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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

NICARAGUA

PROJECT PAPER

ECONOMIC POLICY ANALYSIS AND IMPLEMENTATION

AID/LAC/P-818

PROJECT NUMBER: 524-0339

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8. Costs \$000 or Equivalent \$ 1 =									
A. Funding Source		First FY <u>93</u>			Life of Project				
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. TOTAL		
AID Appropriated Total		1,326	0	1,326	7,860	140	8,000		
(Grant)		1,326	0	1,326	7,860	140	8,000		
(Loan)		-	-	-	-	-	-		
Other	1.								
U.S.	2.								
Host Country		-	155	155	-	1,175	1,175		
Other Donor(s)									
TOTALS		1,326	155	1,481	7,860	1,315	9,175		
9. Schedule of AID Funding (\$000)									
A. Appropriation	B. Primary Purpose	C. Primary Tech. Code		D. Obligations to Date		E. Amount Approved This Action		F. Life of Project	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) PSEF				-	-	6,000		6,000	-
(2) ESF				-	-	2,000		2,000	
(3)									
(4)									
TOTALS						8,000		8,000	-
10. Secondary Technical Codes (maximum 6 codes of 3 positions each)								11. Secondary Purpose Code	
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Approved by	Signature <i>Janet C. Ballantyne</i>				DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION				
	Title: Janet C. Ballantyne Director USAID/Nicaragua		Date Signed: Dec. 29, 1992						

u

PROJECT AUTHORIZATION

Name of Country: Nicaragua
Name of project: Economic Policy Analysis and Implementation
Number of Project: 524-0339

1. Pursuant to Section 531 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Economic Policy Analysis and Implementation Project for Nicaragua involving planned obligations not to exceed eight Million United States Dollars (\$8,000,000) in Economic Support Funds and Development Assistance grant funds over the period from the date of authorization through September 30, 1997, subject to the availability of funds in accordance with the AID/OYB allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project is designed to provide short- and long-term technical assistance to the key policy-making institutions of the GON to make the necessary policy reforms that will lay the foundation for a market-oriented economy leading to increased investment and hence economic growth. A key element of this strategy is to meet immediate short-run needs of the GON for timely and relevant policy advice. Another element of the Project's strategy is to provide assistance in the sequencing and timing of the steps required to implement policy reforms. Consensus on the analysis, design, and implementation phases will be sought by discussions between USAID/Nicaragua and the GON and between the public and private sectors. The Project aims to have a sustainable impact through its support of policy reforms that will lead to increased investment, employment, and real incomes in Nicaragua.

3. Commodities financed by A.I.D. under the project shall have their source and origin in the United States (Geographic Code 000), or the Cooperating Country, or in any other Central American Common Market Country, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the Central American Common Market, the Cooperating Country, or the United States, as their place of nationality, except as USAID may otherwise agree in writing. Ocean shipping financed by A.I.D. may be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

4. Condition Precedent to Disbursement

Disbursement of funds under the Project will be subject to the

GON's fulfillment of the following conditions precedent:

1. Evidence that this Agreement has been duly ratified by, and executed on behalf of, the GON and that it constitutes a valid and legally binding obligation of the GON in accordance with its terms.

2. A statement of the name(s) of the persons holding or acting in the position empowered to act on behalf of the GON for all purposes relevant to the grant and of any additional representatives, together with the specimen signature of each person specified in such statement.

3. Evidence that the GON Project Director has been named.

5. COVENANTS

a. The GON agrees to provide sufficient counterpart contributions (personnel, facilities, equipment, etc.) on a timely basis over the life of the project. Except as USAID may otherwise agree in writing, the GON will provide reports on its counterpart contributions, in form and substance satisfactory to USAID, at least annually, or more frequently if and as required.

6. USAID will implement these activities pursuant to a Project Grant Agreement with the Government of Nicaragua and subsequent amendments thereto.

Janet C. Ballantyne

Janet C. Ballantyne
Mission Director
USAID/Nicaragua

Drafted:	PDIS:Lodle:	<u><i>Ramon Ochoa</i></u>	Date:	<u>12/28/92</u>
Clearance:	PEPS:EGrigsb:	<u>(draft)</u>	Date:	<u>12/17/92</u>
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ECONOMIC POLICY ANALYSIS AND IMPLEMENTATION

PROJECT NO. 524-0339

THIS PP COMPLIES WITH CURRENT AGENCY GUIDELINES ON THE METHODS OF FINANCING AND IMPLEMENTATION AND HAS PROVIDED FOR ADEQUATE AUDIT COVERAGE IN ACCORDANCE WITH THE PAYMENT VERIFICATION POLICY IMPLEMENTATION GUIDANCE.


RICHARD W. LAYTON
CONTROLLER

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GLOSSARY

AID	Agency for International Development
CORNAP	State-owned Corporations Holding Company
CBD	Commerce Business Daily
CDSS	Country Development Strategy Statement
COP	Chief Of Party
EIU	The Economist Intelligence Unit
ERC	Economic Recovery Credit
EPAI	Economic Policy Analysis and Implementation Project
ERD	Economic Recovery and Development
ESR	Economic Stabilization and Recovery Program
FAR	Federal Acquisition Regulations
FSLN	Frente Sandinista de Liberacion Nacional
FSN	Foreign Service National
FY	Fiscal Year
GDP	Gross Domestic Product
GON	Government of Nicaragua
GTZ	German Technical Assistance Agency
HBCU	Historically Black Colleges and Universities
IBRD	International Bank of Reconstruction and Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INCAE	Instituto Centro-Americano de Administracion de Empresas
LAC	Latin America and the Caribbean
LTTA	Long-Term Technical Assistance
MEDE	Ministerio de Economia y Desarrollo
MIFIN	Ministerio de Finanzas
MINIFIN	Ministerio de Finanzas
PP	Project Paper
PROAG	Project Agreement
PSS	Private Sector Support Project
RFP	Request for Proposals
SOW	Scope of Work
STTA	Short-Term Technical Assistance
TATR	Technical Assistance and Training Project
TFAL	Trade and Finance Adjustment Loan
UNDP	United Nation Development Program
UNO	Union Nacional Opositora
VAT	Value-Added Tax

I. SUMMARY AND RECOMMENDATIONS

A. Background and Rationale

The Chamorro government took office in April 1990 with the backing of a broad-based coalition. Despite difficulties, including a period of prolonged strikes, the government has been able to establish peace and to reach a broad national consensus on the critical economic issues facing Nicaragua and on the types of fundamental policy reforms needed to address these issues. The government took steps to stabilize the economy and to correct some of the fundamental imbalances inherited from the previous government. Results of these stabilization efforts have been encouraging. Inflation has been brought under control by applying stringent fiscal and monetary policy measures. Central government revenues have exceeded their target levels and the government operating deficit has been kept below its target level. To reduce the state's role in the economy, the government has privatized 150 state-owned enterprises by returning them to their former owners, renting or selling them to private investors, and liquidating unprofitable firms. Efforts are being made to privatize another 170 firms.

The government of Nicaragua (GON) has begun to liberalize the foreign exchange market and the financial system by allowing privately owned exchange houses and banks to operate and by reducing the Central Bank's role in importing. The interest rate structure has been simplified and rates on saving instruments have been set at levels designed to attract domestic savings. The Superintendency of Banks has been established and plans are underway to strengthen its supervisory capability and to enact comprehensive legislation for banks and nonbank financial institutions.

The government intends to make further improvements in tax administration and to hold the line on government wage increases. The government intends to continue its balanced budget policy, spending only what can be raised from tax revenues and available external financial assistance. Further reductions in the public sector work force are planned. To date, more than 25,000 employees have left the public sector.

Despite the success of stabilization and liberalization efforts thus far, the GON faces serious constraints in several critical areas that could severely impede its structural reform efforts and therefore inhibit broad-based economic growth. The war destroyed or damaged much of the country's physical and institutional infrastructure. Approximately 10 percent of the population, mostly professionals and skilled labor, left the country, thereby draining skilled personnel from government ministries and other important areas of the economy. In addition, the Sandinista government dismantled some institutions it deemed irrelevant or inappropriate for a command economy (e.g., the Ministry of Finance). Many of the staff members at the Ministry of Finance, the Ministry of Economy and Development, and the Central Bank are not qualified by training or experience to perform their policy related functions effectively. Institutional abilities in this regard have not been strengthened by the return of significant numbers of Nicaraguan expatriates to government service; the return of Nicaraguan expatriates in significant numbers is not likely to occur in the next few years.

The GON's ability to formulate and implement appropriate macroeconomic and structural adjustment policies is therefore extremely limited. The government does not currently have the required resources and cannot muster the needed abilities from its own staff for timely policy analysis, design, and implementation. Meanwhile, continuation of the stabilization and structural adjustment reforms already undertaken as well as additional structural reforms is essential if Nicaragua is to return to a path of higher and sustainable growth in real income. Consequently, a need for timely and relevant policy advice will continue for the foreseeable future. Training of existing government personnel to the point where they are able to perform the requisite analyses and implementation tasks will take time and is outside the scope of this Project. Therefore, substantial technical assistance in formulating and implementing macroeconomic and structural adjustment policies will need to be supplied to meet this demand over the next few years.

B. Project Description

The goal of the Project is to help create a macroeconomic and structural adjustment policy framework conducive to investment and increased competitiveness, diversification and participation in the economy. The purpose of the Project is to improve the short-term capability of the GON to analyze, design, and implement sound macroeconomic and structural adjustment policies.

The Economic Policy Analysis and Implementation Project is designed to provide short- and long-term technical assistance to the key policy-making institutions of the GON to make the necessary policy reforms that will lay the foundation for a market-oriented economy leading to increased investment and hence, economic growth. A key element of this strategy is to meet the immediate short-run needs of the GON for timely and relevant policy advice. Another element of the Project's strategy is to provide assistance in the sequencing and timing of the steps required to implement policy reforms. Consensus on the analysis, design, and implementation phases will be sought by discussions between USAID/Nicaragua and the GON and between the public and private sectors. The Project aims to have a sustainable impact through its support of policy reforms that will lead to increased investment, employment, and real incomes in Nicaragua.

The Project has two major outputs: (1) improved macroeconomic policy analysis and design, and (2) improved implementation of policies. The policy areas in which the Project will work include monetary policy, labor markets, financial markets, fiscal policy, international competitiveness, trade policy, price rigidities, deregulation of the economy, the macroeconomic policy framework, and exchange rate policy.

The Project has three components: 1) provision of short-term technical assistance; 2) provision of long-term technical assistance; and 3) seminars, workshops and high-quality publications. Technical assistance will be supplied through a Economic Policy Unit to the Ministry of Finance, the Ministry of Economy and Development, the Central Bank, and to other Ministries as appropriate for policy analysis in the stated areas. The physical location

of the long-term advisors could vary if the change of location would improve the effectiveness of Project activities.

A.I.D. funding will support short-term technical assistance that will conduct analytical studies, on-going consultations, policy papers, and seminars where appropriate. It will provide long-term technical assistance that will work in the relevant ministries providing assistance to the GON in analyzing and discussing policy issues and options and developing position papers. Finally, it will provide workshops, high level symposia and seminars in-country, travel to seminars and consultations out-of-country, publications of exceptional work and seminal economic articles, and the procurement of computers and software.

During the conceptualization and design of this project, government institutions that are potential recipients of Project assistance have been actively involved in defining the goals and institutional arrangements. The Minister of Finance, as coordinator of the Economic Cabinet, has requested technical assistance for the Economic Policy Unit that he is establishing. The Minister of Economy has repeatedly requested long-term technical assistance for economic policy advice. The new Central Bank President also requested both short- and long-term technical assistance.

C. Summary Project Budget

The total cost of the Project is expected to be \$9.2 million over a four and one half year period covering fiscal years 1993 through 1997 (see Table 1 below). AID funding is estimated to be \$8.0 million of this amount. The GON will contribute \$1.2 million from its recurrent central government budget through the provision of office space, administrative and clerical support, research assistants, and salaries for counterparts to the long-term technical advisors.

The primary inputs of the Project are long-term technical assistance, short-term technical assistance, and funds for workshops, seminars, and publications. Long-term technical assistance for 23 person-years has been budgeted. The fully-loaded salaries, allowances, and travel for the long-term advisors are budgeted at \$4.3 million, or 54 percent of the AID funds. Short-term technical assistance for 2340 person days was budgeted. Consulting fees, travel, and per diem for the short-term technical assistance are estimated to be \$2.2 million, or 27 percent of the AID funds. Funds for workshops, seminars, and high quality publications are budgeted at \$0.9 million, or 11.5 percent of AID funds. Commodities, contingencies, and the evaluation and audit account for the remaining 7 percent of AID obligations.

D. Recommendations

The proposed Project will contribute to USAID/Nicaragua's strategic objectives of increased investment, competitiveness, diversification, participation in the economy, and promoting policy dialogue as expressed in the Country Development Strategy Statement (CDSS). The project complements activities carried out under the Economic Stabilization and Recovery II and III programs, and the proposed ESR IV program. The policy analysis

fostered under this project will complement technical assistance undertaken by the Private Sector Support Project (PSS) which promotes investment as a necessary step to long-term economic growth. Based on the analyses undertaken during the Project development, the Project is institutionally, financially, and economically sound. It is therefore recommended that the USAID/Nicaragua Mission Director authorize the Project.

Table 1. Summary Project Budget

ITEM	Thousands of Dollars	Percentage of Total
Long-Term Advisors ¹	3,010.90	37.64%
Allowances	1,128.40	14.11%
Travel & Per Diem	202.40	2.53%
Short-Term Advisors ²	2,176.60	27.21%
Other Direct Costs	232.30	2.90%
Workshops	612.60	7.66%
Seminars & Symposia	195.30	2.44%
Publications	106.50	1.33%
Contingency	56.50	0.71%
Evaluation	80.00	1.00%
Audit	60.00	0.75%
Commodities	138.50	1.73%
Total AID	8000.00	100.00%
GON Salaries and Administrative Expenses	1174.86	
Total EPAI Project	9174.86	

¹ Chief of Party and Operations Coordinator for 4 years; 5 long-term advisors for 3 years.
² STTA provided for 4 years.

II. BACKGROUND AND PROGRAM FACTORS

A. Macroeconomic Overview

The Nicaraguan economy suffered a drastic reversal during the second half of the 20th century. The long-term trend in real per capita gross domestic product (GDP) was increasing from 1950 through the mid-1970s (Figure 1). However, a combination of the destruction wrought by the civil war that brought the Sandinistas to power in 1979 and the armed resistance to this government and, importantly, the disastrous macroeconomic policies the government implemented to create a command economy completely erased the gains in real income per head. By 1990, real GDP per capita had fallen to its 1950 level. Even if positive per capita growth rates on the order of 1 to 2 percent per year from 1993 through 2000 are realized real GDP per capita will not return to the average level of the 1950s by the year 2000 (World Bank, 1991). In effect, the entire second half of the century has been lost to the average Nicaraguan.

The fiscal and monetary policies followed by the Sandinista government, heavy defense expenditures to combat the Contras, and the continuing US trade and financial embargo induced massive price instability and a bout of hyperinflation during 1988; the price level at the beginning of 1989 was in excess of 40,000 percent of its level at the beginning of 1988 (Figure 2).¹ Inflation was reduced (temporarily) by austerity measures introduced in the last year of the Sandinista government; these measures also deepened the severity of the economic depression. During the transition from the Sandinista regime to the Chamorro government, the Sandinista government increased wages and government spending. A second bout of hyperinflation ensued, with inflation peaking at 63,777 percent in the March 1991.² As the stabilization policies of the Chamorro government took effect, inflation decreased sharply.

The fundamental cause of these hyperinflationary episodes was the financing of massive public sector deficits (Figure 3) by money creation. The average government budget deficit (after grants) was less than 5 percent of GDP from 1970-1980. This ballooned to an average of nearly 18 percent during 1981-1990. In 5 of these years, the deficit exceeded, sometimes substantially, 20 percent of GDP. Since these deficits reflected expenditures in excess of tax revenues and grants, the Sandinista government resorted to money creation to make up the difference. The amount of money thus injected into the economy, in conjunction with declining real incomes that reduced the demand for real money balances, meant that there was a tremendous imbalance between the amount of money that would have been willingly held and the amount supplied by the authorities. People's attempts to reduce their cordoba assets to their desired levels through purchases of goods, services, and dollars generated the inflationary pressures that culminated in hyperinflation.

¹Year-on-year inflation rates computed from the IMF's International Financial Statistics, July 1992, up to November 1989 and from data in Edwards (1992) from December 1989-January 1992.

²Measured as the percentage change from March 1990 to March 1991. Source: Edwards (1992).

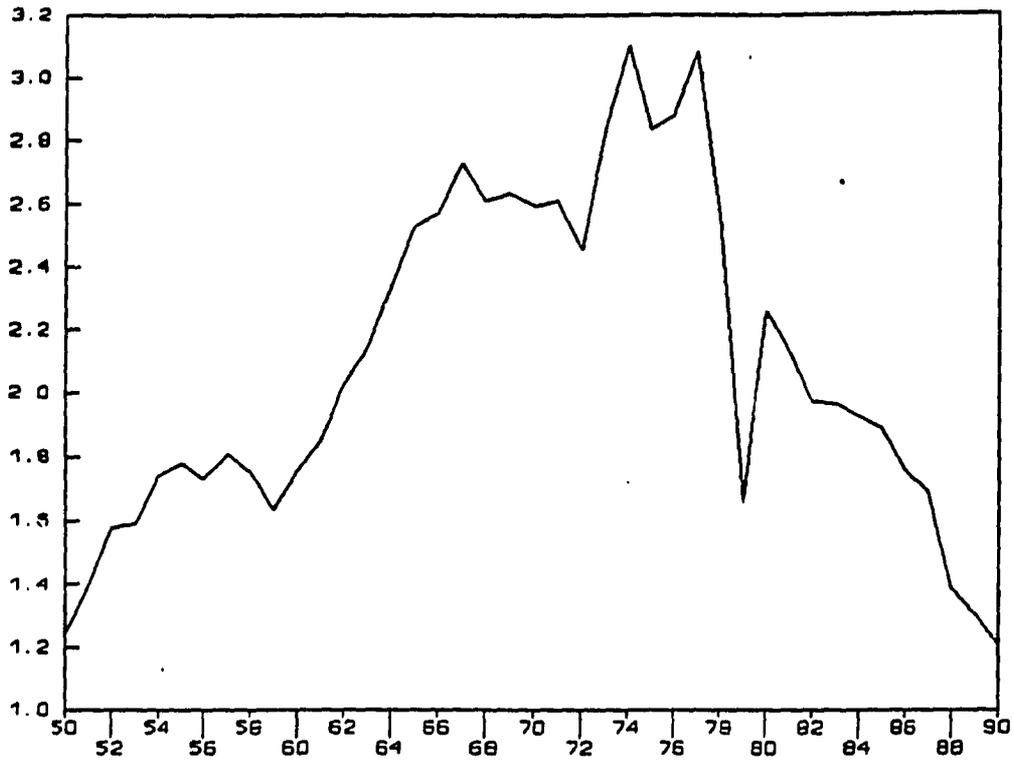


Figure 1 Real GDP Per Capita, 1950-1990 (thousand US\$ in 1985 Prices)

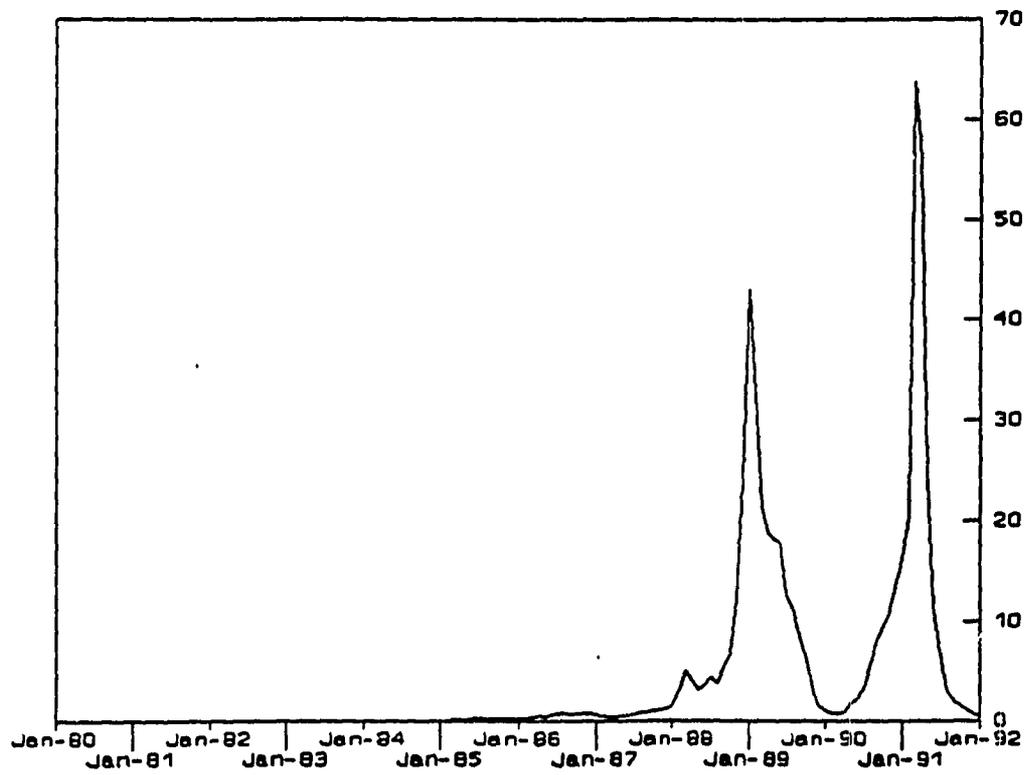


Figure 2 Inflation Rate, 1980-1991 (year-on-year, thousands of percent)

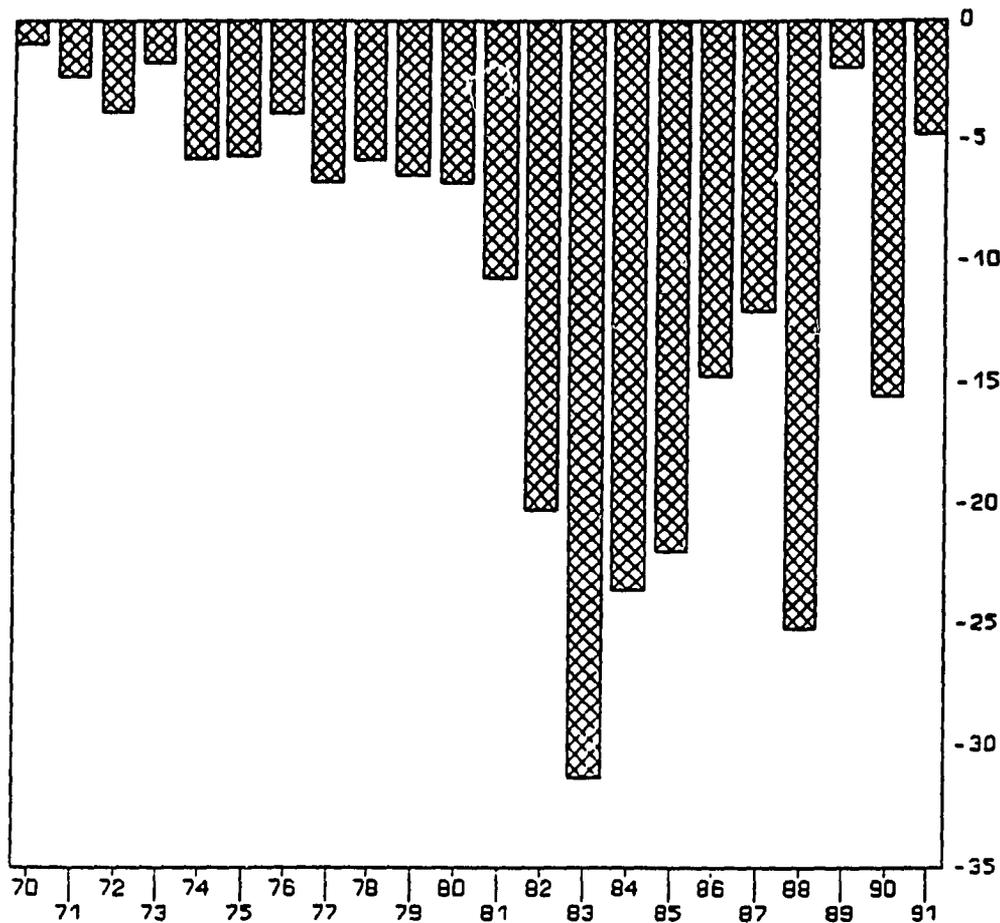


Figure 3 Government Deficit After Grants, 1970-1991 (% of GDP)

The nationalization of the private financial system during the Sandinista government and its habitual reliance on money creation to finance its huge fiscal deficits effectively destroyed the private financial system. Banks no longer served as intermediaries between lenders and borrowers, mobilizing deposits from the private sector for investment in productive sectors of the economy. Rather, the (nationalized) banking system became a means of channeling credit to meet government development priorities. Because of continuous and high rates of inflation in the presence of fixed nominal interest rates, real interest rates were negative for extended periods of time. This eliminated much of the incentive for individuals to save and to hold their wealth in the form of monetary assets. This reinforced the role of the banking system as a conduit for "lending" the funds created through deficit financing.

Massive imbalances also characterized Nicaragua's external position. The current account of the balance of payments has generally been negative from the 1970s onward (Figure 4). However, as with public sector finances, there was a marked worsening in this imbalance during the 1980s. The current account balance averaged 7.5 percent of GDP from 1970-1980; from 1981-1990, this average increased sharply to 30 percent. Most of this

imbalance arises from Nicaragua's merchandise trade balance, that is, the difference between merchandise exports and merchandise imports (also shown in Figure 4).

A critical factor underlying this imbalance is Nicaragua's lack of competitiveness in international markets (Edwards, 1992). As measured by the trade-weighted real exchange rate (Figure 5), which is a weighted average relative price of tradables in terms of nontradables³ among Nicaragua's main trading partners, Nicaragua's competitiveness declined significantly from 1980 through 1987. This real exchange rate appreciation discouraged the domestic production of exportables and importables, since their relative prices were declining. At the same time that domestic production of tradables was discouraged, foreign imports became cheaper in real terms. The result was a significant and prolonged widening of the trade balance.⁴ Among the factors contributing to this real appreciation was persistent domestic inflation that far exceeded inflation rates in the economies of Nicaragua's main trading partners during the Sandinista regime; a (complicated) system of multiple nominal exchange rates in effect from 1979-1988 was unable to offset the deleterious competitive effects of this high domestic inflation on Nicaraguan exports.

Edwards (1992) also showed that Nicaragua has been and remains at a serious competitive disadvantage vis-a-vis its Central American neighbors. Since these countries' exports compete in the same international markets as Nicaragua's, the difficulties of reactivating the economy via export-led growth are substantial. For example, even if coffee export volumes grow at 10 percent annually, they will only reach the levels of the 1970s by 1996; high growth in cotton export volumes through 2000 will still leave export levels 20 percent below those of the 1970s; seafood export volumes will also remain below the levels of the 1970s (World Bank, 1991).

An additional consequence of the sustained imbalances in Nicaragua's external accounts was a huge run-up in external debt. In 1990, total debt (including arrears) amounted to \$10.6 billion, almost 800 percent of GDP, the highest debt ratio in the world.⁵ Debt service payments, as a percentage of the exports of goods and services, are projected to be well over 100 percent--and often over 200 percent--through the year 2000, unless significant debt rescheduling or forgiveness occurs. While 80 percent of Nicaragua's \$3

³A tradable good can be an exportable or an importable (i.e., a domestically produced good that competes with imports from abroad). For a small, open economy like Nicaragua's, the world prices of tradables are assumed to be unaffected by the volumes produced and traded by Nicaragua. A nontradable good refers to a product or service produced at home and whose market price is determined solely by the interaction of domestic supply and demand forces.

⁴A modest turnaround in relative prices from 1988 through 1991 has not been sufficient to significantly reduce the trade imbalance.

⁵World Bank (1991).

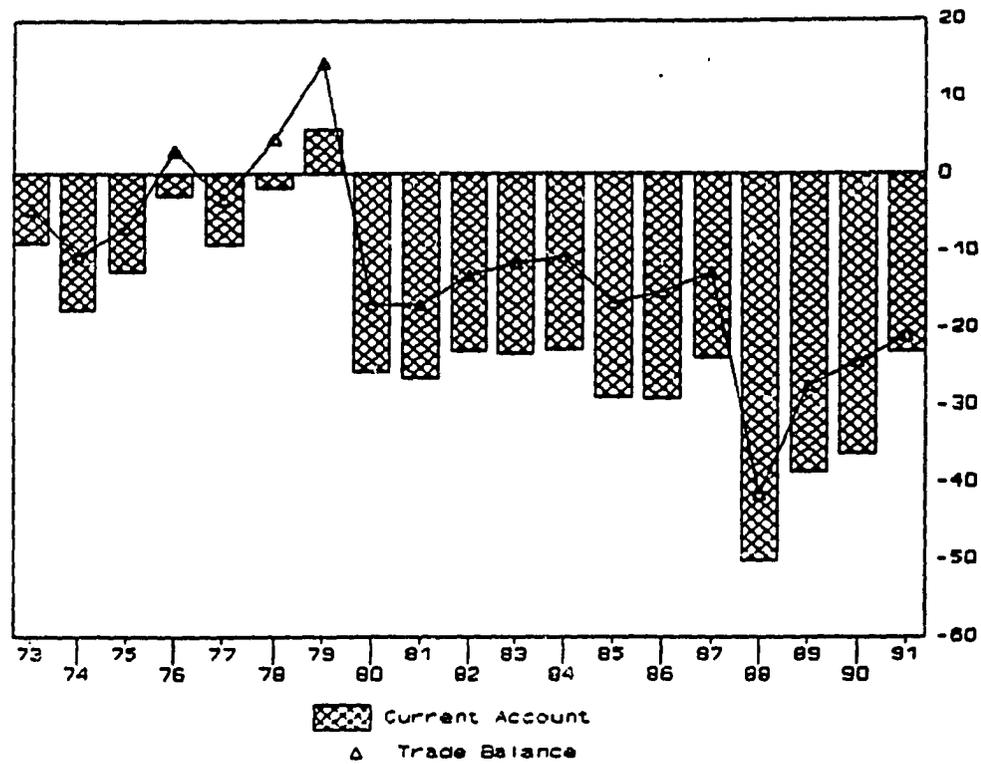


Figure 4 Current Account and Trade Balance, 1973-1991 (% of GDP)

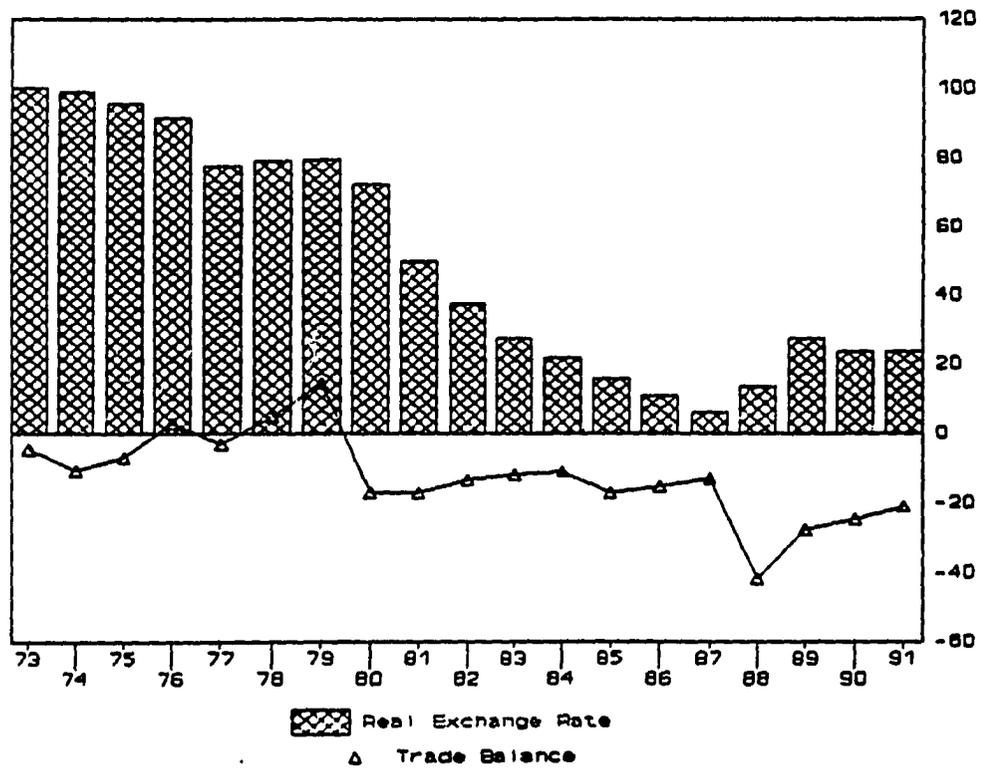


Figure 5 Trade Balance (% of GDP) and Real Exchange Rate (1973=100), 1973-1991

billion debt to the countries of the former Soviet Union was recently forgiven,⁶ more than \$8 billion in long-term debt remains. Rescheduling of principal and interest payments remains a priority area in order to relieve these debt servicing pressures.

Nicaragua will obviously need substantial injections of donor assistance during the foreseeable future (at least through the end of the century), just to keep its economy from collapsing, much less growing. However, even though its economic situation resembles that of the economies of the former Soviet Union and Eastern and Central Europe, Nicaragua does not command the geopolitical clout (and consequently, claims on donor resources) that these countries do. This increases the stakes that Nicaragua has placed on its structural reforms and lends even greater urgency to the need to sustain the reforms that have already been undertaken, as well as those that will need to be undertaken in the future.

B. Overview of Economic Policy and Structural Adjustment Reforms Since 1990

Upon taking office in April 1990, the Chamorro government took steps to stabilize the economy and to correct some of the fundamental imbalances inherited from the previous government. The major components of the stabilization and liberalization policies and the timing of these reforms are summarized in Table 2.

During the remainder of 1992, the government intends to make further improvements in tax administration and to hold the line on government wages. The 25 percent reduction in the public sector (nonmilitary) work force in 1991 will be followed by an additional 5 percent reduction (3000 jobs) in 1992 (IMF, 1992). It also plans further cutbacks in military and internal security expenditures. Thus, the government intends to continue its policy of spending only what can be raised from tax revenues and available external financial assistance; there will be no borrowing from the Central Bank.

With respect to monetary policy, controls on lending rates were to be abolished at the end of February 1992 (IMF, 1992). A reference rate remains for borrowing rates (on savings and 30-day deposits) in order to attract domestic savings; the rate will remain until the state-owned banks are restructured and private banks are operating more extensively in the financial system. A plan is afoot to strengthen the Superintendency of Banks, to enact a new Central Bank law and comprehensive legislation for banks and nonbank financial institutions. In this regard, the government is receiving technical assistance from the Central Banking Department of the IMF and from other multilateral and bilateral agencies, including AID.

⁶El Nuevo Diario, October 21, 1992.

Table 2. Calendar of Policy Reforms Since 1990

Apr 1990	Chamorro administration takes office
May 1990	Córdoba oro introduced as unit of account
Aug 1990	Córdoba oro begins circulating
Oct 1990	<u>Concertación Económica y Social</u> Established need to liberalize trade, abolish state monopolies in financial and foreign trade sectors, and return expropriated properties to their former owners Import tariffs reduced to range of 10-20% Deregulation moves Formal sector wages <u>de facto</u> linked to canasta básica
Feb 1991	State monopolies abolished; framework for privatization established
Mar 1991	<u>Stabilization program</u> Fiscal policy reforms to bring public sector deficit down; public expenditures limited to available funds Central Bank financing of deficit limited to available foreign reserves Domestic bank credit ceilings imposed Simplification of interest rate structure Savings instrument indexed to US dollar (30-day deposits) introduced Devaluation of 400 percent from C\$1 to C\$5 per US dollar Public utility tariffs increased significantly Petroleum prices increased 350 percent Primary food product prices (rice, beans, corn, sugar, oil, milk) raised by 300 percent Average wages and salaries raised by 260 percent
May 1991	New córdoba (which replaced the old córdoba in February 1988 at rate of 1000 old córdobas per new córdoba) removed from circulation; córdoba oro becomes only legal tender
Jul 1991	Superintendency of Banks established Licensing of private banks allowed
Aug 1991	<u>Concertación accord</u> Workers to be offered 25 percent of shares in privatized companies First private bank opens
Oct 1991	Foreign exchange market liberalization: 4 private foreign exchange houses established Interest rates liberalized; foreign exchange sold through private banks
Dec 1991	Selective consumption tax on imports reduced to range of 0-30 percent
Feb 1992	<u>Economic growth program</u> Petroleum prices reduced Loans to agro-exporters to be made at LIBOR \$280 mn public investment program for 1992 announced Top income tax rate decreased from 35.5 percent to 30 percent Value added tax decreased from 15 percent to 10 percent
Jul 1992	7 private banks operating

In measures to reduce the state's role in the economy, the government formed a state holding corporation, CORNAP, into which all 351 state-owned enterprises (SOEs), representing 40 percent of GDP, were placed. Over the past two years, CORNAP has privatized 150 SOEs by returning firms to their former owners, renting or selling them to private investors, and liquidating unprofitable firms. CORNAP had planned to privatize another 170 of the remaining companies during the first half of 1992 (Economist Intelligence Unit, 1992a).

C. Constraints to Effective Policy Reforms and Project Rationale

C.1 Constraints

Despite the success of the stabilization efforts thus far, the GON faces serious constraints in several critical areas that could severely impede its structural reform efforts and therefore inhibit investment and broad-based economic growth. For example, promises of land, housing, and farming loans were made to soldiers on both sides in return for their demobilization. During 1992, disputes over the property rights issue interrupted the demobilization of armed groups; these disputes continue to be a significant source of tension. Resolution of the property rights issue will be key in establishing confidence in the economy, but this is a long-term problem that has to be solved at the political level.

Most constraints have their origin in the 10 years of military conflict during the 1980s and the measures taken by the Sandinista government to institute a command economy during that time. These are epitomized by the lack of human resources, the lack of a strong consensus, and a lack of economic information.

C.1.a Human Resource and Technical Constraints

The political legacy of the Sandinistas has created serious problems for the Chamorro government. Many private sector entities were confiscated or appropriated during the 1980s. The financial and international trade sectors were nationalized. What remained of the private sector was heavily regulated. The Chamorro government has, of necessity, adopted an ambitious agenda to dismantle this command economy: it is breaking down state monopolies in domestic and international commerce, rebuilding the insolvent financial sector from the ground up, attempting to restore property rights and to return businesses and agricultural holdings to the private sector, enacting major legislative and judicial reforms, and reducing the size of the state. The transition from a command- to a market-oriented economy in Nicaragua is therefore demanding much of the attention of GON personnel. Significant effort is required on the part of the government to design, implement, and manage the stabilization program--this is in addition to demands on the government to conduct its regular functions, such as management of the budget, debt, money supply, and social programs (e.g., health and education). Government resources (primarily the time of its personnel) are also required to carry out the economy-wide liberalization needed for the implementation of a structural adjustment program.

The GON has received substantial financial assistance from the donor community during the past 3 years. However, this assistance comes at a cost: there are requirements for data collection, writing papers, and preparation for meetings with the donors. The burden on government staff of these activities is not only onerous in terms of staff time--the skills for carrying out the types of analyses required to formulate and implement the complex agenda of structural adjustment is notably lacking. While the government does have staff members collecting statistical data, there is very little capability to analyze the information, provide basic analyses, and formulate the policy agenda. The IMF requires inputs from the GON for the stand-by and ESAF agreements; the World Bank has a number of loans to support the structural adjustment program. Preparation for routine donor meetings is either not done or is done at the cost of not conducting policy analyses for issues of immediate concern to the country. In short, there is a large demand for economic analysis and policy formulation and a shortage of people qualified to undertake it. In the end, the GON is forced to live with programs formulated by donor teams without much input from the GON.

During the Sandinista regime and the civil conflict of the 1980s, approximately 10 percent of the population, mostly professionals and skilled labor, left the country (World Bank, 1991). This exodus drained skilled personnel from government ministries and other important areas of the economy. In addition, the Sandinista government dismantled some institutions (e.g., the Ministry of Finance, the Superintendency of Banks) it deemed irrelevant or inappropriate for a command economy.

Key policy making and oversight institutions were re-established with the change of government in 1990. However, the GON's ability to formulate and implement appropriate macroeconomic and structural adjustment policies is extremely limited. Many of the staff members at the Ministry of Finance, the Ministry of Economy and Development, and the Central Bank are not qualified by training or experience to perform their policy related functions effectively. Institutional abilities in this regard have not been strengthened by the return of significant numbers of Nicaraguan expatriates to government service; the return of Nicaraguan expatriates in significant numbers is not likely to occur in the next few years.

C.1.b A Fragile Consensus

The Chamorro government took office in April 1990 with the backing of a broad-based coalition (the Unión Nacional Opositora, or UNO) in opposition to the existing Frente Sandinista de Liberación (FSLN) government. Although UNO won a majority of the seats in the 92 seat National Assembly, the FSLN won 39 seats, thus forcing the incoming UNO government to share key governing positions with the FSLN. While the UNO government received much international support, internal divisions appeared almost immediately. The UNO has split into two groups, the hardliners who are totally opposed to sharing power and who want to eradicate sandinismo and a dominant moderate faction who are willing to acknowledge current political realities and work in a shared system of government (EIU, 1992).

Despite these deep political divisions and a period of prolonged strikes, the government was able to establish a temporary social peace and to reach a broad national

consensus (formalized in the October 1990 Concertación) on the major objectives and direction of its economic policies. During the period since President Chamorro took power, there have been sporadic outbreaks of violence and protest, reminding everyone about how fragile is the peace. However, the success of the economic stabilization program has increased people's hopes that the peace will continue, and has contributed to popular expectations that the standard of living will improve. To a degree, the standard of living has improved, as exemplified by increased confidence in the currency and the availability of goods in the stores. Nicaragua has a long way to go before it returns to the income levels of the 1950s (as discussed in the previous section). The economy has moved towards a market orientation and away from a planned system. Much now depends on the structure of incentives and the response of the private sector to those incentives to generate the required increases in real incomes, a process that will take place in the medium- to long-run.

Despite the progress thus far in building a national consensus, communication is weak, both within the government and between the GON and the private sector, regarding the rationale for the economic policies being undertaken and how the continuation of present reforms and the implementation of additional reforms would contribute to overall policy objectives.

The heightening of popular expectations and the length of time that will probably be required to consolidate economic gains from market liberalization makes it essential to communicate clearly and cogently the rationale for the required policies. This can be accomplished by disseminating substantive, high quality reports that explain the rationale for the reforms and by publishing information on economic developments. A Sandinista publication expresses their point of view; other views do not receive the same degree of coverage.

There is a lack of information on and direct experience with what is happening in other countries' efforts to liberalize their economies. Contacts with colleagues in other countries would strengthen the understanding of and commitment to the implementation of policy reforms. It is important to continue the structural adjustment reforms in order to return the economy to a path of broad-based growth. Implementing such reforms requires timely and relevant policy analysis and design. The payoffs from these reforms will help strengthen the fragile coalition that currently exists.

C.1.c Economic Data and Information

Sound policy analysis and design depends fundamentally on the availability of data that are timely, accurate, and complete. Minimum requirements for macroeconomic and structural adjustment policy formulation include data on prices, national accounts, international transactions, balance of payments, exchange rates, wages, interest rates, assets and liabilities of the major financial institutions (Central Bank, public financial institutions, and private financial institutions), and government finances. Data series satisfying the conditions of timeliness, accuracy, and completeness are rare in Nicaragua.

Accuracy and completeness is a problem for two reasons: (1) the policies (and the underlying economic philosophy) of the Sandinista government during the 1980s meant that in some cases internationally accepted standards of measurement and valuation were not followed; and (2) the hyperinflation of the late 1980s seriously compromised the accuracy of some series. Measurement and valuation issues are particularly acute in the national accounts data (i.e., the origin and expenditure categories from which estimates of national income are constructed). Hyperinflation severely distorted measures of the general price level (the consumer price index and the GDP deflator) and their components, making it extremely difficult to determine how relative prices have moved over long periods of time (Edwards, 1992). Another important deficiency is a lack of information about labor markets, particularly wages and unemployment.

C.2 Project Rationale

Nicaragua faces daunting problems as it attempts to make the transition from a command economy to a market-oriented economy. Significant effort from government personnel is being required to design, implement, and manage the stabilization program--in addition, there are the usual demands on the government to conduct its regular functions. The government does not currently have the required resources and cannot muster the needed abilities from its own staff for timely policy analysis, design, and implementation. The substantial donor assistance the GON has received during the past 3 years creates additional demands on the time of government staff: there are requirements for data collection, writing papers, and preparation for meetings with the donors. The skills for carrying out the types of analyses required to formulate and implement the complex agenda of structural adjustment is notably lacking. In short, there is a large demand for skills in economic policy analysis, design and implementation and a shortage of people qualified to perform these tasks. This skills gap is a result of the brain drain that occurred during the Sandinista regime, as well as the dismantling of key policy making institutions.

While these institutions were re-established when the Chamorro government assumed power, the GON's ability to formulate and implement appropriate macroeconomic and structural adjustment policies remains extremely limited. Many of the staff members at the Ministry of Finance and the Ministry of Economy and Development are not qualified by training or experience to perform their policy related functions effectively. Meanwhile, continuation of the stabilization and structural adjustment reforms already undertaken, as well as implementation of additional structural reforms, is essential if Nicaragua is to return to a path of higher and sustainable growth in real income. It is essential that the reforms be implemented and that Nicaraguans perceive the payoffs to these reforms in order to mobilize widespread support for the continuation of the reforms, thereby strengthening the fragile consensus that currently exists. The length of time that will probably be required to consolidate economic gains from market liberalization also makes it essential to communicate clearly and cogently the rationale for the required policies

Consequently, a need for timely and relevant policy advice will continue for the foreseeable future; training of existing government personnel to the point where they are able to perform the requisite analyses and implementation tasks will take time. Therefore,

substantial technical assistance in formulating and implementing macroeconomic and structural adjustment policies will need to be supplied to meet this demand over the next few years.

The government has clearly demonstrated a willingness to make the necessary policy reforms that will lay the foundation for a market-oriented economy. Multilateral donor institutions, such as the IMF, the World Bank, IDB, and the UNDP, as well as important bilateral donors (e.g., the U.S., Germany) are currently supplying technical assistance in some important policy areas. However, many critical policy issues still need attention. The Economic Policy Analysis and Implementation Project is designed to provide the urgently needed short- and long-term technical assistance to the GON to support its economic stabilization and structural adjustment programs. The analytical expertise supplied by the Project will not only assist the GON in its dealings with the multilateral donor organizations, but also help the GON implement sound economic policies that will provide a positive enabling environment within which increased growth in real incomes can occur. The need for skilled expertise is particularly pressing during Nicaragua's transition from a command economy to a market-oriented economy.

D. Project Strategy

The Project strategy is to support the GON's stabilization and structural adjustment program by augmenting its capacity for economic policy analysis, design, and implementation. A key element of this strategy is to meet the immediate needs of the GON for timely and relevant policy advice through the provision of short- and long-term technical assistance. High quality short-term technical assistance will be used to conduct sharply focused analyses in critical policy areas and to engage in high level, on-going consultations with the GON. Long-term advisors will provide day-to-day advice to their respective institutions and will coordinate and guide the policy work.

Another element of the Project's strategy is to provide assistance in the sequencing and timing of the steps that need to be taken to implement reforms in the critical areas. Consensus on the analysis, design, and implementation phases will be sought by discussions between USAID/Nicaragua and the GON and between the public and private sectors. These discussions will have as their basis the analyses and recommendations of the short- and long-term technical advisors.

Finally, the Project aims to assist the government in implementing policies by supporting seminars, workshops, publication of high quality articles and books that would help develop a consensus in the implementation of the GON's economic stabilization and structural adjustment program. The Project will have a lasting effect by promoting the implementation of sound economic policies. It will also increase the skills of government personnel, both through on-the-job exchange of ideas with the long-term advisors and through the provision of in-country workshops conducted by short-term technical advisors.

E. Relationship to A.I.D. Strategy and Action Plan

This project will contribute to USAID/Nicaragua's strategic objectives of increased investment, competitiveness, diversification and participation in the economy, as expressed in the Country Development Strategy Statement (CDSS). Through long-term and short-term technical assistance, short courses, seminars and workshops, the project will provide capability to analyze, design, and implement sound policies and will encourage policy dialogue to make the implementation of those policies more effective. That will permit the examination and reformulation of existing policies and strategies concerning economic stabilization and structural adjustment reforms.

The project complements activities carried out under the Economic Stabilization and Recovery (ESR) programs. The ESR II and III programs, and the proposed ESR IV program, encouraged and supported Nicaraguan government efforts to 1) establish monetary and fiscal targets, 2) restructure the financial system, 3) eliminate barriers to international trade, 4) re-privatize segments of the economy, 5) clear arrears with the International Bank of Reconstruction and Development (IBRD) and Inter-American Development Bank (IDB) so these institutions could resume assistance, and 6) help assure that critical imports were available to the Nicaraguan government and private sector. These policies have had a substantial impact in reducing inflation and are expected to contribute significantly to revitalizing the economy. The proposed ESR IV is a \$90 million grant in support of the GON Economic Stabilization and Recovery Program. AID resources will be made available to the GON in support of policy reforms to which it is already committed and that have been supported by USAID under ESR I (\$60 million), II (\$118 million), and III (\$187 million).

ESR conditionality contributed to an effective stabilization program and progress in trade, foreign exchange and financial market liberalization. ESR programs have also supported reasonable progress in privatization. Policy conditionality under ESR II and III set the stage for resumption of private sector-led growth by privatization, liberalization, and demonopolization efforts. These are important early policy gains that need continued support.

The EPAI Project will provide the analytical basis for the GON's stabilization and structural adjustment programs. It will also support the ability of the GON to undertake policy reforms and initiatives agreed to through the cash transfer assistance provided under the proposed Economic Recovery and Development programs beginning in FY-93 and help identify important policy issues to be discussed with the GON.

The policy analysis fostered under this project will complement technical assistance undertaken by the Private Sector Support Project (PSS). Policy work related to the financial sector under PSS supports consultant services to improve commercial banking operations in the financial sector by working with the Superintendency of Banks and by providing banking training. The EPAI Project will support the design and implementation of financial policy reforms, complementing the work of the PSS. To the extent that the EPAI project helps to improve the overall investment climate through sectoral policy changes it also supports efforts under the PSS to promote investment through the Center for Exports and Investment.

To the extent the Project supports policy analysis related to labor issues, unemployment, and the effects of macroeconomic and structural adjustment policies on low-income families, the Project will also provide information that can be used for USAID/Nicaragua's work in the social sectors, especially efforts related to health and nutrition. By promoting consensus on major policy issues, the Project also supports USAID/Nicaragua's efforts to support democracy (as outlined in the strategic objective to increase consensus on democratic values). A key value orientation highlighted by the Mission relates to the acceptance of a free market economy and a limited role for government in such an economy.

This project will focus the objectives of USAID/Nicaragua's Technical Assistance and Training Project (TATR)⁷ which financed the employment of Nicaraguans in various government agencies and private sector organizations, in order to encourage the return of Nicaraguans from the U.S. The EPAI Project will focus on providing technical assistance for economic policy formulation and implementation rather than on providing generalized technical assistance. It will provide high quality technical assistance required for economic policy analysis rather than providing Nicaraguans with backgrounds in many areas the opportunity to work in the government.

F. Relationship to Host Country Programs

The Project will provide continued assistance to the GON to implement stabilization and structural adjustment reforms. The government has adopted a set of policy changes and passed new legislation aimed at restoring a market-based system of production incentives designed to encourage sustainable real GDP growth.

However, the GON ministries and agencies lack trained and experienced staff to enact and enforce effective economic measures and create a more favorable investment climate. Thus, there is a need to develop appropriate and workable policies and implement them to assure increased competitiveness and diversification in the economy. As the GON moves from stabilization and basic economic liberalization to more complex structural reform issues, there is increasing need for more world-class economic talent with expertise in specific problem areas faced by the government. The different ministries will require substantial and immediate technical assistance to formulate strategic plans and policies to promote equitable and self-sustaining growth. The project will address those policy issues that directly impact on the GON's macroeconomic program.

G. Relationship to Other Donor Programs

The project will build upon and complement the policy assistance being provided to the Central Bank and the Ministry of Economy and Economic Development by donors such as the IMF, World Bank, and IDB. The Mission has been coordinating and will continue to

⁷ Project number 524-0301.01.

coordinate closely with these institutions. The technical assistance provided under this project will assist the GON in continuing the structural adjustment reforms in coordination with other donors to achieve maximum impact. For example, the German aid agency, GTZ, currently has two long-term advisors in the Ministry of Economy and Development; two more will be added by early 1993. USAID is coordinating with GTZ in the design of this project to ensure complementarity of support.

In September 1991, the GON entered into agreement with the World Bank, IMF, and IDB to finance an economic liberalization program. The implementation of this structural adjustment program will cover aspects of trade liberalization, privatization, financial sector reform, and restoring fiscal revenues and expenditures to sustainable levels.

This project is consistent with The World Bank Economic Recovery Credit (ERC) which comprises five main areas (a) macroeconomic framework and policies, b) systems of incentives, c) public sector reforms, d) financial sector reforms, and e) social sector requirements and poverty alleviation. The World Bank has provided funds to Nicaragua for projects in agriculture, education, energy and power, industry/finance, improvements in ports and transport infrastructure, urban development, and water supply improvements.

The program with the International Monetary Fund (IMF) provides for meeting short-term macroeconomic targets along the lines which have been followed in ESR II-III.

This project is also consistent with the IDB's Trade and Finance Adjustment Loan (TFAL). Through this loan, the IDB will provide concessional funds (US\$60-75 million over the 1991-1993 period) in balance of payments support. In addition, the IDB provides assistance to expand and consolidate the reforms initiated under the first part of TFAL, particularly in the financial sector. Furthermore, the IDB plans to engage in rehabilitation projects to support the recovery of the productive sectors (power transmission and water supply), as well as projects with social components such as the Social Emergency Investment Fund and Microenterprise projects.

III. PROJECT DESCRIPTION

A. Project Goal

The goal of the Project is to help create a macroeconomic and structural adjustment policy framework conducive to investment and increased competitiveness, diversification, and participation in the economy (see Fig. 1 and Logical Framework in Annex A). For the Project to meet its goal, it is assumed: (1) that policy improvements are recognized by the Nicaraguan private sector and by foreign investors; (2) that political differences in the country do not end in stalemate or result in serious civil and economic disruptions; and (3) that the GON remains committed to the policy reform process.

If the goal of the Project is achieved by the end of the Project's life, international investors and businessmen and foreign governments will have more confidence in Nicaragua's economic environment. This would be reflected in increases in the levels of foreign direct investment in Nicaragua, as well as in improvements in the ranking of Nicaragua among countries in terms of country risk, such as those compiled by Institutional Investor and the Economist Intelligence Unit's Country Risk Service⁸. Domestic confidence in the economic policy environment should improve as well by the end of the Project. As a result, there will be increases in investment funded by a growing pool of domestic savings mobilized by the domestic financial system. Additional investment funds would be forthcoming from the continued repatriation of flight capital and from remittances of Nicaraguan expatriates.

B. Project Purpose

The purpose of the Project is to improve the short-term capability of the Government of Nicaragua (GON), to analyze, design, and implement sound macroeconomic and structural adjustment policies. The Project will directly augment the GON's capacity to maintain the stabilization program it has already undertaken, to extend its liberalization efforts, and to undertake the more fundamental structural reforms required for investment and sustainable, long-run economic growth. The Project supports USAID's balance of payments support program, and will provide technical assistance to the GON to meet the conditionality of that program. It will also focus on other structural issues that are constraints to investment and growth. The Project is consistent with and supports the efforts of the major multilateral and bilateral donor organizations.

⁸"Country risk refers to the risks in international lending arising from the economic, political, legal, and social conditions existing in a foreign country....Economic models of country risk are generally concerned with predicting the probability of debt default or rescheduling due to country-specific factors." (Melvin and Schlagenhauf, 1985, p. 601). Country risk can also adversely affect the environment for foreign business investment and trade. Institutional Investor ranks more than 110 countries in March and September in terms of lending risk. Nicaragua's rank in 1991 was 108, placing it close to the bottom of all countries rated. The EIU's Country Risk Service, available for 41 countries and published quarterly, evaluates risk in three areas: (1) medium-term lending risk; (2) short-term trade risk; and (3) political and policy risk.

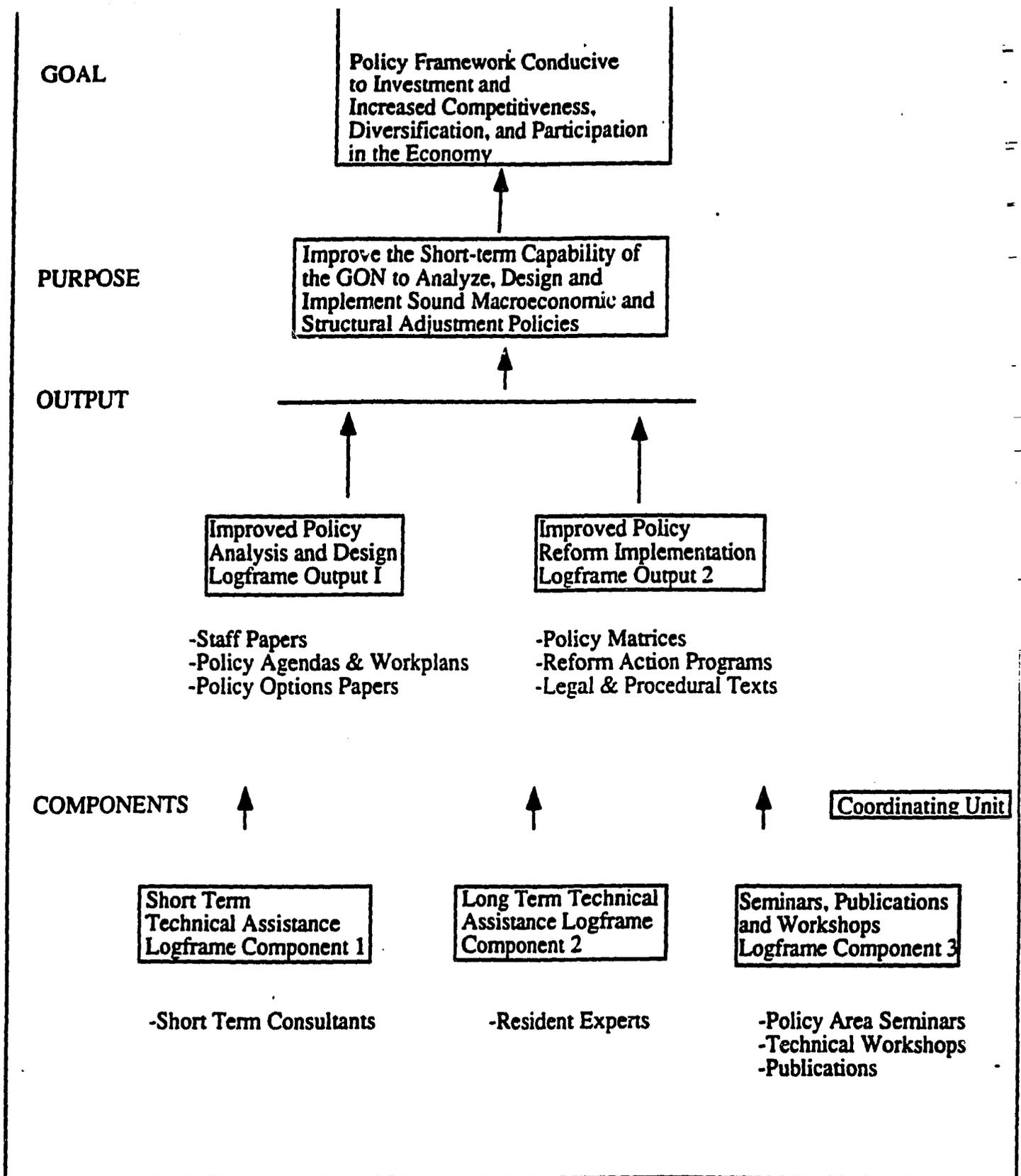


Figure 6. Objective Tree for Economic Policy Analysis and Implementation Project.

Key assumptions underlying the attainment of the Project's purpose are: (1) that the National Assembly enact the required laws to implement the policies where necessary; (2) that Ministries are able to retain staff members trained under the Project; and (3) that other donors continue to provide assistance to support the reform process.

By the end of the Project, there will have been a significant increase in the quality of economic policy analysis and implementation in the Ministry of Finance, the Central Bank, and the Ministry of Economy and Development. Greater liberalization of the foreign exchange market will have resulted in significant improvements in Nicaragua's international competitiveness. Financial sector reforms will have occurred such that the financial system is better able to attract domestic savings and mobilize them for investment in productive sectors of the economy. Fiscal reforms will have been undertaken. A streamlined labor code will be in place that will reduce the segmentation that exists currently to allow labor to be more mobile domestically, thereby facilitating a reallocation of resources towards the most productive (outward-oriented) sectors of the economy.

C. Project Outputs

The Project has two major outputs: (1) improved macroeconomic policy analysis and design, and (2) improved implementation of policies. Each output requires a different mix of technical expertise to achieve the desired result. However, project outputs are part of a process of economic progress in Nicaragua and thus cannot be specifically determined at the outset of the project. The policy areas in which the Project will work include, at a minimum, the following: monetary policy, labor markets, financial markets, fiscal policy, international competitiveness, trade policy, price rigidities, deregulation of the economy, the macroeconomic policy framework, and exchange rate policy. The institutional "home" of the Project will be the Ministry of Finance, as coordinator of the Economic Cabinet. The physical location of the long-term advisors can vary if the change of location would improve the effectiveness of Project activities as agreed upon by the COP, USAID, and the GON.

The key assumptions required for the Project to produce these outputs successfully are: (1) that the GON provides counterparts and research assistants to individuals supplying long- and short-term technical assistance, and that it remains committed to the successful implementation of the Project; (2) that the Project is successfully implemented (i.e., that all commodities, offices, and support services are provided on a timely basis); and (3) that the long-term Project staff establishes effective working relationships in their respective Ministries and produces analytical and design work of high quality.

C.1 Improved Economic Policy Analysis and Design

An important element of improved policy analysis and design is a sound analytical base that provides a thorough analysis of a particular policy area (the foreign exchange regime, monetary policy), identifying among other things the institutional actors, the broad macroeconomic objectives that the regime should accomplish, and importantly, problems and conditions that prevent these objectives from being achieved. The analysis and identification of problems will then suggest reforms to eliminate the problems or relieve constraints. The

Project will expand the analytical base by conducting studies in specific areas. On-going consultations will provide assistance to the government in using results of the studies. High quality studies will be published and made available to the public and private sector, and will thereby serve as an important input in the policy dialogue process. It is important to disseminate information within and outside of government. Seminal analytical articles and books could be published to provide support for the reforms being undertaken.

This evolving analytical foundation will also be an important input in the drafting of policy agendas as the Project proceeds. Priority areas for reform will initially be specified from the extant analytical and knowledge base. However, as current and future study results are discussed with government officials and key private sector actors, existing policy issues may rise or fall in priority and different policy issues may emerge. Thus, it will be important for Project staff, in consultation with the GON and USAID, to maintain a consensus regarding these priorities, and consequently the allocation of Project resources to various policy areas.

The long-term advisors will work with the short-term advisors and assist the government in follow-up to their recommendations as appropriate. They will also assist the government in drafting policy options papers outlining different approaches that could be followed to implement a policy reform. The options papers will detail the pros and cons of each approach in terms of likelihood of success in achieving reform objectives, the likely winners and losers, institutional capability to implement the approach, political feasibility, and so on.

Analytical studies, policy reform agendas, and policy options papers will be undertaken in two broad areas of macroeconomic policy: stabilization and liberalization policies and structural adjustment reforms. While there is no hard and fast line separating these policy areas, some features do serve to distinguish them. Stabilization policies are directed at creating a stable macroeconomic environment characterized by low inflation and a stable exchange rate. Macroeconomic stability requires a consistent set of monetary and fiscal policies. Government budget deficits or surpluses need to be maintained at sustainable levels. Monetary policy should support fiscal policy and should also be directed at controlling the growth of monetary aggregates to insure money creation at a rate commensurate with real economic growth and changes in the demand for money.

Liberalization policies typically involve policy changes that affect the operation of an existing policy regime. For example, trade liberalization involves reducing the range of tariffs and lowering the average tariff applicable to imports, eliminating licensing requirements and non-tariff barriers, and removing restrictions to access to foreign exchange. Financial market liberalization involves eliminating restrictions on interest rates that banks offer to savers and those they charge to lenders.

Structural adjustment reforms go beyond stabilization and liberalization efforts: they involve fundamental changes in policy regimes. The need for structural reforms arises when changes in the existing regime will not yield the desired effects in terms of increased economic growth, employment, and incomes. Nicaragua has begun these types of

fundamental reforms. The privatization of state-owned enterprises is a case in point. The privatization process represents a fundamental change in the structure of ownership of important sectors of the economy. Structural reforms are required in the labor market--in particular, severing the linkage between changes in the price of the basic basket and wages. Structural reforms in the financial sector have begun, as exemplified by the opening up of the financial system to privately owned banks. However, a number of complex political and technical decisions are required to complete the reforms underway.

Improved analysis and design of economic policies will be demonstrated by on-going high level consultations between the government and Project staff and consultants, by publishing and disseminating staff papers in refereed media, by discussion of policy agendas, and by the drafting of time-sensitive policy options papers. By the end of the second year of the Project, consideration will be given to whether the long-term advisors should be continued for the remaining life of the Project. Consideration will also be given to the feasibility of establishing a policy think tank; feasibility issues will include the current and potential availability of sufficient talent to staff the think tank and whether it is located in the public sector or the private sector.

C.2 Improved Economic Policy Implementation

Once a macroeconomic problem has been diagnosed and policy options have been defined and discussed, technical assistance could be provided to help implement the agreed-upon changes. The implementation output of the Project will supply the specialized skills that are required to transform a desired policy change into an actual policy reform. It is expected that a wide range of expertise will be required.

An important element of this Project output is a policy implementation matrix that presents the sequence and timing of actions needed to implement a policy reform. This deliverable is used by USAID and multilateral organizations in their agreements with the GON as a means of insuring that all parties have a clear understanding of their mutual responsibilities and as a method for checking that conditionalities have been met. The policy implementation matrix is in many respects the basis for consultative meetings between the GON and the multilateral organizations. Currently it is prepared by the staff of these organizations for the GON to use in its discussions. The GON should develop the capability to produce its own policy implementation matrix; the Project will assist the government in providing this capability.

Once an acceptable policy implementation matrix has been created, the next step is to specify in detail the operational aspects required to implement the policy change. It is in this phase that the specific steps required to implement the policy are specified. These might entail changes in ministry operating and administrative procedures. For example, existing norms might need to be developed, or new operating procedures might need to be designed. Once these steps are embodied in an action plan, it will be easier to ascertain what types of technical assistance would be needed to aid the GON in implementing the new policy.

Another step in implementation is making the necessary changes in legal or procedural texts. For example, the National Assembly might have to enact new laws or modify existing ones. To this end, expert legal help will be needed to write new laws or to modify existing ones. Substantive changes in supervisory responsibilities (for example, oversight of the banking system by the Superintendency of Banks) that call for skills that do not currently exist among Nicaraguan staff members will require specialized short-term technical assistance.

Skills in policy implementation reside in individuals who have participated in reform efforts in their own countries, who have wide experience with the "model" procedures that need to be implemented in Nicaragua (for example, implementing a Harmonized Customs Code), and who otherwise have extensive experience. To this end, the Project will provide highly qualified short-term advisors not only for the initial policy studies, but also for on-going consultations with high level government officials. It is expected that the short-term advisors will work on an on-going basis to monitor progress in their areas of expertise and for consultations with government officials to address any concerns or issues that might have arisen.

Another crucial element of this Project output is an enhancement in the monitoring and evaluation of the results of policies previously implemented. The Project will help to answer questions such as:

Is the policy change having the desired effect?

If not, are the undesirable effects of a short-run, temporary nature that will die out in the longer run when the policy has had more time to bite?

If the policy is having a permanent, undesirable, and unanticipated effect, what modifications or other actions are needed to correct the situation?

Have key assumptions or domestic or international conditions that generated the need for the policy reform proved unfounded or changed significantly and in such a way that additional reforms are warranted?

Improved implementation of policies will be demonstrated by the annual policy implementation matrices and by papers detailing the operational aspects of policy implementation. Enhanced monitoring and evaluation of the results of policy changes will be demonstrated by policy assessment and monitoring papers, written by the long-term advisors, the short-term advisors, and their GON counterparts.

D. Project Components

The Project has three components: provision of short-term technical assistance; provision of long-term technical assistance; and seminars, workshops and high quality publications. A.I.D. funding will support short-term technical assistance which will conduct analytic studies, policy papers, on-going consultations, and seminars, round table discussions, and workshops where appropriate. It will provide long-term technical assistance through the Economic Policy Unit of the Ministry of Finance, to the relevant ministries, to assist the the GON in analyzing and discussing policy issues and options, and developing position papers.

Finally, it will provide for in-country workshops, high level symposia and seminars, the production costs of high quality publications, travel to other countries for seminars and consultations, and the procurement of computers and software.⁹

The Project will supply a Chief of Party/Technical Advisor and an Operations Coordinator to manage Project activities, who will be located in the Ministry of Finance. The Chief of Party/Technical Advisor should be a highly qualified Ph.D. economist with extensive experience in macroeconomic policy issues. S/he will need to be familiar with all macroeconomic areas that affect a small, open, developing economy. This broad knowledge will be critical in formulating the overall policy agenda that the Project will undertake. In setting this agenda (in conjunction with the GON, the long-term advisors, and the PEPS Project Manager), the Chief of Party/Technical Advisor will initiate analyses and design efforts in the areas identified elsewhere in the Project Paper. Of equal importance, however, is the ability to identify new areas requiring such analyses that arise during the life of the Project and to assign priorities to these issues. In addition, the Chief of Party/Technical Advisor should have enough seniority and experience to command the respect of, and be able to obtain consultative meetings with, high level officials in the GON.

Working with the Chief of Party/Technical Advisor will be an Operations Coordinator. This person will be responsible for all logistical arrangements required for the high level symposia and policy seminars. S/he would arrange for the publication and distribution of documents containing the policy work done under the Project or presented at the high level symposia.

D.1 Technical Assistance

The Project will provide highly qualified persons for short-term technical assistance efforts in the Ministry of Finance, the Ministry of Economy and Development, the Central Bank, and to other Ministries as appropriate for policy analysis in the stated areas. These individuals will conduct tightly focused policy analysis, design, and implementation efforts, as well as workshops and high level symposia in country. The Project will also provide long-term advisors through the Economic Policy Unit (located at the Ministry of Finance) to the Ministry of Finance, the Ministry of Economy and Development, the Central Bank, and to other Ministries as appropriate for policy analysis in the stated areas. These advisors will provide day-to-day advice to their respective institutions, will coordinate and guide the policy work, provide an exchange of ideas with institutional staff, and will assist the Chief of Party in identifying the issues requiring short-term technical assistance.

Given the nature of the technical assistance required, these services would most likely be best provided by a consulting firm with a subcontracting relationship with a university or university consortium. Firms would be expected to supplement their network of short-term technical assistance by offering the services of professors and other qualified individuals from

⁹At the end of the project, titles to the computers, software, and other commodities purchased with project funds will be vested in the Government of Nicaragua.

institutions not included in the subcontract. This latter type of technical assistance would be contracted on an individual basis, rather than through a subcontracting arrangement with the university or institution. Scopes of works of long- and short-term assistance are given in Annex K.

D.1.a Short-Term Technical Assistance

A substantial amount of highly qualified short-term technical assistance is envisioned under the Project. This assistance will be needed to help achieve Project objectives in three broad areas: (1) to conduct analyses in sharply focused policy problem areas; (2) to engage in high level consultations with the government, both one-on-one and at symposia sponsored by the Project; and (3) to conduct workshops for ministry staff in order to exchange ideas and methods for economic and policy analysis and design.

Short-term technical assistance will be required in the following fields: monetary policy, exchange-rate policy, fiscal policy, financial markets, trade policy, deregulation and pricing policy, and labor market issues. On-going consultation with the GON will be particularly important after short-term expertise has been satisfactorily provided to the GON in complex areas. These consultations would consist of, for example, a contract of short-term assistance provided intermittently during a year, as required by the policy environment. It could also include invitations to speak or comment upon work done by the Project at the symposia, among other things.

D.1.b Long-term Technical Assistance

Five long-term economic advisors will be provided to the Economic Policy Unit, consisting of 4 advisors located at the Ministry of Finance and one advisor located at the Ministry of Economy and Development. The physical location of the long-term advisors could vary if the change would improve the effectiveness of project activities. The institutional location of each advisor and minimum educational requirement is listed in the following table. The organization chart of the Economic Policy Unit and its linkages to the various ministries is shown in Figure 7.

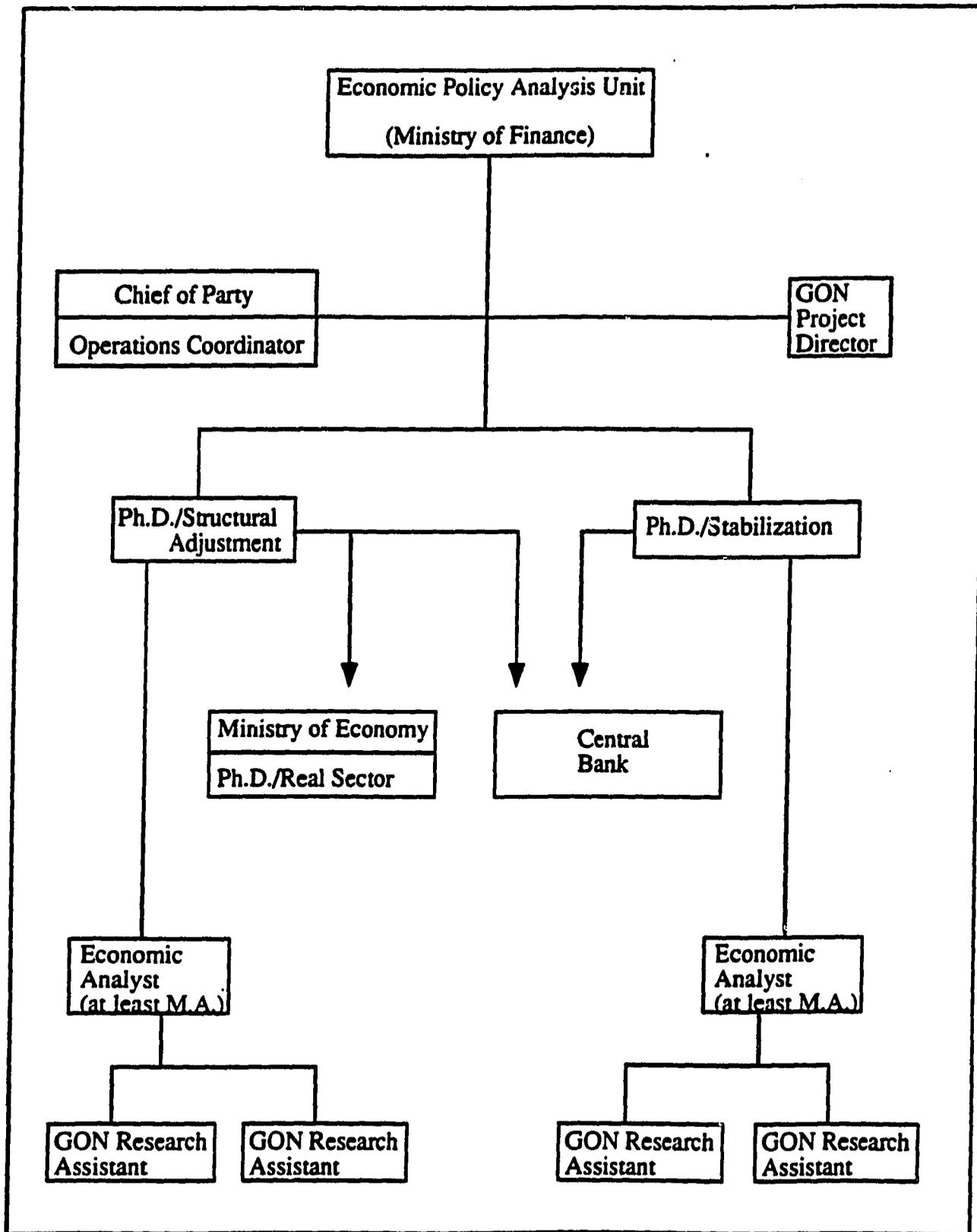


Figure 7. Organization Chart for Policy Analysis Unit

The advisors should have extensive knowledge of the issues in their respective areas of expertise. The positions would require 4 to 5 years of experience in developing countries involving policy analysis, design, and implementation and fluency in Spanish (reading, writing, speaking).

One long-term Ph.D. advisor at the Ministry of Finance would assist in the analysis, implementation, and monitoring of fiscal and monetary measures in support of the stabilization program. S/he would advise the minister and key ministry personnel on policy issues related to fiscal problems or adjustments required to manage a stabilization program. The advisor would recommend changes in fiscal policy to accommodate the adjustment of the stabilization program to economy-wide shocks, for example. S/he would work with Ministry of Finance and Central Bank personnel on recommending changes in monetary policy as appropriate when the parameters of economic policy change. S/he would also work with short-term technical assistance to develop more effective means to control monetary aggregates (e.g., open market operations, the creation of new financial instruments) and would oversee the work of any short-term technical assistance provided to the Central Bank in support of this effort. S/he would work with the Chief of Party and the other long-term advisors to develop position papers, briefing papers, and other documentation required in the GON's dealings with the multilateral donors.

Another long-term Ph.D. advisor in the Ministry of Finance would assist in the analysis, implementation, and monitoring of structural adjustment reforms, including the interaction of these reforms with measures undertaken to insure macroeconomic stability. This advisor should have a thorough understanding of the interplay between fundamental policy reforms in important sectors of the economy and the performance of the overall macroeconomy. This will require a strong background in microeconomics as well as an ability to interact professionally with monetary and open economy macroeconomists. Important sectoral issues that would be addressed by this advisor include reducing the role of government in the economy, international trade issues, and structural reforms in the industrial and financial sectors. S/he would also work with the Chief of Party and the other long-term advisors to develop position papers, briefing papers, and other documentation required in the GON's dealings with the multilateral donors.

Each long-term Ph.D. advisor in the Ministry of Finance would oversee the activities of an economic analyst (at least Masters level) who would assist the advisor in running economic simulations, making projections, providing general research assistance in the preparation of position papers, briefing papers, and other documentation for negotiations with the multilateral donors.

One long-term Ph.D. advisor in the Economic Policy Unit will be provided to the Ministry of Economy and Development to assist in the analysis, design, and implementation of policies affecting sectoral competitiveness. Issues of interest would include deregulation, pricing, the structure, conduct, and performance of key sectors of the economy, and overall strategies for fostering sectoral growth. S/he would work with the Chief of Party and the other long-term advisors to develop position papers, briefing papers, and other documentation required in the GON's dealings with the multilateral donors.

Each Ph.D. advisor would lead the policy analysis and design efforts in his or her respective topic area, coordinating the short-term technical assistance and working closely with their ministry counterparts. Duties would also include overseeing the collection of the data necessary for policy analysis, and insuring that the analyses are of high quality. The long-term advisors would also participate in the high-level symposia and in consultations (along with the Chief of Party/Technical Advisor) with upper echelon management of their respective institutions. They would also be responsible for identifying the type of short-term technical assistance needed to support their analysis and design efforts and for drafting the scopes of work to acquire that expertise.

D.2 Seminars, Workshops, and Publications

Published Project staff papers of high quality will provide an important part of the knowledge base for and inputs to policy dialogue activities. The Project will also sponsor five high-level symposia featuring the work of the long-term Project staff and their counterparts and with world-class economists in attendance as commentators and presenters. It is expected that high-level government officials and representatives of the private sector will attend these symposia. In addition, the Project will conduct policy area seminars for discussions of on-going Project analyses with members of the government. Finally, travel abroad for seminars and consultations with their counterparts will be provided.

The Project will provide on-the-job exchange of ideas and concepts as long-term Project staff work on a daily basis with their ministry counterparts. In addition, the Project will include a sequence of technical workshops which Project staff and short-term consultants put on for Ministry staff members.

E. Project Inputs

The primary inputs of the Project are long-term technical assistance, short-term technical assistance, and funds for workshops, seminars, and high-quality publications.

Short-term technical assistance has been budgeted up to 2,340 days. It was assumed that 25 percent of the short-term technical assistance would work at a rate 50 percent higher than the AID maximum rate, while 75 percent would work at the AID maximum rate. This boosted the overall average daily rate to \$360 per day. Because a substantial amount of short-term technical assistance is proposed under the Project, an amount equal to 10 percent of the total consulting fees was budgeted to cover the time spent by the contractor's home office professionals to provide the short-term technical assistance (e.g., searching for and communicating with prospective consultants, reading and reviewing reports, etc.). This amount is in addition to the contractor's normal overhead support. The contractor's home office will arrange for the delivery of appropriate short-term technical assistance based on scopes of work provided by the other long-term advisors, the Chief of Party/Technical Advisor and the host country and will be approved by AID.

Long-term technical assistance includes the Chief of Party, the Operations Coordinator (both for 4 years), and 5 advisors for 3 years (each would provide assistance

through the Economic Policy Unit to the Ministry of Finance, the Ministry of Economy and Development, and the Central Bank). In the summary budget, it was assumed that all positions would be filled by U.S. citizens or third country nationals, who would therefore be entitled to all benefits and allowances in accordance with AID regulations. Qualified Nicaraguans can be considered for any of the long-term positions; exceptions to the policy of paying expatriate Nicaraguans at FSN pay scales would have to be made by the Mission and would require approval by the Mission Director.

Commodities budgeted for the project include 2 vehicles and fuel, and a computer and software for each long-term advisor, including the Chief of Party and the Operations Coordinator.

Funds have also been budgeted for presenting workshops, seminars, and high level symposia, as well as for high quality publications. A contingency amount and funds for Project evaluation (mid-term and final) and audits are also included.

IV. PROJECT IMPLEMENTATION ARRANGEMENTS

A. Institutional Arrangements

The Ministry of Finance, as coordinator of the Economic Cabinet, is formulating an Economic Policy Unit that will develop policy analysis, both from within the various Nicaraguan government agencies as well as from outside sources, and advise the economic cabinet on all matters that relate to the nation's economic policies.

The implementing agency for the GON will be the Ministry of Finance. The technical assistance will be provided through the Economic Policy Unit. The Minister will appoint a senior government official as the GON Project Director. The Economics Division of the PEPS Office of USAID/Nicaragua will provide AID project monitoring and coordination of project activities within AID. The institutional contractor will provide the services of a Chief of Party/Technical Advisor and an Operations Coordinator, both of whom will be headquartered at the Ministry of Finance in close proximity to the offices of the GON Project Director. The institutional contractor will also provide short- and long-term technical assistance, through the Economic Policy Unit, to the Ministry of Finance, Ministry of Economy and Development, the Central Bank, and to other Ministries as appropriate for policy analysis in the stated areas.

Technical assistance to the individual government entities will be delivered in accordance with the Project Agreement, which will specify that:

- long-term technical assistance will be provided to the Ministry of Finance, the Central Bank, the Ministry of Economy and Development, and to other Ministries as warranted for policy analysis in the stated areas. The project will provide this assistance through the Economic Policy Unit located in the Ministry of Finance. Most of the advisors will be physically located in the Ministry of Finance, one will be in the Ministry of Economy and Development, but their location could vary if the change would improve the effectiveness of the project activities
- the GON will be provided with the services of long-term policy advisors who will serve as advisors to senior officials in the above ministries and as coordinators of the institution's short-term technical assistance program
- short-term technical assistance will be provided in accordance with the annual work plan (for project management purposes) developed by the COP, the GON project director, and approved by USAID
- the Project Director for the GON and the Chief of Party will review workplans and requests for technical assistance to insure compliance with the Project Agreement and the TA contract
- the Chief of Party, in cooperation with the AID Project Officer and the GON Project Director, will have a major responsibility to coordinate workplans and

technical assistance requests to focus on key policy issues and to take advantage of complementarities whenever possible in light of changing economic circumstances and policy priorities

- the Operations Coordinator will have a major responsibility to tender contract arrangements, to organize workshops, seminars, and other policy dialogue activities under the direction of the Chief of Party

The institutional contractor will be required to demonstrate that it has an established and effective process for identifying and delivering high quality policy advisors on short notice, including letters of commitment from proposed short-term advisors. These procedures must have an arrangement for compensating high level advisors, including waivers of AID daily rate limitations if necessary, direct subcontracting with these high level individuals, and the ability to provide adequate travel advances and prompt compensation. Given the above requirement, the institutional contractor will be selected through full and open competition. It is expected that the institutional contractor will be a for-profit firm with subcontracting arrangements with universities and specialized firms, including (but not limited to) Gray Amendment firms and institutions as appropriate to fulfill the technical requirements of the Project. The institutional contractor will be required to contract all required short-term technical assistance and to provide all logistic support (other than that provided by the GON) to the short-term and long-term technical advisors, the Chief of Party and Operations Coordinator.

It is contemplated that the contractor will provide the services of the Chief of Party, Operations Coordinator, and long-term advisors at the earliest possible time after contract award. If possible, it is recommended that the proposed long-term advisors first accomplish selected TDY assignments in their respective entities. Their final selection will require the concurrence of USAID and appropriate GON institution.

B. AID Project Monitoring

The Economics Division of the PEPS Office of USAID/Nicaragua will have primary and direct monitoring and oversight responsibility for this Project because of the importance of the Project's success to the long-term sustainability of the policy reforms promulgated by the AID economic assistance program to Nicaragua. The contractor's Chief of Party and the Operations Coordinator will, however, be responsible for preparing all project implementation documents (in draft) for USAID approval. The designated PEPS Project Officer, the GON Project Director, and the Chief of Party will meet on a regular basis to review project implementation, discuss major items on the policy agenda, and coordinate upcoming policy analysis of emerging issues, and the required technical assistance.

C. Methods of Implementation and Financing

The project will be implemented through a direct AID institutional contract using full and open competition. The institutional contractor will provide all the required technical assistance, logistical support other than that provided by the GON, and procurement of

commodities. The Economics Division of PEPS will have a substantial role in determining all technical assistance. Financing will be provided through a US dollar grant of \$8.0 million to the GON (see Table 3).

The GON implementation arrangements will rely on their established personnel and institutional resources. Sustainability of the Project's impacts is expected to be achieved by supporting the implementation of economic policies that have a lasting and positive effect on investment, employment, and real incomes in Nicaragua. It is not anticipated that the provision of long-term technical assistance would become a permanent and sustainable feature of the Project.

Table 3. Methods of Financing

Type of Assistance	Methods of Implementation	Method of Financing	Amount of Assistance (\$ 000)
I. Technical Assistance	AID Dir. Inst. Cont	Direct Payment	7,803.5
A. Long-Term TA			4,341.7
B. Short-Term TA			2,176.6
C. Workshops, Seminars, Symposia			914.4
D. Other Direct Costs			232.3
E. Commodities			138.5
II. Evaluation	AID Direct	Direct Payment	80.0
III. Audit	AID Direct	Direct Payment	60.0
IV. Contingency ^a	AID Direct	Direct Payment	<u>56.5</u>
Total AID			8,000.0

^aFunds to cover unexpected shortages in the other line items.

D. Implementation Plan

The following are key events and dates in the implementation schedule:

Activity	Target Date
PROAG signed	Month 0
CBD announcement	Month 0
RFP issued	Month 1
Contractor selected	Month 4

COP/TA, OC, LT advisors arrive in country	Month 6
Activity	Target Date
COP presents annual work plan	Month 7
STTA on selected issues contracted	Month 8
Modified work plan submitted	Month 12
First symposium	Month 16
Mid-term Project Evaluation	
Second Annual Workplan Submitted	Month 24
Third Annual Workplan Submitted	Month 36
Final Annual Workplan Submitted	Month 48
Final Project Evaluation	Month 52
PACD	Month 54 (4½ years)

E. Project Evaluation and Need for Audit

E.1 Evaluation

Evaluation of the project will need to focus on those specific policy areas that actually receive technical assistance. A mid-term evaluation and a final evaluation will be undertaken in accordance with AID/W, LAC Bureau, and CDIE guidelines. Gray Amendment firms will be considered for these evaluations. The mid-term evaluation should occur no later than the end of the second year to enable a meaningful project redesign if warranted by economic, political, and institutional conditions in Nicaragua.

One aspect of the Project design that should be evaluated carefully at mid-term is the effectiveness of the Economic Policy Unit in providing short- and long-term technical assistance to the various GON Ministries; if conflicts or territorial imperatives among the involved institutions have reduced project effectiveness, the evaluators should ascertain whether and how the institutional arrangements should be changed. The physical location of the long-term advisors (i.e., in the analysis unit or in one of the ministries) could vary if the change of location would improve the effectiveness of Project activities.

Another aspect of the projects that should be evaluated is the need to amend the Project to continue the long-term technical assistance and on whether the environment is right for a think tank. Other issues related to the Project evaluation are the number of seminars and workshops sponsored by the project; the number and institutional affiliation of the attenders; the need to have an Operations Coordinator in addition to the Chief of Party (if other long-term staff are not continued beyond the third year); and any significant trends in personnel turnover among the Nicaraguan institutional staff working for or with Project advisors.

A third issue for mid-term review is the effectiveness of the Chief of Party in coordinating economic policy assistance with the other donors.

By mid-term, a few substantive policy analyses should have been completed, either by the short-term advisors alone or in collaboration with the long-term advisors and GON counterparts and at least one high level symposium should have been conducted that presented the results of these analyses to an audience of high level GON officials and representatives of the private sector; the effectiveness of these efforts should be evaluated.

The final evaluation should assess the effectiveness of the Project in terms of the objectively verifiable indicators related to its purpose as stated in the Logical Framework (or the modified Logical Framework that emerges from the mid-term evaluation). The evaluation should ascertain whether follow-on activities are warranted and should note the lessons learned from the Project.

E.2 Audit

The amount of \$15,000 per year has been budgeted to assure audits are performed during the life of the Project's activities. It is expected that AID will request the Inspector General to arrange for non-federal financial audits of the technical assistance contractor(s) and other aspects of the project that will include, but not be limited to, all financial aspects and host government contributions. In addition, the Inspector General will be responsible for scheduling economy and efficiency audits of the project. The Controller General of Nicaragua or an audit firm acceptable to the Regional Inspector General Office in Honduras and AID will carry out financial reviews to confirm the amount of the Government of Nicaragua's contribution to the Project.

F. Gray Amendment Considerations

The services to be contracted for this Project will be contracted under full and open competition. The technical assistance requirements for this Project and the expected size of the technical assistance contract are not appropriate for Gray Amendment and 8a set-asides. The rationale for this decision is based on the size limit on 8a sole source procurements (US\$ 3 million per contract); there are not a sufficient number of 8a firms that would be qualified to provide the services under limited 8a competition arrangements. Furthermore, the faculties of HBCUs and predominantly Hispanic academic institutions do not possess the depth and breadth of economic scholarship required for this Project. The above notwithstanding, HBCUs, predominantly Hispanic institutions, and other Gray Amendment entities will be encouraged to participate as subcontractors to provide specialized technical expertise and/or procurement. In this regard, procurement will be in compliance with FAR Part 19.

V. SUMMARY OF PROJECT ANALYSES

A. Institutional and Technical Analysis

During the conceptualization and design of this project, government institutions that are potential recipients of Project assistance have been actively involved in defining the goals and institutional arrangements. The Minister of Finance, as coordinator of the Economic Cabinet, has requested technical assistance for the Economic Policy Unit that he is establishing. The Minister of Economy has repeatedly requested long-term technical assistance for economic policy advice. The new Central Bank President also requested both short- and long-term technical assistance.

The Ministry of Finance as coordinator of the Economic Cabinet is the GON agency responsible for the regulation of matters related to financial policy and procedures. The minister is the coordinator of the Economic Cabinet. No long-term technical assistance is currently being provided by other donor organizations.

The Ministry of Economy and Development is the GON institution charged with formulating the national development plan, implementing policies for trade in domestic and foreign markets, and determining policies for development in the medium- and long-term. Currently MEDE has two long-term senior technical advisors provided by the German assistance agency, GTZ. The UNDP also has a \$2 million program in the ministry.

The Department of Economic Studies at the Central Bank is responsible for the collection, analysis, interpretation, and dissemination of the majority of the information required for the economic, monetary, and social policy decisions to be taken by the central Government. The IMF/IDB, and the World Bank are currently providing several advisors to the Central Bank in the areas of debt, accounting, balance of payments, monetary analysis, and state bank reform.

The Ministry of the Presidency is responsible for the coordination between the President and his/her cabinet members and assists the President on legal and technical issues regarding the implementation of government policies. There are currently no Nicaraguan economists working at the ministry. The ministry currently is receiving technical assistance from Costa Rica, but not from any multilateral donor organizations.

The GON's ability to formulate appropriate macroeconomic and structural adjustment policies using the personnel in these ministries is currently extremely limited for several reasons: a 10 year hiatus during the Sandinista years of policies and institutions appropriate to a market-oriented economy, the consequent redeployment of government resources to finance the massive state intervention characteristic of a command-type economy, and an ensuing brain drain which cost Nicaragua the benefits of many of its most able individuals. Technical assistance to support policy analysis, design, and implementation in critical areas is not only needed by the GON, but is also necessary if the government is to continue its structural adjustment reforms.

Assistance for the Ministry of Finance is required to develop policy papers and reports as inputs to the GON's negotiations with multilateral donors; to monitor the effects of economic stabilization and structural adjustment; in public finance; and to design and implement a value-added tax. Assistance for the Ministry of Economy and Development is required to advise the minister on macroeconomic issues; to advise on real sector issues such as price competitiveness, market creation, and development of an strategy for industrial growth; and to provide technical and legal assistance to the ministry regarding deregulation issues. Short-term technical assistance for the Central Bank is required for the analysis of policies and the design of monetary instruments to increase the effectiveness of monetary policy.

It is recommended that the Economic Policy Unit be located in MINIFIN. MINIFIN has been the ministry involved in the negotiations with all international lending organizations, coordinates the Economic Cabinet and has office space to accommodate the unit. MINIFIN agreed to make arrangements for the provision of counterparts and support staff.

B. Economic Analysis

Investment is a key determinant of sustained economic growth. National saving provides the bulk of the resources for investment; therefore, saving behavior is a crucial part of the process of economic growth. Improving the quality and quantity of economic expertise available to the GON would help create a positive enabling environment within which increased saving and investment would occur by strengthening the government's ability to analyze economic events and conditions and to design policies that would eliminate constraints and conditions that inhibit investment or result in misallocation of resources.

Nicaragua is currently at a severe competitive disadvantage in international markets with respect to its neighbors in Central America. Since the countries of Central America compete in the same markets, Nicaragua's competitive disadvantage severely limits its prospects for success in pursuing an outward-oriented economic growth strategy. Policy reforms that would move the real exchange rate closer to its equilibrium path will change relative prices and provide an incentive for resources to be reallocated to the tradable goods sector (including exportables). This is a necessary condition for outward-oriented economic growth to occur.

An effective, privately-owned domestic financial system is needed to mobilize domestic savings and channel them to productive investments. Further financial market liberalization and the resulting increase in financial system development would increase economic growth. Thus, the payoff to Project activities that support financial market reforms should be very significant.

C. Social Analysis

The Project is designed to accomplish goals that have been identified by the GON and USAID/Nicaragua during the last 2 years and that have been expressed in letters of intent to international donor agencies. During the conceptualization and design of this project, government institutions that were potential recipients of Project assistance have been actively involved in defining the goals and institutional arrangements. Project activities will seek to maximize social gains by augmenting the capability to develop sound economic policies that, in turn, directly benefit the whole of the Nicaraguan population. The Project will promote a policy environment conducive to investment and growth within Nicaragua that will establish dynamic economic growth, create new employment opportunities and lower the cost of living. If this Project successfully supports the wide ranging economic reforms, the overall impact will be positive and will affect all Nicaraguans.

The Project will have no negative social or cultural impacts on Nicaragua that are identifiable at this time. One risk to the success of this Project is the uncertainty about the resolution of property rights, land ownership, and land tenure. Failure to resolve these problems would result in lower policy-induced supply response. Resolution of this dispute is critical to the success of the structural reform program, since the assignment of property rights and the ability to transfer them lies at the heart of a market-oriented economy. However, the resolution of this issue is fundamentally a political problem that must be worked out by the political coalitions in Nicaragua.

D. Financial Analysis

In conducting the financial analysis of this project, three configurations of the Project were considered (see summary table below). In each configuration it is assumed that AID will procure through full and open competition the services of a contractor (envisioned to be a consulting firm with subcontracts to a university or university consortium) who will be responsible for supplying the needed short- and long-term technical assistance, including the services of a Chief of Party/Technical Advisor and an Operations Coordinator. The cost—at internationally competitive salaries (for LTTA) and daily compensation rates (for STTA) of acquiring this expertise—was estimated for each configuration. The option of hiring qualified Nicaraguans (both expatriates and nationals) to fill any of the long-term positions will be left open. There is a possibility that Green Card Nicaraguan expatriates could be hired at internationally competitive salaries by the contractor. However, this would require approval by the Mission Director.

There is no salary supplement issue as none of the technical assistance advisors will be occupying positions which would otherwise be occupied by permanent government employees.

Level of Effort Under Different Configurations

Configuration	Cost (\$ mn)	COP/OC (years)	Long-term Advisors			Short-Term Consultants (days)	Workshop Component (\$ mn)
			Degree	Number	Years		
1	8.00	4	Ph.D.	3	3	2340	0.91
			at least M.A.	2	3		
2	9.36	5	Ph.D.	3	3	3120	1.32
			at least M.A.	2	3		
3	11.09	5	Ph.D.	4	5	3120	1.32

The cost difference between Configurations 1 and 2 is \$1.36 million. This is brought about by reducing short-term technical assistance and the workshops component, and shortening the project by a year. Configuration 3 is the most expensive of all 3 configurations. However, all components are budgeted for the life of the Project. Of the 3 configurations presented, only one meets the budgetary target range of \$8 million. In order to meet this target, it should be noted that the long-term technical assistance is only funded for 3 years of the 4½ year Project life. Configuration 3 is the only configuration that funds the long-term technical assistance for a full 5 years. Short-term technical assistance and funding for the third component (workshops, etc.) of Configuration 1 had to be significantly reduced in the last years of the Project in order to meet the budgetary target.

Configuration 3 provides the most intensive use of long-term technical assistance. Configurations 1 and 2 provide the same level of long-term assistance for the first three years of the project. Since long-term advisors will be in daily contact with their GON counterparts, on-the-job transfer of ideas with the counterparts will be greater than in Configuration 3 than that forthcoming from the other configurations. The reduced level of time for the long-term advisors under configurations 1 and 2 implies a lower level of the potential to exchange ideas. The intensity of short-term technical assistance is higher under Configurations 2 and 3 than under 1.

The first criterion for deciding on a configuration should be the desired level of effort for both short- and long-term advisors. A second criterion should be the availability of Mission resources.

E. Environmental Analysis

Annex H analyzes the impact of the proposed project on the environment. In accordance with AID environmental procedures a "Categorical exclusion" rating has been recommended requiring that no further environmental analysis be undertaken for a project which essentially will be financing only technical assistance, workshops and seminars. Annex H also provides AID/W concurrence with this recommendation.

VI. CONDITIONS PRECEDENT TO INITIAL DISBURSEMENT

Prior to the first disbursement the GON will furnish to USAID in format and substance satisfactory to USAID:

- a. Evidence that this agreement has been duly ratified by, and executed on behalf of, the GON and that it constitutes a valid and legally binding obligation of the GON in accordance of its terms;
- b. A statement of the name(s) of the persons holding or acting in the position empowered to act on behalf of the GON for all purposes relevant to the grant and of any additional representatives, together with the specimen signature of each person specified in such statement;
- c. Evidence that the GON Project Director has been named.

VII. COVENANTS

- a. The GON agrees to provide sufficient counterpart contributions (personnel, facilities, equipment, etc.) on a timely basis over the life of the project. Except as USAID may otherwise agree in writing, the GON will provide reports on its counterpart contributions, in form and substance satisfactory to USAID, at least annually, or more frequently if and as required.

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ANNEX A: LOGICAL FRAMEWORK FOR ECONOMIC POLICY ANALYSIS (cont'd on next page)

Narrative Summary		Objectively Verifiable Indicators
GOAL Help Create a Macroeconomic and Structural Adjustment Policy Framework Conducive to Investment and Increased Competitiveness, Diversification, and Participation in the Economy.		Improved international confidence in Nicaragua's economic environment. Increased domestic savings and investment through private financial sector.
PURPOSE To improve the short-term capability of the GON to analyze, design and implement sound macroeconomic and structural adjustment policies.		END OF PROJECT STATUS: Liberalized foreign exchange system. Financial sector reforms. Improved control over monetary aggregates. Streamlined tax and tariff codes. Streamlined labor code.
OUTPUT 1 Economic Policy Analysis & Design	POLICY AREAS Monetary Policy Labor Markets Financial Markets Fiscal Policy International Competitiveness Trade Policy Price Rigidities Deregulation of the economy Macroeconomic Policy Framework Exchange rate policy	4 policy agendas and workplans. 20 time sensitive policy options papers. 12 staff papers in national, refereed media. 1 "think-tank" feasibility study.
OUTPUT 2 Economic Policy Implementation		4 annual policy implementation matrices. 8 sectoral reform implementation action plans. 4 drafts of legal and procedural texts.

Narrative Summary		Objectively Verifiable Indicators																										
INPUTS:																												
Component 1.	Short-Term Technical Assistance	2340 person-days consultants. 23 person-years Long-Term TA.																										
Component 2.	Long-Term Technical Assistance	23 workshops 6 policy seminars, 5 symposia, 6 publications.																										
Component 3.	Seminars, Workshops, Publications																											
		<table> <tr> <td>Budget</td> <td style="text-align: right;">\$ 000</td> </tr> <tr> <td>Long-Term advisors</td> <td style="text-align: right;">4,341.7</td> </tr> <tr> <td>Short-Term consultants</td> <td style="text-align: right;">2,176.6</td> </tr> <tr> <td>Workshops</td> <td style="text-align: right;">612.6</td> </tr> <tr> <td>Seminars & symposia</td> <td style="text-align: right;">195.3</td> </tr> <tr> <td>Publications</td> <td style="text-align: right;">106.5</td> </tr> <tr> <td>Commodities</td> <td style="text-align: right;">138.5</td> </tr> <tr> <td>Other direct costs</td> <td style="text-align: right;">232.3</td> </tr> <tr> <td>Contingency</td> <td style="text-align: right;">56.5</td> </tr> <tr> <td>Evaluation</td> <td style="text-align: right;">80.0</td> </tr> <tr> <td>Audit</td> <td style="text-align: right;">60.0</td> </tr> <tr> <td></td> <td style="text-align: right;">-----</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$8,000.0</td> </tr> </table>	Budget	\$ 000	Long-Term advisors	4,341.7	Short-Term consultants	2,176.6	Workshops	612.6	Seminars & symposia	195.3	Publications	106.5	Commodities	138.5	Other direct costs	232.3	Contingency	56.5	Evaluation	80.0	Audit	60.0		-----	Total	\$8,000.0
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Audit	60.0																											

Total	\$8,000.0																											

ANNEX A: LOGICAL FRAMEWORK FOR ECONOMIC POLICY ANALYSIS
(Conclusion)

Means of Verification	Assumptions
GOAL Institutional Investor EIU's "Country Risk Service" Foreign investment. Capital repatriation National accounts & monetary statistics.	Policy improvements are recognized by Nicaraguan private sector and foreign investors. Political differences do not result in stalemate or civil/economic disruption. GON remains committed to policy reform process.

Means of Verification	Assumptions
PURPOSE Government statistics. Government reports. Multilateral donor reports.	National Assembly enacts required laws. Other donors provide assistance to support reform process.
OUTPUTS Project evaluations. Project reports and papers. Official Gazette.	GON provides counterparts and support and remains committed to the project. Satisfactory project implementation. Long term staff demonstrates quality work. AIDAR allows short term payment above "max."
COMPONENTS: Project reports and papers.	GON provides counterparts and logistic support.
INPUTS USAID Comptroller records. Audits. Project evaluations.	US Congress makes funds available.

ANNEX B: GON REQUEST FOR ASSISTANCE



Ministerio de Finanzas
Despacho del Ministro

Managua, 17 de Diciembre de 1992

Señora
Elaine Grigsby
A.I.D.
Su Despacho.-

Estimada Sra. Grigsby:

He revisado el proyecto para apoyar el Gobierno de Nicaragua en mejorar su capacidad para analizar, diseñar e implementar políticas macroeconómicas sólidas y ajustes estructurales y considero que es relevante para nuestro país.

Apreciaría sobremanera que en la redacción final del proyecto quedara explícito lo siguiente:

- 1.- Que el proyecto es para apoyar al Gabinete Económico
- 2.- Que los resultados de los trabajos del personal que estará en el proyecto son recomendaciones para la consideración del Gabinete Económico, y
- 3.- Que el Gobierno de Nicaragua, a través del coordinador del proyecto tendría la decisión la selección y manejo del personal a ser contratado como consultores o asesores con los fondos del proyecto.

Agradeciéndole su esfuerzo en la preparación del proyecto y confiando en su pronta implementación, me suscribo.

Atentamente,



Emilio Pereira Alegria
Ministro

CC: Dr. Erwin Krugger
Ministro de Cooperación Externa
Archivo

ANNEX C: STATUTORY CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated

1. a) The economic policy reforms to be proposed within the EPAI project will directly and positively impact on (a) through (d) and will indirectly support (e) and (f).

2. The economic policies promoted under the EPAI project will lead to an improved investment and trade environment. All project commodities will be imported from the U.S., thus increasing U.S. exports.

3. a) The FY 93 Congressional Presentation properly notified Congress.

b. N/A

under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b) (3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

5. Legislative Action (FAA Sec. 611(a) (2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If Project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

8. Capital Assistance (FAA Sec. 611(e)): If projects is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission

c. N/A

4. N/A. No engineering plans are required for the activities contemplated in the project.

5. The project does not depend on further legislative actions in Nicaragua.

6. N/A

7. N/A

8. N/A

Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

10. U.S. Private Trade (FAA Sec. 601 (b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by

9. See Item 1. above

10. See Item 2. above.

11.

a. The GON, through the Ministry of Finance, will provide contributions in-kind, such as office space, and counterpart personnel that otherwise would require the purchase of local currency to cover the related local costs. USAID/Nicaragua owns no Nicaraguan currencies that could be used for this project.

b. No.

c. N/A. This Project will not generate local currency.

agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

a. N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521 (c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S. - made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

b. No.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533 (c) (3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

13. No.

14. Sahel Accounting (FAA Sec. 121 (d)): If a Sahel project, has a determination been made that the host government has an adequate systems for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

14. N/A

15. PVO Assistance

15.

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

a. N/A. The project does not anticipate providing assistance through PVOs.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

b. N/A

16. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

16. When signed, copies of the Agreement will be provided to the appropriate offices in AID and State.

17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurement, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or

17. Yes.

loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

20. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?

21. Cooperatives (FAA Sec. 111): will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

18. Should economic policies be implemented, the standard living of all Nicaraguans including women, will be improved.

19. No. The assistance to be provided will be coordinated with multilateral programs in the economic sector; however the assistance under the A.I.D. project will be tailored to the unique Nicaraguan situation.

20.

a. No.

b. No.

21. No.

22.

a. N/A The U.S. owns no Nicaraguan currencies.

b. Release of currencies (FAA Sec. 612 (d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

b. No.

23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

23.

a. Yes. Small qualified firms will be invited to submit proposals for the provision of some of the services under the project.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

b. Yes.

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

c. N/A

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

d. N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

e. N/A.

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from construction with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.

f. No.

flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

g. Yes. Some technical assistance will be provided by U.S. firms via use of an institutional contract.

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

h. Yes.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

i. Yes. All contracts will contain such termination clause.

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

j. Yes.

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurement, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes

k. Yes.

(for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection

Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

1. Yes.

24. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

24.

a. N/A

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

b. N/A

c. Large projects, congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

c. N/A

25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

25. N/A

26. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

26. Yes.

27. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

27.

a. Yes.

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps"

to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

b. Yes.

28. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

28. Land reform efforts will not be supported through this project.

29. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

29. Yes.

30. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

31. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

30. Yes.

31. Yes

32. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

32. Yes.

33. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearage or dues?

33. Yes.

34. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

34. Yes.

35. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

35. Yes.

36. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

36. Yes.

37. Publicity or Propaganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

37. No.

38. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

38. Yes.

39. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

39. No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. N/A

produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

2. No.

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

3. Yes.

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

4. The project was developed in close collaboration with local counterparts. It seeks to provide TA, studies and workshops to the GON economic cabinet in support of improved economic policies.

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

5. Yes. Development of sound economic policy in the GON is essential to sustained development.

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(1)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

6. An improved economic environment resulting from this project will lead and support the realization of (a) through (e).

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

7. This requirement is being waived.

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

8. N/A.

9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

9.

a. Are any of the funds to be used for performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

a. No.

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilization?

b. No.

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

c. No.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

d. No.

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

e. N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or

f. No.

involuntary sterilization as a means of family planning?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

g. No.

10. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

10. Yes.

11. Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

11. The institutional contract is required by law to contract at least 10% from this group for all required subcontracting.

12. Biological Diversity (FAA Sec. 119(g)): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

12. No.

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

13.

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

a. Yes.

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of

b. No.

tropical forests?

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

c. No.

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

d. N/A.

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

e. Yes. This project is not expected to have any significant impact on the environment.

14. Energy (FY 1991 Appropriations Act Sec. 533(c): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact

14. N/A.

on reducing emissions from greenhouse gases?

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies contained in FAA section 102; (d) being provided in close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and

15. N/A.

rural areas?

16. Debt -for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

16. N/A.

17. Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

17. N/A.

18. Loans

18. N/A. The project is grant-funded.

a. Repayment capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. Long-range plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. Interest rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. Exports to United States (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

19. Development objectives (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

19.

(1) The improved economic environment supports the achievement of (1) through (5).

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

20.

a. Rural poor and small farmers:

If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

a. N/A.

b. Nutrition: Describe extent to

which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use to indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable

b. N/A

people.

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

c. N/A.

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

21. N/A

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

22. N/A

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

23. N/A.

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources

for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

24. Sahel Development (FAA Secs. 120-21). If assistance is being made available for the Sahel region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom).

24. N/A

ANNEX D: INSTITUTIONAL AND TECHNICAL ANALYSIS

Institutional profiles were developed for key institutions in the public sector responsible for macroeconomic and sectoral policy analysis, design, and implementation. These institutions included the Central Bank, the Ministry of Finance, the Ministry of the Economy (MEDE) and the Ministry of the Presidency. Information for these profiles was obtained in meetings and interviews with officials of each institution (see list of interviewees at the end of this annex). The main objectives of these interviews were to determine the institution's capability to perform its intended policy functions, in what areas (if any) the institution was currently receiving technical assistance from other bilateral and multilateral donors, and to seek the opinions of the institution's staff regarding key areas and issues still requiring technical assistance.

D.1 Institutional Profiles: Capabilities and Needs

The Ministry of Finance (MINIFIN) was re-established by decree in April 1990. It is the GON agency responsible for administering the national budget and for the regulation of matters related to financial policy and procedures. The minister is the coordinator of the Economic Cabinet. MINIFIN is governed by a minister and two vice-ministers, all appointed by the President. One of the vice ministers is in charge of government income while the other is responsible for government spending.¹ The vice-ministry for government income has four "General Directorates" (income, customs, budget and treasury, and public credit). The vice-ministry for government spending also has four General Directorates (government accounting, information systems, procurement, and territorial planning).

The heads of all the directorates either have MBAs or a post-baccalaureate degree from INCAE. Very few of the staff have wide experience in policy design and implementation. MINIFIN has 141 employees of which 71 percent (102 employees) are technicians and 29 percent are in management positions. Two hold Masters degrees in areas related to economics. Overall only 7 people, including the minister, hold Masters degrees in economics or business administration. Twenty four technical staff employees hold a bachelor degree in business; 13 percent have degrees in accounting and 7 percent in engineering. No long-term technical assistance is currently being provided by other donor organizations.

Persons interviewed at the Ministry of Finance indicated that long-term assistance was needed to prepare analysis and put together policy papers and reports that would be used in the GON's consultations with multilateral donor organizations, such as the World Bank, the IMF, and the IDB. They also identified the need for long-term advisors to work closely with the Minister in the areas of economic stabilization and structural adjustment and fiscal policy/public finance. These advisors would help monitor the progress of the structural adjustment program (in coordination with the other GON institutions) and would suggest options for expenditure reductions or reallocations to help maintain a balanced budget. Need was expressed for a technical assistance regarding specific implementation issues for a value-

¹Currently there is only one Vice-minister. The Vice-minister for government income recently resigned and is not expected to be replaced in the near future.

added tax. This advisor would make recommendations to modify the existing general sales tax to a VAT system. With regard to short-term technical assistance, expertise was needed to develop and maintain a data base on the sources of government revenues (e.g., general sales taxes, income taxes, tariffs). The problem of non-performing assets (most of them consisting of loans to state-owned enterprises that are now being privatized) held by the state-owned banks need to be addressed in depth; high quality short-term technical assistance is needed to develop options to deal with this issue.

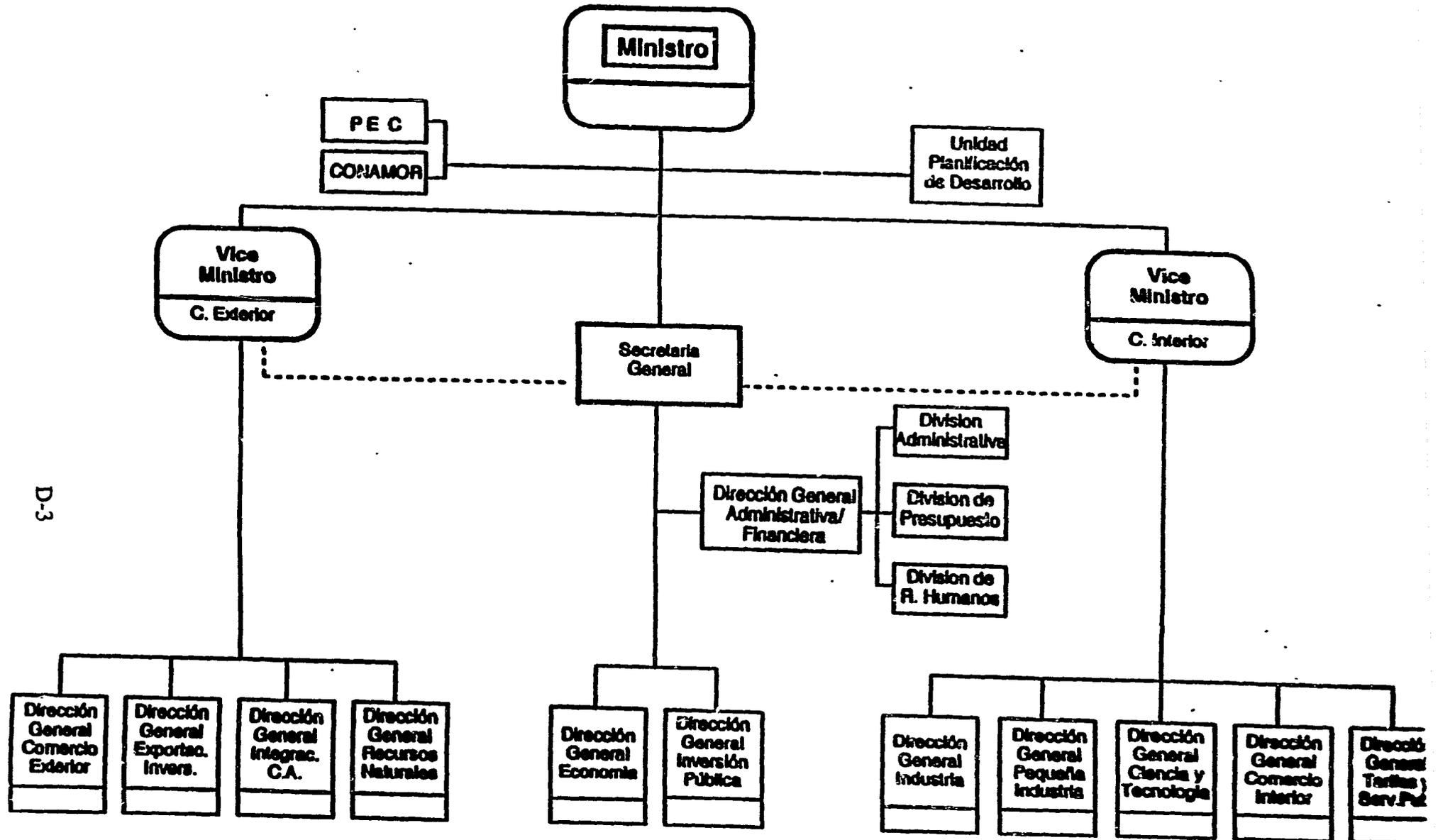
The Ministry of Economy and Development is the GON institution charged with formulating the national development plan, implementing policies for trade in domestic and foreign markets, deregulation strategies, and determining policies for development in the medium- and long-term. MEDE is governed by a minister and two vice-ministers appointed by the President. One vice minister is responsible for international trade, export promotion, foreign investment, and economic integration. The other vice-minister is responsible for domestic economic affairs (domestic trade, industry, technology, and small- and medium-size businesses).

MEDE has 248 employees of which 60 percent (102) are technicians and 16 percent are in management positions. Currently MEDE has two long-term senior technical advisors provided by the German assistance agency, GTZ. Both advisors are economists; one works in the area of public investment and the creation of the national development plan and the other works on domestic market issues. GTZ will have two additional long-term advisors (one senior level and one junior level) in place by early 1993. The new senior advisor will work on market promotion issues; the junior level advisor will provide general support to the other 3 advisors. GTZ has a sizeable short-term technical assistance effort. For example, it has budgeted 100 man-months of technical assistance in one area alone over the next two and one half years; it is expected that regional and local area experts will be used to supply this assistance.

According to the GTZ advisors, ample technical assistance for the department concerned with small- and medium-size enterprises is being provided by the governments of Holland, Sweden, and Finland. The United Nations Development Program also has a large technical assistance effort at MEDE (on the order of \$2 - \$3 million per year). An area in which GTZ is not working and in which the ministry identified that it needs assistance is related to issues on industrial reactivation, pricing policies, and deregulation; according to the GTZ advisors, assistance in this area would complement and support the German assistance efforts. In the view of the GTZ advisors, there are important sectoral issues that need to be addressed by the project, particularly the industrial sector, fisheries and mining.

The Central Bank is an autonomous governmental agency. The President of the Central Bank is appointed by the President. The Department of Economic Studies at the Central Bank is responsible for the collection, analysis, interpretation, and dissemination of the majority of the information required for the economic, monetary, and social policy decisions to be taken by the central Government.

MEDE Organigram



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The IMF/IDB and the World Bank are currently providing several advisors to the Central Bank in the areas of debt, accounting, balance of payments, monetary statistics, and economic policy. Many of these advisors have one year contracts. One advisor working in the area of state bank reform began a two year contract in December 1990. The IDB also financed a mainframe computer system for the Central Bank.

One advisor to the Central Bank expressed a need for an assessment of how open market operations could be conducted by the Central Bank; he said no one is currently working on this issue, which will be a priority in the next fiscal year. The Bank needs advice on the types of monetary instruments that could be used to control monetary aggregates and mechanisms for marketing these instruments. This advisor also said there was a need to develop and maintain a reference library. The Bank used the services of a consultant to develop a proposal for this library, including an extensive list of journals and reference materials that it should have. One possibility would be for the Project to fund the purchases of these journals and reference materials, with the understanding that all long-term advisors and the Chief of Party would have access to them.

The Ministry of the Presidency is responsible for the coordination between the President and his/her cabinet members and should assist the President on legal and technical issues regarding the implementation of government policies. The Ministry of the Presidency is also part of the economic cabinet, although, there are currently no Nicaraguan economists working at the ministry. The ministry currently receives technical assistance from up to four advisors from Costa Rica (funded by the UN), but not from the multilateral donor organizations. At the end of CY 1992 as the Project Paper was being finalized it was rumored that the Ministry of Presidency's, Vice Ministry for social affairs may be elevated to its own new Ministry of Social Action and would become part of the economic cabinet. Should this occur, the new Ministry of Social Action would be eligible to receive project funded technical assistance support as appropriate and consistent with the objectives the EPAI project.

D.2 Conclusions and Recommendations

The ability of the government to formulate and implement macroeconomic policies in support of on-going stabilization and structural adjustment reforms is constrained by a lack of depth and breadth in the human capital available to the major policy-making institutions in Nicaragua. This problem is compounded by a lack of accurate and timely data that are essential for effective policy analysis, design, and implementation. In addition, there are limited resources for research and other support functions for ministry technical personnel.

There is a critical need to continue the stabilization efforts, to continue on-going structural adjustment reforms, and to make additional structural reforms if Nicaragua is to overcome the economic and human resource devastation of the last decade and to achieve diversified, outward-oriented economic growth. Given the serious deficiencies in the policy-making process, there is an urgent need to respond in a flexible and timely manner to help overcome these deficiencies.

There is consensus within the GON and USAID/Nicaragua that the ministries can effectively absorb and utilize project technical assistance in the areas that the Project will be involved in. The participation of these institutions ensures that they are involved in and have immediate access to sectoral assessments, policy analyses, and implementation assistance that will be financed under the project and incorporated into the policy-making process. The commitment of these institutions to support Project activities has been demonstrated by their involvement in the design of the Project.

It is recommended that the project help augment the capability to analyze, design, and implement macroeconomic and structural adjustment policies by the provision of short-term and long-term technical assistance. This assistance would be used to conduct studies in key policy areas and to provide advice to senior GON officials regarding needed policy reforms.

Specifically, it is recommended that the project provide, through the Economic Policy Unit located at the Ministry of Finance, 5 long-term advisors to MINIFIN, BCN, and other Ministries as appropriate for policy analysis in the stated areas. One of these advisors should be located at the Ministry of Economy and Development and the others should be located at MINIFIN. One advisor at the Ministry of Finance would assist in the analysis of fiscal and monetary policies and the design of monetary instruments to increase the effectiveness of monetary policy. S/he would also provide assistance to develop the policy framework paper for the ESAF, country economic memoranda, and reports to the Consultative Group. A second advisor at the Ministry of Finance would help to monitor economic stabilization and structural adjustment measures and to prepare policy papers and reports as inputs to the GON's negotiations with multilateral donors; s/he would also assist the minister in developing a strategy for deregulation of the economy, as well as on overall strategy for medium- to long-term development. The advisor to the Ministry of Economy and Development would work on real sector issues such as deregulation, price competitiveness, market creation, and development of a strategy for industrial growth.

Two analysts (with at least Masters degrees in Economics) financed within the TA contract are recommended to work under the direction of the Ph.D. advisors at the Ministry of Finance on technical studies to assess the impact of the economic stabilization and structural adjustment program and to run simulation models to assess the impact of different policy options. Research assistants provided by the GON will develop and maintain a data base of economic statistics.

It is recommended that the long-term technical assistance proposed under this project be directed through the Economic Policy Unit of MINIFIN for several reasons. First, MINIFIN has been the ministry involved in the negotiations with international lending organizations. Second, most of the policy measures taken in the last two years for both economic stabilization and structural adjustment have been coordinated between this ministry and the Central Bank. Third, MINIFIN coordinates the Economic Cabinet. The Minister of Finance is responsible for the agenda of the weekly meetings of the Economic Cabinet (composed of the President, the Minister of the Presidency, the Minister of Economy, and the President of the Central Bank). Fourth, the minister has established a Technical Advisory Unit which responds directly to the minister. Currently, the unit has three national advisors. Fifth,

there is office space to accommodate the unit. MINIFIN agreed to make arrangements for the provision of counterpart support staff as well as office space for the technical unit.

The physical location of the long-term advisors could vary if the change of location improve the effectiveness of project activities.

D.3 List of Persons Interviewed

Ministry of Finance

Dr. Emilio Pereira, Minister of Finance
Mr. Nestor Reyes, Advisor

Ministry of Economy and Development

Mr. Julio Cardenas, Minister of Economy and Development
Horst Scheffold, GTZ Advisor
Joerg Peter Holla, GTZ Advisor

Ministry of the Presidency

Ricardo Barrios, Assistant to the Minister

Central Bank

Mr. Evenor Taboada, President
Mr. Mario Flores, Advisor

Superintendency of Banks

Mr. Angel Navarro, Superintendent
Mr. Juan Klingengerger, Advisor

ANNEX E: ECONOMIC ANALYSIS

The goal of the Project is to help the GON create a macroeconomic and structural adjustment policy framework conducive to investment and increased competitiveness, diversification, and participation in the economy.² Policy changes that improved the enabling environment would instill greater confidence at home and abroad in Nicaragua, resulting in an increase in foreign direct investment as well as increases in investment funded by a growing pool of domestic savings mobilized by the financial system. Since investment is a key determinant of sustained economic growth and national saving provides the bulk of the resources for investment, saving behavior is a crucial part of the process of economic growth.³

Improving the quality and quantity of economic expertise available to the GON would also support this enabling environment by strengthening the government's ability to analyze economic events and conditions and to design policies that would eliminate constraints and conditions that inhibit investment or result in misallocation of resources. Implementation of these policies is necessary to create this positive enabling environment.

Developing countries with many policy-induced distortions grow more slowly than countries with fewer such distortions. Policy-induced distortions cause resources to be misallocated. While calculations of economy-wide output foregone as a result of resource misallocation are difficult to make and subject to a large margin of error when they are made, case studies of developing countries suggest that eliminating resource misallocations would increase GDP by 2 to 20 percent, depending on the assumptions and methodologies used, as well as country-specific conditions.

Severe distortions also lead to slower growth of exports and an increased probability of debt-servicing difficulties. Nicaragua has some serious policy-induced distortions. A study by Edwards (1992) showed that the córdoba is overvalued by 50 percent in real terms. This overvaluation places Nicaragua at a severe competitive disadvantage in international markets with respect to its neighbors in Central America. Since the countries of Central America compete in the same markets, Nicaragua's competitive disadvantage severely limits its prospects for success in pursuing an outward-oriented economic growth strategy. There is strong evidence for a correlation between persistent real exchange rate overvaluation and lower rates of economic growth.⁴ Thus, any policy reforms that would help move the real exchange rate closer to its equilibrium path will change relative prices and provide an incentive for resources to be reallocated to the tradable goods sector (including exportables). This is a necessary condition for outward-oriented economic growth to occur.

² Given the nature of the project, the estimation of a traditional economic rate of return is not appropriate.

³ Fry, 1988, p. 131.

⁴ For example, Cottani, Cavallo, and Khan (1990) show this for a cross section of developing countries; Ghura and Grennes (1991) demonstrate this empirically for the countries of Sub-Saharan Africa.

Removal of policy-induced distortions can have dramatic results. For example, one study⁵ estimated that more than 90 percent of the variation in non-traditional exports from Chile between 1983 and 1989 was attributable to policy changes that resulted in a depreciation of the real exchange rate. Not only does the level of the real exchange rate affect the performance of a small open economy, such as Nicaragua's, but also its volatility matters. Recent research shows that an increase in real exchange rate volatility hurts exports both in the short- and long-runs, because higher volatility has a depressing effect on investment.⁶

Real exchange rate volatility is strongly linked to the volatility of domestic prices. In turn, domestic price stability depends to a large degree on the consistency between monetary and fiscal policies. A fiscal policy that results in large public sector deficits that are financed by money creation is inflationary. As inflation increases, relative prices become more variable; in other words, inflationary increases in the general price level are not evenly distributed over the components of the general price level.⁷ Current fiscal and monetary policies are consistent with each other. The government is spending only those monies raised either by taxes and tariffs or contributed by donor organizations; strict controls over credit creation by the Central Bank are keeping money supply growth in line with the demand for money and there is an announced policy that the Central Bank will not finance government budget deficits. The result has been a marked improvement in price stability.

If the GON is to gradually wean itself from foreign aid flows as a source of revenues and maintain expenditures at a level consistent with available revenues (i.e., no persistent budget deficits), additional changes in the tax system will be required to increase revenues in as nondistortionary a manner as possible. Monetary policy will have to remain consistent with a changing fiscal policy. Consistent monetary and fiscal policies are especially critical if Nicaragua opts to maintain a fixed nominal exchange rate in the future to anchor inflationary expectations. The fixed nominal rate is the signal of the government's intent; the monetary and fiscal policies give this signal its credibility.

Another area in which the Project will be involved is financial market liberalization. An effective, privately-owned domestic financial system is needed to mobilize domestic savings and channel them to productive investments. The alternatives to intermediation through the domestic financial system are government directives and self-finance. The Sandinistas tried the first alternative, with disastrous results; the second alternative is inefficient. Fry (1988) has found that financial liberalization resulting in a 1 percentage point increase in the real deposit rate of interest towards its competitive free-market equilibrium level is associated with a rise in economic growth of ½ percentage point. Jung (1986) found evidence for high growth developing countries that increases in financial system development cause economic

⁵Nathan Associates and Louis Berger International (1992).

⁶Caballero and Corho (1989) demonstrate the effect of exchange rate volatility on exports. Larrain and Vergara (1991) show that increased volatility in inflation or in the real exchange rate (both of which are indicators of macroeconomic instability) depress private investment.

⁷This result has been empirically established by Vining and Elwertowski (1976) and reconfirmed by Hartman (May 1991).

the first alternative, with disastrous results; the second alternative is inefficient. Fry (1988) has found that financial liberalization resulting in a 1 percentage point increase in the real deposit rate of interest towards its competitive free-market equilibrium level is associated with a rise in economic growth of ½ percentage point. Jung (1986) found evidence for high growth developing countries that increases in financial system development cause economic growth. The payoff to Project activities that support financial market reforms should be very significant.

Other studies have shown that countries that have effective policy dialogues between the public and private sectors have experienced significantly higher growth than those that do not have, or do not allow, this dialogue. An effective public-private sector partnership (e.g., one whose policies confer opportunities and benefits to those other than the cronies of the political leadership) has been identified as a key element in the rapid growth of the four Asian tigers (South Korea, Taiwan, Singapore, and Hong Kong) as well as Malaysia and Indonesia. Nicaragua does not currently have an effective policy dialogue between the public and private sectors. The government's position on policy matters receives less coverage compared to the media coverage of the opposition's criticisms of the government's "neo-liberal" policies. Thus, to the extent that effective policy dialogue contributes to higher economic growth, Nicaragua is currently unable to tap this source of growth. Project activities will promote discussions between the public and private sectors and provide the analytical basis for more effective coverage of the GON's position on policy matters.

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ANNEX F: SOCIAL ANALYSIS

The Project is designed to accomplish goals that have been identified by the GON and USAID/Nicaragua during the last 2 years and that have been expressed in letters of intent to international donor agencies. During the conceptualization and design of this project, government institutions that are potential recipients of Project assistance have been actively involved in defining the goals and institutional arrangements. Project activities will seek to maximize social gains by augmenting the capability to develop sound economic policies that, in turn, directly benefit the whole of the Nicaraguan population. The Project will promote a policy environment conducive to investment and growth within Nicaragua that will establish dynamic economic growth, create new employment opportunities and lower the cost of living. If this Project successfully supports the wide ranging economic reforms, the overall impact will be positive and will affect all Nicaraguans.

The Project will have no negative social or cultural impacts on Nicaragua that are identifiable at this time. One risk to the success of this Project is the uncertainty about the resolution of property rights, land ownership, and land tenure. Failure to resolve these problems would result in lower policy-induced supply response. Resolution of this dispute is critical to the success of the structural reform program, since the assignment of property rights and the ability to transfer them lies at the heart of a market-oriented economy. However, the resolution of this issue is fundamentally a political problem that must be worked out by the political coalitions in Nicaragua.

Another risk involved in this Project is that its activities could become politicized. Long-term and short-term advisors should be widely recognized as experts in their respective fields; this will make their recommendations more credible, since they will be based on sound analysis rather than on the tenets of any political philosophy.

The Project incorporates several elements designed to overcome these constraints. These include efforts to establish greater communication and dialogue between the private and public sectors and the preparation of technical studies as a vehicle to discuss issues and achieve consensus on economic issues.

The Project's emphasis of augmenting policy analysis capability is consistent with activities of major donors which seek to provide a suitable environment to promote outward-looking, broad-based, and sustainable economic growth. It is also consistent with the other USAID funded projects and the Economic Recovery and Support Program.

The Project assumes that augmenting the capacity for in-country research depends on the retention of staff in the different government agencies. Generally people leave government agencies either for higher salaries in the private sector or because they are dissatisfied with their jobs (not challenging enough, no opportunities for advancement, etc.). Long-term technical assistance will provide Nicaraguan staff with greater professional growth opportunities through working relationships with the long-term and short-term advisors as well as through the workshops.

The Project aims to augment in-country research capability for policy analysis, design and implementation. Oftentimes attempts to improve institutional capabilities are only successful for the agencies directly involved in the Project and for the timeframe of the Project. It is expected that the group of professionals involved in the Project will disseminate their knowledge and techniques to their counterparts. Given the current political environment it seems inappropriate to establish a "think tank" to carry out the policy activities. However, during the life of the Project, the feasibility of establishing a think tank as a way of improving the sustainability of the policy analysis and design capacity developed under the Project will be studied.

The GON usually reaches consensus on policy measures through discussions with the leaders of the different political parties and groups in response to a specific crisis. The project will provide inputs to facilitate communications (policy dialogue) with the institutions and sectors involved in and affected by policy reforms. These inputs include seminars, symposia, and publications.

The direct beneficiaries of the project will be those public sector individuals who will benefit from on-site contact by those providing short- and long-term technical assistance. Government employees will work closely with the outside consultants to improve skills that will benefit their institutions.

Secondary beneficiaries will include those Nicaraguans affected by the benefits of timely and effective economic policy formulation and implementation in the area of economic stabilization and structural reforms. While it would be extremely difficult, if not impossible, to quantify the impact on secondary project beneficiaries, it is expected that an improvement in the enabling environment will increase foreign and domestic investment which will bring about increases in employment and productivity that will positively benefit the majority of Nicaraguans.

ANNEX G: FINANCIAL ANALYSIS

G.1 Introduction

The purpose of this financial analysis of the Economic Policy Analysis and Implementation Project (EPAI) is to determine the cost-effectiveness of the proposed funding for the Project. The Project has a very ambitious goal: to help create a macroeconomic and structural adjustment policy framework conducive to investment and increased competitiveness, diversification and participation in the economy. The GON's ability to formulate appropriate macroeconomic and structural adjustment policies using its institutional personnel is currently extremely limited for several reasons: a 10 year hiatus during the sandinismo years of policies and institutions appropriate to a market-oriented economy, the consequent redeployment of government resources to finance the massive state intervention characteristic of a command-type economy, and an ensuing brain drain which cost Nicaragua the benefits of many of its most able individuals.⁸ Because of the process nature of this project an internal rate of return analysis was not undertaken in the financial and economic analyses.

The efforts to return the economy to a market-oriented one have been underway for two years (if the October 1990 Concertación is taken as the starting point). Major steps to achieve this have been taken during this two year period, including the restoration of price stability, the re-creation of key policy making ministries (e.g., the Ministry of Finance), the privatization of many state-owned enterprises, the re-opening of the financial sector to privately owned institutions, and the re-establishment of relations with multilateral and bilateral donors--an important step in rebuilding Nicaragua's credibility among members of the international business and banking community. The extent of these reforms would have overwhelmed the government's abilities to effect them had it not been for the provision of significant long-term technical assistance and funds by the multilateral and bilateral donors, including A.I.D.

Constraints on the GON's capability to continue the reforms have not been relieved by the return of significant numbers of Nicaraguan expatriates to government service. Continuation of the stabilization and structural adjustment reforms already undertaken and, importantly, additional structural reforms are needed if Nicaragua is to return to a path of higher and sustainable growth in real income. Consequently, a need for timely and relevant policy advice will continue for the foreseeable future. While it cannot be known for certain, it seems unlikely that this need will be met in the medium term (five years) by a return of Nicaraguan expatriates to government service. Training of existing government personnel to the point where they are able to perform the requisite analyses and implementation tasks will take time and is outside of the scope of this project. Therefore, substantial technical assistance in formulating and implementing macroeconomic and structural adjustment policies will need to be supplied to meet this demand over the next few years.

⁸Estimated to be 10 percent of the population (World Bank, 1991).

Multiateral donor institutions, such as the IMF, the World Bank, IDB, and the UNDP, as well as important bilateral donors (e.g., the U.S., Germany) are currently supplying technical assistance in important policy areas. However, many important policy issues still need attention. Another important consideration is the need for key government personnel to build up their stock of human capital in order to resume their policy formulation and implementation capabilities.

In the design of the Economic Policy Analysis and Implementation Project, primary emphasis has been given to meeting the immediate short-run needs of the GON with respect to timely and relevant policy analysis.

G.2 Costs of Different Project Configurations

In conducting the financial analysis of this project, three configurations of the Project were considered. In each configuration it is assumed that AID will procure through full and open competition the services of a contractor (envisioned to be a consulting firm with subcontracts to a university or university consortium) who will be responsible for supplying the needed short- and long-term technical assistance, including the services of a Chief of Party/Technical Advisor and an Operations Coordinator. The cost—at internationally competitive salaries (for LTTA) and daily compensation rates (for STTA) of acquiring this expertise—was estimated for each configuration.

The option of hiring qualified Nicaraguans (both expatriates and nationals) to fill any of the long-term positions will be left open. However, this option could be difficult to implement. It is USAID/Nicaragua's policy to pay direct-hire Nicaraguan nationals at FSN pay scales, which reach a maximum of about \$30,000 per year. This policy also applies to Nicaraguan expatriates holding a U.S. "Green Card" visa. If a Nicaraguan expatriate received U.S. citizenship, then s/he can be reimbursed at international compensation rates in an amount supported by the individual's salary history. It is not known what proportion of Nicaraguan expatriates have become U.S. citizens; however, it seems likely that most of the potential candidates for long-term advisory positions under this Project (i.e., those currently working for the multilateral institutions) are Green Card holders.

There is a possibility that Green Card Nicaraguan expatriates could be hired at internationally competitive salaries by the contractor. However, this would require approval by the Mission Director.

G.2.a Configuration 1: 5 Advisors for 3 Years

In the first configuration, the life of the Project was assumed to be 4 and one half years with 4 years for technical assistance. However, in order to meet the planned budget of \$8 million, the long-term technical assistance is budgeted for only 3 of the years of the Project (with exception of the Chief of Party and the Operations Coordinator). Furthermore, short-term technical assistance and the workshops component were both reduced from their desired levels.

Based on discussions with personnel in each of the GON institutions where the Project will place long-term advisors (Ministry of Finance and Ministry of Economy and Development), an assessment of each institution's needs for technical assistance was made. Based on this assessment, it was concluded that 5 long-term advisors, three of whom would have a Ph.D. and two would have at least M.A.s, plus a substantial amount of high-quality, short-term technical assistance for a period of four continuous years, would be required. (The long-term advisors do not include the Chief of Party and the Operations Coordinator.) The summary budget for this level of effort is shown in the table titled "Schedule A: COP, OC, and STTA for 4 Years, 5 Advisors for 3 Years." (A detailed breakdown of costs is also provided.)

The total cost to AID of this configuration is \$8.00 million over the life of the Project. The largest cost item is the fully-loaded cost of the salaries and benefits of the long-term advisors. These constitute \$3.01 million, or 38 percent of the total budget. The full cost of placing the long-term advisors into the country also includes allowances, travel, and per diem, which raise the cost to \$4.3 million, or 54% of the total budget.

The second largest cost item is for short-term technical assistance, which is budgeted at \$2.2 million, or 27 percent of total AID funds. The level of effort (in days) for STTA was calculated as the product of 52 weeks per year, a 4 year project life, and 6 working days per week. This result was multiplied by a different factors in each year of the Project to reflect varying level of STTA needed in each year. Each consulting day was assumed to be at the AID maximum of \$320 per day; it was then assumed that 25 percent of the total days would be billed at a daily rate 50 percent greater than the AID maximum. This yielded an average cost of \$360 per day. (We emphasize here that waivers of the AID maximum rate are definitely required under this Project, given the desired level of experience and qualifications needed for STTA.)

Workshop, Seminar, and Symposia and Publication costs are the third largest cost element in the Project budget, amounting to \$0.9 million, or 11.5% of the total AID budget. This is determined by 23 workshops at a cost of \$30,000 each, and 11 seminars at a cost of \$20,000 each.

G.2.b Configuration 2: 5 Advisors for 3 Years

The second configuration is similar to the first configuration with the exception that the level of short-term effort is increased from 2496 to 3,120 days and the full TA package will cover five years of a 5½ year project (i.e. the project is extended one additional year). The summary budget for this level of effort is shown in the table titled "Schedule A: COP, OC, and STTA for 5 Years, 5 Advisors for 3 Years (more intense)." (A detailed breakdown of costs is also provided.)

Total costs for long-term advisors remains the largest cost, amounting to \$4.29 million, or 45.9 percent of project cost. Costs for short-term advisors is increased to \$3.02 million (32.27% of project cost), again the second largest cost element. Workshops, Seminars and Symposia are increased to their desired levels of \$1.17 (14.04 percent of project cost).

G.2.c Configuration 3: 4 Advisors for 5 Years

This configuration has four long-term advisors, all of whom have Ph.D.s, funded for the full 5 years of a 5½ year Project. The intensity level of effort for short-term technical assistance averages 2 short-term consultants working on each day of the life of the Project.

The total AID budget of this configuration is \$11.9 million over the life of the Project (see "Schedule A: COP, OC, and STTA for 5 Years; 4 Advisors for 5 Years"). The largest cost items are identical to those in the first configuration: namely, LTTA at \$6.0 million (54.19 percent of the total), STTA at \$3.02 million (27.22 percent of the total), and Workshop and Seminar costs at \$1.17 million (10.52 percent).

G.3 Discussion and Conclusions

The cost difference between Configurations 1 and 2 is \$1.36 million. This is brought about by reducing the life of project by one year and reducing short-term technical assistance and the workshops component. Configuration 3 is the most expensive of all configurations. However, all components are budgeted for life of Project of 5½ years. Of the 3 configurations presented, only one meets the budgetary target range of \$8 million. In order to meet this target, it should be noted that the long-term technical assistance (with the exception of the COP and OC) is only funded for 3 years of the 4½ year Project life. Configuration 3 is the only configuration that funds the long-term technical assistance for a full 5 years. Short-term technical assistance and funding for the third component (workshops, etc.) of configuration 1 had to be significantly reduced in the last 3 years of the Project in order to meet the budgetary target.

Configuration 3 provides the most intensive use of long-term technical assistance. Configurations 1 and 2 provide the same level of long-term assistance for the first three years of the project. Since long-term advisors will be in daily contact with their GON counterparts, on-the-job transfer of ideas with of the counterparts will be greater than in Configuration 3 than that forthcoming from the other configurations. The reduced level of time for the long-term advisors under configurations 1 and 2 implies a lower level of on-the-job transfer of technology. The intensity of short-term technical assistance is higher under Configurations 2 and 3 than under 1.

The first criterion for deciding on a configuration should be the desired level of effort for both short- and long-term advisors. A second criterion should be the availability of Mission resources.

Table K: Alternative Budget Projections**Table K-1 Schedule A****COP, OC, and STTA for 4 Years (less intense)
5 Advisors for 3 Years****GLOBAL BUDGET**

ITEM	Schedule	Thousands of Dollars	Percentage of Total
Long-Term Advisors	Schedule C	3,010.90	37.64%
Allowances	Schedule E	1,128.40	14.11%
Travel & Per Diem	Schedule E	202.40	2.53%
Short-Term Advisors	Schedule D	2,176.60	27.21%
Other Direct Costs	Schedule F	232.30	2.90%
Workshops	Schedule F	612.60	7.66%
Seminars & Symposia	Schedule F	195.30	2.44%
Publications	Schedule F	106.50	1.33%
Contingency	Schedule F	56.50	0.71%
Evaluation	Schedule F	80.00	1.00%
Audit	Schedule F	60.00	0.75%
Commodities	Schedule G	138.50	1.73%
Total AID		8000.00	100.00%
GON Salaries and Administrative Expenses	Schedule F	1174.86	
Total Project		9174.86	

Table K-1

Schedule B

Breakdown of Expenses on a Fiscal Year Basis

	FYs 93-97	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Item	\$000	\$000	\$000	\$000	\$000	\$000
Long-Term Advisor	3,010.9	420.0	882.0	926.1	630.9	151.9
Short-Term Advisor	2,176.6	273.1	850.4	588.6	305.7	158.6
Allowances	1,128.4	184.7	316.5	332.4	252.6	42.2
Travel & Per Diem	202.4	68.9	36.1	22.2	70.5	4.7
Other Direct Costs	232.3	29.0	76.0	65.0	46.4	16.0
Workshops	612.6	151.8	159.4	167.4	87.9	46.1
Seminars & Sympos	195.3	48.4	50.8	53.4	28.0	14.7
Publications	106.5	26.4	27.7	29.1	15.3	8.0
Commodities	138.5	99.3	11.2	11.2	11.2	5.6
Contingency	56.5	14.0	14.0	14.0	14.5	0.0
Evaluation	80.0	0.0	0.0	40.0	0.0	40.0
Audit	60.0	0.0	15.0	15.0	15.0	15.0
Total AID	8,000.0	1315.6	2,439.2	2,264.2	1,478.1	502.9
GON Salaries and Administrative Exp.	1,174.9	164.4	345.1	362.4	245.2	57.7
Total EAP Project	9,174.9	1,480.0	2,784.3	2,626.6	1,723.3	560.6

Table K-1

Schedule C

Salaries and Wages of
Long-Term Technical Advisors

	unit cost	FYs 93-97	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
	p-y 000	\$000	\$000	\$000	\$000	\$000	\$000
LONG-TERM PERSONNEL							
Economist-PhD-COP	4 90	795.2	90.0	189.0	198.5	208.4	109.4
Operations Coordinator	4 35	309.3	35.0	73.5	77.2	81.0	42.5
Long-Term Advisors (PhDs)							
MEDE	3 75	484.7	75.0	157.5	165.4	86.8	0.0
M. Finance	3 75	484.7	75.0	157.5	165.4	86.8	0.0
M. Finance	3 75	484.7	75.0	157.5	165.4	86.8	0.0
Long-Term Advisors (MAs)							
M. Finance	3 35	226.2	35.0	73.5	77.2	40.5	0.0
M. Finance	3 35	226.2	35.0	73.5	77.2	40.5	0.0
SALARIES (fully loaded)		3,010.9	420.0	882.0	926.1	630.9	151.9
Inflation	5%						
Multipliers:	Long-Term Advisors	2.00	(fringe benefits, overhead, G&A, and fee)				
	Short-Term Advisors	1.70	(overhead, G&A, and fee)				
	Other	1.10	(G&A and fee)				
Number of Long-Term Advisors		7					
Number of PhD Advisors		4					
Number of Dependents		17.5					

Table K-1

Schedule D

Costs for Short-Term Technical Assistance

		FYs 93-97 \$000	FY 93 \$000	FY 94 \$000	FY 95 \$000	FY 96 \$000	FY 97 \$000
Short-Term Advisors (fully loaded)	Daily Rate 360	1,550.5	190.9	601.5	421.0	221.0	116.0
STTA Number of Days		2340	312	936	624	312	156
STTA Travel	800	92.7	11.4	36.0	25.2	13.2	6.8
STTA local transportati	25	34.8	4.3	13.5	9.5	5.0	2.6
STTA Lodging & ME&I	166	498.5	66.5	199.4	132.9	66.5	33.2
TOTAL STTA		2,176.6	273.1	850.4	588.6	305.7	158.6

Inflation 5.0%

Multipliers: Short-Term Advisors 1.70 (covers overhead, G&A, & fee)
Other 1.10 (covers G&A and fee)

	Ave. Daily Rate	Expert Unit Cost	Expert Ratio	Regular Unit Cost	Regular Ratio
Determination of the Short-Term Technical Advisor Average Daily Rate	\$360	\$480	25%	\$320	75%

Table K-1

Schedule E

Travel
Per Diem
and Allowances

	No. of units	unit cost	FYs 93-97 \$000	FY 93 \$000	FY 94 \$000	FY 95 \$000	FY 96 \$000	FY 97 \$000
TRAVEL and PER DIEMS								
Resettlement travel	25	612	28.2	16.5			11.7	
R&R (every two years)	25	746	27.8		21.1		6.6	
Home Leave (every 3 years)	7	944	8.0			8.0		
Storage			10.4	2.3	2.4	2.5	2.7	0.4
Shipping Effects (cwt)	50	124	87.7	48.0			39.7	
Project Travel			16.4		6.5	6.8	2.0	1.1
COP Administrative Travel	1	1,424	4.1		2.0		2.2	
Fuel (000 Gallons) & maint.	10	2	19.8	2.1	4.2	4.8	5.6	3.2
Total Travel & Per Diem			202.3	68.9	36.1	22.2	70.5	4.7
ALLOWANCES								
Housing (person-year)	7	21,600	612.3	107.9	174.6	183.4	117.5	28.9
Schooling (child-year)	11	3,700	162.7		44.9	47.1	65.7	4.9
Post Differential and COLA			317.1	40.4	97.0	101.9	69.4	8.4
Temp. Lodging (day/pp)	315	105	36.4	36.4				
Total Allowances			1,128.4	184.7	316.5	332.4	252.6	42.2
Number Long-Term Advisors		7						
Multipliers:								
Long-Term Advisors			2.00	(covers fringe benefits, overhead, G&A, and fee)				
Short-Term Advisors			1.70	(covers overhead, G&A, and fee)				
Other			1.10	(covers G&A and fee)				
Long-Term Technical Advisors Salary				210.0	441.0	463.1	315.5	76.0
Short-Term Technical Advisors Salary				112.3	353.8	247.7	130.0	68.3
Inflation		5%						

M.P.

Table K-1

Schedule F

Other Direct Costs
and Government of Nicaragua Counterpart Expenses

	No. of units	unit cost	FYs 93-97 \$000	FY 1993 \$000	FY 1994 \$000	FY 1995 \$000	FY 1996 \$000	FY 1997 \$000
OTHER DIRECT COSTS								
Workshops	23	30	612.6	151.8	159.4	167.4	87.9	46.1
Seminars and Sympos	11	20	195.3	48.4	50.8	53.4	28.0	14.7
Publications	6	20	106.5	26.4	27.7	29.1	15.3	8.0
Contingency			56.5	14.0	14.0	14.0	14.5	0.0
Evaluation	2	40	80.0			40.0		40.0
Audit	1	50	60.0		15.0	15.0	15.0	15.0
DBA (2.79% salary+post diff)			81.6	11.1	27.4	24.9	15.8	2.3
Communications	5	12.0	62.9	6.6	13.2	15.2	17.6	10.2
Prof. Home Office Supp. (10%STTA)			87.8	11.2	35.4	24.8	13.0	3.4
Total Other Direct Costs			1,343.2	269.6	342.9	383.8	207.1	139.8
GON								
Professionals	5	2.08	463.2	62.5	131.3	137.8	101.3	30.4
Research Assistants	5	0.8	155.1	24	50.4	52.92	27.783	0
Administrative Expenses			556.5	77.9	163.5	171.7	116.2	27.3
Total GON Expenses			1,174.9	164.4	345.1	362.4	245.2	57.7
Inflation		5.0%						
Number of Long-Term Advisors				7				
Number of PhD Advisors				4				
Multipliers: Long-Term Advisors			2.00	(covers fringe benefits, overhead, G&A, and fee)				
Short-Term Advisors			1.70	(covers overhead, G&A, and fee)				
Other			1.10	(covers G&A and fee)				
GON			1.90	(covers GON administrative expenses)				
Long-Term Technical Advisors Salary				210.0	441.0	463.1	315.5	38.0
Short-Term Technical Advisors Salary				112.3	353.8	247.7	130.0	34.1
Post Differential of Long-Term Advisors				40.4	97.0	101.9	69.4	4.2

Table K-1

Schedule G

Commodities

	No. of units	unit cost	FYs 93-97	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Vehicles	2	10,000	20.00	20.00				
Desktop Computers	7	2,500	17.50	17.50				
Portable Computers	2	3,500	7.00	7.00				
UPSs	7	350	2.45	2.45				
Laser Printer I	1	2,000	2.00	2.00				
Laser Printer II	3	1,000	3.00	3.00				
CD-ROM Reader	1	600	0.60	0.60				
CD-ROM Disks	5	1,000	4.50	1.00	1.00	1.00	1.00	0.50
Software	9	1,500	13.50	13.50				
Office Furniture	7	3,000	21.00	21.00				
Books	400	25	9.00	2.00	2.00	2.00	2.00	1.00
Journals	50	50	2.00	0.25	0.50	0.50	0.50	0.25
Newsletters	10	100	0.80	0.10	0.20	0.20	0.20	0.10
Facsimile	1	800	0.80	0.80				
Photocopier	1	1,000	1.00	1.00				
Office Supplies			24.00	3.00	6.00	6.00	6.00	3.00
Insurance	15	500	6.00	0.75	1.50	1.50	1.50	0.75
Shipping								
Vehicles	2	800	1.60	1.60	0.00	0.00	0.00	0.00
Office Equip. (Air)	5	350	1.75	1.75	0.00	0.00	0.00	0.00
Total			138.50	99.30	11.20	11.20	11.20	5.60

Table K-2

Schedule A

COP, OC, and STTA for 5 Years
5 Advisors for 3 Years

GLOBAL BUDGET			Millions of Dollars	Percentage of Total
ITEM	Schedule			
Long-Term Advisors	Schedule C		3.32	35.51%
Allowances	Schedule E		0.72	7.73%
Travel & Per Diem	Schedule E		0.25	2.66%
Short-Term Advisors	Schedule D		3.02	32.27%
Other Direct Costs	Schedule F		0.31	3.30%
Workshops	Schedule F		0.88	9.36%
Seminars & Symposia	Schedule F		0.29	3.12%
Publications	Schedule F		0.15	1.56%
Contingency	Schedule F		0.08	0.80%
Evaluation	Schedule F		0.11	1.18%
Audit	Schedule F		0.08	0.80%
Commodities	Schedule G		<u>0.16</u>	<u>1.72%</u>
Total AID			9.36	100.00%
GON Salaries and Administrative Expenses	Schedule F		<u>1.29</u>	
Total Project			<u><u>10.65</u></u>	

Table K-2

Schedule B

Breakdown of Expenses on a Fiscal Year Basis

	FYs 93-98	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Item	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Long-Term Advisors	3,322.4	420.0	882.0	926.1	630.9	303.9	159.5
Short-Term Advisors	3,018.5	546.3	573.6	602.3	632.4	664.0	0.0
Allowances	722.8	98.8	188.4	197.8	140.8	63.6	33.4
Travel & Per Diem	248.9	66.7	33.5	38.7	70.1	10.0	30.0
Other Direct Costs	309.0	43.6	60.5	65.0	63.4	61.7	14.7
Workshops	875.3	158.4	166.3	174.6	183.4	192.5	0.0
Seminars & Symposia	291.8	52.8	55.4	58.2	61.1	64.2	0.0
Publications	145.9	26.4	27.7	29.1	30.6	32.1	0.0
Commodities	160.9	112.4	11.2	11.2	11.2	11.2	3.8
Contingency	75.0	15.0	15.0	15.0	15.0	15.0	0.0
Evaluation	110.0	0.0	0.0	50.0	0.0	0.0	60.0
Audit	75.0	0.0	15.0	15.0	15.0	15.0	15.0
Total AID	<u>9,355.5</u>	<u>1,540.3</u>	<u>2,028.7</u>	<u>2,182.9</u>	<u>1,853.8</u>	<u>1,433.2</u>	<u>316.4</u>
GON Salaries and Administrative Exp.	<u>1,294.9</u>	<u>155.2</u>	<u>326.0</u>	<u>342.3</u>	<u>234.7</u>	<u>115.5</u>	<u>121.2</u>
Total Project	<u>10,650.4</u>	<u>1,695.6</u>	<u>2,354.7</u>	<u>2,525.2</u>	<u>2,088.5</u>	<u>1,548.7</u>	<u>437.6</u>

Table K-2.

Schedule C

Salaries and Wages of Long-Term Technical Advisors

	unit	FYs	FY	FY	FY	FY	FY	FY
LOE cost	93-98	1993	1994	1995	1996	1997	1998	
p-y \$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
LONG-TERM PERSONNEL								
Economist-PhD-COP	5 90	1,019.5	90.0	189.0	198.5	208.4	218.8	114.9
Operations Coordinator	5 35	396.5	35.0	73.5	77.2	81.0	85.1	44.7
Long-Term Advisors (PhDs)								
MEDE	3 75	484.7	75.0	157.5	165.4	86.8	0.0	0.0
M. Finance	3 75	484.7	75.0	157.5	165.4	86.8	0.0	0.0
M. Finance	3 75	484.7	75.0	157.5	165.4	86.8	0.0	0.0
Long-Term Advisors (MAs)								
M. Finance	3 35	226.2	35.0	73.5	77.2	40.5	0.0	0.0
M. Finance	3 35	226.2	35.0	73.5	77.2	40.5	0.0	0.0
SALARIES (fully loaded)		<u>3,322.4</u>	<u>420.0</u>	<u>882.0</u>	<u>926.1</u>	<u>630.9</u>	<u>303.9</u>	<u>159.5</u>
Inflation		5%						
Multipliers:								
Long-Term Advisors		2.00	(covers fringe benefits, overhead, G&A, and fee)					
Short-Term Advisors		1.70	(covers overhead, G&A, and fee)					
Other		1.10	(covers G&A and fee)					
Number of Long-Term Advisors		7						
Number of PhD Advisors		3						
Number of Dependents		14						

Table K-2

Schedule D

Costs for Short-Term Technical Assistance

		FYs 93-98 \$000	FY 93 \$000	FY 94 \$000	FY 95 \$000	FY 96 \$000	FY 97 \$000	FY 98 \$000
	Daily Rate							
Short-Term Advisors (fully loaded)	360	2,110.2	381.9	401.0	421.0	442.1	464.2	
STTA Number of Days			624	624	624	624	624	
STTA Travel	800	126.4	22.9	24.0	25.2	26.5	27.8	
STTA local transportation	25	47.4	8.6	9.0	9.5	9.9	10.4	
STTA Lodging & ME&I	166	734.5	132.9	139.6	146.6	153.9	161.6	
TOTAL STTA		<u>3,018.5</u>	<u>546.3</u>	<u>573.6</u>	<u>602.3</u>	<u>632.4</u>	<u>664.0</u>	

Inflation 5.0%

Multipliers: Short-Term Advisors 1.70 (covers overhead, G&A, & fee)
 Other 1.10 (covers G&A and fee)

	Ave. Daily Rate	Expert Unit Cost	Expert Ratio	Regular Unit Cost	Regular Ratio
Determination of the Short-Term Technical Advisor Average Daily Rate	\$360	\$480	25%	\$320	75%

Table K-2

Schedule E

Travel, Per Diem, and Allowances

	No. of units	unit cost	FYs 93-98 \$000	FY 93 \$000	FY 94 \$000	FY 95 \$000	FY 96 \$000	FY 97 \$000	FY 98 \$000
TRAVEL and PER DIEMS									
Resettlement travel	21	612	31.0	14.1			11.7		5.2
R&R (every two years)	21	746	23.8		18.1		5.7		
Home Leave (every 3 years)	21	944	24.0			24.0			
Storage			11.6	2.3	2.4	2.5	2.7	0.8	0.8
Shipping Effects (cont)	50	124	105.2	48.0			39.7		17.5
Project Travel			17.4		6.5	6.8	2.0	2.1	
COP Administrative Travel	1	1,424	6.5		2.0		2.2		2.4
Fuel (000 Gallons) & maint.	10	2	29.4	2.3	4.6	5.3	6.1	7.1	4.1
Total Travel & Per Diem			<u>248.9</u>	<u>66.7</u>	<u>33.5</u>	<u>38.7</u>	<u>70.1</u>	<u>10.0</u>	<u>30.0</u>
ALLOWANCES									
Housing (person-year)	7	7,600	220.3	21.9	61.4	64.5	41.4	20.3	10.7
Schooling (child-year)	7	3,700	106.5		29.9	31.4	30.1	9.9	5.2
Post Differential (20% of salary)			359.7	40.4	97.0	101.9	69.4	33.4	17.5
Temp. Lodging (day/pp)	315	105	36.4	36.4					
Total Allowances			<u>722.8</u>	<u>98.8</u>	<u>188.4</u>	<u>197.8</u>	<u>140.8</u>	<u>63.6</u>	<u>33.4</u>
Number Long-Term Advisors	7								
Multipliers:	Long-Term Advisors		2.00 (covers fringe benefits, overhead, G&A, and fee)						
	Short-Term Advisors		1.70 (covers overhead, G&A, and fee)						
	Other		1.10 (covers G&A and fee)						
Long-Term Technical Advisors Salary			210.0	441.0	463.1	315.5	151.9	79.8	
Short-Term Technical Advisors Salary			224.6	235.9	247.7	260.0	273.1	0.0	
Inflation	5%								

Table K-3

Schedule A

COP, OC, and STTA for 5 Years
4 Advisors for 5 Years

GLOBAL BUDGET			Millions of Dollars	Percentage of Total
ITEM	Schedule			
Long-Term Advisors	Schedule C		4.81	43.41%
Allowances	Schedule E		0.97	8.79%
Travel & Per Diem	Schedule E		0.22	1.99%
Short-Term Advisors	Schedule D		3.02	27.22%
Other Direct Costs	Schedule F		0.34	3.04%
Workshops	Schedule F		0.88	7.89%
Seminars & Symposia	Schedule F		0.29	2.63%
Publications	Schedule F		0.15	1.32%
Contingency	Schedule F		0.08	0.68%
Evaluation	Schedule F		0.11	0.99%
Audit	Schedule F		0.08	0.68%
Commodities	Schedule G		0.15	1.37%
Total AID			11.09	100.00%
GON Salaries and Administrative Expenses	Schedule F		1.59	
Total Project			<u>12.68</u>	

Table K-3

Schedule B

Breakdown of Expenses on a Fiscal Year Basis

	FYs 93-98	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Item	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Long-Term Advisors	4,814.2	425.0	892.5	937.1	984.0	1,033.2	542.4
Short-Term Advisors	3,018.5	546.3	573.6	602.3	632.4	664.0	0.0
Allowances	974.4	90.9	176.5	185.3	194.6	204.3	122.8
Travel & Per Diem	220.4	57.5	29.7	33.9	18.3	11.6	69.5
Other Direct Costs	336.9	43.7	60.7	65.2	70.0	75.4	21.9
Workshops	875.3	158.4	166.3	174.6	183.4	192.5	0.0
Seminars & Symposia	291.8	52.8	55.4	58.2	61.1	64.2	0.0
Publications	145.9	26.4	27.7	29.1	30.6	32.1	0.0
Commodities	152.1	103.5	11.2	11.2	11.2	11.2	3.8
Contingency	75.0	15.0	15.0	15.0	15.0	15.0	0.0
Evaluation	110.0	0.0	0.0	50.0	0.0	0.0	60.0
Audit	75.0	0.0	15.0	15.0	15.0	15.0	15.0
Total AID	<u>11,089.5</u>	<u>1,519.5</u>	<u>2,023.7</u>	<u>2,176.9</u>	<u>2,215.5</u>	<u>2,318.5</u>	<u>835.4</u>
GON Salaries and Administrative Exp.	<u>1,592.7</u>	<u>140.6</u>	<u>295.3</u>	<u>310.0</u>	<u>325.5</u>	<u>341.8</u>	<u>179.4</u>
Total Project	<u>12,682.1</u>	<u>1,660.1</u>	<u>2,318.9</u>	<u>2,486.9</u>	<u>2,541.0</u>	<u>2,660.3</u>	<u>1,014.8</u>

Table K-3

Schedule C

Salaries and Wages of Long-Term Technical Advisors

	unit	FYs	FY	FY	FY	FY	FY	FY
LOE cost		93-98	1993	1994	1995	1996	1997	1998
p-y \$000		\$000	\$000	\$000	\$000	\$000	\$000	\$000
LONG-TERM PERSONNEL								
Economist-PhD-COP	5 90	1,019.5	90.0	189.0	198.5	208.4	218.8	114.9
Operations Coordinator	5 35	396.5	35.0	73.5	77.2	81.0	85.1	44.7
Long-Term Advisors (PhDs)								
MEDE	5 75	849.6	75.0	157.5	165.4	173.6	182.3	95.7
M. Finance	5 75	849.6	75.0	157.5	165.4	173.6	182.3	95.7
M. Finance	5 75	849.6	75.0	157.5	165.4	173.6	182.3	95.7
Central Bank	5 75	849.6	75.0	157.5	165.4	173.6	182.3	95.7
SALARIES (fully loaded)		<u>4,814.2</u>	<u>425.0</u>	<u>892.5</u>	<u>937.1</u>	<u>984.0</u>	<u>1,033.2</u>	<u>542.4</u>
Inflation		5%						
Multipliers: Long-Term Advisors		2.00	(covers fringe benefits, overhead, G&A, and fee)					
Short-Term Advisors		1.70	(covers overhead, G&A, and fee)					
Other		1.10	(covers G&A and fee)					
Number of Long-Term Advisors		6						
Number of PhD Advisors		4						
Number of Dependents		12						

Table K-3

Schedule D

Costs for Short-Term Technical Assistance

		FYs 93-98 \$000	FY 93 \$000	FY 94 \$000	FY 95 \$000	FY 96 \$000	FY 97 \$000	FY 98 \$000
	Daily Rate							
Short-Term Advisors (fully loaded)	360	2,110.2	381.9	401.0	421.0	442.1	464.2	
STTA Number of Days			624	624	624	624	624	
STTA Travel	800	126.4	22.9	24.0	25.2	26.5	27.8	
STTA local transportation	25	47.4	8.6	9.0	9.5	9.9	10.4	
STTA Lodging & ME&I	166	<u>734.5</u>	<u>132.9</u>	<u>139.6</u>	<u>146.6</u>	<u>153.9</u>	<u>161.6</u>	
TOTAL STTA		<u><u>3,018.5</u></u>	<u><u>546.3</u></u>	<u><u>573.6</u></u>	<u><u>602.3</u></u>	<u><u>632.4</u></u>	<u><u>664.0</u></u>	

Inflation 5.0%

Multipliers: Short-Term Advisors 1.70 (covers overhead, G&A, & fee)
Other 1.10 (covers G&A and fee)

	Ave. Daily Rate	Expert Unit Cost	Expert Ratio	Regular Unit Cost	Regular Ratio
Determination of the Short-Term Technical Advisor Average Daily Rate	\$360	\$480	25%	\$320	75%

Table K-2

Schedule F

Other Direct Costs and Government of Nicaragua Counterpart Expenses

	No. of unit units cost	FYs 93-98	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
OTHER DIRECT COSTS								
Workshops	24 30	875.3	158.4	166.3	174.6	183.4	192.5	
Seminars and Symposia	12 20	291.8	52.8	55.4	58.2	61.1	64.2	
Publications	6 20	145.9	26.4	27.7	29.1	30.6	32.1	
Contingency		75.0	15.0	15.0	15.0	15.0	15.0	
Evaluation	2 50	110.0			50.0			60.0
Audit	1 50	75.0		15.0	15.0	15.0	15.0	15.0
DBA (2.79% salary+ post diff)		100.1	14.6	23.8	24.9	19.8	14.1	3.0
Communications	5 12.0	84.7	6.6	13.2	15.2	17.6	20.3	11.7
Prof. Home Office Supp. (10%STTA)		124.1	22.5	23.6	24.8	26.0	27.3	0.0
Total Other Direct Costs		<u>1,881.9</u>	<u>296.2</u>	<u>340.0</u>	<u>406.9</u>	<u>368.5</u>	<u>380.5</u>	<u>89.7</u>
GON								
Professionals	5 2.08	557.4	62.5	131.3	137.8	101.3	60.8	63.8
Research Assistants	4 0.8	124.1	19.2	40.3	42.3	22.2	0	0
Administrative Expenses		613.4	73.5	154.4	162.1	111.2	54.7	57.4
Total GON Expenses		<u>1,294.9</u>	<u>155.2</u>	<u>326.0</u>	<u>342.3</u>	<u>234.7</u>	<u>115.5</u>	<u>121.2</u>
Inflation	5.0%							
Number of Long-Term Advisors			7					
Number of PhD Advisors			3					
Multipliers: Long-Term Advisors		2.00	(covers fringe benefits, overhead, G&A, and fee)					
Short-Term Advisors		1.70	(covers overhead, G&A, and fee)					
Other		1.10	(covers G&A and fee)					
GON		1.90	(covers GON administrative expenses)					
Long-Term Technical Advisors Salary			210.0	441.0	463.1	315.5	151.9	79.8
Short-Term Technical Advisors Salary			224.6	235.9	247.7	260.0	273.1	0.0
Post Differential of Long-Term Advisors			40.4	97.0	101.9	69.4	33.4	17.5

Table K-3

Schedule F

Other Direct Costs and Government of Nicaragua Counterpart Expenses

	No. of unit units cost	FYs 93-98	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
OTHER DIRECT COSTS								
Workshops	24 30	875.3	158.4	166.3	174.6	183.4	192.5	
Seminars and Symposia	12 20	291.8	52.8	55.4	58.2	61.1	64.2	
Publications	6 20	145.9	26.4	27.7	29.1	30.6	32.1	
Contingency		75.0	15.0	15.0	15.0	15.0	15.0	
Evaluation	2 50	110.0			50.0			60.0
Audit	1 50	75.0		15.0	15.0	15.0	15.0	15.0
DBA (2.79% salary+ post diff)		128.0	14.7	23.9	25.1	26.4	27.7	10.2
Communications	5 12.0	84.7	6.6	13.2	15.2	17.6	20.3	11.7
Prof. Home Office Supp. (10%STTA)		124.1	22.5	23.6	24.8	26.0	27.3	0.0
Total Other Direct Costs		<u>1,909.8</u>	<u>296.3</u>	<u>340.2</u>	<u>407.1</u>	<u>375.1</u>	<u>394.2</u>	<u>94.0</u>
GON								
Professionals	4 2.08	566.4	50.0	105.0	110.3	115.8	121.6	63.8
Research Assistants	5 0.8	271.9	24.0	50.4	52.9	55.5	58.3	30.6
Administrative Expenses		754.4	66.6	139.9	146.9	154.2	161.9	85.0
Total GON Expenses		<u>1,592.7</u>	<u>140.6</u>	<u>295.3</u>	<u>310.0</u>	<u>325.5</u>	<u>341.8</u>	<u>179.4</u>
Inflation	5.0%							
Number of Long-Term Advisors			6					
Number of PhD Advisors			4					
Multipliers: Long-Term Advisors		2.00	(covers fringe benefits, overhead, G&A, and fee)					
Short-Term Advisors		1.70	(covers overhead, G&A, and fee)					
Other		1.10	(covers G&A and fee)					
GON		1.90	(covers GON administrative expenses)					
Long-Term Technical Advisors Salary			212.5	446.3	468.6	492.0	516.6	271.2
Short-Term Technical Advisors Salary			224.6	235.9	247.7	260.0	273.1	0.0
Post Differential of Long-Term Advisors			40.9	98.2	103.1	108.2	113.6	59.7

Table K-2

Schedule G

Commodities

	No. of units	unit cost	FYs 93-98	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Vehicles	2	10,000	20.0	20.0					
Desktop Computers	7	3,000	21.0	21.0					
Portable Computers	2	4,500	9.0	9.0					
UPSs	7	350	2.5	2.5					
Laser Printer I	1	2,000	2.0	2.0					
Laser Printer II	3	1,000	3.0	3.0					
CD-ROM Reader	1	800	0.8	0.8					
CD-ROM Disks	5	1,000	5.0	1.0	1.0	1.0	1.0	1.0	
Software	9	1,500	13.5	13.5					
Office Furniture	7	4,000	28.0	28.0					
Books	400	25	10.0	2.0	2.0	2.0	2.0	2.0	
Journals	50	50	2.5	0.5	0.5	0.5	0.5	0.5	
Newsletters	10	100	1.0	0.2	0.2	0.2	0.2	0.2	
Facsimile	1	800	0.8	0.8					
Photocopier	1	1,000	1.0	1.0					
Office Supplies			30.0	3.0	6.0	6.0	6.0	6.0	3.0
Insurance	15	500	7.5	0.8	1.5	1.5	1.5	1.5	0.8
Shipping									
Vehicles	2	800	1.6	1.6	0.0	0.0	0.0	0.0	0.0
Office Equip. (Air)	5	350	1.8	1.8	0.0	0.0	0.0	0.0	0.0
Total			<u>160.9</u>	<u>112.4</u>	<u>11.2</u>	<u>11.2</u>	<u>11.2</u>	<u>11.2</u>	<u>3.8</u>

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ANNEX H: ENVIRONMENTAL THRESHOLD DECISION

Initial Environmental Examination (IEE)

Project Location: Nicaragua

Project Title: Economic Policy Analysis and Implementation (EPAI)

Project Number: 524-0339

Life of Project: Four and one Half Years

Authorized Funding: \$8.0 million

IEE Prepared by: Lawrence Odle/PDIS 

IEE Cleared by: Ralph Conley/Mission Environmental Officer (IN DRAFT)

Project Description:

The goal of the EPA project is to help create a macroeconomic and structural adjustment policy framework conducive to investment and increased competitiveness, diversification, and participation in the economy. The project's purpose is to improve the short-term capability of the GON to analyze, design and implement sound macroeconomic and structural adjustment policies. The project will provide short- and long-term technical assistance as well as finance seminars, workshops and publications to facilitate decisions in the areas of financial, fiscal, monetary, exchange rate, labor and trade policy.

Environmental Analysis

Under 22 CFR 216.2 (c)(2) (i) and (iii) it has been determined that AID-funded activities such as technical assistance, training, analyses, studies, workshops and meetings generally do no impact on the environment except to the extent such programs include activities directly effecting the environment (such as construction of facilities) and, as such fall within the Categorical Exclusion criteria i.e. further environmental analyses are not required. The Economic Policy Analysis and Implementation Project does not envision the construction of facilities, rather it will provide funds for technical assistance; hence it fits within this Categorical Exclusion category.

Recommendation

The Mission recommends that the Economic Policy Analysis and Implementation Project be given a Categorical Exclusion determination and that no further environmental studies be undertaken of project activities.



Janet Ballantyne
Director
USAID/Nicaragua



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-93-06

REQUEST FOR A CATEGORICAL EXCLUSION

Project Location : Nicaragua
Project Title : Economic Policy Analysis and
Implementation (EPAI)
Project Number : 524-0339
Funding : \$8.0 million
Life of Project : 4.5 years
IEE Prepared by : Lawrence Odle/PDIS
Recommended Threshold Decision: Categorical Exclusion
Bureau Threshold Decision : Concur with Recommendation
Comments : None

James S. Hester Date *December 17, 1992*
 James S. Hester
 Chief Environmental Officer
 Bureau for Latin America
 and the Caribbean

Copy to : Janet Ballantyne, Director
USAID/Nicaragua
 Copy to : Lawrence Odle
USAID/Nicaragua
 Copy to : Ralph Conley, MEO
USAID/Nicaragua
 Copy to : Wayne Williams, REA/CEN
ROCAF
 Copy to : Jim Hradsky, LAC/DR/CEN
 Copy to : Letitia Buttler, LAC/CEN
 Copy to : IEE File

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ANNEX I: NPD APPROVAL MESSAGE

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR/LAC

FROM: LAC/CEN, Stacy Rhodes *WR*
SUBJECT: Review of FY 1993-94 Action Plan for Nicaragua

Action Requested: Approval of the Nicaragua Action Plan for 1993-1994

Discussion: The FY 1993-94 Action Plan Review for Nicaragua was chaired by AA/LAC James Michel on January 21, 1992. The Mission was represented by Director Janet Ballantyne and Program Officer Todd Amani. AA/LAC opened the review with strong words of praise both for the extraordinary performance of Nicaragua during its first year of economic stabilization, and for the excellent support the Mission has provided for these achievements under the leadership of Director Ballantyne. AA/LAC underlined the challenge and frustration of working with this newly democratic country of the verge of economic growth at a time when foreign aid resources are shrinking within the region. The consensus of the review was that A.I.D. must continue to support Nicaragua's efforts toward economic growth while recognizing the reality of today's foreign assistance budget.

ISSUE: Is it appropriate for USAID/Nicaragua to be working towards seven strategic objectives as described in the Action Plan? Given possible cuts from planned funding levels, what priorities should be applied to budgetary decisions relative to the new starts/amendments programmed for FYS 1992-94 (particularly those funded with ESF)?

DECISION: The Mission should not include increased participation in the economy as a separate strategic objective but rather track performance under this theme within the context of increased competitiveness and diversification of the economy. While A.I.D. would like to see Missions focusing scarce resources on fewer objectives, the Bureau recognizes the special circumstances of this new and very visible program and therefore approves six strategic objectives for the Nicaragua program. The AA/LAC expressed disappointment with the low level of multilateral and other bilateral donor support that appeared available at this point in time. As U.S.G. resources appear to be declining in the region, additional IFI funds will be needed to sustain the stabilization process. LAC/DPP will work with STATE/ARA/ECP to review overall levels of IFI resources going to Central America in general and to focus attention on the need to increase flows to Nicaragua. Washington agencies have been asked to help in the process of donor mobilization. In this regard the recent

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Consultative Group meeting on Nicaragua represented a very positive effort at increasing other donor flows to Nicaragua.

ISSUE: Is LAC'S country performance rating of Nicaragua an accurate assessment of the progress achieved by the GON?

DECISION: The LAC Bureau will refine the rating process to ensure that Missions have sufficient opportunity to provide what they consider to be accurate and timely data for the decision making process. Application of the performance rating system will be linked more closely to real time budgets rather than considering current performance to determine DA levels two years down the line. The Mission is encouraged to work with DPP to ensure that the most current and accurate performance information is available for consideration.

ISSUE: Can the current planning levels for the FY 1993-94 PL-480 Title III Program (\$17 million annually) be increased to meet balance-of-payments and food security needs as defined by the Mission (\$25-30 million per year)?

DECISION: The LAC Bureau recommends that the commodity mix be made as inclusive and expansive as is possible; FHA informs us that currently there are no policy restrictions on including non-food commodities in the mix, and tallow has specifically been included in another program. When the Mission submits its proposal for Title III, it must make the linkage to food security regardless of commodity type. Regarding tallow specifically, FHA cannot guarantee its availability for FY 93 as the FY 93 docket will not be determined until the beginning of the fiscal year.

ISSUE: Will there be a continuing need for OAS/CIAV activities in Nicaragua? If so, what should these activities include and how will these activities be funded?

DECISION: The LAC Bureau agreed with the Mission that there may still be a need for the protection and verification services offered by CIAV after the present expiration date of June 1992. We understand an additional \$3.1 million is being made available for the reduced program this fiscal year. If the GON would like to see CIAV/OAS broaden its scope beyond verification and protection services and to extend activities beyond June 1992, we believe it should explore the possibility of locating other donor funding for those efforts. Indeed, the time for a multi-donor effort at funding OAS activities is upon us and we should support a more appropriate division of burdensharing for these local programs.

PORTFOLIO REVIEW:

A. FY 1992 PROJECTS

1). Employment Generation sub-project (0301.03): Mission is granted programmatic concurrence to develop this amendment and

the Mission Director is delegated authority to approve final documentation. It is understood that this amendment is a bridge to GON/other donor financing and represents the final phase of this sub-project.

2). Decentralized Health Services (0327): Mission is granted programmatic concurrence to develop this six-year project and authority to approve final documentation is delegated to Mission Director. Project design should address the commitment of MINSA to decentralize and the possible role regions will play in the decentralization process. To avoid overlap and strengthen donor cooperation in this sector, the Mission is encouraged to coordinate closely with other donors in the health sector.

3). Public Sector Financial Management Reform Project (0330): LAC grants programmatic concurrence to the Mission to develop this three-year project.

B. FY 1993 PROJECTS

1). Economic Recovery and Development (0333): LAC agrees with the overall intent and focus of the proposal. Issues relating to policy reform agenda and implementation modalities will be revisited next fiscal year when Mission Concept Paper is reviewed. The Mission's proposal will be expected to be consistent with overall agency policy at that time.

2). Economic Policy Analysis (0339): Programmatic concurrence to develop this five-year project was granted. It is understood that INCAE will be eligible to compete for contracts under this project or other USAID activities.

3). Private Sector Support Amendment (0317): Programmatic concurrence to develop this two-year amendment was granted. It is understood that the Mission will not target micro-enterprises under this amendment, but efforts will be made to extend COSEP's membership to include smaller enterprises.

4). Legal and Regulatory Judicial Reform (0340): After completing the Judiciary System Assessment, the Mission will review the design and consider ways of supporting a transparent judicial process while clearly separating the judicial from the trade and investment agenda. Recognizing limitations on Mission staff, LAC/DI will assist Mission in project design. The Mission should consider drawing on expertise in the region wherever possible to work within a regional approach. When ready, the Mission will provide LAC with a reporting cable on its proposed design and request program concurrence from AID/W.

5). Strengthening Municipal Institutions (0341): Based on the scheduled Municipal Sector Assessment, the Mission will submit a revised NPD for AID/W review. It is understood that any Cordoba resources provided to municipalities in conjunction with this project will not be associated with A.I.D.'S ESF programs.

6). Natural Resources Non-Project Assistance (0336): Programmatic concurrence to develop this NPA activity was granted. However, due to the need to define performance conditionality more fully, and define uses of dollar and local currency resources and NPA mechanisms, a Concept Paper will be submitted for AID/W review.

7). P.L. 480 Title III Food for Development: The Mission should develop this program. The Mission was informed that local currency generated from this program may be used for budgetary support to the GON if Cordobas promote policy reforms related to food security, including nutritional issues, and agriculture sector privatization. The Mission was advised to emphasize GON/USAID efforts to design and implement a food security plan when it submits its Title III proposal to AID/W for review.

C. FY 1994 PROJECTS

1). Economic Recovery and Development II (0342): See comments under ERD I. The program will be included in the FY 1994 ABS.

2). Private Agricultural Services Amendment (0315): This amendment will be included in the FY 1994 ABS.

3). Health Care Financing NPA (0337): This NPA will be included in the FY 1994 ABS.

CLARIFICATIONS:

Clarification 1: Timing for submission of baseline data on performance indicators. The Mission will be expected to begin reporting on available baseline data and performance targets in the FY 94-95 Action Plan. At present data are still scarce in Nicaragua but the IFIs are expected to begin generating reports this year. The Mission was requested to work closely with the IFIs to avoid duplication of effort and to assess what assistance it can or should provide to the GON to aid in development of baseline data.

Clarification 2: Regional cooperation and support of regional and centrally funded projects to Mission objectives. Given the scarcity of ESF and DA and the probability that these levels will be decreasing throughout the Bureau, USAID/Nicaragua should continue to avail itself fully of any appropriate centrally funded, or regionally funded activities which support the strategic objectives of the program. Wherever possible the Mission should work to leverage other bilateral and multilateral funds as well.

Clarification 3: Reduced paperwork for project design and decentralization of authorization authority. The LAC Bureau anticipates that Handbooks 1-4 will be rewritten to reduce design paperwork. LAC will allow Missions to move directly from the NPD to the PP if the Mission Director determines that sufficient design and analytical work has been accomplished. Until DOA No.

752 is rewritten, the authority to authorize new and amended projects that have LOP funding in excess of \$20 million and \$30 million respectively will continue to be delegated to Mission Directors on an ad hoc basis.

Clarification 4: Mission proposes to use \$2.5 million of local currency from its OE trust fund in FY 1992 to exercise a purchase option on the building it currently leases. The LAC Bureau supports this proposal. While we understand that FA/B also supports the substance of this proposal, it appears that the additional trust fund cap needed for this purpose during FY 92 will not be available. We suggest the Mission include a write-up on this in the FY 94 ABS, with emphasis on cost/benefit.

Clarification 5: USAID/Nicaragua's Internal Control Assessment noted several areas of management control vulnerability caused by lack of experience FSN staff. The Bureau encourages the Mission to continue seeking good local staff and to keep up its on-the-job and other training programs to improve their skills. Given the high priority of this program and the fact that the Mission is in a first phase of project development and implementation, the LAC Bureau has agreed to maintain USAID/Nicaragua FTES at their present level during FY 93, and will do its best to maintain that level in FY 94.

Clarification 6: USAID assistance to the Atlantic Coast region. While activities specifically targeted at the Atlantic Coast are scheduled to phase out in FY 94, USAID will continue to consider this region in all project design along with other areas of the country as appropriate.

OTHER ISSUES RAISED:

A. Democratic Initiatives: At present the Mission portfolio is aimed primarily at strengthening governance and municipal institutions. In the interests of keeping development of all institutions at an equal pace, the Mission should explore ways to deepen its democracy initiative through establishing an Administration of Justice program concurrently with these other activities. The Mission should look for ways to engage regional institutions, such as ILANUD, in this process.

Recommendation: That you approve the Nicaragua 1993-94 Action Plan review as described above.

Approved: JAM

Disapproved: _____

Date: 5/29/92

LAC/CEN:DS Ponasik:5/29/92:ACTPLN.MEM

Clearances:

LAC/CEN:TC-Wagner (draft)
LAC/DR/CEN:MSilverman (draft)
LAC/DR:PBloom (draft)
LAC/DPP:EZallman (draft)
LAC/GC:GWinter (draft)
OPS/PRC:LFogers (draft)
ARA/CEN:TSmith (draft)
DAA/LAC:ASWilliams (draft)
SA-AA/LAC:KHarbert (draft)

ANNEX J: COMMODITIES

The summary commodity budget for the Project is presented in the table below. Both foreign exchange (FX) and local currency (LC) costs for the life of the project are shown. Total project costs are presented, along with an estimated cost for commodities in each fiscal year of the project. A description of the line items follows the budget.

Commodities								
	No. of unit	unit cost	FYs 93-97	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Vehicles	2	10,000	20.0	20.0				
Desktop Computers	7	2,500	17.5	17.5				
Portable Computers	2	3,500	7.0	7.0				
UPSs	7	350	2.4	2.4				
Laser Printer I	1	2,000	2.0	2.0				
Laser Printer II	3	1,000	3.0	3.0				
CD-ROM Reader	1	600	0.6	0.6				
CD-ROM Disks	5	1,000	4.5	1.0	1.0	1.0	1.0	0.5
Software	9	1,500	13.5	13.5				
Office Furniture	7	3,000	21.0	21.0				
Books	400	25	9.0	2.0	2.0	2.0	2.0	1.0
Journals	50	50	2.0	0.3	0.5	0.5	0.5	0.2
Newsletters	10	100	0.8	0.1	0.2	0.2	0.2	0.1
Facsimile	1	800	0.8	0.8				
Photocopier	1	1,000	1.0	1.0				
Office Supplies			24.0	3.0	6.0	6.0	6.0	3.0
Insurance	15	500	6.0	0.7	1.5	1.5	1.5	0.8
Shipping								
Vehicles	2	800	1.6	1.6	0.0	0.0	0.0	0.0
Office Equip.	5	350	1.8	1.8	0.0	0.0	0.0	0.0
Total			138.5	99.3	11.2	11.2	11.2	5.6

Vehicles

Two vehicles are proposed for the Project. The vehicles should be mid-size 4-door, 2 wheel-drive sedans with air conditioning and fuel efficient, 4 cylinder engines. The cars are for in-town transportation. The cars should be large enough to carry one driver and 3

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passengers. The estimated cost for the cars is approximately \$10,000 each. Vehicles with low cost maintenance history for which spare parts and quality maintenance service is readily available in Managua should be procured.

Computers

One microcomputer per staff member is proposed for the Project. The computers should have the following minimum configuration:

- 80486 33 Mhz processor
- 5 Mb of RAM
- 120 Mb hard drive or greater
- Color SVGA monitor and controller card
- 1 3½ inch floppy drive and 1 5¼ inch floppy drive.
- Mouse pointing device
- MSDOS 5.0 compatible
- Tape backup

Two portable computers are also to be purchased for staff members to use. The portable computer should be battery-powered, weigh no more than 8 lbs, and have a minimum battery life of 2½ hours. The requirement of a 5¼ floppy drive and color monitor can be waived for the portables.

These minimum standards are important to help insure that the systems purchased will have the longest useful life possible. The contractor should purchase the best and most powerful systems possible given the budget constraints. Contractor procurement of the computers is recommended to expedite procurement and to insure that the best price for the latest equipment within a tight time frame.

Uninterruptable Power Supplies (UPS)

Each of the desktop systems purchased for the project should be protected from power surges and outages by UPSs which have a capacity to support twice the rated wattage requirements of the desktop systems.

Printers

It is recommended that the project purchase 4 laser printers, one for MEDE, two for the Ministry of Finance, and one for the office of the Chief of Party and Office Coordinator. The printers should have at least 4Mb of memory for high quality graphics and should have scaleable fonts (TrueType or Postscript). Printer consumables (e.g., toner and belts) should be relatively easy to maintain and acquire in the local market. Cartridge-based consumables, though slightly more expensive, reduce the chance that the printer will be down for long periods of time because parts and maintenance are not available. Three low volume printers (e.g., HP IIP or IIIP) and one high volume printer (HP IIIsi) are recommended.

CD-ROM Reader

It is recommended that the project acquire a CD-ROM reader, since several useful (and very large) data sets are now available in this format (for example, the IMF's International Financial Statistics, Balance of Payments Statistics, Direction of Trade Statistics, and Government Finance Statistics). Any reputable brand with the ability to read 680 Mb CD-ROM disks with reasonable read/write throughput (greater than 175 Kb per second) will be sufficient. A budget to purchase CD-ROM disks has also been provided.

Software

The software requirements for the Project include:

- 9 copies of WordPerfect 5.1 with Spanish dictionary and thesaurus
- 9 copies of a spreadsheet program (Lotus 1-2-3 compatible)
- 4 copies (at least) of a statistical package (e.g., Shazam, TSP)
- 4 copies of a database program
- 9 copies of MSDOS 5.0
- 9 Windows 3.1 or greater
- 4 copies of a graphics program
- 1 copy of an accounting software package
- Utilities: file backups, disk management, disk data recovery, expanded memory manager

Facsimile

It is recommended that one facsimile machine be purchased by the Project and located in the office of the Chief of Party and Operations Coordinator. It should have the following specifications:

- Communications Protocol 3
- 9600 Baud Receive/Send
- 20 page memory
- 25 page feed

It is also recommended that the Project purchase a plain-paper fax. The higher upfront cost will be more than offset by the reduced paper costs during the life of the Project. Additionally, output from a plain-paper fax is easier to handle and store.

Photocopier

A small business/personal copier for the office of the Chief of Party and Operations Coordinator should be acquired. The copier should be a toner and drum type cartridge system. These copiers can be purchased for as little as \$800 in the U.S. Copiers like a Canon PC6 or PC7 perform reliably and have low maintenance requirements in the field. A sufficient supply of toner cartridges should be shipped with the copier.

ANNEX K: ILLUSTRATIVE SCOPES OF WORK FOR TECHNICAL ASSISTANCE

Technical assistance needs will vary as the economy evolves. At the present time technical assistance is needed in several specific ministries and there are several economy-wide issues which must be addressed. Generally, long-term assistance will concentrate on specifying fundamental problems, whereas economy-wide and emerging issues will be addressed through specific studies to be undertaken with the use of short-term advisors of very high caliber.

The strategy for delivering technical assistance seeks to preserve the maximum degree of flexibility in addressing current and emerging priorities in an economy-wide framework. This will be achieved by establishing the project coordination responsibility at the Ministry of Finance, because this ministry has been the key point of contact and negotiation with the international financial institutions, the donors, and with other institutions in the economy. All long-term and short-term assistance will be coordinated by the contractor's Chief of Party in consultation with the GON Project Director in the Ministry of Finance and the USAID Project Manager.

K.1. Scopes of Work for Chief of Party and Operations Coordinator

The project will supply a Chief of Party/Technical Advisor and an Operations Coordinator to manage project activities, who will be located in the Ministry of Finance. The following section addresses the specific responsibilities and qualifications of the Chief of Party and the Operations Coordinator.

K.1.a Chief of Party

The Chief of Party/Technical Advisor should be a highly qualified Ph.D. economist with extensive experience in macroeconomic policy issues. S/he will need to be familiar with all macroeconomic areas that affect a small, open, developing economy. In addition, the Chief of Party/Technical Advisor should have enough seniority and experience to command the respect of, and be able to obtain consultative meetings with, high level officials in the GON.

Specific responsibilities of the Chief of Party include the following:

Initiate analyses and policy design efforts in the areas of stabilization, structural adjustment, and pricing, including monetary and fiscal policies, exchange rate policy, financial markets, deregulation issues, and labor market issues.

Formulate the overall policy agenda for the Project.

Coordinate work among the long-term technical advisors in the Economic Policy Unit and ensure that the project activities are carried out in an integrated fashion.

Work closely with other donors to coordinate economic technical assistance.

Work in cooperation with the AID Project Officer and the GON Project Manager to coordinate work plans and technical assistance requests to focus on key policy issues and to take advantage of complementarities in light of changing economic circumstances and policy priorities.

Advise the Minister of Finance on issues related to policy options and the country's economic performance.

Review work plans and requests for technical assistance to insure compliance with the Project Agreement and the Technical Assistance contract.

Identify areas which would require short-term technical assistance.

Assist in the preparation of scopes of work for requested short-term technical assistance.

K.1.b Operations Coordinator

The Operations Coordinator will:

Be responsible for day-to-day management and commodity procurement for the Project.

Provide Project reports and financial reports to USAID on a timely basis.

Coordinate the activities of short-term advisors when they are in country

Provide logistical support for high level symposia and policy seminars.

Assist in the publication and distribution of documents containing the work done under the project and coming out of the high level symposia.

The Operations Coordinator should have some college education (a B.A. degree is preferred) and 5 years experience in office administration.

K.2 Scopes of Work for Long-Term Advisors

The long-term policy advisors will be assigned (or seconded) to specific ministries or government entities as required for periods of time needed to address the relevant policy issues. The long-term assistance needs have been identified for a number of policy areas according to priorities in the current set of policy problems and issues.

Based on an analysis of perceived needs and the institutional assessment, the following long-term technical assistance advisors are proposed:

Macroeconomist/Stabilization Program Advisor (Economic Policy Unit/Ministry of Finance)

Macro/microeconomist/Structural Adjustment and Sectoral Issues (Economic Policy Unit/Ministry of Finance)

Macroeconomist/Deregulation Advisor (Ministry of Economy and Development)

Economic Analysts (2) (Economic Policy Unit/Ministry of Finance)

All long-term advisors must have the ability to work closely with high-level officials in a collegial advisory capacity. Prior successful experiences in this role in a Latin American country that has undertaken significant economic reforms would be highly desirable. Minimum qualifications for each advisor is fluency in speaking, reading, and writing Spanish at the S-3 level prior to arrival in country and work experience in developing countries.

The general responsibilities of all long-term advisors include the following:

- Collaborate in the identification of policy agendas
- Collaborate in the design and implementation of economic policies
- Produce research and gather the data and information necessary to implement the policy analysis agenda
- Strengthen the staff at the collaborating ministries
- Assist in strengthening ties within government entities, with the private sector, and with appropriate donors to foster effective policy dialogue
- Draft scopes of work for short-term technical assistance and participate in and supervise these efforts
- Collaborate in inter-ministerial policy studies on economy-wide issues

The following sections address the specific responsibilities and qualifications of each long-term advisor.

K.2.a Macroeconomist/Stabilization Program Advisor (Economic Policy Unit/Ministry of Finance)

This advisor will work with the Ministry of Finance and the Central Bank in the analysis, monitoring, and implementation of fiscal and monetary measures in the stabilization program. Some of the important issues this person must be able to address will require an ability to interact professionally with monetary macroeconomists and financial sector experts.

Advise the Minister and key ministry personnel on issues related to tax impact on macroeconomic aggregates; impact of changes in tax policy on fiscal situation. The advisor should focus on effective tax reform, tax buoyancy.

Help to develop and implement open market operations (i.e., Central Bank financial instruments) and to develop capital markets.

Help to develop and implement monetary instruments such as an interbank credit market and a discount window.

Assist in the development of diagnostics for monetary policy changes and economic problems as they develop.

Advise the Minister of Finance and the President of the Central Bank and key ministry personnel on issues of fiscal and monetary policy analysis and implementation.

Provide assistance on preparation of policy analysis and documents for discussion of policies between the government and multilateral donors.

Assist in the development of position papers, briefing papers, concept papers, information request relevant to and concerning the country's economic performance.

Work in coordination with the public and private sectors in the analysis, design, and promotion of policies which foster economic growth and development.

Prepare studies and materials necessary to undertake seminars and workshops on fiscal and monetary policies, support efforts to organize seminars and workshops, and follow-up on their results.

Maintain dialogue with and contact at senior policy levels in GON

Assist in drafting scopes of work and other procurement documentation for short-term technical assistance.

The advisor should have a Ph.D. in Economics with at least 4 years experience in the areas of monetary and fiscal policy.

K.2.b Macroeconomist/Structural Adjustment and Sectoral Issues (Economic Policy Unit/Ministry of Finance)

This advisor will work on issues related to the stabilization and structural adjustment programs. S/he must have a thorough understanding of macroeconomic issues (e.g., sufficient to interact professionally with monetary macroeconomists and financial sector experts) and a solid background in microeconomics.

Prepare studies related to the inter-relationship between macroeconomic and structural adjustment programs, and provide diagnostics for policy changes and economic problems as they develop.

Provide assistance in preparing policy analyses and documents (e.g., policy framework paper, letter of intent, country economic memorandum) for discussions between the government and multilateral donors.

Provide the Minister with policy options in key program areas.

Assist in the development of position papers, briefing papers, concept papers, information requests concerning the country's economic performance.

Work in the preparation of diagnoses for policy changes and economic problems as they develop.

Prepare studies and materials necessary to develop a medium term-development plan for the country.

Maintain dialogue with and contact at senior policy levels in GON

Assist in drafting scopes of work and other procurement documentation for short-term technical assistance.

The advisor should have a Ph.D. degree in Economics with at least 4 years experience in the field of macroeconomics and structural adjustment programs.

K.2.c Macroeconomist/Deregulation Advisor (Ministry of Economy)

This advisor will work with the Ministry of Economy on real sector issues such as deregulation, competitiveness, price issues and analysis of specific sectors.

Assist the Ministry of Economy and Development in analyzing issues related to price competitiveness and in developing a strategy for industrial growth.

Prepare studies in coordination with the Economic Advisory unit on the paradigm of market structure, conduct, and performance for the Nicaraguan Economy.

Work in coordination with the public and private sectors in the analysis, design and promotion of policies which foster growth in the real sector.

The advisor should have at least a masters degree in Economics (Ph.D. preferable) with at least 4 years experience in the field of market deregulation and industrial organization.

K.2.d Analysts

Two analysts will be required to work closely with the long-term advisors at the Economic Advisory Unit. These analysts should be able to carry out technical studies (under the direction of the Ph.D. advisors) to monitor the performance of the stabilization and structural adjustment measures.

Assist in the preparation of studies, materials, position papers, and, information requests relevant to and concerning the country's economic performance.

Assist in the development of diagnostics and simulations to assess the impact of policy changes.

Monitor developments and participate in policy dialogue activities with government technicians.

Work with the GON research assistants to develop and maintain a data base of economic statistics to support the technical studies.

The analysts should have at least a Masters degree in Economics with strong background in quantitative analysis. They should have had wide exposure to the different policy analysis techniques and models developed and used by the international donors (e.g. the World Bank, IMF, IDB).

K.3 Illustrative Scopes of Work for Short-Term Technical Assistance

High caliber technical assistance will be provided to undertake specific studies of important policy issues. These issues will include emerging policy problems that will require a rapid analysis and assessment as well as in-depth studies of fundamental issues. Efforts will be undertaken by the contractor to form an international network of high quality advisors to respond to emerging issues in collaboration with the long-term advisors and their counterparts. Ideally, the analysis of emerging issues through a "quick response" modality would be undertaken by analysts that have been actively working on in-depth studies. This will insure familiarity with the issues, problems, institutions and data for the Nicaraguan economy and, importantly, it will strengthen professional ties of the advisors with the high level officials and opinion makers who will use the results of the analyses.

A number of critical areas have been identified which require in-depth analysis. These are presented for illustrative purposes. The scopes of work for these studies serve as the basis for specifying the nature and qualifications of the short term advisors that would be accessed through the contractors network.

The SOWs for the studies are presented first, and followed by descriptions and qualifications of the short technical assistance advisors. These initial studies should be undertaken as soon as practicable after awarding the technical assistance contract. Additional in-depth and emerging issues studies would be identified by the COP and the long term

advisors in collaboration with their GON colleagues. Areas of short-term technical assistance have been identified for the first year of the project. These have been identified through dialogue with the ministries. Adjustment in the timing and technical area may be required for the rest of the project depending on the demand of the different ministries and based on the need assessment at that time. Among the studies requiring short-term technical assistance to be carried out by the project are the following:

Fiscal Reform and Implementation

Financial sector/banking system reform

Price competitiveness/deregulation

Tax information System

National accounts

Labor market analysis

Monetary instruments and development of market for short-term competitiveness

Impact of structural adjustment on employment, output, and poverty

Economic statistical base

Financial, Fiscal, and Output Impact of Privatization

Constraints to private investment

The general responsibilities of the short-term advisors include the following:

- Undertake state-of-the-art analyses of high priority policy issues and in-depth studies of fundamental economic problems in Nicaragua.
- Provide specific technical assistance and advice to the ministries under the guidance of the long-term advisor and the management of the relevant ministry based on results of in-depth or short-term policy studies.
- Prepare materials which will serve as the basis for seminars and workshops and other policy dialogue activities.
- Participate in seminars and workshops as presenters and panelists.

The short-term advisors should have the following qualifications:

- a) Academic credentials, institutional affiliations and other evidence of excellence in the analysis and formulation of policy reforms in open economies.
- b) Specialization in their area of expertise including practical implementation and policy dialogue experience in Latin American countries.
- c) FSI tested knowledge of Spanish at the S-3 level and the demonstrated ability to write and speak clearly for diverse audiences in seminars and other presentations in Spanish.
- d) Work experience in Latin America, preferably in countries with successful economy-wide reforms.
- e) Demonstrated commitment to work in Nicaragua and on Nicaraguan policy issues on a recurrent basis.
- f) A record for successful relationships as an advisor or professional colleague of high level officials.

K.3.a Fiscal Reform and Implementation

Nicaragua has recently moved from a tax revenue system based on taxation of international trade to one that relies more heavily on a sales tax. The objective is to move toward a more broad based and neutral tax system such as a value added tax.

The purpose of this short-term assistance is to evaluate the efficiency, equity and elasticity of the new tax system. It should present estimates of the incidence of taxation on the allocation of resources, production, and government revenues. It should also suggest sources of taxation that could provide revenue at low cost in terms of equity, efficiency and administrative simplicity.

The need for administrative simplicity and a broad based tax system is important because a significant part of the economy may be operating informally. As such the sales tax may be based on a very narrow base. Alternative sources of revenues could distort trade or the allocation of resources across sectors. Currently, taxes on fixed assets are not likely to be substantial source of revenues, because property rights are still being resolved and the accounting base for enterprises was almost totally destroyed by the hyperinflation.

Technical assistance is needed to assess the resource allocation, revenue and equity effects of the incidence of the current (new) tax system. An assessment of opportunities for broadening the tax base and neutralizing its incidence is also needed. These analyses must be undertaken in the context of the macroeconomic management strategy as well as the privatization process to insure that the tax system reinforces the overall economic strategy.

Experts will be needed in:

- . Public Finance
- . Value added and broad base taxes
- . Sectoral Economics

K.3.b Financial Sector and the Banking System

The financial sector is a critical area for reform because a flexible and efficient financial system is needed to mobilize domestic resources into growth activities. Such a system can also enhance the effectiveness of macroeconomic policy.

At the present time the financial intermediation system is very rudimentary and lacks private institutions and financial instruments needed by a market-oriented open economy to support an outward-oriented growth strategy.

There is an issue regarding the systematic reduction of targeting Central Bank lending through specific institutions to particular borrowers for particular uses. There is a need for greater reliance on the market mechanisms, particularly for medium-term investments.

The short-term advisors will work on issues related to development of the banking system. They will work on the establishment and implementation of the rules which will govern the banking system in Nicaragua to promote the creation of a multi-tiered modern private sector financial system.

A team of financial sector experts will be identified by the contractor in consultation with USAID and GON officials. The team will monitor the evolution of the stabilization program and the monetary policies to assess their impact on the deepening of the financial system and on the prospects for modernization of the financial sector.

Other members of the financial sector team will analyze the capacity of the private sector institutions to create and support savings and investments with modern instruments for banking, savings, trade finance, long-term and medium-term corporate finance, securitized lending, and second story financial intermediation. The results of this analysis will feed the formulation of policy and regulations for supervision of the banking system by the authorities.

The team approach is needed to maintain a close linkage between monetary policy and the development of a modern financial system.

Experts will be required in:

- . Open economy monetary policy
- . Financial sector reform and capital market development

. Banking regulation and supervision

K.3.c Deregulation and Price Competitiveness

The government of Nicaragua is in the process of deregulating the economy. In addition to the realignment of macroeconomic prices, there is a need to restore a market-based system of economic incentives which will lead to efficient resource use. This will mean the elimination of government interventions in the form of support prices and barriers to entry in the marketing of products.

The short-term advisors will work to establish more participation by the private sector, which will increase efficiency in the economy through the elimination of the monopoly position of government agencies. Analyses will be undertaken to monitor key tradable and non-tradable sectors regarding price formation and the effect of government intervention. These analyses are needed on a sectoral basis to assess the sectors' competitiveness given economy-wide prices, e.g., exchange rates, real interest rates, wage rates. The analyses are also needed to assess the effect of sectoral interventions on these economy-wide signals.

It is important to assess how deregulation induces the creation of more competitive markets and leads to price formation based on the interaction of market forces. As deregulation increases the competitiveness of markets, the efficiency of resource allocation will improve.

Regarding services such as insurance, finance, utilities, transportation (maritime and air) and infrastructure, it is very important that rigidities in these markets be evaluated for their direct impact on the cost structure of specific tradable products. High real costs arising from rigidities in these markets as a result of underinvestment, price controls or other interventions can severely restrict the expected effect of exchange rate devaluations on the output of tradables.

Technical assistance will be required in:

Economics of particular sectors, e.g., manufactures, financial services, transport, agriculture, utilities.

Industrial organization and deregulation.

K.3.d Tax Information System

Nicaragua's new tax system demands not only administrative simplicity, but also an information system that allows for broader coverage and expediency. A functioning tax information system will help prevent tax fraud such as underreporting and avoidance.

The following information is needed for an efficient tax system:

Summary of type of taxpayers, location, amount collected, number and amount of notices and arrears account.

Statistical data on tax sales, purchases and exemptions, number of returns received by tax period, and sales range.

Comparative data about amount collected for several tax periods, as well as various ratios (i.e., ratio of arrears and write-offs to collections).

Assistance will be required in computerized tax systems.

K.3.e National Accounts

Reliable analysis of the real economy is essential to the successful design and implementation of an economic stabilization plan. In Nicaragua, the information base needed for these analyses deteriorated badly during the 1980s, both from statistical problems caused by persistent inflation and devaluations, and from the lack of emphasis on maintaining a consistent information base.

The purpose of this study is to develop reliable estimates of the real economy to be used in macroeconomic analyses. This technical advisor will provide a comprehensive assessment of the current approach used for collecting and presenting data on national accounts. Similarly, the advisor is expected to conduct an assessment of GDP by sector based on the corrected methodology and information base and conduct an analysis of the real economy for Nicaragua for 1992.

The advisor will also work on the development of an ad hoc method to present monthly reports on indicators of economic activities. Additionally, s/he will consider alternatives and make recommendations for improving the national accounts and to get approximate output estimates by sector during the year based on the agricultural harvest, an index of industrial production, and other preliminary estimates.

Assistance will be required in the preparation of economic indicators.

K.3.f Labor Market Study

A USAID-funded study evaluated the structure, conduct and performance of the Nicaraguan labor market to identify and assess the nature of any rigidities arising from segmentation and/or government intervention in the wage determination process. The present study will analyze these structural aspects and measure their effect on competitiveness using existing data, which are sparse at best. Future analyses will rely on data produced by the living standards survey of households, improvements in the quality of the national accounts, and other data sources as appropriate.

The following analyses/information are needed to assess the role of the labor market in macroeconomic management and the prospect for growth in an outward-oriented strategy:

Basic analysis to assess the size and characteristics of the potential and future labor force; analysis of the living standards survey to determine the characteristics of the labor force in terms of a neoclassical human capital framework; analysis of the sources of household incomes and risk bearing mechanisms as determinants of labor supply to the productive sectors and; an assessment of living standards and poverty status in relation to occupation, sector of employment, informality, etc.

The above analyses will be vital to understanding the labor market from the supply side and in assessing the potential income and growth effects from increased economic activity. On the demand side, there is a need to clarify how informal market rigidities reduces the overall demand for labor in the formal sector. Capital-skill complementarities need to be measured to assess the role of investment and training in expanding the production and employment base.

Assistance will be required in: statistical analysis of the living standards survey and technical assistance to improve the employment and occupation statistical systems; analysis of poverty lines and other indicators of the need for social safety nets; and demographic analysis.

K.3.g Monetary Instruments and Development of Markets for Short-Term Instruments

In order to induce monetization of the economy and restore financial intermediation in Nicaragua, the creation of new financial instruments is necessary along with a clearly oriented credit and monetary policy. The design and implementation of prudential regulation and competition is also needed.

The purpose of this technical assistance is to identify and assist in the design of monetary instruments, such as stabilization bonds, which can be developed to provide more dynamic monetary and financial markets in the country. The advisor will also examine the possibility of establishing an interbank market destined to facilitate the process of financial intermediation.

Experts will be needed in financial and capital markets and in monetary issues.

K.3.h Impact of Structural Adjustment on Output Employment and Poverty

Results of the stabilization program in Nicaragua have been encouraging. Inflation has been brought under control, there has been an increased in financial saving, the exchange rate has been stable, the central government revenues have surpassed the targeted levels and the government operating deficit has been kept below target level (IDB, 1992).

However, structural adjustments usually have adverse effects on some of the more vulnerable groups of the population. Specifically, in the short-run, due to the realignment of relative prices and the reduction of public sector spending, the low-income group could be affected by the reduction of social services and public employment.

The short-term advisor will work on the impact of the structural adjustment measures on production, employment and poverty. The following questions will be the focuses of this analysis. Has the extent of poverty increased with the adjustment relative to what it would have been without the adjustment? How did initial conditions affect the outcome of the adjustment program? It is also important to assess the impact of the structural adjustment on welfare for the poor. For instance, there is a need to study the impact of trade liberalization and exchange rate correction on welfare gains for small producers or how the elimination of hyperinflation has halted the continuous deterioration of the real income of poor groups.

An important issue to analyze under this technical assistance is the impact of the reduction of the government participation in the economy on the distribution of income, resource allocation and employment both in the short-term and the medium-term.

K.3.i Data Base of Economic Statistics

The lack of timely and high-quality economic data restrain the ability of key GON ministries and international donors to assess the real impact of policy measures on the performance of the economy. Data on the performance of the main economic sectors and the economic aggregates on a timely fashion are very important to any effort related with economic stabilization and structural adjustment program.

The purpose of this technical assistance is to establish a data base at the Economic Policy Unit and improve data analysis and reporting on major economic aggregates. The advisor will work with the Ministry of Finance, the Central Bank and other institutions to define data requirements and sources to establish a computerized system for data entry and presentation.

The following analyses/information are needed to systematically assess the performance of the Nicaraguan economy:

- . Gross domestic product and monthly indicators of economic activity
- . Net investment growth
- . Consumer price index
- . Real exchange rate
- . Trade statistics (exports, imports)
- . Balance of payments statistics
- . Budget deficit of the public sector
- . Money supply and value of deposits in the banking system
- . International reserves of the banking system
- . Debt service statistics

Experts will be required in economic statistics and computerized data systems.

K.3.j Financial, Fiscal, and Output Impacts of Privatization

Since 1991 the GON has privatized 150 enterprises and projects the privatization of 90% of the government 351 enterprises by the end of 1993. The objective is to reduce the government intervention in areas that are better served by the private sector and return the enterprises previously owned by the private sector. The process of privatization has profound effects on the efficiency of the government and on welfare distribution.

The objective of this short-term technical assistance is to assess the impact of the privatization on production and productivity of the economy as well as the fiscal impact of the privatization process. The advisor will also recommend a divestiture mechanism for the enterprises still in the hands of the government as appropriate.

Another important issue is the impact of the non-performing loans currently held by the state-owned banks on sectoral competitiveness and macroeconomic performance. Most of these loans were made to state-owned enterprises that are being privatized. In addition, it is important to assess the impact of those non-performing loans on state banks's portfolios and the implications for the banking system.

K.4 Procedure for Selecting Short-Term Technical Assistance

The RFP will require that offerors present a technical approach for executing these studies and the specific personnel they would use to fulfil these SOW's. The budget will provide for professional support for short-term technical assistance at the home office of the contractor to support the following:

- . Contacts with IFI's
- . Scholars of specific issues
- . Access to data bases
- . Technical editing of reports
- . General professional quality control
- . Other professional referral service
- . Fiscal management