for achieving the poverty-reduction goal, while lowering inflation from 10 percent during 2000 to 3–4 percent in 2003, and gradually reducing Nicaragua's dependence on external savings.

- **Investment** is projected to decline in relation to GDP from the exceptionally high levels associated with reconstruction in the aftermath of Hurricane Mitch, but would remain high at about 33 percent of GDP in 2003. Continued increases in investment efficiency, following trade liberalization, the privatization of utilities and improvements in the efficiency of financial intermediation, would permit sustained real GDP growth of about 5½ percent a year.

- **Fiscal policy** will aim at keeping the combined public sector deficit after grants below 8 percent of GDP on average in 2000–03, notwithstanding a substantial loss of revenue owing to the operation of private pension funds starting in September 2001. Fiscal consolidation would be pursued through tax revenue buoyancy associated with a broadening of the tax base (reduction of exemptions and tax loopholes and improvements in administration), as well as the lower investment expenditure resulting from reduced reconstruction outlays and the privatization of the utilities. Although foreign financing may continue at relatively high levels in the near term, the ratio of public external debt to GDP is projected to decline substantially.

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[5] See EBD/00/82, Annex Table 5. "Work Plan for the SPRS."

[6] The medium-term macroeconomic framework will be revised in early 2001 to take fully into account the implications of bank restructuring and the likely availability of noninflationary financing.

Box 2. Summary of IDA Operations in Nicaragua

IDA's support for Nicaragua focuses on the following core themes: (i) consolidating growth through private sector development; (ii) developing the rural sector and strengthening environmental protection; and (iii) developing human capital and protecting the poor. The reduction of the external debt burden to sustainable levels through the HIPC and the modernization of the state, including increasing transparency and strengthening the judicial system, are also key goals of the strategy.

- **Consolidating growth through private sector development.** IDA credits and technical assistance in this area have concentrated on (i) macroeconomic stability and debt relief; (ii) financial sector reform, including the strengthening of banking supervision; (iii) pension system reform; (iv) the rehabilitation of trunk and rural road infrastructure and development of a sustainable road maintenance program; and (v) telecommunications sector reform. Further support is contemplated in the areas of private sector competitiveness and rainfall risk management.
- **Developing the rural sector and protecting the environment.** Support for rural development is at the center of IDA's poverty-alleviation strategy, and includes (i) developing well-functioning land markets, developing rural financial markets, and improving agricultural productivity; (ii) strengthening rural municipalities; (iii) protecting the environment and bio-diversity, with a special focus on sustainable forestry development; and (iv) legalizing indigenous property rights. Greater involvement in disaster prevention and mitigation, and in rural electrification is contemplated for the future.
- **Developing human capital and protecting the poor.** IDA has been a leading donor in the health and education sectors, as well as a major contributor to the Emergency Social Investment Fund (FISE). In education, IDA is financing preschool and basic education with the aim of enhancing quality, increasing access of rural children, and institutional strengthening. In health, IDA has focused on improving the ministry's institutional capacity, initiating the decentralization process, improving access to and quality of service, strengthening sector finances, promoting private sector participation, and reforming the social security system. IDA's current support for FISE's social infrastructure development is focusing on improving project sustainability, community participation, decentralization, and interfacing with municipalities. In the future, IDA plans to become more involved in social protection and in nutrition.
- **Institutional development.** Institutional capacity building objectives are pursued in virtually all IDA-financed operations, as well as through two credits that focus on streamlining the public sector, civil service reform, establishing an integrated financial management system, improving public procurement, and the National Integrity Program. These are key areas for achieving greater transparency and good governance.
- **Post-disaster support.** After Hurricane Mitch struck Nicaragua in October 1998, IDA responded with (i) emergency financing (of US$50 million) to help maintain macroeconomic stability; (ii) project reprogramming and supplemental credits (totaling US$76 million) to meet short-term rehabilitation needs; and (iii) the creation of the Central America Emergency Trust Fund (CAETF) to help channel donor contributions toward covering multilateral debt-service payments.

Other support activities. IDA has been playing a key role in promoting better poverty targeting through its support in carrying out several Living Standards Measurement Surveys and the completion of a Poverty Assessment, FISE Impact Study and Poverty Map. A Public Expenditure Review is planned to review the link between public programs and PRSP objectives, and would be followed by a lending operation in support of PRSP implementation.

Box 3. Reforms Supported by the Operations of the Inter-American Development Bank

The IDB's support to Nicaragua focuses on the following areas: (i) human capital development; (ii) social protection of the most vulnerable groups; (iii) modernization of the public sector and institutional strengthening; and (iv) strengthening of the financial sector. Also, the IDB continues to support improvements in infrastructure and the reactivation of the agricultural sector.

- **Human capital development** programs aim at improving access to and the quality of health care and education. The institutional strengthening and decentralization in these sectors seeks to improve service delivery, equity in fund allocation, and accountability in the use of funds.
- **In the health sector** the program focuses on improving: (i) hospital efficiency through development of an information system and performance agreements; (ii) maternal and child care through the provision of a package of basic services; and (iii) adjustments of service capacity at various levels.
- **In education** the Bank-supported reforms seek to improve quality and relevance of secondary and vocational education, with particular attention to school and teacher credentials and the productive sectors' labor needs, including entrants with modern technical training.
- **The social protection net for the most vulnerable** focuses on women and children living in extreme poverty. Income-supplement transfers are provided to homemakers of extremely poor households for investing in nutrition, preventive care, and education of their children. The Bank supports strengthening of the local communities' capacity to prioritize their poverty-reduction needs, implement local projects, and maintain basic infrastructure. Support is also provided for the development and implementation of a protection plan against domestic violence.
- **The modernization of the state and improved governance** are pursued by supporting continued restructuring of government entities in accordance with the recently passed law on organization of the executive, modernization of the judiciary, and implementation of the government's integrity plan, which includes preparation of legislation on public servants' ethics, on access to public information, and on citizens' participation. An IDB-supported program aims at improving the efficiency of tax collection through a transformation of the domestic revenue and customs departments into autonomous entities required to meet the performance benchmarks negotiated with the ministry of finance. The Bank recently approved a loan operation to support improvements in efficiency and transparency of government procurement, that includes external inspections of procurement and project execution in key entities, training and technical strengthening of line ministries in this area, and introduction of a revamped national procurement system. The IDB will continue to provide support in the privatization of public utilities, especially for the reform of the electricity sector (which includes privatization of the distribution and generation units of ENEL) and leasing of the water supply enterprises to private managers/investors.
- **Support for the strengthening of the financial system** will focus on strengthening bank supervision and assistance in bank restructuring, preparation of a legal framework for the development of a domestic capital market, and improved access of small farmers and other small businesses to credit by fostering transformation of the informal lenders into regulated and supervised nonconventional financial intermediaries.

- **Credit policy is projected to be consistent with lowering inflation and increasing the official international reserve cushion.** Gross international reserves would increase substantially through 2001 reflecting the sterilization of a part of the privatization proceeds and would decline slightly in relation to imports thereafter.

- The **banking system problems** that emerged recently underscore the urgency of (i) implementing bank resolution plans in a manner that can be supported by the international financial institutions; (ii) strengthening the bank superintendency and the supervision process to improve enforcement of the prudential norms; and (iii) improving the legal and regulatory framework to facilitate supervision and the implementation of bank resolutions.

C. Structural Reforms and Improvements in Governance

20. **The continued implementation of structural reforms and improvements in governance are essential to sustaining private sector confidence, strong economic growth, and international support.** Structural reforms in 2001–02 will focus on implementation of the recently approved pension system reform and related measures to help develop the domestic capital market, strengthening the financial system, improvements in the tax system, and completion of privatization of the public utilities. Good governance will be promoted through legislative and policy measures to create an efficient civil service, strengthening of the CO, further steps in decentralization, improvements in transparency and accountability in the use of public funds, resolution of property rights, and further modernization of the judiciary.

21. **Implementation of the social security reform** will over time improve the welfare of Nicaragua's working people by restoring soundness of the pension system and increasing its coverage. The pending actions involve: (i) approval of a law on supervision of private pension funds, and establishment of a supervisory agency; (ii) awarding of licenses to the private pension fund managers; and (iii) transfer of the eligible contributors to the new system of funded individual accounts. The approval of the securities and insurance laws is expected to contribute to the development of a domestic capital market. **To strengthen the financial system,** the superintendency of banks will fully implement the recently approved prudential norms on capital adequacy, credit risk and provisioning, and on limits on lending to related parties, a law on deposit insurance will be passed and implemented, and the superintendency will be strengthened (with support from IDA and IDB). The government will also sell its remaining shares in a domestic bank (BANIC) and dissolve a small public housing bank (BAVINIC). **The privatization of public utilities** will be completed by divesting the telecommunications company (ENITEL) and selling the generation units of the electricity company (ENEL), and by leasing the management of port facilities and urban water and sewerage systems to private investors.

22. **Governance improvements** will be pursued by implementing the civil service reform law, which aims at creating an efficient, nonpoliticized civil service, and by restructuring and strengthening technically the CO. **Decentralization** will be promoted by implementing the laws on autonomy of the Atlantic coast region, municipal budgeting standards, and the responsibilities of public servants in municipalities. **Transparency and accountability** in the use of public funds will be improved by strengthening the national investment system (SNIP) in clearing, monitoring, and evaluation of government projects; expansion of the system for financial management and audit (SIGFA) to ministries; and

establishment of a system for management and control of government procurement in accordance with the recently approved law. The authorities have requested an IMF mission to perform a fiscal transparency evaluation to identify further actions that may be needed in this area.

23. **Modernization of the judiciary** will mainly consist of the implementation of the recently approved revised penal code and the law on administrative process and dispute settlement, and approval and implementation of the laws on penal procedures and on public prosecutors. The Supreme Court also will implement its program of investment and professional strengthening aimed at improving access to and streamlining proceedings in courts and public registries. The latter will be enhanced by the establishment of autonomous real estate registries at the local level. **The property rights** will also be strengthened through the functioning of the recently established property mediation courts, accelerated land titling, and administrative resolution of the remaining property claims.

D. Social Sector Policies

24. **Nicaragua's social sector strategy will focus investments in human capital on primary and pre-primary education, preventive health care at the primary level, child nutrition and population policy, complemented with programs to expand the provision of safe water, sanitation and housing in poor communities, while simultaneously establishing a better social protection mechanism** (Box 4). The intermediate and final targets pursued under this strategy are described in Annex III of the I-PRSP.[7] To achieve these targets, the government plans to increase the share of poverty-related public spending from 53 percent of noninterest total spending in 2000 to 64 percent in 2003. Most of this increase is expected to be funded by reallocating resources currently used for the post-Mitch reconstruction, and by using privatization proceeds and HIPC Initiative debt relief. In addition, revenue and expenditure reforms may be required to achieve the targeted increase in poverty alleviating expenditure.

[7] Annex III, "Matrix of Goals, Targets and Intermediate Indicators."

Box 4. The Government's Strategy in the Social Sectors

An important pillar of the government's poverty-reduction strategy is increasing the amount and quality of investment in human capital, focusing on education, health, nutrition, and population growth, and supported by parallel investments in water, sanitation, and housing infrastructure. Another key pillar is the protection of the most vulnerable members of society.

In education, attention is concentrated on the primary level and the main objectives are to (i) foster greater parental participation; (ii) improve the quality and relevance of schooling; (iii) expand coverage; and (iv) modernize operations. Greater parental participation is being encouraged through the school autonomy program, supported by training programs for local school council members. Quality improvements will be brought about through curricula reform at the primary and secondary levels, greater availability of textbooks, improved infrastructure, and an expanded incentive program for teachers. Coverage of education services will be extended through more formal and informal pre-school programs, expanding the practice of two shifts in schools, the use of multi-grade classrooms, more scholarships in grades four through six, and continued literacy campaigns. New regulations and testing procedures will be implemented to make financing depend on education outcomes.

In health, the strategy focuses on (i) increased coverage and quality of services for women, children, and adolescents; (ii) behavioral changes at the household level; and (iii) the modernization of the sector, partly by decentralizing and increasing the participation of private sector service providers.

In nutrition, efforts will focus on (i) preventing malnutrition among the young through greater monitoring of children and pregnant mothers, and fortifying sugar, salt, and flour with micronutrients; (ii) community education campaigns; and (iii) expansion of social infrastructure.

In population, the strategy is to integrate reproductive health care services into primary health services, with the dual objectives of improving family planning while reducing mortality rates, and strengthening the basic social fabric. Key to the first objective is better basic health services, including family planning, for women and adolescents, increased coverage of obstetric services, nutritional improvements and expanded access to safe water. The second objective is pursued through efforts to change behavior patterns within families and vulnerable groups.

In water and sanitation services, the focus will be on expanding the availability of safe water in dispersed rural areas, halting the deterioration of watersheds, ensuring that local water systems become and remain financially viable, and promoting good water use habits in households. Greater financial viability will be fostered by concessioning of water systems to private investors, beginning with the regional water systems of Leon, Chinandega, Matagalpa, and Jinotega.

In the housing sector, government efforts will focus on strengthening the legal framework, transforming the Urban and Rural Housing Institute (INVUR) into a policy and supervisory agency, and through a more efficient administration of housing subsidies.

In the area of social protection, the main strategic elements are to (i) modernize the institutional framework and improve institutional capacity of existing protection mechanisms; (ii) improve the quality and targeting of social protection mechanisms; and (iii) strengthen community participation in the operation of social protection mechanisms. The Emergency Social Investment Fund (FISE) is expected to play the main role in the implementation of social protection activities, while the Supplementary Social Fund (FSS) will channel resources to identified poverty alleviating programs.

25. Important **reforms designed to improve the effectiveness of expenditure** will accompany the increase in social spending. In **education**, this involves the legislative

passage and implementation of the school autonomy law and putting into effect an academic achievement measuring system. In **health**, the main reforms include modernizing the sector's legal framework, decentralization through transfer of powers to the local integrated basic health care systems (SILAIS), and the adoption of a new system to manage medicines and medical supplies. In **water and sanitation**, long-term concessions will be granted to private sector operators for the main urban systems, starting with Leon/Chinandega and Matagalpa/Jinotega. In the area of **social protection**, the results of the pilot safety net program begun in 2000 will provide valuable information for designing a more comprehensive protection mechanism for the extreme poor. The mechanism for monitoring the implementation of social sector reforms and social indicators has been put in place and is described in Box 5.

Box 5. Monitoring Social Sector Reforms

The Matrix of Goals, Targets and Indicators prepared for the I-PRSP (Annex III of the I-PRSP) contains a number of monitorable input and output targets for the social sectors. The main **indicators of results** are the extreme poverty headcount index, infant and maternal mortality rates, chronic malnutrition rates, and literacy rates. A third LSMS is planned for 2004 to measure progress in the reduction of poverty and extreme poverty. The other social indicators will be reviewed periodically by IDA and IDB sector missions in collaboration with the Technical Secretariat of the Presidency (SETEC), based on statistics prepared by the health and education ministries.

Because output indicators generally evolve very slowly, several **intermediate input indicators** will be monitored annually to assess progress in the implementation of the poverty-reduction strategy. One key input indicator is the level of public expenditures in the social sectors. This will be monitored through periodic reviews of expenditures from the ministries of health and education, together with the budget execution data from the ministry of finance. The Public Expenditure Review planned for 2001 will prepare a specific framework for this monitoring process.

Other intermediate input indicators are the coverage of vaccinations and prenatal care, share of institutional births, access to reproductive health services, and net primary enrollment rates. These indicators will be reviewed annually by IDA health and education sector supervision missions, in collaboration with IDB and SETEC. Access to water and sewerage services will be monitored in collaboration with SETEC and the Emergency Social Investment Fund (FISE).

There are also a number of **structural reform indicators** for the social sectors, involving the decentralization of health service administration, the adoption of a new medicine management system, the implementation of the school autonomy program, the adoption of an academic achievement measuring system, and the concessioning of several water systems. Progress in the implementation of these structural reforms will be monitored as part of IDA and IDB sector supervision missions, in collaboration with SETEC and respective ministries.

26. **The government is reviewing its social programs in light of its poverty-reduction strategy in order to prioritize and streamline its efforts.** In this regard, impact assessments have been completed of the FISE and PROTIERRA programs, which implement projects in poor (and primarily rural) areas. Also, the recently completed poverty map, based

on the results of the 1998 LSMS (updated in 1999), is being used to improve the targeting of social programs.

IV. THE COMPLETION POINT

A. Floating Completion Point Conditions

27. **Nicaragua's completion point will be triggered by the successful implementation of a set of agreed policy actions that address challenges to sustained growth and poverty reduction.** The agreed conditions are fully consistent with the government's policy priorities, and will complement or reinforce reforms and policies included in the PRGF-supported program and in operations of IDA and the IDB (Box 6).

Box 6. Poverty Reduction and Structural Measures for the Floating Completion Point

The completion point can be reached once the following have been complied with:

- **Preparation of a fully participatory PRSP and its satisfactory implementation for at least one year as evidenced by the staff assessment of the country's annual progress report presented to the Boards of the IMF and IDA.**
- **The use of budgetary savings resulting from the interim relief under the HIPC Initiative would be in accordance with the proposals set out in Appendix III, and would be reported in the PRSP process.**
- **Maintenance of a stable macroeconomic framework, and satisfactory performance under a program supported by a PRGF arrangement.**
- **Implementation of reforms to promote human capital development and social protection.** Three key reforms in this area are (i) the approval of a satisfactory school autonomy law to strengthen the legal foundations for the envisaged sector reforms, which aim to encourage, inter alia, greater parental parti-cipation in education; (ii) the approval of a satisfactory general health law and adoption of corresponding implementing regulations to strengthen the health ministry's regulatory and normative roles, and establish a solid legal framework for the sector's modernization program, granting more autonomy to hospitals and local health systems; and (iii) the adoption of an action plan to introduce an effective social protection program, based on the results of a pilot program started in 2000.
- **Implementation of governance strengthening measures**, which encompass (i) the enactment and advance in implementation of a satisfactory civil service law to, inter alia, reduce political interference in hiring/firing decisions affecting civil servants; (ii) introduction of a satisfactory system of management and inspection of public sector procurement; (iii) satisfactory progress in implementing the plan to strengthen and improve the efficiency of the CO; and (iv) approval of the laws on penal procedures and public prosecutors, and initiation of training programs and technical preparations for their implementation.
- **Implementation of remaining actions needed to introduce a satisfactory pension system of funded, private sector-managed, and individual accounts.** This includes especially the passage of a law to create a supervisory authority for pension funds, the staffing of this supervisory authority, and the restructuring of the social security institute.
- **Divestment of ENITEL and of all electricity generating units of ENEL.**

B. Monitoring of the Completion Point Conditions

28. The monitoring of the conditions will be done jointly by staffs of the IMF, the World Bank, and the IDB with specific responsibilities assigned to each institution. IMF staff will take the lead in monitoring the macroeconomic policies and the implementation of structural and governance measures envisaged in the PRGF-supported program. World Bank staff will take the lead in assessing the fulfillment of the conditions in the areas of social security reform, education, health, civil service reform, and the privatization of ENITEL. The IDB will assess progress in the areas of social protection, public sector procurement, modernization of the judiciary, and the privatization of ENEL. The staffs of the IMF, the World Bank, and the IDB will jointly assess progress in strengthening the financial system.

V. Debt Sustainability Analysis And Assistance Under The Enhanced HIPC Initiative

A. Debt Sustainability Analysis (DSA)

29. The DSA has been prepared jointly by the staffs of the IMF and the World Bank, in close collaboration with the IDB and the Nicaraguan authorities, on the basis of loan-by-loan data provided by the authorities for public and publicly guaranteed debt outstanding at end-1999. Nearly 90 percent of the total debt has been reconciled, including with all the multilateral and Paris Club creditors. Debt data with some non-Paris Club bilateral creditors remain to be reconciled, and in such cases, the DSA is based on the authorities' debt figures. The authorities are proactively seeking reconciliation of debts with these creditors. Macroeconomic and balance of payments assumptions underlying the DSA, covering a 20-year period, are summarized in Box 7. The sustainability of Nicaragua's debt was assessed with regard to both NPV of debt-to-export ratio and NPV of debt-to-revenue ratio at end-1999. The exchange rate and the discount rates used for calculations of the debt data are given in Table 4.[8]

[8] The NPV of debt is calculated using the average currency-specific Commercial Interest Reference Rates (CIRRs) for the six-month period ending December 31, 1999 and converted into U.S. dollars at the 1999 end-of-period exchange rate.

Box 7. Main Assumptions in the Debt Sustainability Analysis

Growth

- The Nicaraguan economy is assumed to grow at an average annual rate of about 5.5 percent during 2000–08, and then to slow down slightly with the growth rate stabilizing at around 5 percent in the long run.
- The investment-to-GDP ratio is projected at 37 percent in 2000, reflecting the large investment in infrastructures related to the reconstruction program, and it is projected to decline gradually afterwards, while the productivity of capital will increase steadily. National savings are projected to increase from 7.6 percent in 2000 to 13.2 percent in 2007.

Exports and imports

- After declining in 1999, the volume of exports of goods is projected to increase in the medium term slightly faster than real GDP. Export growth is expected to be supported by the growth of nontraditional exports. A steady increase in services receipts, in particular tourism, is also projected. As a result, the ratio of exports of goods and services in relation to GDP would increase from 38 percent in 2000 to 40 percent on average in 2000–08 and 45 percent in 2009–19.
- The volume of imports is projected to reflect post-Hurricane Mitch reconstruction efforts. A rate of growth below real GDP is projected for the period 2003–05, and an income elasticity of close to one is assumed after 2005. Services payments are projected to increase at a lower rate than imports of goods. Consequently, imports of goods and services in terms of GDP are projected to decline from 78 percent in 2000 to 73 percent on average in 2000–08 and 61 percent in 2009–19.

Capital account

- It is assumed that Nicaragua will obtain official financing, both transfers and concessional loans, averaging US$540 million a year in 2000–08 and US$321 million in 2009–19. This compares with an average of about US$470 million annually during the 1990s.
- Private capital, including foreign direct investment, is assumed to average about US$280 million a year during 2000–08.

Gross official foreign reserves are projected to be four months of imports of goods and nonfactor services in 2000, and to remain stable at around 4.7 months of imports in 2000–08 and stabilize at 3.4 months in the longer term.

30. **Composition of external debt.** At end-1999, the nominal stock of Nicaragua's external debt is estimated to have been about US$6.4 billion, including some US$2 billion in arrears to non-Paris Club official bilateral and commercial creditors. The NPV of this debt stock after full application of traditional debt-relief mechanisms, is estimated at US$4.5 billion or 540 percent of exports, equal to 827 percent of 1999 revenue, and 208 percent of GDP. Nearly 34 percent was owed to multilateral creditors, 27 percent to Paris Club official creditors, 38 percent to other official bilateral creditors, and 1 percent to commercial creditors (Table 5 and Figure 1).

31. **Paris Club reschedulings.** Nicaragua has benefited from three reschedulings granted by the Paris Club creditors. The first agreement, reached in December 1991, provided for flow reschedulings on London terms (50 percent NPV reduction). The second and third agreements were reached in March 1995 and April 1998, respectively, and provided for flow rescheduling on Naples terms (67 percent NPV reduction). The second tranche of the 1998 agreement has been implemented, while the third tranche is conditional on the IMF's approval of the third annual PRGF arrangement.[9] In December 1998, after Hurricane Mitch, Paris Club creditors provided a deferral on all debt-service payments due during the remainder of the consolidation period. Several Paris Club creditors have forgiven, in whole or in part, their claims on Nicaragua, including some after Hurricane Mitch.[10]

32. **Other reschedulings.** Nicaragua also reached rescheduling agreements in 1995–96 with a number of non-Paris Club official bilateral creditors, including agreements with Mexico and the Czech Republic[11] providing debt reductions in NPV terms of about 92 percent. A commercial debt buyback was concluded in December 1995 at a 92 percent discount, financed through grants provided by the IDA debt-reduction facility, the IDB, and by bilateral donors. In September 1997 Nicaragua reached a rescheduling agreement with the Central American Bank for Economic Integration (CABEI), in which some US$104 million in arrears was forgiven (conditional on this being counted as part of CABEI interim assistance under the HIPC Initiative).[12]

33. **Comparable treatment.** The Nicaraguan authorities still have to reach agreements with a number of non-Paris Club creditors on rescheduling terms at least comparable to those granted by Paris Club creditors. The authorities are making best efforts to reach such

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[9] Nicaragua reached a rescheduling agreement with Russia in 1996, before Russia became a participating creditor in the Paris Club. When Russia joined the Paris Club, this agreement was considered to be comparable to the Naples terms treatment that Nicaragua had received from Paris Club creditors.

[10] Also, through the Central American Emergency Trust Fund (CAETF) and the Danish Trust Fund, bilateral donors financed a significant part of the debt service payments of Nicaragua to multilateral institutions. For example, in 1999 over 60 percent (about US$50 million) of the debt service due to multilaterals was covered by these trust funds.

[11] A similar agreement with the Slovak Republic was reached in 2000.

[12] Since this assistance was fully delivered in 1997, prior to the decision point, it is now worth US$118.8 million in end-1999 NPV terms, which includes the compounding of interest on the original amount by two years using the CIRR discount rate. The Nicaraguan authorities have also agreed to recognize as interim relief an additional US$37 million, which is being delivered through a reduction in interest rate applied to the loans remaining after the 1997 rescheduling agreement with CABEI.

agreements. In this context, the staffs of the World Bank and the IMF have also been trying to facilitate pragmatic solutions to Nicaragua's non-Paris Club debt burden. The baseline scenario (Table 3) simulates a stock-of-debt operation on pre-cutoff date debt as of end-1999 for these creditors.

34. **Comparison with DSA presented in the preliminary HIPC Initiative document**. Debt data underlying the document differ very little from those presented in the preliminary HIPC Initiative document (EBS/99/165, August 24, 1999 and IDA/SecM99–541, August 24, 1999). Between end-1998 and end-1999 the U.S. dollar appreciated, which reduces the level of debt in dollar terms, but this reduction was marginally more than offset by a more thorough and comprehensive accounting of the debt. More fundamentally, the treatment of debts of Central American countries (Costa Rica, Guatemala, and Honduras) differs from that in the preliminary document. A closer examination of the claims on Nicaragua of these countries suggested that they originated from unsettled short-term obligations related to the now defunct Cámara de Compensación Centro Americana (CCCA). These debts have now not been treated under traditional debt-relief mechanisms, but are subject to assistance under the HIPC Initiative.[13] [14]

35. **Baseline scenario**. The medium-term scenario assumes that Nicaragua would persevere in successfully implementing macroeconomic, structural, and social policies outlined above. This scenario also takes into account the heightened emphasis on poverty reduction and disaster protection programs, which are to be financed mainly by official capital inflows, and the investment needs of Nicaragua to diversify its productive base and export capacity. Key assumptions underlying the baseline scenario are quantified in Table 12 and described in Box 7.

36. **Balance of payments projections**. The current account deficit (including grants), estimated at 29 percent of GDP in 2000, is projected to gradually decline to 15 percent of GDP by 2007, reaching 7 percent on average in 2009–19, as national savings (in particular, public sector savings) improves, helped by a gradual convergence toward fiscal consolidation. Official transfers and loans are projected to decline over time. Gross official reserves are projected to remain on average at 3.4 months of imports of goods and nonfactor services in the long term.

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[13] This treatment was accorded to similar claims of Costa Rica and Guatemala on Honduras in the DSA for Honduras' decision point in July 2000.

[14] Based on the August 1999 preliminary document for Nicaragua, the three Central American countries' cost of debt relief was US$1 billion (of which, US$756 million was under traditional debt relief—Naples terms—and US$250 million under the HIPC Initiative). The current treatment implies a reduction of US$158 million in the total debt relief to be provided by Costa Rica, Guatemala, and Honduras and a corresponding increase in that to be provided by all other creditors.

37. **Debt rescheduling assumptions**. The baseline scenario assumes full use of traditional debt relief mechanisms reflected in a hypothetical stock-of-debt operation (at end-1999) at Naples terms (67 percent NPV reduction) covering eligible debt. This stock-of-debt operation is assumed to cover nonpreviously rescheduled pre-cutoff date debt and to include a topping up of previously rescheduled debt (PRD) on London terms.[15] Comparable treatment is assumed from non-Paris Club bilateral and commercial creditors.[16] It also assumes a 92 percent reduction of eligible commercial debt in line with the terms of the 1995 buyback operation.

38. **Debt sustainability indicators**. Based on the assumptions and policies outlined above, Nicaragua's external debt ratios would remain at unsustainable levels. The NPV of debt-to-exports ratio (based on a three-year backward-looking export average) would decline from 540 percent in 1999 to 394 percent in 2003, and would remain above 150 percent until 2013. The NPV of debt to central government revenue ratio would decline from 827 percent in 1999 to about 502 percent in 2003, and it would remain above 250 percent until 2011 (Table 3). The debt-service ratio (after rescheduling) would rise from 16 percent in 2000 to 40 percent in 2002, reflecting the end of the Paris Club deferral on debt-service payments in 2002. In 2003, the debt-service ratio would decline to 27 percent (Table 7).

39. **Sensitivity analyses**. The Nicaraguan economy remains vulnerable to a wide variety of possible adverse shocks, including natural catastrophes, developments in international markets, and availability of aid flows. Because of their importance, the sensitivity analyses presented here assess the likely impact on the debt ratios of the following exogenous factors: (i) lower export growth; and (ii) adverse terms of borrowing. In these alternative scenarios, no policy adjustments to the shocks are assumed. The results of the sensitivity analyses are summarized in Table 9.

40. **Lower export growth.** Exports have increased significantly since the early 1990s, before dropping in 1998 as a result of Hurricane Mitch. The baseline assumes that exports will increase at an annual rate of about 7 percent in U.S. dollar terms over the medium term, as they recover from a low base and the country's export capacity improves. If this rate were to be reduced, say, by 5 percent, the NPV of debt-to-export ratio would be on average 7 percentage points above that projected in the post-HIPC assistance scenario during the next ten years.

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[15] The topping up excludes short-term PRD on London terms, which the 1991 Agreed Minute stipulated would not be rescheduled again.

[16] PRD on terms at least comparable with Naples terms, is assumed not to be treated again under traditional rescheduling mechanisms. These include debt owed to Mexico and the Czech Republic.

41. **Less favorable external financing.** In the baseline scenario, it is assumed that new borrowing from multilaterals is on terms similar to the IDA credits (0.75 percent interest rate and 40 years maturity with 10 years grace), while new borrowing from bilateral sources is at 2 percent interest rate, 5 years grace, and 25 years maturity. If the bilateral financing were to take place on less concessional terms (say 4 percent interest rate, with ten years maturity and two years grace), the NPV of debt-to-export ratio would increase on average by 3 percentage points above the post-HIPC assistance scenario during the next ten years.

42. **Terms of trade and the HIPC assistance.** Rising oil prices and declining commodity prices over the last year, especially those of coffee and sugar, have resulted in nearly 18 percent deterioration in Nicaragua's terms of trade, with a cost equivalent to a loss of about 15 percent of 1999 output.[17] Although export volumes have increased sharply in the same period, these increases were not sufficiently large to offset fully the decline in terms of trade.[18] It is expected that the provision of cash flow relief under the enhanced HIPC Initiative in the form of interim assistance would help cushion the adverse effects of the loss from the terms-of-trade deterioration. A further substantial deterioration of the terms of trade, however, could undermine Nicaragua's ability to implement its poverty-reduction strategy in the years ahead.

B. Assistance Under the Enhanced HIPC Initiative

43. Based on the above analysis of an unsustainable debt burden under the baseline scenario, Nicaragua would qualify for assistance under the enhanced HIPC Initiative. Nicaragua meets the thresholds required for assistance under both the export and fiscal criteria since the export-to-GDP ratio and central government revenue-to-GDP ratio in 1999 were 43 percent and 25 percent, respectively.

44. **Required assistance.** The baseline scenario indicates that the NPV of debt-to-export ratio as of end-1999 would be 540 percent—significantly above the 150 percent target. On that basis, Nicaragua's external debt situation, even after the full application of traditional debt-relief mechanisms, would not be sustainable. In NPV terms, assistance of US$3,267 million would be required to bring Nicaragua's external debt down to the target level of US$1,256 million or 150 percent of exports (Table 6). Nicaragua also qualifies for

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[17] The measure of the loss of output due to terms-of-trade deterioration is overstated to the extent that the GDP is underestimated. As such, this figure should be viewed as merely indicative.

[18] The impact of the deterioration in terms of trade on the level of the HIPC assistance has been negligible because the adverse impact of the decline in export prices was mitigated by higher export volumes and because the assistance calculations are based on backward-looking averages of exports.

assistance under the fiscal criterion, but the amount of assistance is higher under the export criterion.

45. Nicaragua's external debt, even after implementation of the enhanced HIPC Initiative, reflects rather high levels of loan disbursements in the wake of Hurricane Mitch. Indeed, inflows in 1998–99 on average were US$95 million higher than in the previous two years. The authorities project continuing high levels of aid inflows, including concessional loan disbursements, in the next three years and these have been incorporated in the DSA. The staff believe that these projected levels of inflows may be optimistic and should be refined in the near future in consultation with donors and to take into account the country's project implementation capacity. It is expected that, with more realistic projections of inflows, the debt indicators would be lower than those projected in the DSA.

46. **Burden sharing.** The cost of providing the assistance under the enhanced HIPC Initiative is presented in Table 6. The breakdown of the total cost by creditor group is also shown, assuming proportional burden sharing based on creditor exposure in NPV terms at end-1999 after the full use of traditional debt-relief mechanisms. Of the US$3,267 million, the multilateral share would amount to US$1,123 million, or 34 percent, while bilateral creditors would provide the remaining US$2,145 million. Preliminary calculations suggest that Paris Club creditors would need to provide 99 percent of cumulative NPV reduction on eligible debt to meet their full share of assistance. Among multilateral creditors CABEI's share of US$435 million is the largest, followed by the IDB's at US$387 million. The IMF would contribute US$82 million, while IDA would contribute US$189 million. Total assistance would imply a common reduction factor of 72.2 percent on debt outstanding at end-1999.

C. Assumed Modalities of Delivery of Assistance

47. **Status of creditor participation.** IDA and IMF staffs have initiated consultations with the multilateral creditors of Nicaragua and with the Paris Club regarding the action they would take for Nicaragua under the enhanced HIPC Initiative in order to deliver their share of assistance. All multilateral development banks (MDBs) have indicated their willingness to deliver their share of assistance, pending endorsement of the enhanced HIPC Initiative by their respective Boards, and appropriate financial support by donors, where necessary.

48. **Assumptions.** In the following assessment of the debt sustainability after assistance under the enhanced HIPC Initiative, certain assumptions and calculations were made regarding the delivery of assistance and interim assistance as follows:[19]

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[19] Both the assumptions and the resulting debt projections for Nicaragua after enhanced HIPC assistance are provisional until creditors formally agree with the Nicaraguan authorities on their specific modalities for the delivery of assistance.

- **Floating completion point.** To reach the floating completion point, the Boards of IDA and the IMF have to be satisfied with the progress in meeting the conditions summarized in Box 6. The authorities estimate that Nicaragua will be able to fulfill all conditions for reaching the completion point by end-2002.

- **IDA's HIPC Initiative assistance** would total US$189 million in NPV terms. Immediately following the approval of Nicaragua's decision point by the Boards of IDA and the IMF, IDA will begin providing interim assistance equivalent to a 90 percent reduction on Nicaragua's debt service to IDA. IDA will continue providing debt-service relief in the same manner after Nicaragua reaches its completion point under the Initiative, subject to participation by Nicaragua's other creditors. The amount of interim relief would not exceed one-third of the overall relief to be provided by IDA.[20]

- The **IMF** will deliver interim assistance as soon as satisfactory financing assurances are in place, as shown in Table 11.

- The **IDB** is considering a financing modality that includes provision of interim assistance provided that Nicaragua continues to progress in meeting the conditions for the completion point.

- The analysis incorporates interim assistance from CABEI of US$156 million as envisaged in the September 1997 agreement between CABEI and Nicaragua.

- All remaining multilateral creditors are assumed to provide assistance from the completion point onwards.

- For **Paris Club** bilateral creditors, a stock-of-debt operation under Cologne terms is projected at the completion point, and all Paris Club creditors are assumed to provide interim assistance beginning after the end of current deferral of debt service in February 2001. In addition to the debt relief contemplated under the enhanced HIPC Initiative, several creditor countries of the Paris Club announced their intention to forgive all or part of the official claims on Nicaragua.

- **Non-Paris Club bilateral creditors** are assumed to deliver their share of relief on terms comparable to the Paris Club's Cologne terms.[21] The Nicaraguan authorities

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[20] This recommendation fulfills the requirements outlined in the document "Heavily Indebted Poor Countries (HIPC) Initiative: Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework" adopted by the Board on January 25, 2000.

[21] Comparable treatment means application of a common reduction factor equivalent to 72.2 percent to all debts on top of Naples terms (67 percent NPV reduction) on pre-cutoff date debt. For non-Paris Club creditors whose residual claims at the completion point would

(continued...)

intend to continue to seek the participation of non-Paris Club creditors and will send a new request in writing after the decision point.

D. Debt Sustainability After Enhanced HIPC Assistance

49. **Impact of the assistance under the enhanced HIPC Initiative.** Taking into account the assistance under the enhanced HIPC Initiative, the ratio of NPV of debt-to-exports is projected to fall to below 150 percent in 2001 and remain below 150 percent throughout the projection period (Table 3). The nominal debt relief proposed under the enhanced HIPC Initiative is expected to provide about US$4 billion in debt-service savings on a scheduled basis over 20 years, or US$215 million annually until 2019. However, Nicaragua has serviced only part of its external debt ("priorizado")—to multilateral creditors, Paris Club creditors, and some non-Paris Club official bilateral creditors with whom it has reached rescheduling agreements—and incurred arrears to non-Paris Club official bilateral and commercial creditors. Projections of debt-service savings (without any rescheduling) on the basis of "priorizado" debt would be around US$3 billion for the period up to 2019. Debt service due after enhanced HIPC assistance is projected to be 12 percent of exports in 2003 and remain below this level thereafter (Table 8).

50. Under the available programs for debt relief, Nicaragua would receive in NPV terms debt relief of US$4.3 billion, of which US$1 billion under traditional debt-relief mechanisms and nearly US$3.3 billion under the enhanced HIPC Initiative. Taking into account the unilateral actions by bilateral creditors who have indicated a willingness to grant debt relief beyond that required under the HIPC Initiative, total debt relief to Nicaragua could amount to almost US$4.5 billion.

E. The Use of HIPC Debt Relief

51. **Fiscal impact of the assistance under the enhanced HIPC Initiative.** The fiscal burden of debt would decline, with the ratio of debt service to government revenue falling from 20.0 percent in 2000 to less than 8.9 percent by 2007, and declining steadily thereafter. As indicated above, savings in debt-service obligations compared to what Nicaragua has been paying (priorizado) is low for 2001–02. Therefore, additional resources for the implementation of the government's poverty alleviating programs over this period will be made available largely through a reorientation of existing public spending, mainly from post-Hurricane Mitch reconstruction outlays.

52. The **HIPC-released funds will be devoted to financing poverty alleviating outlays**, as detailed in the I-PRSP prepared by the authorities. The debt relief, over 2001–03,

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not be large enough to deliver the required assistance in full, it is assumed that they begin to deliver more than interim assistance on comparable terms from 2001.

will finance the costs of providing key services in the areas of primary education and health care, mainly in rural areas (Table 16).

53. **The monitoring and evaluation of the HIPC-released funds will be done through the already existing Supplementary Social Fund (FSS)**, which will become a HIPC-financed fund (see Appendix III for further details). The fund's procedures will be improved and its technical capabilities strengthened. The exact modalities of this improvement are still being defined in collaboration with the IDA and IDB staffs and in consultation with donors. An IDB loan is being prepared for this purpose. A World Bank Public Expenditure Review that is currently under preparation will contribute inputs for strengthening the FSS and, in combination with a World Bank Social Safety Net Assessment, should help improve the overall allocation of public expenditures in Nicaragua.

VI. Conclusions

54. The staffs of the IMF and IDA are of the view that the Nicaraguan authorities' macroeconomic management and structural reforms have been satisfactory, and that Nicaragua has made a substantive commitment to reduce poverty. The Interim PRSP has been prepared by the government in a participatory manner. This participation included members of civil society, the private sector, and representatives of the donor community. The staffs of the IMF and IDA are also of the view that the authorities have made substantial progress toward developing a comprehensive and multidimensional framework for poverty reduction, and integrating it into government policies. Assistance under the enhanced HIPC Initiative would thus complement ongoing efforts to combat poverty by improving health and educational levels and provide a greater momentum toward the achievement of the development goals to be determined in the PRSP.

55. In addition to the continued implementation of sound macroeconomic policies, institutional, structural, and governance reforms will be crucial to sustaining a high rate of economic growth, which underpins the authorities' interim poverty-reduction strategy, and to improving the effectiveness, transparency, and accountability of public expenditures. The staffs are encouraged by the government's intention to reduce direct public intervention in productive sectors, continue reforms of public enterprises, strengthen the soundness and efficiency of financial institutions, and promote private sector development. The staffs also strongly support the increasing reliance on local communities to implement the government's anti-poverty program. This will help to ensure the effectiveness of additional resources freed up through debt relief in improving the living standards of the poor.

VII. Issues for Discussion

56. Executive Directors may wish to focus on the following issues and questions:

- **Eligibility and decision point.** Management and staff believe that Nicaragua is eligible for relief under the enhanced HIPC Initiative and recommend the approval of the decision point based on the country's commitment to reduce poverty as indicated

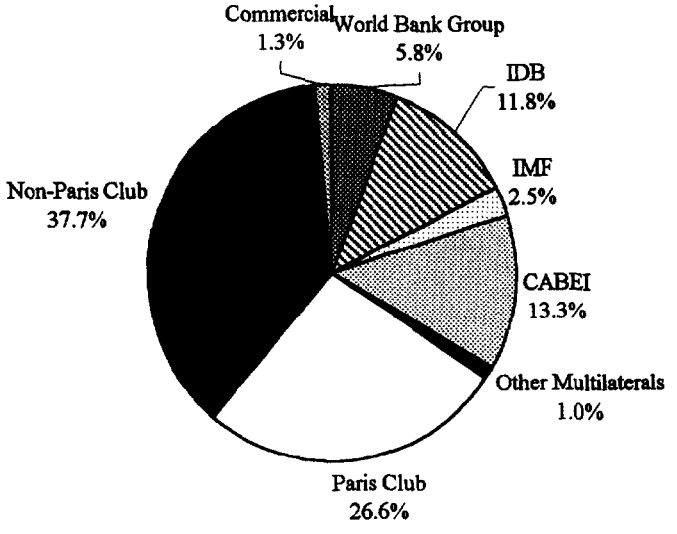
in the Interim PRSP, and on the implementation of PRGF- and IDA-supported programs. Do Executive Directors agree?

- **Debt sustainability target and assistance.** Consistent with a reduction in Nicaragua's NPV of debt-to-export ratio to 150 percent, total assistance under the enhanced HIPC Initiative is estimated at US$3,267 million in 1999 NPV terms. Do Executive Directors agree?

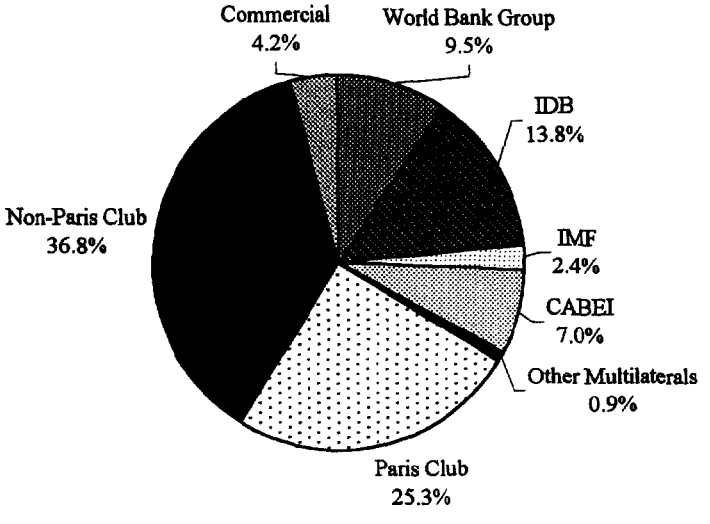
- **Floating completion point.** The staff and management believe that Nicaragua has made substantial progress toward macroeconomic stability and is designing a comprehensive policy framework to fight poverty. In view of this track record, they recommend a floating completion point, which would be reached when the conditions specified in Box 6 have been met. Do the Executive Directors agree that the conditions set out in Box 6 are appropriate triggers for Nicaragua's completion point and that assistance can be provided under the HIPC Initiative as long as satisfactory assurances can be secured from Nicaragua's external creditors by that time?

Figure 1. Nicaragua: Stock of External Debt, End-December 1999

Present Value of Debt: US$4.5 billion 1/



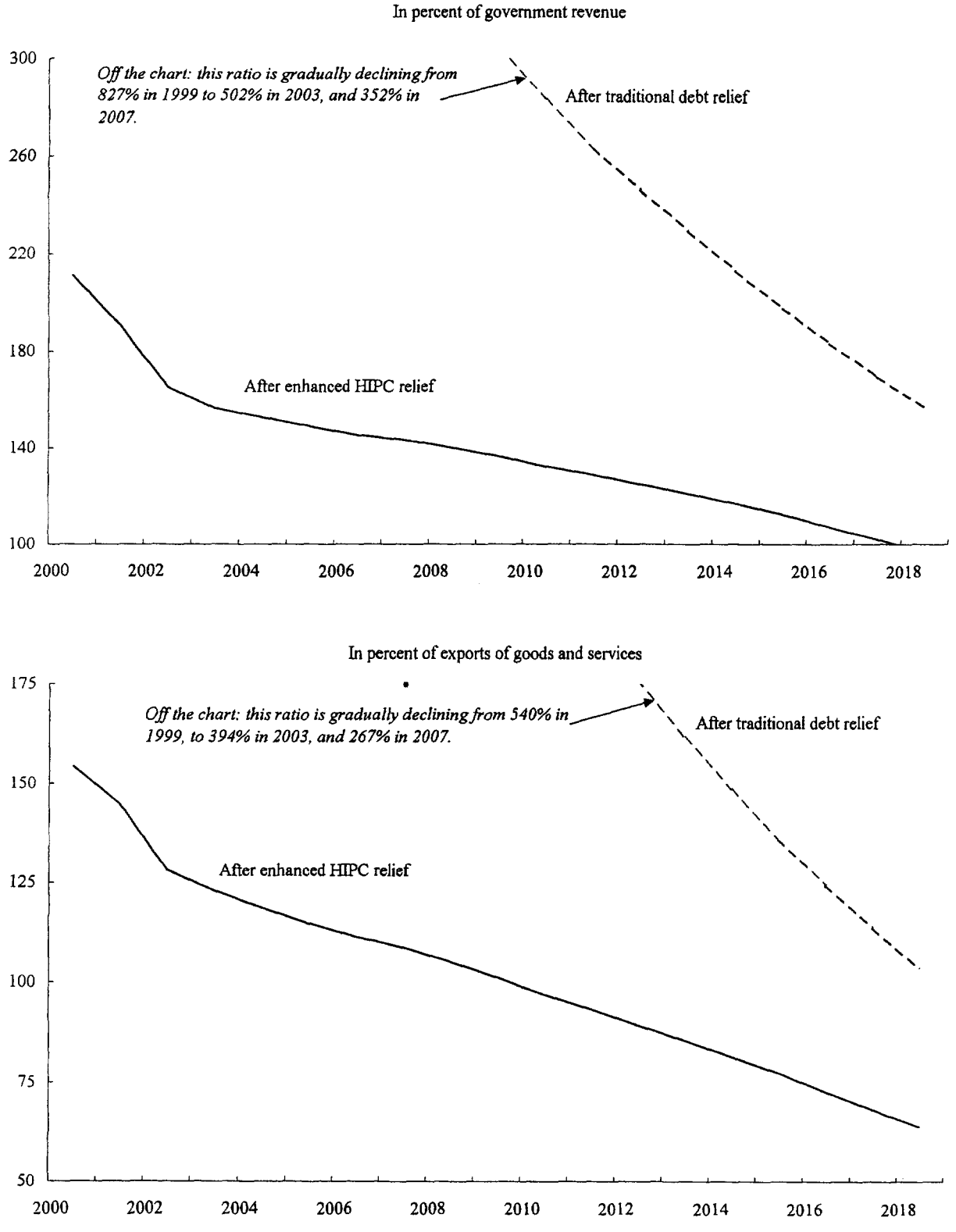
Nominal Value of Debt: US$6.4 billion



Sources: Nicaraguan authorities; and staff estimates.

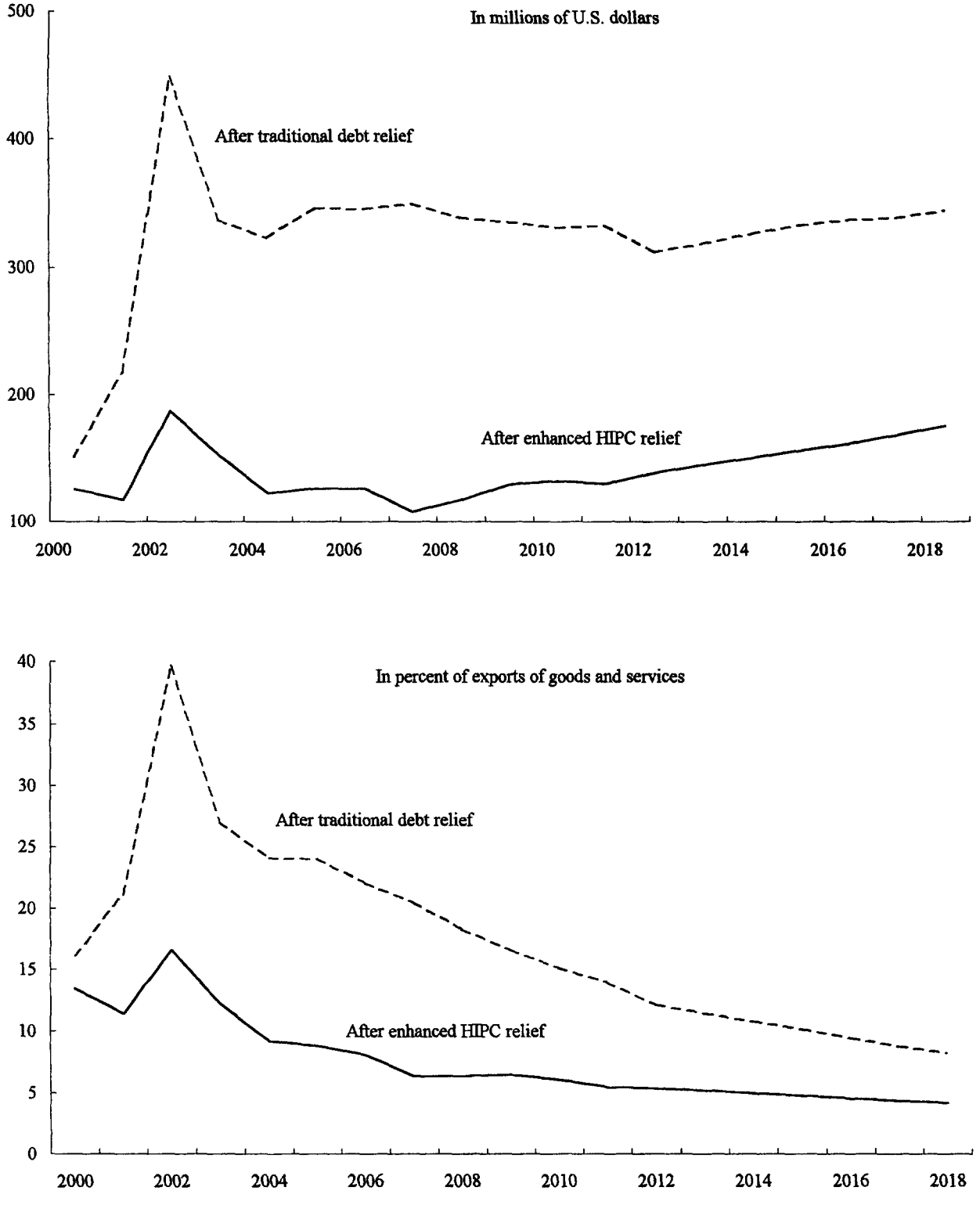
1/ After full use of traditional debt relief mechanisms.

Figure 2. Nicaragua: NPV of Debt After Traditional Debt Relief and Enhanced HIPC Initiative Assistance, 2000-18



Sources: Nicaraguan authorities; and staff estimates.

Figure 3. Nicaragua: Debt Service Before and After Enhanced HIPC Initiative Assistance, 2000-18



Sources: Nicaraguan authorities; and staff estimates.

Table 1. Nicaragua: Selected Economic and Financial Indicators, 1995-2003

	1995-97 Aver.	1998 Act.	1999 Adj. Prog. 1/	1999 Act.	2000 Orig. Prog.	2000 Mod. Prog.	2000 Modified Prog. With Priv. 2/	2000 Proj. 2/ Aug. 2000	2001 2/3/	2002 3/4/	2003
	(Annual percentage change; unless otherwise indicated)										
National income, prices, and unemployment											
GDP at constant prices	4.7	4.0	6.3	7.0	6.5	5.5	5.5	5.5	5.5	5.4	5.4
Consumer prices (end of period)	10.2	18.5	10.0	7.2	8.0	8.0	10.0	10.0	8.0	5.0	3.0
Consumer prices (period average)	10.6	13.0	13.9	11.2	10.1	9.7	10.9	10.9	9.3	6.3	3.9
Unemployment rate (percent)	15.7	13.2	10.5	10.7	9.0	...	...	...	...	...	...
External sector											
Exports, f.o.b.	22.2	-8.5	-3.1	-5.7	10.0	14.5	14.5	14.5	10.0	9.8	10.2
Export volume	17.2	-9.3	6.2	7.0	8.2	11.9	11.9	11.9	9.1	7.6	6.4
Imports, f.o.b.	14.6	2.6	12.4	23.5	9.0	0.7	1.0	1.0	6.4	7.2	5.8
Import volume	13.6	8.6	7.4	14.7	6.7	-3.8	-3.3	-3.3	6.6	8.3	4.8
Terms of trade (deterioration -)	3.1	6.7	-11.7	-18.1	-0.5	-1.8	-1.8	-1.8	1.0	3.1	2.7
Nominal effective exchange rate end of period (depreciation -)	-6.6	-11.9	...	-2.7	...	...	...	...	...	...	...
Real effective exchange rate end of period (depreciation -)	-1.0	2.0	...	1.6	...	...	...	...	...	...	...
Money and credit											
Net domestic assets of the central bank 5/	25.6	27.4	-94.3	-43.8	-28.3	-13.2	-40.7	-35.9	-149.9	10.0	7.0
Net credit to nonfinancial public sector (net) 5/	84.4	-85.8	-123.7	-85.5	-62.1	-11.0	-38.2	-36.6	-183.3	-2.0	-8.2
Net credit to financial institutions (net) 5/	-40.7	-4.7	-13.4	-7.1	-14.6	-13.1	-13.4	-12.4	-8.9	-7.3	-8.3
Currency in circulation	17.3	22.2	11.9	25.0	10.0	12.0	12.0	12.0	10.0	10.0	7.0
Financial system liabilities to private sector	46.4	28.6	28.4	21.9	23.5	17.3	17.3	16.0	14.2	11.6	9.5
Financial system credit to private sector	11.1	34.7	33.0	40.0	29.4	17.1	17.1	18.8	22.9	12.7	10.3
Money income velocity (GDP/M3)	2.1	1.6	1.4	1.5	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Interest rate on deposits (percent per annum) 6/	14.1	12.4	...	11.5	...	...	...	...	...	...	...
	(In percent of GDP)										
Public sector											
Combined public sector saving 7/	2.8	5.6	4.8	5.3	5.8	4.9	4.9	4.9	3.2	1.2	3.3
Combined public sector overall balance (before grants) 7/	-12.6	-7.0	-13.6	-15.4	-10.2	-13.2	-13.6	-12.9	-17.0	-16.6	-16.3
Combined public sector overall balance (after grants) 7/	-6.0	-3.3	-5.6	-6.9	-5.6	-6.5	-6.9	-6.3	-8.0	-6.0	-9.1
Nonfinancial public sector saving	3.0	8.6	6.5	6.9	7.3	6.2	6.2	6.2	4.0	1.8	3.9
Nonfinancial public sector overall balance (before grants)	-12.4	-4.0	-12.0	-13.8	-8.8	-11.9	-12.3	-11.6	-16.2	-16.0	-15.7
Central bank operational results (deficit -)	-0.2	-3.0	-1.6	-1.6	-1.4	-1.3	-1.3	-1.3	-0.8	-0.6	-0.6
Savings and investment											
Gross domestic investment	26.9	33.1	37.0	42.8	36.0	36.4	36.9	36.9	35.2	34.2	33.2
Public	15.3	12.6	18.4	20.6	16.0	18.0	18.4	17.8	20.2	18.3	19.6
Private	11.6	20.5	18.6	22.2	20.0	18.4	18.5	19.1	15.0	15.9	13.6
National savings	2.8	9.3	6.7	9.6	7.8	7.1	7.6	7.6	7.9	7.9	9.8
Public	2.8	5.6	4.8	5.3	5.8	4.9	4.9	4.9	3.2	1.2	3.3
Private	0.0	3.7	1.8	4.3	2.0	2.2	2.7	2.7	4.7	6.7	6.5
External savings 8/	24.2	23.8	30.3	33.2	28.2	29.3	29.3	29.3	27.3	26.3	23.4
External sector											
External current account balance	-33.0	-29.3	-33.9	-37.0	-31.7	-33.0	-33.4	-28.6	-27.3	-26.5	-23.5
(excluding interest obligations)	-18.7	-19.7	-26.0	-29.0	-24.0	-25.2	-25.6	-25.6	-23.1	-21.0	-18.8
Trade balance (deficit -)	-22.7	-31.7	-36.7	-43.0	-36.5	-38.1	-38.4	-38.4	-37.0	-36.7	-34.8
Outstanding external public debt (end of year) 9/	382.9	272.0	...	280.4	...	271.5	271.5	274.0	262.0	138.0	135.0
	(In percent of exports of goods and nonfactor services)										
Contractual debt service, before future debt relief	90.0	40.3	39.6	38.7	35.4	35.4	35.4	21.7	25.9	41.5	28.3
Gross international reserves (in months of imports)	1.9	2.5	3.7	3.9	4.2	3.9	4.0	3.9	5.2	5.1	5.1

Sources: Central Bank of Nicaragua; Ministry of Finance; and staff estimates.

1/ Program targets were adjusted downward by (i) US$12 million because of the unprogrammed reduction in the net issue of CENIs and (ii) US$15 million because of lower-than-programmed disbursements.

2/ For 2000 and 2001, assumes privatization receipts of US$84 million and US$256 million, respectively.

3/ For 2001 and 2002, assumes interim debt relief.

4/ Assumes a stock of debt reduction at end-2002.

5/ In relation to currency in circulation at the beginning of the year.

6/ Six-month deposits, end of period.

7/ Includes quasi-fiscal losses.

8/ External current account deficit, excluding interest on debt to non-Paris Club bilateral creditors that is eligible for debt rescheduling.

9/ Before Naples stock of debt operation through 2001 and after Cologne flow and stock operations from 2002 onwards.

Table 2. Nicaragua: Social Indicators, 1993-99

	1993	1994	1995	1996	1997	1998	1999	Latin America and the Caribbean	Low Income Countries
Population									
Total population (millions of inhabitants)	4.2	4.3	4.4	4.6	4.7	4.8	4.9	502.0	3,515.0
Global fertility rate (births per woman)	4.6	...	...	...	...	3.9	...	2.7	3.2
Life expectancy at birth (number of years)	62.2	62.2	66.1	66.1	67.1	67.1	68.0	70.0	63.0
Poverty									
National extreme (percent of total population)	19.4	...	...	...	...	17.3	...	...	...
Urban extreme (percent of urban population)	7.3	...	...	...	...	7.6	...	...	...
Rural extreme (percent of rural population)	36.3	...	...	...	...	28.9	...	...	...
Social indicators									
Education									
Illiteracy rate (percent)	24.0	24.1	25.8	25.0	24.2	23.4	20.0	13.0	...
Net primary enrollment rate (percent)	78.9	78.6	75.2	73.2	73.6	73.1	75.0	91.0	...
Gross primary enrollment rate (percent)	103.7	104.4	101.0	98.3	97.8	96.1	102.9	107.0	111.0
Net preschool enrollment rate (percent)	14.5	17.3	17.2	19.7	22.3	23.6	26.0	...	...
Complete primary education in six years (percent)	22.0	19.9	18.6	22.4	27.8	38.8	31.3	...	...
Noncertified teachers in primary schools (percent)	32.2	30.9	22.5	15.5	4.5	13.0	16.7	...	...
Health and nutrition									
Immunizations (percent of children under one year)									
DPT	77.5	74.0	84.8	94.8	94.3	85.7	82.6	82.0	76.0
Measles	81.1	73.0	81.2	94.0	94.4	95.1	...	93.0	74.0
Malnutrition (percent of children under five years)	23.7	...	...	...	...	19.9	...	8.0	...
Infant mortality (per 1,000 live births)	58.0	...	...	...	43.0	40.0	...	32.0	69.0
Under five mortality rate (per 1,000 live births)	72.0	...	...	57.0	...	50.0	...	41.0	97.0
Maternal mortality (per 100,000 live births)	106.2	92.1	111.8	154.4	142.7	138.2	148.3	...	...
Institutional births (percent of expected births)	47.4	44.8	43.8	48.2	52.1	42.2	47.0	...	...
Prenatal care (percent of expected pregnant women)	...	...	71.8	79.9	82.1	68.7	71.8	...	...
Water and sanitation services									
Access to safe water									
Total (percent of population)	52.2	55.4	56.1	59.1	61.6	62.8	66.5	75.0	74.0
Urban (percent of urban population)	78.8	82.5	80.8	82.4	86.9	88.3	88.5	...	...
Dispersed rural population (percent)	23.0	25.0	28.0	31.3	32.0	33.3	39.0	36.0	...
Sanitation access in urban populations (percent)	32.5	32.5	32.6	32.6	32.3	32.3	33.6	80.0	...

Sources: World Development Indicators (WDR 1999/2000) for Latin America and the Caribbean and for Low Income Countries; and WDR 1999/2000, Living Standards Measurement Survery (LSMS) 1993, LSMS1998, Family Health Survey 1993, Demographic and Health Survey 1998, and SETEC for Nicaragua.

Table 3. Nicaragua: Net Present Value of External Debt Before and After Reschedulings, 1999-2019 1/

(In millions of U.S dollars; unless otherwise indicated)

		Projected								Average	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-19
Before debt relief											
1. NPV of total debt (2+5)	5,541.1	5,545.0	5,685.5	5,671.5	5,645.7	5,644.7	5,619.7	5,580.0	5,546.0	5,593.6	5,354.6
2. NPV of existing debt (3+4)	5,541.1	5,401.7	5,380.3	5,166.1	4,985.9	4,854.9	4,701.8	4,542.0	4,393.5	4,780.7	3,554.9
3. Official bilateral and commercial	3,986.7	4,004.9	3,988.4	3,779.1	3,612.3	3,503.8	3,396.0	3,291.1	3,206.5	3,491.5	2,579.5
Paris Club	1,411.1	1,502.9	1,564.8	1,489.1	1,346.9	1,258.7	1,169.6	1,078.9	1,009.2	1,220.6	482.9
Other official bilateral and commercial	2,575.7	2,502.0	2,423.6	2,290.0	2,265.4	2,245.1	2,226.4	2,212.1	2,197.3	2,271.0	2,096.7
4. Multilateral	1,554.3	1,396.7	1,391.9	1,387.0	1,373.7	1,351.2	1,305.8	1,250.9	1,187.0	1,289.2	975.3
5. NPV of new debt	0.0	143.4	305.1	505.4	659.7	789.8	918.0	1,038.0	1,152.5	812.9	1,799.7
Memorandum items:											
Exports of goods and nonfactor services 2/	834.7	936.1	1,027.3	1,131.0	1,247.5	1,340.4	1,443.0	1,570.2	1,706.0	1,427.1	3,243.2
Three-year export average 3/	837.4	866.8	932.7	1,031.5	1,135.3	1,239.6	1,343.6	1,451.2	1,573.0	1,314.2	2,995.0
Government revenues (excluding grants) 4/	547.1	633.5	708.0	797.9	891.0	962.0	1,034.1	1,112.0	1,194.3	999.2	2,061.8
NPV of total debt-to-exports ratio (in percent) 5/	661.7	639.7	609.6	549.8	497.3	455.4	418.3	384.5	352.6	452.5	189.4
NPV of existing debt-to-exports ratio (in percent)	661.7	623.2	576.9	500.9	439.2	391.6	349.9	313.0	279.3	394.5	127.6
NPV of pre-out-off date ODA	99.0	100.9	105.7	101.1	92.4	85.4	78.4	72.2	68.2	82.8	46.4
NPV of total debt-to-revenues ratio (in percent)	1,012.9	875.4	803.0	710.8	633.6	586.7	543.4	501.8	464.4	594.7	271.2
After traditional debt relief mechanisms 6/											
1. NPV of total debt (2+5) 7/	4,523.5	4,502.3	4,606.8	4,545.4	4,476.5	4,370.5	4,242.0	4,221.0	4,206.2	4,355.7	4,108.7
2. NPV of existing debt (3+4)	4,523.5	4,358.9	4,301.6	3,976.8	3,712.8	3,474.2	3,214.5	3,070.3	2,937.8	3,457.4	2,186.3
3. Official bilateral and commercial	2,969.1	2,962.1	2,909.7	2,589.8	2,339.2	2,123.0	1,908.7	1,819.4	1,750.8	2,168.2	1,210.9
Paris Club	1,205.4	1,269.3	1,308.8	1,246.0	1,141.1	1,066.0	990.8	914.0	861.9	1,035.6	492.9
Other official bilateral and commercial	1,763.8	1,692.8	1,600.9	1,343.8	1,198.0	1,057.0	917.9	905.4	888.9	1,132.6	718.0
4. Multilateral	1,554.3	1,396.7	1,391.9	1,387.0	1,373.7	1,351.2	1,305.8	1,250.9	1,187.0	1,289.2	975.3
5. NPV of new debt	0.0	143.4	305.1	568.6	763.6	896.4	1,027.5	1,150.6	1,268.4	898.3	1,922.4
Memorandum items:											
NPV of total debt-to-exports ratio (in percent) 5/	540.2	519.4	493.9	440.7	394.3	352.6	315.7	290.9	267.4	354.6	145.5
NPV of existing debt-to-exports ratio (in percent)	540.2	502.9	461.2	385.6	327.0	280.3	239.2	211.6	186.8	290.5	79.3
NPV of total debt-to-revenues ratio (in percent)	826.9	710.7	650.7	569.7	502.4	454.3	410.2	379.6	352.2	466.1	208.3
NPV of existing debt-to-revenues ratio (in percent)	826.9	688.1	607.6	498.4	416.7	361.1	310.8	276.1	246.0	382.1	113.1
After enhanced HIPC Initiative assistance 8/											
1. NPV of total debt (2+5)	5,268.6	4,651.1	4,308.9	1,320.4	1,395.5	1,471.2	1,542.6	1,616.3	1,712.6	2,170.1	2,275.3
2. NPV of existing debt (3+4)	5,268.6	4,504.4	3,997.5	855.2	773.8	717.9	659.2	610.7	588.9	1,383.9	535.9
3. Official bilateral and commercial	3,714.3	3,133.2	2,665.3	511.3	457.0	399.6	343.3	298.2	280.9	860.5	187.9
Paris Club	1,411.0	1,417.1	1,469.0	315.0	300.0	284.3	269.8	256.9	247.8	502.8	177.8
Other official bilateral and commercial	2,303.3	1,716.1	1,196.3	196.3	157.0	115.2	73.5	41.2	33.1	357.6	10.1
4. Multilateral	1,554.3	1,371.2	1,332.2	343.9	316.8	318.3	315.9	312.5	308.1	523.5	348.0
5. NPV of new debt	0.0	146.7	311.4	465.2	621.6	753.3	883.4	1,005.7	1,123.6	786.2	1,739.4
Memorandum items:											
NPV of total debt-to-exports ratio 5/	629.1	536.6	462.0	128.0	122.9	118.7	114.8	111.4	108.9	191.0	78.8
NPV of existing debt-to-exports ratio (in percent)	629.1	519.7	428.6	82.9	68.2	57.9	49.1	42.1	37.4	134.9	18.9
NPV of total debt-to-revenues ratio (in percent)	963.1	734.2	608.6	165.5	156.6	152.9	149.2	145.4	143.4	253.3	113.2
NPV of existing debt-to-revenues ratio (in percent)	963.1	711.1	564.6	107.2	86.9	74.6	63.7	54.9	49.3	179.8	27.1
After enhanced HIPC Initiative assistance (assumed committed unconditionally) 9/											
1. NPV of total debt (2+5)	1,255.8	1,339.0	1,351.6	1,320.4	1,395.5	1,471.2	1,542.6	1,616.3	1,712.6	1,543.1	2,275.3
2. NPV of existing debt (3+4)	1,255.8	1,192.3	1,040.2	855.2	773.8	717.9	659.2	610.7	588.9	757.0	535.9
3. Official bilateral and commercial	824.5	808.2	676.3	511.3	457.0	399.6	343.3	298.2	280.9	429.0	187.9
Paris Club	334.7	391.6	351.6	315.0	300.0	284.3	269.8	256.9	247.8	288.5	177.8
Other official bilateral and commercial	489.8	416.6	324.7	196.3	157.0	115.2	73.5	41.2	33.1	140.5	10.1
4. Multilateral	431.2	384.1	363.9	343.9	316.8	318.3	315.9	312.5	308.1	327.9	348.0
5. NPV of new debt	0.0	146.7	311.4	465.2	621.6	753.3	883.4	1,005.7	1,123.6	786.2	1,739.4
Memorandum items:											
NPV of total debt-to-exports ratio 5/ 9/	150.0	154.5	144.9	128.0	122.9	118.7	114.8	111.4	108.9	121.1	78.8
NPV of existing debt-to-exports ratio (percent)	150.0	137.6	111.5	82.9	68.2	57.9	49.1	42.1	37.4	65.0	18.9
NPV of total debt-to-revenues ratio (in percent)	229.5	211.4	190.9	165.5	156.6	152.9	149.2	145.4	143.4	159.2	113.2
NPV of existing debt-to-revenues ratio (in percent)	229.5	188.2	146.9	107.2	86.9	74.6	63.7	54.9	49.3	85.7	27.1

Sources: Nicaraguan authorities; and staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only. Existing debt is as of December 31, 1999.

2/ As defined in IMF, *Balance of Payments Manual* (5th ed.), 1993.

3/ Backward-looking average (e.g., average over 1997-99 for exports in 1999).

4/ Revenues are defined as central government revenues, excluding grants.

5/ NPV of debt in percent of three-year average of exports of goods and services.

6/ Assumes full use of traditional debt-relief mechanisms, i.e., a Paris Club stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-December 1999, and at least comparable action by other official bilateral and commercial creditors.

7/ Discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to end-December 1999. The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the December 1999 exchange rate.

8/ The completion point is assumed to be reached in December 2002; HIPC Initiative assistance is assumed to be committed and delivered unconditionally thereafter. The NVP of debt for 2000 and 2001 shows only the effect of interim assistance; data before 2002 excludes the impact of a hypothetical stock-of-debt operation on bilateral debt.

9/ The NPV of debt for 2000 and 2001 shows not only the impact of all interim relief, but also the impact of relief assumed to be delivered after the completion point (assumed to be in December 2002).

Table 4. Nicaragua: Discount and Exchange Rates
End-December 1999

	Discount Rates 1/ (In percent)	Exchange Rates 2/ (Currency per U.S. dollar)
Currency		
United States dollar	7.04	1.0
Domestic currency: Nicaraguan cordoba	7.04	12.3
Special drawing rights	5.59	0.7
European currency unit	5.47	1.0
Austrian schilling	5.47	13.7
Belgian franc	5.47	40.2
Canadian dollar	6.67	1.4
Swiss franc	4.27	1.6
Chinese yuan 3/	5.59	3.7
Deutsche mark	5.47	1.9
Danish kroner	5.32	7.4
Spanish peseta	5.47	165.6
Finnish markka	5.47	5.9
French franc	5.47	6.5
United Kingdom pound sterling	6.70	0.6
Italian lira	5.47	1,927.4
Japanese yen	1.98	102.2
Norwegian kroner	6.64	8.0
Netherland guilder	5.47	2.2
Swedish kroner	5.80	8.5
Venezuelan bolivar	5.59	648.8
Indian rupee	5.59	43.5
Memorandum Item:		
Paris Club cutoff date is November 1, 1988		

Sources: OECD; and IMF, *International Financial Statistics.*

1/ The discount rates used are the average commercial interest reference rates for the respective currencies over the six-month period ended December 1999.

2/ The exchange rates are those at the base date (end-December 1999).

3/ Exchange rate refers to contractual rate applicable to Chinese loans to Nicaragua.

Table 5. Nicaragua: Nominal and Net Present Value of External Debt Outstanding as of End-December 1999 1/

	Nominal Debt			NPV of Debt			NPV of Debt after Rescheduling Under Naples Terms 2/		
	US$ Million	Percent of Total	Percent of Group	US$ Million	Percent of Total	Percent of Group	US$ Million	Percent of Total	Percent of Group
Total	**6,413**	**100.0**	...	**5,541**	**100.0**	...	**4,523**	**100.0**	...
Multilateral institutions	2,154	33.6	100.0	1,554	28.1	100.0	1,554	34.4	100.0
IBRD	9	0.1	0.4	10	0.2	0.6	10	0.2	0.6
IDA	597	9.3	27.7	252	4.6	16.2	252	5.6	16.2
IDB	885	13.8	41.1	535	9.7	34.4	535	11.8	34.4
IMF	155	2.4	7.2	113	2.0	7.3	113	2.5	7.3
CABEI 3/	448	7.0	20.8	603	10.9	38.8	603	13.3	38.8
FOCEM 4/	0	0.0	0.0	2	0.0	0.2	2	0.1	0.2
IFAD	22	0.3	1.0	12	0.2	0.8	12	0.3	0.8
Nordic Development Fund	14	0.2	0.6	6	0.1	0.4	6	0.1	0.4
OPEC Fund	23	0.4	1.1	21	0.4	1.3	21	0.5	1.3
Paris Club	1,625	25.3	100.0	1,411	25.5	100.0	1,205	26.6	100.0
Australia	4	0.1	0.2	3	0.1	0.2	1	0.0	0.1
Austria	2	0.0	0.1	1	0.0	0.1	1	0.0	0.1
Brazil	128	2.0	7.9	128	2.3	9.1	42	0.9	3.5
Finland	15	0.2	0.9	9	0.2	0.7	8	0.2	0.7
France	65	1.0	4.0	73	1.3	5.1	48	1.1	4.0
Germany	385	6.0	23.7	330	6.0	23.4	313	6.9	26.0
Israel	1	0.0	0.1	1	0.0	0.1	1	0.0	0.1
Italy	111	1.7	6.8	71	1.3	5.0	60	1.3	5.0
Japan	136	2.1	8.4	142	2.6	10.0	142	3.1	11.7
Netherlands	42	0.7	2.6	34	0.6	2.4	24	0.5	2.0
Russia	371	5.8	22.8	344	6.2	24.4	344	7.6	28.6
Spain	259	4.0	16.0	183	3.3	13.0	181	4.0	15.1
Switzerland	2	0.0	0.1	2	0.0	0.1	2	0.0	0.1
United Kingdom	2	0.0	0.1	2	0.0	0.1	1	0.0	0.1
United States	102	1.6	6.3	87	1.6	6.2	36	0.8	3.0
Non-Paris Club official bilateral	2,362	36.8	100.0	2,303	41.6	100.0	1,707	37.7	100.0
Algeria	76	1.2	3.2	76	1.4	3.3	25	0.5	1.5
Bulgaria	253	3.9	10.7	253	4.6	11.0	83	1.8	4.9
China, People's Republic	25	0.4	1.1	22	0.4	0.9	4	0.1	0.2
Costa Rica	511	8.0	21.6	511	9.2	22.2	511	11.3	29.9
Czech Republic	7	0.1	0.3	6	0.1	0.3	6	0.1	0.4
Guatemala	487	7.6	20.6	486	8.8	21.1	486	10.7	28.5
Honduras	142	2.2	6.0	133	2.4	5.8	133	3.0	7.8
Hungary	20	0.3	0.9	20	0.4	0.9	7	0.1	0.4
India	5	0.1	0.2	5	0.1	0.2	2	0.0	0.1
Iran	107	1.7	4.5	107	1.9	4.7	35	0.8	2.1
Libya	238	3.7	10.1	238	4.3	10.3	78	1.7	4.6
Mexico	64	1.0	2.7	57	1.0	2.5	57	1.3	3.3
North Korea	7	0.1	0.3	7	0.1	0.3	2	0.0	0.1
Peru	31	0.5	1.3	31	0.6	1.3	10	0.2	0.6
Poland	24	0.4	1.0	24	0.4	1.1	8	0.2	0.5
Slovak Republic	81	1.3	3.4	81	1.5	3.5	27	0.6	1.6
Taiwan, Province of China	215	3.4	9.1	163	3.0	7.1	163	3.6	9.6
Venezuela	51	0.8	2.1	65	1.2	2.8	65	1.4	3.8
Yugoslavia	16	0.3	0.7	16	0.3	0.7	5	0.1	0.3
Commercial creditors	271	4.2	100.0	272	4.9	100.0	57	1.3	100.0
Italy - Ansaldo	0.0	0.0	0.1	1	0.0	0.3	1	0.0	1.3
Commercial banks	197	3.1	72.7	197	3.6	72.2	0.0	0.0	0.0
UK -Barclays Bank	21	0.3	7.9	22	0.4	8.0	22	0.5	38.2
Spain -Banco Exterior de España and Union Fenosa	3	0.1	1.2	3	0.1	1.2	2	0.0	3.3
LAAD	2	0.0	0.8	2	0.0	0.8	1	0.0	1.2
United States -Newcourt Capital	26	0.4	9.5	27	0.5	9.7	27	0.6	46.4
Pacific Industrial Bank	3	0.0	1.0	3	0.0	1.0	3	0.1	4.8
Germany -Siemens	3	0.0	1.1	3	0.1	1.1	3	0.1	5.0
Commercial suppliers	16	0.2	5.8	16	0.3	5.8	0.0	0.0	0.0

Sources: Nicaraguan authorities; and staff estimates.

1/ Public and publicly guaranteed debt only.
2/ After hypothetical full use of traditional debt-relief mechanisms.
3/ Before the application of the US$156 million interim assistance provided by CABEI through the 1997 Debt Relief Agreement.
4/ Previous restructuring eliminated the balance of the debt, leaving only interest payments. NPV of debt is positive due to these future interest payments.

Table 6. Nicaragua: Possible Assistance Under the HIPC Initiative 1/

NPV of Debt-to-Exports-Target	Export Criterion Total HIPC Initiative Assistance Based on End-1999 Data 2/				Memorandum Items
	Total	Bilateral 3/	Multilateral	Common Reduction Factor at the Decision Point 4/	Required NPV Debt Reduction on Bilateral Debt Based on Comparable Treatment of Overall Exposure 5/
(In percent)	(In millions of U.S. dollars)			(In percent)	(In percent)
150	3,267	2,145	1,123	72.2	
Memorandum items:					
NPV of debt 6/	4,523	2,969	1,554		
Multilateral institutions 7/	1,554				
Paris Club	1,205				91
Of which: Pre-cutoff date nonofficial development assistance (ODA) debt	901				99
Non-Paris Club bilaterals	1,707				91
Of which: Pre-cutoff date nonofficial development assistance (ODA) debt	309				
Commercial creditors	57				
Three-year average of exports 8/	837				
Current-year exports	835				
NPV of debt-to-exports ratio 8/	540				

Sources: Nicaraguan authorities; and staff estimates and projections.

1/ The proportional burden sharing approach is described in "HIPC Initiative - Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97 and IDA/SEC M 97-306, 7/7/97).

2/ Includes a hypothetical stock-of-debt operation on Naples terms (December 1999) and assumes comparable treatment by other official bilateral creditors at the end of 1999.

3/ Includes official bilateral creditors and commercial debt.

4/ Each creditor's NPV reduction in percent of its exposure at the decision point.

5/ Includes debt relief under traditional relief mechanisms.

6/ Based on latest data available at the decision point after full application of traditional debt-relief mechanisms.

7/ Before the application of the US$156 million interim assistance provided by CABEI through the 1997 Debt Relief Agreement.

8/ Based on the three-year export average (backward-looking average) ending in the year preceding the decision point year (i.e., 1997-99).

Table 7. Nicaragua: External Debt Service Before and After Traditional Debt Relief, 2000-19

(In millions of U.S. dollars; unless otherwise indicated)

	Est.	Projections							Average	
	2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-19
Total debt service before 1/	**203.1**	**265.7**	**469.2**	**353.3**	**325.1**	**349.1**	**344.3**	**348.1**	**333.2**	**307.2**
Principal	123.3	156.8	319.4	215.1	192.4	219.9	219.7	226.9	193.1	125.6
Multilateral	40.2	46.1	46.6	55.9	66.1	88.0	96.3	104.6	68.4	50.6
IDB	20.2	20.1	24.4	25.7	23.8	30.0	32.9	34.4	28.3	31.4
CABEI	1.3	7.2	7.2	13.8	16.2	22.2	26.2	32.6	13.3	0.0
IBRD	4.8	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0
IDA	1.7	1.8	4.5	5.0	6.8	8.4	9.6	10.1	7.2	18.1
IFAD	1.4	1.4	0.9	0.3	0.5	0.5	0.6	0.6	0.7	0.6
IMF	5.5	5.5	5.5	7.8	16.3	26.1	26.1	26.1	15.5	0.0
OPEC Fund	5.3	5.3	4.0	3.1	2.3	0.5	0.5	0.5	2.3	0.0
Others	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.5
Official bilateral	68.5	93.1	264.4	155.2	125.2	123.6	106.1	97.4	124.6	75.0
Paris Club	2.2	19.3	127.3	126.8	98.7	98.9	86.4	77.1	80.7	64.2
Of which										
Official development assistance (ODA)	0.0	5.9	18.7	20.2	21.0	19.8	18.9	17.7	15.7	13.6
Non-Paris Club	66.3	73.8	137.1	28.3	26.5	24.7	19.8	20.3	44.0	10.8
Commercial	14.5	17.7	8.4	4.0	1.1	1.0	0.5	0.0	4.7	0.0
New debt	0.0	0.0	0.0	0.0	0.0	7.3	16.7	24.9	12.4	78.2
Multilateral	0.0	0.0	0.0	0.0	0.0	7.3	16.7	24.1	12.1	68.9
Official bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.3	9.3
Interest	79.8	108.8	149.8	138.2	132.7	129.1	124.6	121.3	123.0	103.3
Multilateral	48.7	46.0	45.4	44.1	42.2	41.8	40.2	37.5	43.2	37.3
IDB	15.1	13.7	14.4	14.0	13.4	14.5	14.9	14.4	14.2	9.1
CABEI	26.1	25.6	24.9	24.3	23.1	21.8	20.1	18.1	23.3	24.4
IBRD	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
IDA	4.5	4.5	4.4	4.4	4.4	4.3	4.3	4.2	4.3	3.4
IFAD	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
IMF	0.8	0.7	0.7	0.7	0.6	0.5	0.4	0.2	0.5	0.0
OPEC Fund	0.8	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.3	0.0
Others	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Official bilateral	22.6	51.3	88.0	74.8	68.5	62.6	57.0	53.5	57.0	22.5
Paris Club	0.7	32.2	71.6	65.1	60.0	55.1	50.3	46.7	46.3	18.1
Of which										
Official development assistance (ODA)	0.0	5.4	8.0	7.7	7.3	6.8	6.4	6.1	5.9	3.5
Non-Paris Club	21.9	19.1	16.4	9.6	8.5	7.5	6.6	6.8	10.7	4.4
Commercial	4.0	2.5	1.0	0.4	0.2	0.1	0.0	0.0	0.8	0.0
New debt	4.5	9.0	15.3	19.0	21.8	24.7	27.5	30.2	22.0	43.6
Multilateral	4.3	7.9	13.3	16.6	19.1	21.6	24.0	26.3	19.2	37.6
Official bilateral	0.2	1.0	2.0	2.4	2.8	3.1	3.5	3.9	2.8	6.0
Total debt service after 2/	**150.8**	**216.9**	**448.3**	**337.0**	**322.7**	**346.8**	**345.5**	**349.6**	**319.2**	**330.4**
Memorandum items:										
Exports of goods and nonfactor services	936	1,027	1,131	1,247	1,340	1,443	1,570	1,706	1,427	3,243
Debt-service ratio before rescheduling (in percent)	21.7	25.9	41.5	28.3	24.3	24.2	21.9	20.4	24.3	10.1
Debt-service ratio after rescheduling (in percent)	16.1	21.1	39.6	27.0	24.1	24.0	22.0	20.5	22.9	10.7

Sources: Nicaraguan authorities; and staff estimates and projections.

1/ On a scheduled basis; as of end-1999. Debt service is shown before debt relief, but exclusive of debt service on rescheduled debt.
2/ Assumes a hypothetical stock-of-debt operation on Naples terms at end-December 1999 and at least comparable treatment from other official bilateral creditors.

Table 8. Nicaragua: External Debt Service After Enhanced HIPC Initiative Assistance, 2000-19

(In millions of U.S. dollars; unless otherwise specified)

	Projections								Averages	
	2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-19
Total debt service after 1/	**126.1**	**116.9**	**187.7**	**152.5**	**122.8**	**126.7**	**126.5**	**107.8**	**131.4**	**153.9**
Principal	61.2	53.6	111.1	86.8	78.7	83.4	84.3	64.1	62.3	20.6
Multilateral	36.1	19.0	13.7	20.8	11.1	15.1	16.3	17.5	17.3	6.7
IBRD	4.8	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0
IDA	1.7	0.2	0.5	0.5	0.7	0.8	1.0	1.0	0.9	1.8
IMF	5.5	3.9	4.6	3.7	4.9	2.3	6.2	7.1	4.9	0.0
Others	24.1	12.8	11.9	18.4	6.6	8.1	9.1	10.3	11.3	4.9
Official bilateral	25.1	31.2	90.6	60.7	63.7	62.3	49.3	20.9	44.3	13.9
Paris Club	2.2	13.2	39.4	19.4	19.9	18.5	15.1	12.6	16.5	12.6
Of which										
Official development assistance (ODA)	0.0	3.9	12.2	13.7	15.4	14.7	13.8	12.6	11.1	12.3
Non-Paris Club	22.9	18.0	51.2	41.4	43.8	43.8	34.3	8.3	27.7	1.3
Commercial	0.0	0.9	3.5	3.5	2.8	2.8	2.1	0.0	1.6	0.0
New debt	0.0	0.0	0.0	0.0	0.0	7.2	16.6	24.7	13.8	81.6
Multilateral	0.0	0.0	0.0	0.0	0.0	7.2	16.6	24.0	13.5	70.5
Official bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.3	11.1
Interest	64.9	63.2	76.7	65.7	44.1	43.2	42.2	43.8	53.7	51.6
Multilateral	48.7	29.8	28.5	27.1	6.2	6.1	5.8	5.4	17.0	5.4
IBRD	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
IDA	4.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.8	0.3
IMF	0.8	0.7	0.7	0.7	0.6	0.5	0.4	0.2	0.5	0.0
Others	42.6	28.8	27.9	26.5	5.6	5.5	5.3	4.9	15.9	5.1
Official bilateral	11.7	23.6	33.3	20.6	17.4	14.0	10.8	10.2	16.0	6.3
Paris Club	0.7	14.0	14.2	8.9	8.4	8.0	7.6	7.4	8.3	5.5
Of which										
Official development assistance (ODA)	0.0	4.7	5.4	7.8	7.5	7.2	6.9	6.7	5.9	4.9
Non-Paris Club	11.0	9.6	19.1	11.7	9.0	6.0	3.2	2.8	7.6	0.8
Commercial	0.0	0.3	1.2	0.7	0.5	0.3	0.1	0.0	0.3	0.0
New debt	4.5	8.9	13.1	16.7	19.6	22.5	25.2	28.0	20.2	39.9
Multilateral	4.3	7.9	11.1	14.4	16.8	19.3	21.7	24.1	17.4	33.9
Official bilateral	0.2	1.0	2.0	2.4	2.8	3.1	3.5	3.9	2.8	6.0
Total debt service before 2/	**150.8**	**216.9**	**448.3**	**337.0**	**322.7**	**346.8**	**345.5**	**349.6**	**319.2**	**330.4**
Memorandum items:										
Exports of goods and nonfactor services	936	1,027	1,131	1,247	1,340	1,443	1,570	1,706	1,427	3,243
Debt-service ratio before enhanced HIPC Initiative assistance (in percent)	16.1	21.1	39.6	27.0	24.1	24.0	22.0	20.5	22.9	10.7
Debt-service ratio after enhanced HIPC Initiative assistance (in percent)	13.5	11.4	16.6	12.2	9.2	8.8	8.1	6.3	9.9	4.9

Sources: Nicaraguan authorities; and staff estimates and projections.

1/ Debt service is shown after enhanced HIPC Initiative debt relief inclusive of interim assistance assumed to be delivered by several creditors.

2/ On a scheduled basis; as of end-1999. Debt service is shown after traditional debt relief.

Table 9. Nicaragua: External Debt Indicators-Baseline Scenario and Sensitivity Analysis, 1999-2019 1/

	1999	Projected								Average	
		2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-19
Baseline balance of payments											
Net present value (NPV) of debt before rescheduling	5,541.1	5,545.0	5,685.5	5,671.5	5,645.7	5,644.7	5,619.7	5,580.0	5,546.0	5,593.6	5,354.6
NPV of debt-to-government revenues 2/	1,012.9	875.4	803.0	710.8	633.6	586.7	543.4	501.8	464.4	594.7	271.2
NPV of debt-to-exports ratio 3/	661.7	639.7	609.6	549.8	497.3	455.4	418.3	384.5	352.6	452.5	189.4
NPV of debt after traditional debt-relief mechanisms 4/	4,523.5	4,502.3	4,606.8	4,545.4	4,476.5	4,370.5	4,242.0	4,221.0	4,206.2	4,355.7	4,108.7
NPV of debt-to-government revenues	826.9	710.7	650.7	569.7	502.4	454.3	410.2	379.6	352.2	466.1	208.3
NPV of debt-to-exports ratio	540.2	519.4	493.9	440.7	394.3	352.6	315.7	290.9	267.4	354.6	145.5
NPV of debt after enhanced HIPC Initiative assistance 5/	5,268.6	4,651.1	4,308.9	1,320.4	1,395.5	1,471.2	1,542.6	1,616.3	1,712.6	2,170.1	2,275.3
NPV of debt-to-government revenues	963.1	734.2	608.6	165.5	156.6	152.9	149.2	145.4	143.4	253.3	113.2
NPV of debt-to-exports ratio	629.1	536.6	462.0	128.0	122.9	118.7	114.8	111.4	108.9	191.0	78.8
Sensitivity analysis											
NPV of debt after enhanced HIPC Initiative assistance relative to exports in case of:											
Lower export growth 6/	0.0	546.4	478.8	134.8	129.4	124.9	120.9	117.2	114.6	198.4	83.0
Adverse terms of borrowing 7/	0.0	537.4	464.0	131.8	127.5	123.3	118.9	114.6	110.9	193.5	74.4

Sources: Nicaraguan authorities; and staff estimates.

1/ All debt indicators refer to public and publicly guaranteed debt.

2/ Revenues are defined as central government revenues, excluding grants.

3/ Three-year backward-looking average of exports of goods and nonfactor services.

4/ After the application of a stock-of-debt under Naples terms achieving a reduction in NPV terms of 67 percent.

5/ The completion point is assumed to be reached in December 2002; HIPC Initiative assistance is assumed to be committed and delivered unconditionally from then. The NVP of debt for 2000 and 2001 shows only the effect of interim assistance.

6/ Assumes 5 percentage points lower export growth compared to baseline scenario starting in 2001.

7/ Assumes that terms of new borrowings from bilateral creditors are ten years maturity, two years grace, and 4 percent rate of interest, compared to 25 years maturity, five years grace, and 2 percent rate of interest in the baseline.

Table 10. Nicaragua: Possible Delivery of World Bank Group's Assistance Under the Enhanced HIPC Initiative, 2000-23 1/

(In millions of U.S. dollars; unless otherwise indicated)

	NPV Relief Required	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative 2010-16	Cumulative 2017-23	Cumulative 2000-23
Debt service before HIPC assistance		11.8	11.3	8.9	9.4	11.2	12.7	13.9	14.3	14.9	16.8	16.7	122.7	178.1	442.7
On IBRD loans		5.6	5.0	...	...	...	...	...	...	...	...	...	0.0	0.0	10.6
Of which: principal		4.8	4.6	...	...	...	...	...	...	...	...	...	0.0	0.0	9.4
Of which: interest		0.8	0.4	...	...	...	...	...	...	...	...	...	0.0	0.0	1.2
On IDA credits		6.2	6.3	8.9	9.4	11.2	12.7	13.9	14.3	14.9	16.8	16.7	122.7	178.1	432.1
Of which: principal		1.7	1.8	4.5	5.0	6.8	8.4	9.6	10.1	10.8	12.8	12.8	101.5	160.3	346.2
Of which: interest		4.5	4.5	4.4	4.4	4.4	4.3	4.3	4.2	4.1	4.0	3.9	21.2	17.8	85.9
Debt service after HIPC assistance		11.8	5.6	0.9	0.9	1.1	1.3	1.4	1.4	1.5	1.7	1.7	12.3	21.8	63.5
On IBRD loans		5.6	5.0	...	...	...	...	...	...	...	...	...	0.0	0.0	10.6
Of which: principal		4.8	4.6	...	...	...	...	...	...	...	...	...	0.0	0.0	9.4
Of which: interest		0.8	0.4	...	...	...	...	...	...	...	...	...	0.0	0.0	1.2
On IDA credits		6.2	0.6	0.9	0.9	1.1	1.3	1.4	1.4	1.5	1.7	1.7	12.3	21.8	52.9
Of which: principal		1.7	0.2	0.5	0.5	0.7	0.8	1.0	1.0	1.1	1.3	1.3	10.2	19.7	39.9
Of which: interest		4.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	2.1	2.1	13.0
Savings on debt service to IDA	189	0.0	5.7	8.1	8.4	10.1	11.4	12.5	12.8	13.4	15.1	15.0	110.4	156.3	379.3
Of which: principal		0.0	1.6	4.1	4.5	6.1	7.6	8.7	9.1	9.7	11.5	11.5	91.3	140.6	306.3
Of which: interest		0.0	4.0	4.0	4.0	3.9	3.9	3.8	3.8	3.7	3.6	3.5	19.1	15.7	72.9
Savings as percent of debt service due to the World Bank Group		0	50	90	90	90	90	90	90	90	90	90	90	88	86

Source: Staff estimates.

1/ Enhanced HIPC assistance proposed to be delivered over about 23 years through a 90 percent relief on the debt service falling due to IDA on credits outstanding at end-1999.

Table 11. Nicaragua: Possible Delivery of IMF Assistance Under the Enhanced HIPC Initiative, 2000-09 1/

(In millions of U.S. dollars; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Based on the US$/SDR exchange rate as of December 5, 2000										
Delivery schedule of IMF assistance (in percent of total assistance)	3	2	1	1	5	20	20	20	19	9
Debt Service due on current IMF obligations 2/	3.2	7.0	6.9	9.1	17.0	26.1	26.0	25.9	23.6	13.0
Of which: Principal	2.6	5.2	5.2	7.3	15.3	24.5	24.5	24.5	22.4	11.8
Interest	0.6	1.8	1.8	1.7	1.7	1.6	1.5	1.3	1.2	1.1
IMF assistance--deposits into Nicaragua's accounts										
Interim assistance	3.3	1.2	...	...	...	...	...	...	...	...
Completion point assistance	...	...	77.0 3/	...	...	...	...	...	...	...
IMF assistance under the HIPC Initiative--drawdown schedule 4/	0.0	1.6	0.9	4.1	11.4	23.8	19.9	19.0	17.3	8.4
Of which: IMF assistance without interest	0.0	1.6	0.8	0.8	4.8	16.3	16.3	16.3	15.5	7.3
Estimated interest earnings	0.0	0.0	0.1	3.3	6.6	7.5	3.6	2.7	1.9	1.1
Debt service due on current IMF obligations after IMF assistance 5/	3.2	5.3	6.0	5.0	5.6	2.3	6.1	6.9	6.2	4.5
Share of debt service due on current IMF obligations covered by IMF assistance (in percent) 4/	0.0	23.4	13.6	45.1	66.9	91.3	76.5	73.5	73.6	64.9
Memorandum items:										
Proportion of each repayment falling due during the period to be paid by HIPC Initiative assistance from the principal deposited in Nicaragua's account	0.0	31.6	15.8	11.1	31.2	66.4	66.4	66.4	69.2	62.2
Total debt service due (from DSA table) 7/	150.8	216.9	448.3	337.0	322.7	346.8	345.5	349.6	338.6	335.4
Of which: due to the IMF	6.3	6.2	6.2	8.5	16.9	26.6	26.5	26.4	23.9	12.6
Share of total debt service covered by IMF assistance (in percent) 4/	4.2	2.1	1.2	1.3	1.7	0.8	1.9	2.1	1.9	1.3
Debt service due on current IMF obligations after IMF assistance 4/	6.3	4.6	5.3	4.4	5.5	2.8	6.6	7.3	6.6	4.2
(in percent of exports)	0.7	0.4	0.5	0.4	0.4	0.2	0.4	0.4	0.4	0.2

Source: Staff estimates.

1/ Total IMF assistance under the HIPC Initiative is US$ 81.5 million calculated on the basis of data available at the decision point, excluding interest earned on the Nicaragua's account and on committed but undisbursed amounts as described in footnotes 4 and 5.

2/ As of June 30, 2000, using the end-December 1999 US$/SDR exchange rate. Interest obligations include net SDR charges and assessments. Data for 2000 covers obligations falling due after December 18, the expected decision point.

3/ Interim assistance to be deposited into Nicaragua's account in December 2000 and December 2001, to cover obligations to the Fund falling due for the coming two years.

4/ Remaining amount of assistance assumed to be disbursed into Nicaragua's account at the assumed completion point in December 2002, which is reflected in the calculation of interest.

5/ Includes estimated interest earnings on: (1) amounts held in Nicaragua's account; and (2), up to the completion point, amounts committed but not yet disbursed. It is assumed that these amounts earn a rate of return of 5.25 percent in U. S. dollar terms; actual interest earnings maybe higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment obligations falling due during the three years after the completion point.

6/ Excludes charges in the SDR department of the IMF.

7/ After traditional debt relief mechanisms, excluding debt service due on new borrowing.

Table 12. Nicaragua: Main Assumptions on Macroeconomic Framework, 2000-19

	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-08	Average 2009-19
Economic growth										
Real GDP	5.5	5.5	5.4	5.4	5.5	5.5	5.5	5.5	5.5	5.1
National accounts										
Investment (percent of GDP)	36.9	35.2	34.2	33.2	31.5	31.2	29.1	28.2	33.3	22.5
National savings (percent of GDP)	7.6	7.9	7.9	9.8	11.6	12.6	12.6	13.2	10.7	14.7
Balance of payments										
Export volume growth 1/	11.9	9.1	7.6	6.4	4.6	3.9	5.5	5.6	6.9	5.5
Import volume growth 1/	-3.4	*6.6	8.3	4.8	3.1	4.5	3.7	4.5	4.5	4.7
Terms of trade	-1.8	1.0	3.1	2.7	1.1	1.9	1.5	1.5	-0.6	1.5
Exports of goods and services (percent of GDP) 2/	38.3	38.9	40.2	41.1	41.1	40.8	41.2	41.6	40.3	44.7
Imports of goods and services (percent of GDP) 2/	78.0	76.8	77.2	75.5	72.2	70.3	68.4	67.0	72.8	60.8
Current account (percent of GDP)	-28.6	-27.3	-26.5	-23.5	-20.0	-18.7	-16.6	-15.1	-21.1	-7.2
Gross reserves (months of imports)	3.9	5.2	5.1	5.1	4.9	4.8	4.7	4.5	4.7	3.4

Sources: Central Bank of Nicaragua; and staff estimates.

1/ Exports (imports) of goods.

2/ Exports (imports) of goods and services as defined in IMF, *Balance of Payments Manual*, fifth edition, 1993.

Table 13. Nicaragua: Medium-Term Balance of Payments, 2000-19

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-08	Average 2009-19
Current account	-699	-721	-745	-713	-653	-659	-631	-620	-672	-441
Trade balance	-939	-977	-1,030	-1,056	-1,083	-1,132	-1,153	-1,191	-1,088	-1,325
Exports	618	680	747	823	884	946	1024	1109	893	1732
Imports	-1,557	-1,657	-1,777	-1,879	-1,967	-2,078	-2,177	-2,300	-1,981	-3,057
Nonfactor services (net)	-31	-24	-7	15	67	90	119	148	62	400
Of which: receipts	318	347	384	424	457	497	546	597	469	984
Interest	-75	-110	-154	-142	-135	-131	-126	-121	-124	-97
Other current transactions (net)	346	390	446	470	498	513	529	545	478	582
Capital account	764	869	584	572	463	437	421	406	545	315
Official (net)	438	406	232	374	232	204	187	173	267	103
Transfers	272	276	272	316	210	210	200	190	236	129
Disbursements	272	284	290	280	220	220	210	210	243	163
Amortization	-107	-154	-325	-221	-198	-226	-223	-227	-211	-188
Other capital	326	463	352	198	232	233	233	233	278	212
Overall balance	65	148	-160	-141	-190	-222	-210	-213	-127	-126
Change in international reserves (increase -)	-63	-223	0	0	0	0	0	0	-32	0
Of which: IMF (net)	31	35	28	27	26	24	24	24	27	27
Debt rescheduling (HIPC Interim Assistance)	0	75	160	0	0	0	0	0	26	0
Financing gaps 1/	0	0	0	141	190	222	210	213	133	126
Memorandum items:										
Gross reserves (in months of imports)	3.9	5.2	5.1	5.1	4.9	4.8	4.7	4.5	4.7	3.4
Debt-service ratio	20.0	25.9	42.5	29.3	25.2	25.2	22.6	20.8	25.6	10.2
Current account (in percent of GDP)	-28.6	-27.3	-26.5	-23.5	-20.0	-18.7	-16.6	-15.1	-21.1	-7.2

Sources: Central Bank of Nicaragua; and staff estimates and projections.

1/ These financing gaps are expected to be filled in by debt-service relief from HIPC assistance, which is projected to be about US$215 million annually up to 2019.

Table 14. HIPC Initiative: Status of Country Cases Considered Under the Initiative, December 6, 2000

Country	Decision Point	Completion Point	Target NPV of Debt-to-Export (In percent)	Target NPV of Debt-to-Gov. Revenue (In percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral	Multilateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework											
Uganda					1,003	183	820	160	517		1,950
Original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
Enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Decision point reached under enhanced framework											
Benin	Jul. 00	Floating	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
Original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*53*	*14*	*760*
Enhanced framework	*Feb. 00*	*Floating*	*150*		*854*	*268*	*585*	*55*	*141*	*30*	*1,300*
Burkina Faso					398	56	342	42	162		700
Original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
Enhanced framework	*Jul. 00*	*Floating*	*150*		*169*	*24*	*146*	*20*	*71*	*27*	*300*
Cameroon	Oct. 00	Floating	150		1,260	874	324	37	179	27	2,000
Guyana					585	220	365	74	68		1,030
Original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*440*
Enhanced framework	*Nov. 00*	*Floating*	*150*	*250*	*329*	*129*	*200*	*40*	*41*	*40*	*590*
Honduras	Jul. 00	Floating	110	250	556	215	340	30	98	18	900
Mali					523	162	361	58	182		870
Original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*44*	*9*	*220*
Enhanced framework	*Sep. 00*	*Floating*	*150*		*401*	*124*	*277*	*44*	*138*	*28*	*650*
Mauritania	Feb. 00	Floating	137	250	622	261	361	47	100	50	1,100
Mozambique					1,970	1,235	736	140	434		4,300
Original framework	*Apr. 98*	*Jun. 99*	*200*		*1,716*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
Enhanced framework	*Apr. 00*	*Floating*	*150*		*254*	*159*	*95*	*16*	*53*	*9*	*600*
Senegal	Jun. 00	Floating	133	250	488	193	259	45	124	19	850
Tanzania	Apr. 00	Floating	150		2,026	1,006	1,020	120	695	54	3,000
Decision point reached under original framework											
Côte d'Ivoire	Mar. 98	Mar. 01	141	280	345	163	182	23	91	6 3/	800
Total assistance provided/committed					**11,343**	**5,070**	**6,175**	**883 4/**	**2,928**		**20,020**
Preliminary HIPC document issued 5/											
Chad	...	...	150		157	34	123	15	65	27	250
Ethiopia	...	...	200		636	225	411	22	214	23	1,300
Gambia, The	...	...	150		72	20	52	2	24	29	102
Guinea	...	...	150		638	256	383	37	173	34	1,150
Guinea-Bissau	...	...	200		300	148	153	8	73	73	600
Madagascar	...	...	150		880	502	378	23	264	41	...
Malawi	...	...	150		629	163	466	29	323	43	1,100
Nicaragua	...	...	150		2,507	1,416	1,091	32	188	66	5,000
Rwanda	...	...	150		447	56	391	43	227	71	800
Sao Tome and Principe 6/	...	...	150		97	29	68	...	24	83	200
Zambia	...	...	150		2,468	1,121	1,326	600	491	62	4,500

Sources: IMF and World Bank Board decisions; completion point documents; decision point documents; preliminary HIPC documents; and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.

4/ Equivalent to SDR 677.9 million at an SDR/USD exchange rate of 0.768.

5/ Figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; and are subject to change. Assistance levels for Ethiopia and Guinea-Bissau were based on the original framework and applied at the completion point; for Chad, The Gambia, Guinea, Madagascar, Malawi, Nicaragua, Rwanda, and Zambia, targets are based on the enhanced framework and assistance levels are at the assumed decision point.

6/ Data reflect Decision Point documents which have been issued but not yet appoved by the Board.

Table 15. Nicaragua: Consolidated Operations of the Public Sector, 2000-03

(In percent of GDP)

		Projections					
		Before HIPC Debt Relief 1/			After HIPC Debt Relief 2/		
	2000 3/	2001 3/4/	2002	2003	2001 1/	2002 1/	2003
Combined public sector savings	**4.9**	**3.8**	**3.5**	**4.2**	**3.2**	**1.2**	**3.3**
Excluding interest payments	9.9	9.2	8.7	9.3	8.6	6.5	6.9
Combined public sector balance (before grants)	**-12.9**	**-14.3**	**-12.1**	**-12.1**	**-17.0**	**-17.1**	**-16.3**
Total current revenue	**33.8**	**32.1**	**30.0**	**30.5**	**32.1**	**30.0**	**30.5**
Current revenue of the general government	32.6	31.5	29.5	30.0	31.5	29.5	3.6
Operational surplus of public utilities	1.3	0.6	0.6	0.6	0.6	0.6	0.6
Total current expenditure	**29.0**	**28.3**	**26.6**	**26.3**	**28.9**	**28.8**	**27.3**
Consumption and transfers	22.6	22.0	20.7	20.6	22.6	23.0	23.0
Nonfinancial public sector interest payments	5.0	5.4	5.2	5.1	5.4	5.2	3.6
Central bank operating deficit	1.3	0.8	0.6	0.6	0.8	0.6	0.6
Capital expenditure and net lending (net of capital revenue)	**17.8**	**18.1**	**15.6**	**16.3**	**20.2**	**18.3**	**19.6**
Grants	6.6	6.3	6.1	7.1	9.0	11.1	7.1
Interim debt relief: HIPC	0.0	0.0	0.0	0.0	2.7	5.0	0.0
Other	6.6	6.3	6.1	7.1	6.3	6.1	7.1
Combined public sector balance (after grants)	**-6.3**	**-8.0**	**-6.0**	**-5.0**	**-8.0**	**-6.0**	**-9.1**
Financing	**6.3**	**8.0**	**6.0**	**5.0**	**8.0**	**6.0**	**9.1**
External financing, net	7.6	8.7	4.7	4.1	8.7	4.7	8.3
Privatization receipts	3.4	9.7	0.0	0.0	9.7	0.0	0.0
Domestic financing, net	-4.7	-10.4	1.3	0.9	-10.4	1.3	0.9
Of which							
Central bank	-0.6	-8.9	0.5	0.2	-8.9	0.5	0.2
Memorandum items:							
Total social expenditures (in percent of GDP)	14.9	16.2	16.4	16.4	18.6	20.4	20.6
GDP (in millions of cordobas)	30,995	35,375	39,485	43,245	35,375	39,485	43,245

Sources: Ministry of Finance; Central Bank of Nicaragua; and staff estimates.

1/ Assumes that debt-service payments are made only to priority creditors (e.g., Paris Club and International Financial Institutions).

2/ Assumes HIPC Interim debt relief through 2002 and a stock of debt reduction at end-2002. The interim debt relief is recorded as grants in 2001-02, while the debt relief owing to the stock of debt operation is implicit in the lower interest payments and higher net external financing (from lower principal payments) in 2003.

3/ Assumes privatization receipts of US$84 million and US$256 million for 2000 and 2001, respectively.

4/ Assumes that private pension funds initiate operations in September 2001.

Table 16. Nicaragua: Central Government's Uses of HIPC Debt Relief Funds, 2001-03 1/

(In percent of total HIPC debt service relief; unless otherwise indicated)

	2001	2002	2003
Additional poverty alleviating expenditure 2/	**100**	**100**	**100**
Basic education programs of FSS	20	5	5
Basic health programs of FSS	20	5	5
Social safety net 3/	5	14	15
Increasing coverage of social and public services 3/	45	58	51
Other 3/ 4/	10	18	24
Memorandum Items :			
HIPC debt relief 5/			
In millions of US$	71.2	140.0	170.1
In percent of GDP	2.7	5.0	5.6
As percent of total central government primary expenditure	6.4	15.1	16.5

Sources: Ministry of Finance; and Technical Secretariat of the Presidency.

1/ Assumes interim debt relief through 2002 from Paris Club and multilateral creditors, and a stock of debt reduction at end 2002.

2/ See EBD/00/82, Appendix IV for details of the programs that would be financed.

3/ Includes programs that will increase the coverage of public services such as water, sewerage, housing, and electricity.

4/ Includes programs that will strengthen the institutional capacities of local governments, ministries, and the national system of public investment.

5/ Assumes interim debt relief only from Paris Club creditors, the World Bank and the Inter-American Development Bank in 2001-02. The estimated debt relief in 2003 is calculated as the difference between projected debt-service payments to priority creditors before HIPC debt relief and scheduled debt service to all credits after the stock of debt operation. Since priority creditors are a subset of all creditors, the estimated debt relief in 2003 presented here is lower than that shown in Table 8.

Progress with Structural and Social Reforms and Challenges Ahead

I. Public Sector Reform

• Public employment was reduced from 290,000 to 107,000 through downsizing of armed forces (from 83,000 to 15,000), privatization or closure of public enterprises (involving 74,000 employees), and an early retirement program.	1990–93
• Public sector employment was reduced by 10,700 positions through a voluntary retirement program (*Programa de Movilidad Laboral*).	1994–96
Public employment was further reduced by 3,800 positions through extension of voluntary retirement program.	October 1997–December 1999
• National assembly approved Law No. 290, prepared with IDB and Work Bank assistance, to restructure and reorganize the executive branch of the government.	June 1998
The implementation of the law resulted in a reduction of the number of ministries and decentralized entities (by three each) and the number of high-ranking officials by 25 percent.	November 1998–May 1999
• ***Major challenges*** *are the approval and implementation of a civil service law and the issuance and implementation of a decree strengthening the National System of Public Investment for evaluating, clearing, and monitoring of investment projects.*	

II. Public Enterprise Reform and Private Sector Development

• All but 5 of the 351 companies incorporated in the public sector holding company, CORNAP, and accounting for almost 30 percent of Nicaragua's GDP, were privatized, returned to former owners or liquidated.	1990–95
• National assembly approved laws to separate the regulatory and operational activities of the following public utilities:	
- Telecommunications (TELCOR and ENITEL)	1995
- Power (INE and ENEL)	1995
- Water and sewerage (INAA and ENACAL).	November 1997
• National assembly approved laws for hydrocarbon sector to:	
- Liberalize the exploration and commerce of hydrocarbons	March 1998
- Lease PETRONIC to private sector firm; PETRONIC leased.	June 1998; June 1999
• Introduced policy of periodic tariff adjustments to bring rate structure in line with long-term marginal costs in:	
- Power sector	October 1997
- Water and sewerage (including rate adjustments of 1.5 percent/month)	March 1998
- Telecommunications sector.	December 1998
• Issued regulations on telephone and electricity tariff adjustments after the privatization, issued documents offering 40 percent of ENITEL and the distribution and generation units of ENEL to the private investors, completed the prequalification process, and	April–June 2000
invited final bids. Two distribution units of ENEL sold.	September 2000

Progress with Structural and Social Reforms and Challenges Ahead (Continued)

- ***Major challenges** are the privatization of ENITEL and completing the privatization of ENEL's generation units; the concessioning of major port facilities and major urban water and sewerage systems; and the creation of a road maintenance financing mechanism.*

III. Tax System and Tax Administration

• Corporate income taxes were unified, number of tax brackets for personal income taxes were reduced, the maximum marginal income tax was reduced in line with regional standards, and the value-added tax was raised from 10 to 15 percent.	1990–91
• Updated and modernized the registry of the 10,000 largest tax contributors to improve tax collections.	1990–92
• Tax exemptions were reduced, public enterprises were subjected to taxation, income taxes applicable to agricultural and nonagricultural activities were unified, and coffee exporters were subject to income tax withholding.	1993–95
• National assembly approved a major tax and customs duties reform package (*Ley de Justicia Tributaria*, No. 257), which broadened the tax base, improved the transparency of the tax system, reduced the number of exemptions to the VAT and import duties, lowered the ceiling rate on personal and corporate income taxes to 30 percent and introduced a presumptive income tax based on the value of corporate assets or agricultural landholdings.	1997
• Approval by national assembly of law to restructure the revenue and customs departments of the Finance Ministry.	March 2000

- ***Major challenges** are the implementation of the recently passed law on restructuring of the domestic revenue and customs departments and a tax reform to reduce exemptions and exonerations from the general sales tax (IGV) and permit the lowering of excise taxes (IEC) on hydrocarbons.*

IV. Social Security Reform

• Separated social welfare system in the Social Security Institute (INSS) from pension and health insurance.	1995
• The national assembly approved a social security reform law that establishes a system of fully funded individual accounts managed by the private sector, and adjusts parameters to reduce losses of the current system. The adjusted parameters were implemented.	March–June 2000

- ***Major challenges** are the passage by the national assembly of a law on supervision of private pension funds, the establishment of a supervising agency, the issuance of licenses to the private fund managers, and transition to the reformed system.*

Progress with Structural and Social Reforms and Challenges Ahead (Continued)

V. Financial Sector Reform

• State banks were recapitalized and downsized, and one state bank, Banco Inmobiliario was closed, yielding a total reduction from 9,100 employees in 1990 to 3,500 in 1993.	1990–93
• A new law permitting the establishment of private banks and creating a Superintendency of Banks was approved.	1991
• A new general banking law and a new central bank law were approved.	1995–96
• Interest rate controls were progressively removed and directed credit was eliminated.	1991–95
• Insurance market was opened up to private sector (four private firms were operating in 1998).	1996
• The largest state bank, BANADES, was closed and its branches were sold to the private banks, facilitating a rapid expansion of private banking services into rural areas.	November 1997–June1998
• Prudential norms were revised to set higher standards for asset classification and provisioning, minimum capital and capital adequacy, credit risk concentration, and lending to related parties.	June–November 1998
• A majority share (51 percent) of second largest state bank, BANIC, was sold to private investors.	January 1999
• Laws governing financial institutions, the central bank, and the superintendency of financial institutions passed.	September 1999
• ***Major challenges*** *are the restructuring and strengthening of the financial system, the strengthening of bank supervision, and the approval by the national assembly and implementation of a deposit insurance law.*	

VI. Trade and Pricing Policies

• Eliminated state exporting and importing monopolies.	1991–92
• Eliminated price controls on all products except public utility tariffs, selected petroleum products, basic medicines, and milk.	1991–93
• Eliminated use of negotiable tax certificates ("CBTs") to promote nontraditional	November 1997
• Reduced the import tariff ceiling from over 60 percent in 1990 to 10 percent.	1991–July 1999
• The national assembly approved a revised foreign investment law.	May 2000
• ***A major challenge*** *is the further unification of import charges to reduce remaining distortions.*	

Progress with Structural and Social Reforms and Challenges Ahead (Continued)

VII. Improving Governance

• Established a National Review Commission (to review claims and recommend compensation or return of properties), an Office of Territorial Ordering (to review the legitimacy of land reform beneficiaries) and the Office of Quantification of compensation (to determine the amount of the fair compensation in cases where properties could not be returned).	1992–93
• Implemented multi-year modernization program of the judicial system, which included the construction of 18 court houses with housing for judges in provincial centers, increase in the number of judges by 31 (11 percent), and extensive training of judges and judicial staff.	1992–99
• Improved transparency and accountability in management of public finances through:	
– adoption of Integrated Financial Management System (SIGFA) in core central government ministries;	1996–98
– improved expenditure control by expanding the coverage of the fiscal budget to include all extra-budgetary revenues and expenditures made through own sources ("sinceramiento").	1997–98
• National assembly approved law to strengthen property rights (**Ley de la Propiedad Reformada Urbana y Agraria**) by clarifying rights of former owners (who can seek recourse to the courts if unsatisfied with the offer of indemnification), protecting small-scale landholders that received land, and streamlining the property conflict resolution process by setting time limits for the completion of proceedings.	November 1997
• Accelerated issuance of property titles (6,700 urban and 4,600 rural property titles issued in 1999).	1999
• The national assembly approved a new Public Sector Procurement Law and the implementing regulation was issued.	December 1999 and March 2000
• The national assembly approved an administrative dispute settlement law.	May 2000
• Established National Center for Mediation of Property Claims.	June 2000
• Centralized cash management "cuenta única" in Treasury implemented for all domestic revenue and transfers.	August 2000
• ***Major challenges*** *are the implementation of the civil service reform and measures to strengthen the role of local governments; implementation of a program for strengthening the Comptroller's Office; implementation of a program to improve transparency and control of government procurement; extension of the information system for financial management (SIGFA) to the line ministries and of the treasury's centralized cash management to funds from external sources. A deepening of reforms in the judiciary, to increase its independence and efficacy in delivering justice.*	

Progress with Structural and Social Reforms and Challenges Ahead (Continued)

VIII. Social Policy Reforms

Education sector reforms

• Major school infrastructure rehabilitation, including through FISE.	1992–98
• Introduced and expanded school autonomy program for primary and secondary schools.	1994–98
• Distributed textbooks and workbooks based on new primary school curriculum to all students in grades 1–4; curriculum for secondary level is under revision.	1995–99
• Prepared a long-term Education Plan (*Plan maestro*), including a baseline study to evaluate the selection process for school directors, with the participation of all.	June 1999
• Presented to the national assembly a draft law on decentralization of the educational system.	May 2000

- ***Major challenges*** *are the approval of a school autonomy law to facilitate continued implementation of school decentralization process; the improvement in quality of primary education through intensified teachers' training and evaluation, improved curricula, more and better textbooks, and better performance-linked pay for teachers.*

Health sector reforms

• Major infrastructure program was implemented, including through FISE, to rehabilitate health posts, health centers, and hospitals.	1992–98
• Initiated process to decentralize public health system to improve primary and preventive health care services, and introduced program to reform pharmaceuticals procurement and distribution.	1994–98
• Shifted Primary Health Care focus from vertical to integrated, preventive PHC model.	1993–95
• Implemented reform to permit INSS to contract out the provision of health services for its beneficiaries separate of the ministry of health.	1995–98

- ***Major challenges*** *are the approval of a general health law to strengthen the health ministry's role as promoter and regulator of health services and to facilitate the ongoing process of sector decentralization; extension of the integrated model for public care; strengthening of primary and preventive care and epidemiological control; improvement in the contracting system and performance-based incentives for medical personnel; implementation of a more effective medicine management system; improvement in access to potable water; and improvement in the availability of reproductive health and nutritional counseling services.*

Progress with Structural and Social Reforms and Challenges Ahead (Concluded)

Social safety nets, rural development and poverty monitoring

• Eliminated marketing boards for basic grains and other products.	1990–91
• Established National System of Agricultural Technology and expanded assistance to small-scale farmers.	1993–98
• Developed poverty maps based on 1993 Living Standards Measurement Surveys.	1993–95
• Poverty map established as main criterion for targeting social policies.	1997
• Initiated a program to support small-scale basic grains producers in poor areas as identified by LSMS poverty map.	1997
• Developed an updated poverty map based on 1998 LSMS.	December 1999
• Designed and started to implement a pilot safety net program that provides income support to poor families in rural areas to permit better education and health care of children.	July 2000

Major challenges *are the introduction of an effective social protection program; strengthening of institutional capacity at the municipal level to ensure that projects better respond to the community-identified priorities; acceleration of land titling and registration; modernization of property registry and establishment of departmental cadastres; improving access by small and medium-scale farmers to technology and financial services; and implementation of the Nicaragua Poverty Map to effectively target social programs to the extreme poor.*

IX. Environmental Sustainability

• Preparation and adoption of a National Forestry Action Plan and of an Environmental Action Plan.	1993–94
• Presentation to the national assembly of the draft law to regulate demarcation and titling of indigenous lands on the Atlantic coast.	October 1998
• Submitted to the national assembly new law regulating the forestry sector.	March 2000

• ***Major challenges*** *are the approval by the national assembly and implementation of an Indigenous Lands Demarcation Law for the Atlantic region and of laws to promote the sustainable use of natural resources (forestry, fisheries, and mining sectors), institutional strengthening for better enforcement of the environmental norms.*

Debt Management Issues

1. A number of government agencies are involved in the management of public sector debt, with the Central Bank of Nicaragua (BCN) taking the lead because of the technical and analytical expertise of its staff. The database on external debt is maintained at the BCN, which, as the financial agent of the government, also manages the servicing of external debt. The ministry of finance has a division charged with responsibilities of public sector debt management, concentrating primarily on domestic debt; the Secretariat for External Cooperation manages concessional resources including bilateral grants; and the technical secretariat in the office of the presidency provides input on public sector debt management to the above three agencies. This structure requires a high degree of coordination among the agencies, and at times results in duplication of responsibilities.

2. The recently approved law for the organization of the Executive Branch (Ley 290) aims to, among other things, consolidate debt management responsibilities and to strengthen inter-agency coordination through the establishment of a technical committee for debt. This committee is composed of high-level officials from the ministry of finance, the technical secretariat in the office of the presidency, the Secretariat for External Cooperation, and the BCN. The new law also shifts the core responsibility of debt management to the ministry of finance in order to integrate public sector debt within the overall management of public resources. Given that the BCN staff charged with external debt management has acquired considerable experience and expertise in this area, it is important that the BCN continue to provide support and remain closely involved in debt management and debt negotiations and the maintenance of the external debt database.

3. The new law also consolidates the procedures for approval of new borrowing under the ministry of finance. The law provides detailed guidelines and rules on loan approval. The implementation of these procedures should ensure that external borrowing by individual government agencies and public enterprises is consistent with macroeconomic policies and conforms with the government's required degree of concessionality for such borrowing.

4. The coverage on external debt statistics is quite extensive, with the BCN maintaining information on external debt in the UNCTAD/DMFAS system. The BCN also began collecting information on private sector debt on a loan-by-loan basis a few years ago, and continues to monitor short-term debt flows through banking surveys.

5. Nicaragua has gone through three Paris Club operations since 1991, and has successfully negotiated debt restructuring and buyback agreements with a number of bilateral and commercial creditors. The technical team working on debt negotiations can evaluate the financial impact of debt restructuring proposals, and is familiar with the details of the traditional debt-relief mechanisms and the HIPC Initiative.

6. The authorities are using the software "Debt-Pro," and the technical team can carry out debt sustainability analysis and run HIPC-related scenarios. The authorities should be encouraged to strengthen further this capacity, with special emphasis on linking debt analysis

to macroeconomic programming. As the private sector capital inflows continue to grow and other forms of external financing become available, the integrated analysis of the country's external position (including short-term cash-flow analysis) will be crucial for a successful debt management strategy.

Tracking of Poverty-Related Public Expenditures

Current monitoring systems

1. The coverage of Nicaragua's Central Government budget has increased over the last decade in the wake of various reforms. In principle, it now includes all domestic and foreign resources channeled through the central government. In practice, it is likely that some foreign-financed items still remain outside the budget, but preliminary evidence suggests that these omissions are modest. The budget does not include data on the operations of the local governments, which will become important as the spending decentralization takes place.

2. The budget presentation is quite detailed, it includes two classifications of the spending of the administrative entities, (i) by programs and projects; and (ii) by the economic characteristic of the transaction (current and capital spending and lending minus repayment). The budget presentation also includes the financing sources.

3. The fiscal year coincides with the calendar year and the budget is approved by the national assembly (AN). Reports on quarterly budget execution should be presented to the AN with a lag of month. Monthly data on the central government budget execution are available with one to two months lag.

4. The budget is audited by the Comptroller's Office (CO) whose council members are appointed by the national assembly. The CO had been a very weak audit institution and its functioning was further impaired in 1999 and early 2000 due to conflicts with the executive branch of government. In January 2000, a constitutional reform transformed the CO from a body headed by a single individual to one headed by a five-person council. The newly constituted CO is now on the way to normalizing its operations. In June, the CO made several high-profile decisions, that led to the fining and removal from office of several high-level public officials. On September 5, 2000, the National Assembly approved a new framework law that adapts the CO's legal foundation to the changes in the constitution. Also, the CO has agreed to an action plan for institutional strengthening prepared with the IDB assistance, along with ongoing support from GTZ and USAID. The implementation of this action plan should lead to a significant strengthening of the CO in carrying out its oversight functions.

5. The government has been implementing an Integrated Financial Management and Audit System (SIGFA) since the mid-1990s, with the objective of obtaining a more timely overview and better control of public finances. This system is now functioning in an automated manner in the ministry of finance, significantly improving transparency and increasing the frequency of current government financial reporting. Figures on the overall government balance now become available with a lag of about one month. Also, the government has just introduced a consolidated treasury cash management system ("caja unica") that covers all domestically raised resources. This system is being extended, so that it

will also covers all foreign resources within the next two years. The government currently is able to generate reports on actual spending relative to the budgeted amounts.

Proposed monitoring systems

6. As stated in the Nicaragua's Interim PRSP, the authorities are proposing to track the poverty related spending through the Technical Secretariat of the Presidency (SETEC). In particular, the resources made available from HIPC debt relief will be monitored through its Supplementary Social Fund (FSS).

7. The FSS, which is now in its second year of operation, was created as a mechanism to (i) identify clearly in the central government budget the additional donor funds made available for certain designated social programs; and (ii) track their use and impact. The operations of the FSS are incorporated in the budget and will continue to be on-budget after it is transformed into a HIPC relief monitoring entity. The exact modality of this transformation are still being defined in collaboration with the Fund, World Bank, and IDB staffs.

8. The budget traditionally separates total spending into "social" and "other" spending categories, but with the preparation of the I-PRSP a first effort has been made to identify the government's total poverty-related outlays, on an ad-hoc basis. For 2000, these have been estimated to be 53 percent of government expenditure, or 17 percent of GDP. Most of the programs for 2000–03 have been included in capital expenditure even though they include current expenditure. In this sense, further work will be needed to improve the economic classification of these outlays. In addition, the current budget presentation should be modified to separately identify the resources received under the HIPC debt relief and their use.

9. The evaluation of the impact of the Poverty Reduction Strategy will require a significant coordination effort between the participating institutions (SETEC, central bank, ministry of finance, ministry of foreign relations, and CONPES). Moreover, additional work will be needed to identify the specific links between poverty alleviating expenditures and intermediate targets.

10. IDA is initiating preparation of a Public Expenditure Review in 2001, to review the status and technical assistance needs of the main budgeting and expenditure planning institutions. This review, in combination with a World Bank Social Safety Net Assessment, should help improve the overall allocation of public expenditures in Nicaragua.

Description of Program Components to be Financed Through HIPC Debt Relief[1]

Education programs of the supplementary social fund (FSS)

1. **Expansion of school autonomy program.** The objective of this program is to promote the quality of and access to education through contractual commitments between the schools and heads of families, giving the latter control over school budgets. Initial evaluations of the program point toward a capability by school directors to innovate and obtain operating efficiency that is not exhibited under a centralized system. Furthermore, school autonomy has proven to be effective in improving learning. Under the school autonomy program, the ministry of education (MECD) transfers funds to each school according to a formula that takes into account parameters for salaries, administrative costs and student/teacher ratios. With this program, the amount of funds transferred for teaching materials is expected to increase significantly.

2. **Program to expand performance incentives to improve the retention of students and teachers.** Improving the quality of education in rural areas and ensuring the achievement of at least four years of schooling is a mayor challenge for the MECD and the Poverty Reduction Strategy. Given the problems of access, living conditions and the availability of teaching materials, it is hard for MECD to retain good teachers and make schooling more attractive for rural students. This program gives teachers a monetary incentive if they comply with basic attendance requirements and students do not abandon the school for the entire year. Teachers are expected to provide five hours of classes on school days and to perform sufficiently well to motivate students to remain in school.

3. **Program to provide school back-pack to improve retention of poor students.** Student drop-out in the first three grades of primary school is largely associated with poverty. According to a living standards survey carried out in 1993, almost two-thirds of all children that drop out of primary school do so for economic reasons: families do not have money to buy shoes, uniforms, and school materials. To alleviate this problem, MECD will give a back-pack to all those children in poor rural areas that are being promoted to the second grade. The granting of this back-pack will be linked to class attendance and as a reward for promotion.

4. **Program to provide education materials to improve education quality in rural areas.** The incentive program for teachers currently financed by FSS and the World Bank needs to be complemented with school materials and supplies. This program, to be implemented in the 80 poorest municipalities of the country, comprises the provision of (i) primary school supplies; (ii) teaching materials for primary school teachers; (iii) didactic materials for preschools and teaching materials for preschool teachers.

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[1] Prepared by the Technical Secretariat of the Presidency of Nicaragua.

5. **Program to support "tele-secondary" long distance learning in extreme poor rural and peri-urban areas.** This activity is part of Nicaragua's secondary education reform program, which includes the use of alternative education technology modalities, as well as demand incentives through scholarships for students in extreme poverty. This program works in parallel with the development of long distance learning, which seeks to expand the coverage of secondary education to geographical areas with low population density that are difficult to access. Financing under this "tele-secondary"project will equip classrooms with television reception equipment and train persons to lead classrooms of 15 or more students in isolated zones.

6. **Basic education and literacy program for adults.** The objective of this program is to diminish the illiteracy rate and raise school attainment levels among adolescents and adults between the ages of 15 and 60 years to at least the third grade through an integrated literacy program that also offers vocational training to students at the second and third level.

Health programs of FSS

7. **Program to strengthen primary health care in rural areas.** This program seeks to contribute to the reduction of morbidity and mortality indexes, especially among the mothers and children, by financing the following components: (i) the supply of medical personnel and voluntary nurses in rural areas; (ii) health promotion, prevention and education; (iii) the acquisition of basic health equipment for rural health posts and health centers; and (iv) budget support for operational costs in health posts and health centers of targeted SILAIS.

8. **Basic medical services and supplies.** The objective of this program is to increase the availability of pharmaceuticals and medical supplies, assure the continuity of immunization programs, improve the handling of medical emergencies, control epidemiological programs, and cover recurrent costs associated with these activities. The four components to be financed under this subprogram are: (i) a system of epidemiological vigilance and control, and immunization campaigns; (ii) the treatment of tuberculosis; (iii) the supply of oncological medication to poor patients.

9. **Oral health program.** The objective of this program is to improve oral health in poor rural municipalities, by emphasizing oral health promotion, prevention and education activities, prioritizing dental attention to high-risk groups, the population under 15 years of age, and women of childbearing age.

Social safety net program

10. The social safety net program will assist the most vulnerable groups in extreme poverty with the objective of assuring their survival through strategic actions in education, health, and nutrition. This program will focus on infants, children, and pregnant or breastfeeding women. The program will finance three things: (i) health and food coupons for poor families participating in a preventive health program; (ii) an education coupon based on

primary school attendance up to grade four; and (iii) budgetary support to improve the supply of education and education services in the regions targeted by the program.

Increased coverage of social services in key municipalities

11. This program has the objective of increasing the access to basic social services (primary education, basic health care, potable water, sewerage and latrines) in extremely poor municipalities. The components to be financed by this program are (i) repair, rehabilitation and equipping of health posts and health centers; (ii) repair, rehabilitation and equipping of schools; (iii) construction of wells and other water systems; and (iv) the construction of sewerage systems and latrines.

Development of Atlantic Coast

12. The objective of this program is to strengthen the institutional capacity of government on the Atlantic Coast of Nicaragua to promote the sustainable development of the region. The program has three components: (i) institutional strengthening of regional governments; (ii) local investments through Participative Micro Planning (MPP) in small scale priority projects; and (iii) innovative programs in the health and education sectors.

Implementation of Strengthened Poverty Reduction Strategy (SPRS)

13. With the purpose of grounding the SPRS at the local level, this program seeks to design and submit to pilot testing a participative model of planning, investment, and monitoring of a set of poverty reduction programs identified at the municipal level. The program also seeks to integrate and coordinate multi-sectoral actions from the central to the municipal level in a focused manner. The program will finance four activities: (i) institutional strengthening; (ii) complementary investments in human resources and infrastructure to cover any gaps in current poverty reduction programs; (iii) a system of monitoring and evaluation of SPRS implementation; and (iv) a component for social communication and civil participation.

Social investment fund (FISE III)

14. Under this program, FISE will invest in social infrastructure in poor areas that traditionally have been neglected by this fund. Using a poverty map as its targeting instrument, FISE has been focusing its actions on municipalities characterized by extreme poverty, so that areas affected by less than extreme poverty have not received much help. This program will help expand FISE coverage to these less extreme poor districts, in three areas: (i) social infrastructure; (ii) local capacity building; and (iii) carrying out any other responsibilities contemplated for FISE under the Poverty Reduction Strategy.

Urban poverty reduction

15. This new program has been designed to combat urban poverty through improvements in "informal" settlements in extreme poverty. These activities include a combination of urban infrastructure construction to permit the supply of a minimal level of basic social services. This infrastructure would include potable water and sewerage systems, rainfall drainage, a road network, public lighting, and garbage collection. Among the social services, consideration is being given to day-care centers, the provision of services to children and adolescents at risk, vocational training, and income support programs. These services would be defined in each case according to the priorities determined through consultation with the communities in question. The costs associated with identifying eligible communities to benefit from this program, as well as the consultation processes to identify priority programs, will also be financed under this subprogram.