

PD ABH-408
85694

A.I.D. EVALUATION SUMMARY - PART I

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: USAID/NICARAGUA Evaluation Number: 93/3	B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY: 92 Q: 3	C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s); if not applicable list title and date of the evaluation report.)

Project No.	Project/Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (mo/yr)	Planned LOP Cost (000)	Amount Obligated to date (000)
524-0317	Private Sector Support	1991	6/30/93	5,500	5,500

ACTIONS

E. Action Decisions Approved by Mission Director - Actions Required:	Name of Officer Responsible for Action	Date to be Completed
1. Design of an amendment to the Private Sector Support project which will incorporate attainment of <i>personaria juridica</i> for the Center of Exports and Investment; support for export management information services and development of publications/promotional materials; establishment of "one-stop shops" for exports and investments; technical assistance services to individual firms that could be accessed by newly-privatized state-owned enterprises; expanded privatization activities that could include the state-owned electrical utility, agriculture marketing enterprise, and port facilities; long-term technical assistance to the Superintendency of Banks; specific training and technical assistance programs for private banks and the private financial sector; and financial sector studies.	Timm Harris, Tom McAndrews	12/93
2. Take action under the current PSS project to expand privatization activities to finance privatization of TELCOR operations, extend the contract of the Senior Advisor to the Superintendency of Banks, establish a delivery date for ongoing trade and investment studies, and promote the establishment of an export one-stop shop.	Tom McAndrews, Timm Harris	Completed
3. Explore potential training opportunities for private bank and Central Bank staff through the Development Training and EPAI projects.	Joe Ryan, Joe Williams, Tom McAndrews	12/93
4. Retain conditionality related to government action allowing private insurance as part of ESR-IV-a agreement.	Joe Ryan	Completed
5. Formalize use of Title III local currency for indemnity payments to workers of privatized agricultural firms through a MOU with the GON.	Brian Rudert	Completed

APPROVALS

F. Date of Mission Review of Evaluation: April 28, 1993

G. Approvals of Evaluation Summary and Action Decisions:

	Project Officer or Program Officer	Evaluation Officer	Representative of Borrower/Grantee	Mission Director
Name (Typed)	Timm Harris	Todd Amani		Janet Ballantyne
Signature				
Date	11/22/93	11/22/93		12/14/93

ABSTRACT

H. Evaluation Abstract: The assessment was part of an effort to re-examine the needs of the private sector in Nicaragua, as part of the process of considering amendments to the PSS project in light of changing economic conditions. The report assesses the Nicaraguan private sector and project progress specifically in order to recommend possible changes and additions to the three major components of PSS: trade and investment promotion; privatization of state-owned enterprises; and establishment of viable financial institutions. Overall, the team recommended that a concerted effort be made to incorporate linkages between PSS project components and GON macroeconomic policies, and that a greater effort be made to incorporate actual and expected feedback effects from the PSS and the Private Agricultural Services projects. The key conclusions and recommendations are as follows:

Trade and Investment - The Center for Export and Investment (CEI) has been established and is up and running. The operational effectiveness of the Center for Export and Investment (CEI) would be enhanced if it were to obtain status as an independent organization, and broaden its Board representation in the private and public sectors. The team recommended that CEI be expanded for broader participation, a core documentation center be established, priority be given to the design and implementation of CEI's information system, the "one-stop" services for export processing be a part of CEI, additional funding for staff to manage publications be made available, and that the institutional component of the PSS project be strengthened. The lack of political neutrality by COSEP was assessed as a factor which inhibits its success as a truly representative business organization.

Privatization - The CORNAP privatization program has been unexpectedly successful given the precarious political environment at inception. CORNAP's two goals of divesting state-owned enterprises rapidly to satisfy political requirements and reduce the drain on the public treasury have been achieved. Additional funding will be required to permit PW to complete its work, and CORNAP needs additional personnel to provide legal assistance and marketing support to maintain the pace of the program. There is considerable concern that poor management of some of the already privatized firms by workers and ex-combatants could unbalance the present delicate political stability. A source of cash for the payment of worker indemnities needs to be found. The team recommended that the PW buy-in be amended and increased by an additional \$400,000 to permit PW to complete its privatization work, CORNAP increase its capability to cope with legal and marketing problems, the PSS project be expanded to include training and TA, three principal public sector monopolies be privatized, and counterpart funds from USAID be made available for indemnity payments to workers.

Financial Services - The Senior Advisor to the the Superintendency of Bank (SBN) under the PSS project has done an outstanding job. With the assistance of the Senior Advisor and the Superintendent, the SBN has rapidly taken on the functions of an effective professional regulatory body. A new banking law has been drafted and is currently before the National Assembly for approval. In addition, the SBN Senior Advisor has been instrumental in drafting norms for the SBN, along with draft regulations for the Stock Market norms to permit the functioning of private insurance companies, financial analysis of the private banks, and establishment of a mechanism to allow permanent coordination with the Central Bank regarding regulation and coordination of the banking system. The Superintendency of Bank's (SBN) greatest need is to keep its Senior Advisor in place. The Banker's Association needs a minimal staff and a modest office to create a training institute and represent the banks. The Central Bank needs a fixed-term president and representation of private and state banks on its Board, and should be supervised by its own Board. Nicaragua needs legislation and investors to form private insurance companies and private pension plans. The team recommended that the Senior Advisor to the SBN's contract be renewed; various training programs for the SBN field inspectors, commercial bank staff, and Central Bank managers take place; a needs assessment for small and medium enterprise development be undertaken, the PW study on norms and needs of the SBN be updated, a grant be made to the Banker's Association, and a policy dialogue for private insurance and pension plans be drafted.

Other - A formal mechanism needs to be established to determine criteria to select, formulate, and implement studies. The most urgent requirement related to women in the private sector is for statistical information upon which USAID can base its assistance. The team recommended that activities which directly support investment and export and those which provide overall institutional development be distinguished.

COSTS			
I. Evaluation Costs			
Name	1. Evaluation Team Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)
Montegue Lord, Robert Laport, John Porges Chemonics		PCE-0001-I-00- 2051-00	\$59,328.
2. Mission/Office Professional Staff Person-Days (estimate): N/A		3. Borrower/Grantee Professional Staff Person-Days (Estimate): N/A	
Source of Funds			
Program Development and Support			

SUMMARY		
J. Summary of Evaluation Findings, Conclusions, and Recommendations (Try not to exceed three (3) pages)		
Address the following items:		
<ul style="list-style-type: none"> • Purpose of Evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) 	<ul style="list-style-type: none"> • Principal Recommendations • Lessons Learned 	
<u>Mission or Office:</u> USAID/Nicaragua	<u>Date This Summary Prepared:</u> June 17, 1993	<u>Title and Date of Full Evaluation Report:</u> Assessment of Private Sector Initiatives, April, 1993

The assessment was part of an effort to re-examine the needs of the private sector in Nicaragua, as part of the process of considering amendments to the PSS project in light of changing economic conditions. The report assessed the Nicaraguan private sector generally and project progress specifically in order to recommend possible changes and additions to the three major components of PSS: trade and investment promotion; privatization of state-owned enterprises; and establishment of viable financial institutions. The report also assessed project activities under the Studies and Surveys component, and examined component interrelationships. In general the team found the PSS project has contributed to improving the environment for investments and exports in Nicaragua, and effective support has been achieved in the divestiture of state-owned enterprises and the establishment of viable financial institutions. However, there have been considerable problems with trade and investment promotion because of a lack of clear focus and direction in promotion methods. Overall, the private sector initiatives sponsored by the PSS project, as well as by other donors and the GON, are not supported by macroeconomic conditions, and cannot be sustained in the long run.

On a general level, the team recommended that 1) a concerted effort be made to incorporate linkages between PSS project components and GON macroeconomic policies to ensure that real exchange rate policies, as well as monetary and fiscal policies, are conducive to sustainable expansion of trade and investment, and 2) a greater effort be made to incorporate actual and expected feedback effects from the PSS and the Private Agricultural Services projects to assess the impact of changes in nontraditional exports and improved services on export and investment promotion needs, and the effects of trade and investment promotion on the ability and willingness of the agricultural sector to develop nontraditional exports.

Conclusions and Recommendations Related to Trade and Investment

The Center for Export and Investment (CEI) has been established and is up and running. A computerized information database is being established, and plans are underway for the development of a one-stop service center in CEI. However, the assessment team noted that the operational effectiveness of the CEI would be enhanced if it were to obtain status as an

independent organization, and broaden its Board representation in the private and public sectors. Many of CEI's operations might eventually be funded on a fee basis. The assessment team felt that there is duplication of effort by CEI and APENN, the local association of non-traditional exporters. In addition, the lack of political neutrality by COSEP was assessed as a factor which inhibits its success as a truly representative business organization.

The team recommended that CEI be expanded for broader participation. Initially the Board of Directors should be expanded to include four ministries, four private sector organizations, two Nicaraguan company CEOs, one multinational CEO, and the INCAE Rector. A Consultations Committee and a Donor Committee should be formed as part of the Board. Regular monthly meetings between MEDE, CEI, and Carana in order to reduce duplication of effort should be held. They also advised that a core documentation center in CEI be established. The team emphasized that priority be given to the design and implementation of CEI's information system, that the "one-stop" services for export processing become a part of CEI, and that additional funding for staff to manage publications and promotional materials be provided.

Conclusions and Recommendations Related to Privatization

Price Waterhouse is well on the way to fulfilling its obligations under the scope of work, and nearly two thirds of the firms in CORNAP's portfolio have been divested. The CORNAP privatization program has been unexpectedly successful given the precarious political environment at inception. The GON has done its best to live up to commitments to workers, ex-combatants, and former owners of confiscated properties. CORNAP's two goals of divesting state-owned enterprises rapidly to satisfy political requirements and reduce the drain on the public treasury have been achieved. However, the GON's third objective - realization of significant revenue to permit the redemption of bonds given to former owners for confiscated properties - has not been accomplished. Additional funding will be required to permit PW to complete its work. There is considerable concern that numerous failures of worker and ex-combatant-owned enterprises, due to a lack of management skills, could spoil the success that privatization has achieved to date and unbalance the present delicate political stability. CORNAP needs additional personnel to provide legal assistance and marketing support to maintain the pace of the program. A source of cash for the payment of worker indemnities needs to be found.

The team recommended that the PW buy-in be amended to fund the Project Manager to provide for his services through the PACD. In order to increase CORNAP's ability to cope with legal and marketing problems, the team suggested that either CORNAP absorb some of the marketing of companies or an additional expert be hired.

The team advised that the PSS project be expanded to include training and technical assistance for newly privatized state-owned enterprises, primarily those in the rural sector, and that USAID's privatization role be enlarged by becoming involved in assisting in the privatization of three public sector monopolies - TELCOR, the telecommunications company; INE, the electric company; and ENABAS, the basic grain buying, selling, and storage organization. The team suggested that counterpart funds from USAID be utilized to support the GON Treasury in meeting a portion of its needs for indemnity payments to workers and for the creation of a redundancy fund.

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Conclusions and Recommendations for Financial Services

The senior advisor to the the Superintendency of Bank (SBN) under the PSS project has done an outstanding job and is complying with the intended scope of work of his activities. With the assistance of the Senior Advisor and the Superintendent, the SBN has rapidly taken on the functions of an effective professional regulatory body. A new banking law has been drafted and is currently before the National Assembly for approval. In addition, the SBN Senior Advisor has been instrumental in drafting norms for the SBN, along with draft regulations for the Stock Market norms to permit the functioning of private insurance companies, financial analysis of the private banks, and establishment of a mechanism to allow permanent coordination with the Central Bank regarding regulation and coordination of the banking system. The greatest need of the SBN is to keep its Senior Advisor in place, and the team recommended that his contract be renewed for a year. The Banker's Association needs a minimal staff and a modest office to create a training institute and represent the banks. The Central Bank needs a fixed-term president and representation of private and state banks on its Board, and should be supervised by its own Board. Nicaragua needs legislation and then investors to form private insurance companies and private pension plans.

The team recommended that the following training be funded: the design and implementation of a training program for SBN field inspectors, the next phase of training for commercial bank staff, on site training of managers from the Central Bank at the New York Federal Reserve Bank in preparation for open market operations in Nicaragua, and training for Central Bank senior staff in control of the money supply and debt management. They also suggested that a needs assessment for small and medium enterprise development be funded. In addition, they recommended that a one-time grant to the Banker's Association to fund its start-up be made.

Conclusions and Recommendations Related to Studies and Surveys

More funding of studies and surveys in all three areas of the PSS project is needed because of the lack of basic information concerning existing and potential conditions in the Nicaraguan economy. The team recommended that a delivery date be established for the trade and investment studies underway and that additional funding of studies be permitted in the amended PSS project. A formal mechanism needs to be established to determine criteria to select, formulate, and implement studies. Additional staffing in USAID will be required to adequately support this.

Conclusions and Recommendations Related to Women in the Private Sector

The most urgent requirement is for statistical information upon which USAID can base its assistance. USAID should consider participating in studies of women in the private sector as well as household surveys. USAID projects should promote women by targeting them for business training and other educational opportunities.

Conclusions and Recommendations Related to Program Interrelationships

The team recommended that activities which directly support investment and export and those which provide overall institutional development be distinguished. Priority should be placed on the former however institution building is an integral part of private sector development.

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ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach a copy of the full report.)

Assessment of PSS Project Agreement No. 524-0317 - the midterm assessment report - is attached in full. This report includes the Scope of Work for the evaluation as an annex.

COMMENTS

L. Comments by Mission and Borrower/Grantee on Full Report

The Mission was disappointed in the depth of analysis of some aspects of the scope of work. While it was recognized that the time was short for such an ambitious scope of work due to contracting delays and the availability of team members, the Mission felt that these problems should have been overcome by the firm before work commenced. In particular, the lack of prioritization of recommendations and analysis of the interrelationships between activities and components which would have been useful to the Mission in the design of the upcoming PSS project amendment was noted. The assessment was however effective in documenting the achievements of the existing project in privatization and financial markets, and surfaced some important aspects of the project that need greater attention. Assessment findings related to the project's work with COSEP and its member organizations and the institutional structure of the CEI have had a significant impact on the Mission's conceptualization of the project amendment.