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USAID NICARAGUA

AMENDMENT FOR 1977-1983

**DEPARTMENT
OF
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NICARAGUA: DEVELOPMENT ASSISTANCE
PROGRAM AMENDEMENT FOR 1977 - 1983

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction and Summary	1
II. Target Group Profile	5
A. Introduction	5
B. Description of Target Groups	5
1. Family Characteristics	6
2. Employment Characteristics	7
3. Social Benchmarks	8
C. Land Constraints Facing the Rural Poor and Resulting Trends	9
III. Government of Nicaragua Policies, Commitments and Institutional Needs	12
A. Government of Nicaragua Development Strategy	12
B. Development Institutions and Structure Relevant to A.I.D. Strategy	14
1. Agricultural Sector	14
a. Ministry of Agriculture	15
b. Campesino Welfare Institute	16
c. Institute for Renewable Natural Resources	18
d. Nicaragua Agrarian Institute	19
2. Education Sector	21
3. Health Sector	22
a. Health Delivery System	22
b. Nutritional Concerns	23
4. Urban Sector	24
C. Opportunities for Participatory Development	25

	Page
IV. Resource Requirements and Availabilities	27
A. General Fiscal Background	27
1. Composition of Revenues	27
2. Composition of Expenditures	28
3. Deficit Financing	29
4. External Public Debt	29
B. Balance of Payments	30
C. Tax Reforms and Other Government Policies	31
V. Mission Strategy	36
A. Overall Assistance Strategy	36
B. Nicaragua as a Middle Income Country	36
C. Participation Policy	37
D. Family Planning	38
E. Statement of Program Priorities	38
1. Poverty Group Priorities	39
2. Regional Priorities	39
3. Institutional Priorities	39
F. Program Directions	40
1. Integrated Rural Development	40
2. Agricultural Frontier Development	42
3. Secondary Urban Centers and Regional Development	43
a. Urban Regional Planning	44
b. Rural-Urban Linkages	44
c. Employment Generation	44
d. Essential Services	44
G. Proposed Level of Resource Requirements	46

NICARAGUA: DEVELOPMENT ASSISTANCE PROGRAM AMENDMENT

MAY 1977

I. INTRODUCTION AND SUMMARY

This Development Assistance Program amends those of September, 1973 and November, 1976 prepared by this Mission. Based on sector assessments in agriculture, education, health, nutrition and research on the urban sector to date, it projects the target groups, the Nicaraguan context and a development assistance strategy for the five year period through 1983. It proposes a continuation of our assistance to the integrated rural development program in Nicaragua; to consolidate its initial successes, to reach small farmers in priority regions of the country, to improve its effectiveness and to expand its program in various aspects. We further propose assistance for a gradual expansion of this program toward the agricultural frontier in the northeast of the country. We also propose a strategy of selective assistance to programs within those regions which will facilitate the development of secondary urban centers. These centers can then better provide the necessary economic and social linkages for the fuller development of the surrounding rural hinterland. Within this context, AID's development assistance program will foster increasing employment opportunities and provide broader services to both the rural and the urban poor.

Over one-half of the people of Nicaragua are poor in the sense that their annual per capita income is less than \$150 per year. They are poor both in lack of income and in lack of access to the basic developmental services which will enable them to improve the quality of their life. They have been able to share little, if at all, in the benefits of the economic growth which Nicaragua has enjoyed in recent years.

Some three quarters of the million rural Nicaraguans and some one-third of the million-plus urban dwellers fit this definition of the poor majority. In terms of economic opportunities, social indicators and access to services, the rural poor are clearly at the bottom of the scale. Next on the scale are those in the small towns. Generally "less worse off" by most measures are those who live in the capital city of Managua. In spite of a devastating earthquake in late 1972, Managua has made a rapid comeback as the economic, cultural and service center of the nation. The rural-urban flow of people to the capital was temporarily slowed by the earthquake, but it is returning to its previous pattern and pace. It reflects a perceived lack of opportunity in the hinterland for a country with predominant agricultural potential. This does not make good sense either socially or economically. The improvement of opportunities in the hinterlands is what our proposed program is all about.

Long a center of free enterprise and an attraction for local and foreign investment, the Nicaraguan economy has consistently grown at

a rate superior to that of its Central American neighbors. But this overall growth rate of nearly 6% per year by itself is not enough to enable Nicaragua to meet the needs of its poorer citizens. The current Five Year Plan commits the Government to a direct attack on poverty. In spite of high demands on public funds for the reconstruction of the city of Managua, the Government has increased its investment in small farmer programs and other efforts to directly meet the needs of poverty groups. The development philosophy of Nicaragua still is based on the need for growth; a "larger pie" is the goal. But how the pie is divided is receiving increased attention, especially as it relates to improving the employment opportunities for the small farmer, the rural landless laborer, and the urban worker. To quote from the national development strategy: "...the Latin American experience demonstrates that the disparities in a dual economy do not correct themselves automatically nor in reasonable periods; therefore it is essential to include development strategies which are specifically directed towards employment generation rather than to pretend that it will be achieved by only setting production and growth goals." 1/

The best evidence for the seriousness of these words is the Government's reorientation of the national agricultural development effort toward increasing the productivity of the small farmer. The principal agency for this effort, known as INVIERNO, has become a model for reaching the small farmer with an integrated rural development program including credit, extension assistance, production inputs, marketing assistance and social services. The support for the on-going urban sector assessment which similarly is concerned with the needs of those not served by existing programs is further evidence of the GON concern for equity in its development activities. These efforts appear to be supported at the highest levels of the government. The motivation to take these steps is related to both political realism and to a belief that the poor majority can make a substantial contribution to the material economic growth of the country. The significant fact for this analysis is that these steps are being taken by the present government in support of the needs of the poor majority and they warrant our continuing assistance.

The financial resource needs of these growth and equity programs will be greater year by year. More public investment will be needed to provide the opportunities to increasing numbers of Nicaraguans who are not being reached or are being inadequately served by current programs. The economic base to support these expenditures is strong. Projections for coffee, cotton and cattle production, the principal exports, are good. The internal economy is adjusting to the shock

1/ Consejo de Planificación Nacional, Plan Nacional de Reconstrucción y Desarrollo - 1975-1979 Managua, Diciembre 1975 Vol. 1 p. 41.

of increased petroleum prices and world wide inflation and generally is in a strong position. The dollar exchange rate for the Nicaraguan cordoba has not changed in 20 years. The Government is committed to tax reform and to increasing its own revenues for development purposes. Results have not met expectations, and the effort requires increased attention.

Foreign and domestic private borrowing is available on a generous scale, indicating private sector confidence in the government. Other donor assistance, especially from the IDB, IBRD and the CABEI (Central American Bank for Economic Integration) for the basic development infrastructure, has been generous and promises to continue. This is true in spite of an external debt which is greater than that of the other Central American countries.

This leads us to the conclusion that the U.S. role in assisting Nicaraguan development should be one of selective support of innovative efforts to reach the poor majority with programs which will help them to improve their own condition. Our role is not to provide major sources of funding or to address the physical infrastructure needs of the country.

Our analysis indicates that the basic organizational infrastructure is now in place for the Nicaraguan Government's direct attack on poverty. Our principal role is to consolidate and strengthen the programs of existing institutions such as INVIERNO in their out-reach to people who have not been served in the past. Our basic strategy is to concentrate our program in two of the poorest regions of the country: the Central Highlands and the Central Pacific Coast Area. These are the pilot areas for the INVIERNO integrated rural development program. We will assist in the expansion of the Central Highland effort toward the contiguous Northeast Frontier Area. We will seek to establish in these regions the basic development services, including urban systems, which can be expanded country-wide with the GON's own resources and with the assistance of other donors. We will also support selected programs which by their nature are national in scope, such as nutrition, resource conservation, and family planning.

We project a general assistance level averaging \$10 to \$15 million per year over the next five years with a loan-grant division of about 4 to 1. Program emphases for this period will include:

1. Integrated rural development

This priority effort will assist INVIERNO to consolidate its operational and coordinating mechanisms to bring increasing numbers of small farmers into the national market. Small farmer productivity with supporting social services is the heart of this program. Rural municipal development, marketing systems, renewable resource conservation, and rural public works are complementary parts of this program which will receive expanded attention in the next five years.

2. Agricultural frontier development

During this period, Nicaraguan and IDB funded road construction will progressively open the Northeast section of the country to settlement. This undeveloped frontier promises to have a major impact on the course of Nicaraguan development in the next few decades. Our assistance will be channelled toward general resource inventories and development planning plus assisting the expansion of the INVIERNO small farmer program from the Central Highlands to the contiguous areas of the Northeast Region. The goal will be to insure the maximum feasible participation of the small farmer and the rural poor in the development of the northeast.

3. Secondary urban centers and regional development

As an extension of our assistance with integrated rural development, we will support a limited secondary urban center program. This effort is needed because of the close linkages which exist between the rural areas and their market town-urban centers. These centers must provide the marketing and support services which the rural areas require. We will assist the efforts of these communities to better meet the needs of their poor for useful employment and essential services.

As noted in our prior DAPs, Nicaragua suffers from a badly skewed income distribution. However, it has strong development leadership increasingly concerned to correct the imbalance, and has a special affinity to the U.S. and receptivity to our assistance program. These factors make Nicaragua a particularly opportune and attractive environment for the development of innovative approaches to meeting the problems of poverty. The GON has taken a vigorous role in the development and implementation of the "INVIERNO" approach to rural development. In the next five years, it is anticipated that it can play a similarly strong role in the preparation and execution of strategies for new lands' development, resource conservation, balanced secondary city growth, population programs and other key development approaches of interest, not only to Nicaragua, but to all developing countries. It is an opportunity of which our development assistance program can and should take advantage in the coming years.

II. TARGET GROUP PROFILE

A. Introduction

To the extent that per capita income is appropriate in distinguishing among various degrees of genuine poverty, Nicaragua can be categorized as a middle income country when AID's average per capita income criteria of \$500 (1975 prices) is applied. In 1975, the Central Bank of Nicaragua estimated that the average per capita income in Nicaragua was \$607. Although this income measurement exceeds the middle income minimum standard by only 20 percent, it does reflect a long period of successful growth and development since World War II.

Unfortunately, due to Nicaragua's skewed income distribution, previous growth in national income has not yet been translated into acceptable standards of living for an estimated one half of Nicaragua's 2.2 million population. Dual economic and social systems (e.g. export agriculture vs. traditional agriculture) resulting from numerous factors, have caused this inequitable distribution of growth and development. Therefore, while USAID/Nicaragua recognizes the importance of using indicators such as average per capita income criteria as a guide when allocating limited development between needy nations, the Mission also recognizes that average national per capita income is a meaningless statistic when measuring the relative needs of Nicaragua's poor.

AID's "New Directions" report provides guidelines on poverty benchmarks that can be applied to identify target groups. One such benchmark is per capita income where a level of \$150 (1976 prices) is considered a minimum to provide the individual with command over essential goods and services. In 1972, a GON rural head of household study estimated that approximately 77 percent of the rural families in Nicaragua had per capita cash incomes below \$117. In that same year, an urban income study estimated that the lowest 50 percent of the urban households had per capita incomes of \$238. Although both studies have design and methodological limitations, they provide strong evidence that between 70-80 percent of the rural population and 30-40 percent of the urban population fall below the "New Directions" per capita benchmark.

Given that the population of Nicaragua is about evenly divided between rural and urban areas, USAID/Nicaragua estimates that between 50 percent and 60 percent of Nicaraguans do not have sufficient incomes to purchase minimal essential goods and services as defined by AID. Therefore, we feel that these people are eligible for AID mandated programs.

B. Description of Target Groups

The geographical distribution of poverty in Nicaragua is presented in Illustration 1. With the country divided into the eight

regions established by the Ministry of Agriculture, it is readily apparent that the poorest of the poor in Nicaragua are located in Regions II, V, VII and VIII. The GON has, therefore, concentrated its rural development programs in Regions II and V where approximately 50 percent of the rural and urban poor live.

1. Family Characteristics

Table 1 provides a detailed description of some basic characteristics of rural and urban families. Rural families average 3.9 percent more people than families in urban areas. This larger size is due to more children between the ages of 0-10 which reflects either a desire for more children (to aid in farmwork) or a lack of family planning services in the rural areas. The urban family averages slightly more people over 10 years of age than the rural areas. This phenomenon may be attributable to the generally greater availability of health services in the urban areas.

TABLE 1

Average Family Characteristics

<u>Characteristics</u>	<u>Urban</u> (Average #'s)	<u>Rural</u> (Average #'s)
Family Size	<u>5.870</u>	<u>6.090</u>
age: 0 - 10	1.852	2.190
age: 10 +	<u>4.017</u>	<u>3.900</u>
Employed	1.522	1.587
Unemployed	.056	.016
Looking for work 1st time	.024	.016
Care of home	.928	1.208
Student	1.052	.339
Retired	.044	.020
Other	.390	.710

Source: Calculated from data in 1971 Census

Those persons 10 years old or older are divided into seven categories in Table 1. The economically active and inactive populations are calculated where the economically active include those people employed, unemployed or looking for work for the first time. Adding each of these categories for the rural versus urban, we find that 1.619 people are considered economically active in the average rural family and 1.602 in the urban family which represents a difference of about one percent. However, it should be pointed out that the number of persons unemployed or looking for work for the first time is much higher in urban areas than in rural.

2. Employment Characteristics

The vast majority (80%) of those employed in the rural areas is in agriculture (Table 2). Over forty percent of the employed individuals are agricultural laborers where the average cash wage in 1972 was slightly less than \$1.00 per day. This type of work would result in a per capita cash income of about \$68 per year for the average rural family. Even granting that these laborers receive in-kind perquisites of food or at least a place to grow food and housing, the real per capita income would still fall short of the AID benchmark.

TABLE 2

Urban and Rural Employment Characteristics

<u>Characteristics</u>	<u>Urban</u> (%)	<u>Rural</u> (%)
<u>Agriculture</u>	<u>11.30</u>	<u>80.00</u>
Employer	5.03	3.07
Employee	63.22	43.38
Own Account	25.68	33.35
Unpaid Family	4.04	19.00
No response	2.23	1.19
<u>Non-Agricultural</u>	<u>88.70</u>	<u>20.00</u>
Employer	1.93	2.00
Employee	70.41	63.08
Own Account	22.43	20.84
Unpaid Family	1.15	4.06
No response	4.08	10.03

Note: Agriculture includes also forestry and fisheries - Source: 1971 Census.

The fact that the largest proportion of those employed in agriculture are small, self-employed farmers and unpaid family labor further depresses average rural incomes. These individuals represent approximately 60,000 small farms in Nicaragua and realize an income only marginally higher than agricultural laborers.

In urban areas, over 88 percent are non-agriculturally employed and 70 percent are employees. Assuming those family members so employed were at the current legal minimum wage, they would provide an average per capita income of \$195. This is a level which is only 30 percent higher than the \$150 benchmark in 1969 prices, and the thirty percent has been more than eroded away by inflation since 1969.

3. Social Benchmarks

The poverty that exists in Nicaragua is reflected in numerous ways other than income and employment criteria. Nicaragua falls short of the majority of AID's "New Directions" benchmarks in the areas of population, health, nutrition and education. For example, the Nicaraguan birth rate is estimated at 45 per 1000 well over the 25 per 1000 benchmark. The benchmark for infant mortality is 33 per 1000, while in Nicaragua infant mortality is estimated to be nearly four times higher. Maternal mortality is also high, with an official estimate of 137 per 100,000. Life expectancy for men is 51.2 years and 54.5 for women; both under the 55 year "New Directions" benchmark.

Health services are limited, particularly in rural areas. Despite the existence of 127 public health centers and 132 health posts, the Ministry of Health estimates that less than 20 percent of Nicaragua's rural population have access to adequate health services, a level far below the New Direction standard of 60 percent. With regard to the high infant mortality, it is estimated that only 23 percent of pregnant women are seen by public health agencies for prenatal visits, and two-thirds of these are from urban areas. Of some 86,000 annual births, approximately 22,400 occur in hospitals or health centers, with the remainder attended by midwives (parteras) or family members. Coverage by health facilities for infants under one year of age in the rural areas is estimated at only 15 percent. Family planning services are available, at virtually no cost, through seventy public and eight private clinics to some 32,000 users. An almost equal number of women opt for only contraceptives and purchase them commercially. In total, this represents about 14 percent of the fertile age women in Nicaragua.

Nicaragua's relatively high mortality rates are related to poor nutrition and extensive morbidity. In the context of nutrition, Nicaragua surpasses three WHO "critical level" indicators and approximately equals another. They include protein/calorie malnutrition in the 0-5 year group where Nicaragua is at 56.6 percent versus a critical level of 25 percent, endemic goiter at 32 percent versus a 10 percent critical level, vitamin A deficiency at 9.96 percent versus 5 percent and anemia at a level of 9.56 percent which is slightly below a critical level of 10 percent.

Morbidity is usually related to preventable diseases such as gastroenteritis, diarrhea, pneumonia, tetanus, malaria and measles. Aside from these being reduced by improvements in health education and vaccinations, simple increases in home sanitation would have a marked impact. In the 1971 census, only 30 percent of all housing was considered "adequate" (i.e. sanitary). The remainder were constructed of inferior material and usually had dirt floors. Forty-six percent of all homes had no inside toilet facilities at all (84 percent in rural areas). Internal water systems were available to only 27.5 percent of the homes and these were virtually all urban homes. Some 64 percent of the urban dwellers had access to potable water in 1971; and although a recent IDB-financed water program for medium-size communities has probably improved these figures, they remain intolerably low particularly in rural areas.

Access to educational services also falls short of established benchmarks. Fifty percent of the population represents school-age children of 15 years of age and below but only 20 percent of the total population is enrolled in school. UNESCO has established four grades of primary education as the amount of education required for the achievement of basic literacy. Only 8% of the children in rural areas that enroll in first grade finish fourth grade. The primary causes of low educational levels and high rates of wastage are inadequate schools and teachers, irrelevant curriculum and family agricultural labor demands on the children's time.

C. Land Constraints Facing the Rural Poor and Resulting Trends

As the income figures by region demonstrate, the greatest all-pervasive poverty on a relative basis is found in Regions II, V, VII, and VIII. Both small farmers and agricultural laborers numerically dominate poverty groups in the rural areas. Therefore, the key to growth and equity in these regions is the expansion of the small farm sector. With an expansion of small farms into viable commercial operations, small farmer incomes will increase and directly reduce a large part of the poverty that exists. Also, the expansion of the small farm sector will have a direct impact on both the supply of, and the demand for, agricultural labor in a manner such that wages will increase. Such increases in incomes and wages will in turn be translated into increased demands for goods and services which will have a positive income effect on non-agricultural producers of goods and services and on vendors of goods sold but not produced in the region itself. Nevertheless, the constraints to the expansion of the small farm sector are numerous. Constraints other than land are discussed elsewhere in this DAP.

Regions II and V contain approximately 30,000 small farms. These two regions cover 5.6 million acres; yet only about 17.4 percent or 980 thousand acres are suitable for annual crops. This estimate is based on a very limited natural resources inventory conducted by the U.S. Corps of Engineers in 1964. Without large scale investment in

soil conservation measures, another 36.8 percent of this area is only suitable to pasture crops. The remaining 45.8 percent is not suitable for agricultural production.

Studies carried out by the GON in 1972, compare potential with actual land use for 1968. 27.1 percent of the land suitable to annual crops in Regions II and V was under forest cover and bush. An additional 45.5 percent was being utilized as pasture. There are two reasons for this inefficient use of land. First, land has always been a solid hedge against inflation. Even when left idle, its value appreciates. Second, given the dualistic nature of the agricultural sector, the marginal value product of land under traditional crops was less than that provided by extensive livestock operations. This explains why a high percentage of land suitable to annual crops was, and is, in pasture land. In short, the small farmer could not compete with the wealthy who increasingly bought land for use as an inflationary hedge and for cattle production for the commercial export market. However, such a use pattern was recognized clearly as a gross misallocation of aggregate land and labor resources resulting from a concentrated distribution of land and wealth. To achieve growth and equity, the unutilized lands (e.g. those in forest cover and bush), must be redistributed. Unfortunately, even redistribution is no panacea to reach all the rural poor. Redistributing all unutilized land suitable for annual crops would give each small farmer an additional 3 acres or less. Since a viable commercial small farm operation will require several times this level, only 20-30 percent of the small farmers could obtain sufficient land through redistribution. Not surprisingly, many small farmers, and mainly their children, have recognized this land constraint, as well as the other constraints, facing them. Two obvious trends have resulted.

First, rural/urban migration patterns have accelerated. This stems not only from the lack in the rural sector of productive opportunities competitive with the urban areas but also the ever-present lure of accessibility of a wider range of goods and services in the urban areas.

The second trend resulting from the constraints on small farmer expansion in the settled areas of the country is the accelerated migration to the agricultural frontier areas of Region V, VII and VIII. Trends in the geographic shift of the low income target groups out of Regions V are revealing. Inter-census analysis (1963-71) indicates that the growth rate of Region V was less than 1.0 percent compared to an overall population growth rate of about 3.4 percent. Previously, not all of this difference could be explained by enumerated migrants. It now appears that the remainder can be explained by migration to the agricultural frontier where, because of methodological procedures used in the 1971 census, much of the new population migrating into the area was not counted. The Mission estimates that count could be as high as 140,000.

In general, the situation is clear; due to the land constraints

facing expansion in the settled areas, thousands of small farmers are shifting to the frontier. Given the undirected nature of this migration, and past trends of land consolidation explained above, the result will be less than rational exploitation of frontier resources unless the GON expands its role in controlling settlement patterns and processes. This role will require investments for agricultural infrastructure and minimum essential services. For sustained growth with greater equity than that obtained in the past, land use policies, improved taxation policies, and resource control policies, as covered below, must be developed.

III. GOVERNMENT OF NICARAGUA POLICIES, COMMITMENTS AND INSTITUTIONAL NEEDS

A. Government of Nicaragua Development Strategy

Clearly, widespread poverty exists in Nicaragua. The government has recognized the need to place increased emphasis on equity considerations in its programs and has launched several initiatives to achieve an increase in the standard of living and the quality of life, particularly for the rural poor who are the most severely affected. On the basis of policy statements made in the National Reconstruction and Development Plan, 1975-1979, and in the various sector assessments, the fundamental national developmental goals can be summarized as follows:

1. Reactivate the economic growth process until the same or a better rate of growth in the GDP of the preceeding five years is achieved;
2. Strengthen the independence of the country through the diversification of exports;
3. Improve the personal and geographic distribution of income, stressing increased employment and regional development programs;
4. Reconstruct Managua and eliminate the human and economic dislocations caused by the earthquake; and
5. Strengthen connections with the Central American integration movement.

The USAID has been actively involved in assisting the government to achieve goals three and four. By 1979 planning for Managua reconstruction and implementation of major AID-financed projects will be nearing the completion stage. In the future we will be concentrating on development programs contemplated under goal three.

To achieve goal three, the GON recognizes that there must be greater participation by all segments of the population and all regions of the country in the economic and social progress of the nation. As demonstrated in Section I, it has become increasingly evident that a disequilibrium exists between the various regions in regard to the basic goods and services that are available to them.

The largest urban centers such as Managua, Leon and Granada have received the greatest amount of development resources. Smaller urban areas have remained socially, politically and economically underdeveloped, thereby allowing the continuance of weak or nonexistent linkages between rural regions and the three principal urban concentrations in Nicaragua.

Many rural areas have yet to be fully integrated into the social and economic systems of Nicaragua. This especially applies to isolated areas in the central zone and the entire eastern third of the nation. Relative to other regions, the basic services (i.e. water, roads, schools, health centers) that are necessary for social and economic development are not available in these regions, thereby creating constraints to the regions' further economic progress.

The means or strategies by which these constraints will be removed partially involves strengthening national and regional institutional mechanisms which will facilitate the balanced and equitable movement of capital, technology, labor and essential services to the different regional areas. Efforts will be made to develop regional promotion agencies, and/or offices, especially in the agricultural sector, which will encourage economic activities based on local resources and comparative advantages. To support this more balanced and equitable economic growth policy, the GON is also committed to expanding the coverage of essential social services to the majority of the population in addition to improving and strengthening social infrastructure.

The GON's developmental strategy or approach to decentralization also takes into consideration the spatial relationships between large urban areas and small towns and villages. Although the Managua area will continue to be the prime location for major industrial investment and economic activity, it is recognized that efforts must be taken to strengthen urban and rural areas outside of Managua in order to promote social and economic equity.

Planning plays a key role in this decentralization process to ensure that decentralization is carried out through policies that ensure growth with increasing equity. Large cities and rural communities both play crucial roles in the development process; and their functions as well as those of other components of a balanced spatial system - ranging along the spectrum from villages, to market towns, to secondary cities and to the major metropolitan area - must be strengthened into a mutually sustained network of production, distribution, and service centers. At present, the linkages between Nicaraguan cities, towns and agricultural areas can be characterized as weak and inefficient. Managua acts as a magnet to the rural people because the smaller cities and towns are often not capable of supplying the goods, services and employment opportunities that the hinterland population demands.

The rural and urban poor have not actively participated in the limited economic and social development of their local areas and communities. In order to carry out the above strategies successfully, the GON recognizes that a larger number of these Nicaraguans must begin to take part in the decision-making processes that impact on their lives. As a result, steps are being taken to decentralize political and

administrative functions and integrate frontier areas into the national political and economic system.

The institutional requirements for carrying out such a broad development program are demanding. Institutions must be flexible and responsive to the dynamics of the development process which includes meeting the expressed needs of the target groups. In order to understand and react to these problems and needs adequately, institutions must be designed in a decentralized manner so that their field representatives can have intimate and daily contact with their clientele. In addition, these institutions must coordinate their efforts to avoid inefficient duplication of their activities and to exploit the synergistic impact their programs can have on the target group.

The GON has created, or is in the process of creating, institutions to carry out the above overall program. Expanded developmental efforts can be channelled through these institutions. What is needed is a strengthening of the capacity of these organizations to carry out their programs and coordinate their activities with one another. Efforts must be made ^{to} consolidate present activities, then steps taken to expand development programs, especially those of an integrated nature into all areas of the country.

B. Development Institutions and Structure Relevant to AID Strategy

Nicaragua is establishing a diversified and rational institutional base for its developmental efforts. For the most part, institutional responsibilities for the individual sectors are adequately defined through legislation and inter-agency agreements. Institutional sector strategies have been developed (discussed in the DAP of November, 1976) and are being implemented, based on GON priorities and the availability of human and financial resources.

The following description of Nicaraguan institutions (primarily public) is not an effort to inventory their programs and activities. Instead, it is an opportunity to discuss the mandate of each organization in the light of the overall GON development strategy and evaluate its success in taking steps to fulfill the legislated objectives of the institutions. Finally, the following institutions do not represent an exhaustive list, but a synopsis, divided by sector, that includes major institutions that have a role in fostering a greater participation by all segments of the population in the economic and social progress of the nation and with which AID has had or could have cooperative development programs.

1. Agricultural Sector

The GON undertook a study in 1972 in an effort to improve public programs and policy in the agricultural sector. GON investigators discovered that rural development responsibilities had been delegated to a considerable number of agencies. The Government's Agricultural Sector Assessment of 1974 further determined that there was little functional

specialization in the agricultural sector; agricultural research, extension, information collection and analysis, and many other important functions were being performed by a number of agencies, often with little coordination. Small farmers were receiving little or no help. The GON recognized that the diffused and awkward administrative structure would undoubtedly cause major difficulties in preparing and carrying out a dynamic new rural development program. To address this problem, a new institutional structure was proposed for public services to the agriculture and the rural sectors. By committing itself to this reorganization, the GON reinforced its policy of attempting to promote more equitable development.

In addition to the above institutional considerations, the GON felt that a shift was needed from its industrial and export-oriented agricultural policy to a policy that would promote economic and social growth for the entire sector. This policy modification was deemed necessary for two reasons. First, and most obvious to the casual onlooker, was the desire to avoid loss of political support concomitant with any severe level of poverty and/or skewed income distribution. Neither absolute levels of poverty nor income distribution had grown worse. However, aspirations had risen as a result of improved communications, and the government found itself attempting to respond to more strongly articulated demands. Second, and much more subtle, was the government's recognition that the development of a dualistic agricultural economy (i.e. a modern export sector and a traditional domestic sector) had resulted in gross inefficiencies in aggregate resource utilization (labor, land and other capital). This structure would not provide an adequate basis for continued growth in the medium and long term. As a result, it was officially recognized in the Sector Assessment of 1974, that a change in the country's agricultural productive structure was required. Furthermore, the government also recognized that agriculture would continue to be the backbone of the country's economy. Modernization via industrialization alone over the next generation was considered unlikely to solve the major poverty problems.

a. Ministry of Agriculture (MAG)

As a result of the reorganization of the agricultural sector, the MAG has the overall responsibility of seeing that the rural development programs are implemented properly. In its role as the governing institution, the MAG performs the central function of diagnosing sector problems, planning for their resolution and seeing that these resolutions are acted upon. Specifically, the MAG is responsible for planning, programming, budgeting, coordinating, monitoring and evaluating all activities in the agricultural sector. The Department of Sectorial Planning (DIPSA) plays a key role in carrying out the above activities and in developing overall strategy for the sector. All operational programs (i.e. research, natural resource development, credit, marketing, agricultural education, etc.) have been or will be moved into a series of autonomous agencies that will implement actual programs and projects.

Each autonomous agency, however, acts under the policy, planning, coordination and budgetary guidance of the Ministry of Agriculture.

The policies and plans formulated and implemented by the MAG have a direct impact upon both the rural and urban target groups. Decisions regarding land distribution, land taxation, commodity pricing, and agricultural resource allocation by the public sector all impact upon the target group and fall within the jurisdiction of the MAG. As the MAG's Department of Regulation and Control is strengthened and given new regulatory and control powers, the Ministry will also increase its influence on the daily lives of urban Nicaraguans.

The reorganization of an entire sector, which includes establishing new agencies, is no simple task. The MAG has admirably administered the reorganization process due to many highly qualified and motivated individuals in the organization. However, the demands on these people have increased substantially as new autonomous agencies begin to implement sophisticated programs. Unforeseen problems, such as the discovery of coffee rust, also place additional demands upon MAG personnel and budgetary resources. The ability of the MAG to overcome staff and manpower constraints will be instrumental in determining whether the MAG can continue to support the rural development program adequately. The areas of program and project management and coordination will be critical and deserve special attention by the GON as the efforts in rural development are consolidated and extended on a national scale.

b. Campeño Welfare Institute (INVIERNO)

Established in 1975, INVIERNO is an autonomous institution which provides a series of integrated rural banking and development services to the rural sector. INVIERNO's activities include providing agricultural credit to purchase production inputs, agricultural extension services, training, and marketing services for inputs and farm production. In addition, funds have been established to promote the development of rural enterprises, cooperatives, home gardens and the implementation of a land sale guarantee program. Criteria are established that dictate that INVIERNO's resources be channelled to those low income farmers who have limited access to the broad range of services being offered. INVIERNO provided agricultural credit to approximately 5,000 small farmers during its first full year of operation (1976). It is estimated that 11,000 farmers will be served in 1977, with this number growing to 24,000 by 1982.

To support the above activities, INVIERNO is financing, in coordination with other public institutions, the construction of access roads (Public Works Ministry), the building of rural municipal infrastructure (Ministry of Government) and research towards developing appropriate agricultural technology for small farmers (National Institute of Agricultural Technology).

In its role as a coordinator of programs directed at the small farmer, INVIERNO is also helping to direct education, health and nutritional services to rural areas. Although these services are provided directly by the Ministry of Public Education and the Ministry of Health, INVIERNO has established the rural community institutions which facilitate the local development of these programs. INVIERNO's specific mission is to develop and manage an integrated multi-sectorial package of assistance that will provide to the rural poor those opportunities and services they need for their economic and social development.

INVIERNO is a young organization with a highly complex program and a difficult coordinating role. The key to its initial success has been the high quality of the management and technical personnel within the organization. The amount of success the organization will achieve in the years ahead will depend upon the ability of INVIERNO's management to consolidate, intensify and expand its programs.

Three specific functional areas will be key if INVIERNO is to be successful in extending and replicating this integrated development program. First, INVIERNO management recognizes that costly input supply and commodity marketing functions must be turned over to private, administratively sound cooperative organizations as quickly as possible. It is clear to INVIERNO and MAG personnel that the retailing of input supplies and the marketing of farm commodities are a drain on INVIERNO's personnel's time. Such logistical activities

are also too costly for an organization with a broad mandate and limited resources. INVIERNO will provide technical assistance and training for the establishment of these cooperatives and finance on a sub-loan basis initial capital outlays for warehouse space, vehicles, and office equipment and operating capital for inventory stocks.

Secondly, INVIERNO's responsibility for being the leading wedge in the implementation of the GON's integrated rural development strategy requires that other service rendering agencies design their program and coordinate their activities with INVIERNO so that minimum confusion and maximum benefits prevail. It has become increasingly evident that not all governmental and private organizations demonstrate the sense of vigor and purpose that INVIERNO has shown from the beginning. As a result, the effective orchestration of the multi-institutional and multi-sectoral rural development strategy becomes increasingly difficult and no less important for the success of the overall effort. It is clear that INVIERNO and other agencies will need assistance in the years ahead to assist in development and modification of coordinated programs.

The third functional area that is key to the success of the GON rural development strategy is more effective farming practices and methods. INVIERNO is trying to develop and introduce appropriate new agricultural technologies and practices that will foster increased production, thereby raising the income, assuming favorable marketing conditions, of the rural target group. INVIERNO recognizes that alternative farming systems must be developed to maximize use of land and labor resources. This important undertaking requires research, personnel, extension and marketing components, all of which must be well developed. The Nicaraguan Institute for Agricultural Technology (INTA), INVIERNO and other ongoing sector activities are providing some assistance in this area. Nevertheless, the effectiveness of these undertakings must be watched and, if needed, new approaches developed.

c. Institute for Renewable Natural Resources (IRENA)

A key component of the organization of the public agricultural sector is the establishment of the Institute for Renewable Natural Resources (IRENA). The GON has recognized that the renewable natural resources (soil, water, flora, and fauna) of Nicaragua are not being managed rationally by either the private or public sector. Private individuals, especially farmers, are lacking in basic conservation knowledge when it comes to soils and water. At the governmental level, there are no institutions which have sufficient

resources to take actions that will stabilize the use of renewable natural resources and foster their continued productivity. At the present time the public agricultural sector contains six or seven institutions that are responsible for activities dealing with renewable natural resources. The result is that some institutions work in areas in which they were not qualified; research efforts are duplicated; there is a general lack of specialized technical personnel; and, as would be expected, there is inadequate institutional coordination.

In 1977, the GON will create IRENA to provide the mechanism for promoting the conservation and use of renewable natural resources. IRENA will consolidate and centralize the many functions and activities that are now dispersed in various institutions. This new institution will have three major objectives:

1. Promote the rational use of renewable resources;
2. Promote conservation practices;
3. Foster the development of underutilized resources.

IRENA's principal activities will be inventorying the natural resource base, research, education, evaluation, regulation and administration of renewable natural resources through a program of specific activities or projects directed at meeting its mandate.

The field of renewable natural resources development and management is a growing area of interest for developing nations. In Nicaragua government officials are extremely enthusiastic about the possibilities of the IRENA program. Nevertheless, to be effective in both a functional and political sense IRENA will need the management and technical personnel and tools to enable it to analyze the natural resource problems in Nicaragua and design effective policies and programs to address these problems. Nicaragua is developing the capacity to meet the demands for dealing with this problem. Technical assistance to and training of IRENA personnel will be key to the development of a technical and managerial capacity within the institution. The GON recognizes that these problems must be confronted because, in the long-run, gross indifference to the management of renewable natural resources will jeopardize the entire GON development strategy.

d) Nicaragua Agrarian Institute (IAN)

The rural low-income problem and the role of land in helping to solve it were formally recognized in 1963 with the passage

of the Agrarian Reform Law and the creation of the Nicaraguan Agrarian Institute (IAN). IAN was assigned the task of promoting land settlement and resettlement, with emphasis on servicing spontaneous migrations; settling owner-tenant disputes; issuing titles to national and municipal lands; and, through training, to assist rural families in improving their living conditions. In more specific terms, IAN is responsible for planning and executing settlement and resettlement projects. It is charged with providing loans both for construction of rural housing and for projects designed to improve the marketing and processing of agricultural products - or, alternatively, with ensuring that loans are available on reasonable terms from other sources. It has joint responsibility with the Ministry of Public Education (MPE) for building and improving schools in its settlement projects and for setting up programs designed to improve agricultural production methods. In addition, IAN fosters the development of cooperatives and provides advice to the central government on matters relating to land and rural settlements.

The IAN model has not proven to be particularly in promoting land settlement, settling land disputes, titling land and coordinating the provision of essential social services to its target group. A major reason for IAN's failure to reach its objectives is the lack of funding by the central government. In addition, IAN does not have the managerial and operational capability as an institution to develop the agricultural frontier (Regions VII and VIII). Sophisticated research and planning, coupled with dynamic project implementation capability, are necessary to develop areas where so little is known regarding resource potential, present settlement and farming patterns and general development needs.

The GON considers the Department of Zelaya (Regions VII and VIII) to be an agricultural frontier that will prove to be a great national resource. To develop it, the GON is proposing a model that is not unlike the integrated development strategy being employed in Regions II and V. First, it is recognized that the small farmer's tenure to sufficient cultivable land has to be guaranteed. This titling activity will be IAN's primary function in the agricultural frontier. Second, the small farmer must have viable markets and access to production inputs as well as basic economic infrastructure such as roads. In this context, the GON, via the Rural Development Fund administered by the Ministry of Agriculture, will guide and provide budget support for the individual agencies which will provide their services to the small farmers in the area. These institutions include IAN, INVIERNO, the Nicaraguan National Bank (BNN), the National Development Institute (INFONAC), the National Marketing Institute (INCEI) Public Works and the institution or institutions that will be fostering cooperatives' development in the region. Again these will be provided by the Ministries of Health and Education under

the guidance of the Ministry of Agriculture.

The GON is confident that this development model has great potential for developing the agricultural frontier and for having a positive impact on the rural poor. The GON is solicitating technical and financial support from international developmental agencies to implement the model of the Rural Development Fund in Zelaya. Assistance in this area would support population transfers to areas where greater productive opportunities exist.

2. Education Sector

The educational goals of the GON are to (1) attend to the increasing demand for educational services; (2) repair damages done by the earthquake to educational facilities; (3) prepare a work force consistent with development needs; (4) elevate the general culture level of the country; (5) take care of the educational needs of the rural poor majority. The GON recognized that the educational level of the population has a direct impact upon the degree of success that can be expected in any development program. Increased literacy and skills training are seen as essential components in the integrated rural development strategy.

The Ministry of Public Education (MPE) is the governmental institution with the prime responsibility for seeing that effective and relevant educational services are delivered to the population. The MPE concentrates its activities in the areas of primary, secondary and non-formal education. Other governmental agencies and private organizations have educational programs but it can be confidently stated that the MPE's programs affect more people than all the other organizations' programs combined. Of all GON agencies, the MPE has the largest number of employees and the largest number of clients.

In recent years, the public educational system in Nicaragua has expanded and extended far beyond the MPE's existing capacity to plan, manage, operate and control. Ineffective management has had a debilitating effect on the level of positive impact the MPE's programs have had on the target group. Although some encouraging efforts (e.g., technical assistance, training programs) have been made in the last year, the Ministry still lacks the institutional strength to extend effective educational services to all Nicaraguans, adequately.

The GON recognizes that inadequate educational services, especially in the rural areas, are a constraint to the social and economic development of the majority of the population. It will be

a long and difficult process in removing or lessening this constraint. Increased resources from both domestic and international sources need to be directed at the specific educational constraints (as discussed in the DAP of November, 1976), which continue to brake any movement towards equitable progress for the poor. In the area of specific program needs, increased emphasis will be required in pre-school education, basic primary education (Grades 1-6), the inadequate status of secondary education in rural areas and the increased demand for educational institutions that will teach out of school youths the skills and trades that are being demanded by the private sector.

3. Health Sector

a. Health Delivery System

The GON recognizes that there are strong positive linkages between the health level of the population and the level of social and economic development the society can attain. The inability to function in a physiological sense acts as a constraint to the development process. To address this constraint, the four principal institutions working in the health sector formed the National Health Council in 1975 with the mandate to regulate and coordinate the policies and programs in the health sector. The directors of the following institutions are Council members:

- 1) Ministry of Public Health (MSP);
- 2) National Board for Assistance and Social Welfare (JNAPS);
- 3) Local Board for Social Assistance (JLAS);
- 4) Nicaraguan Social Security Institute (INSS).

The MSP as an institution of the public sector is mandated to implement a major part of the Nasional Reconstruction and Development Plan, 1975-79. The objectives of the organization include increasing the level of health by means of a national program which will give priority to the most vulnerable groups in the population. Special focus is placed upon ambulatory health services which address problems which cause high rates of morbidity and mortality and can often be prevented by vaccination. The MSP considers its principal function as that of providing preventive health services.

The JNAPS is responsible for programs of hospital care, chronic diseases (tuberculosis, leprosy, mental illness), and the majority of social welfare services. JNAPS coordinates and technically supervises the general hospitals of Nicaragua. Each regional department of Nicaragua has its own hospital and social service board, JLAS,

which has implementation responsibilities at the local level for hospital services, chronic diseases and social services. The JLAS boards come under the jurisdiction of JNAPS.

As discussed in Section II, the population of Nicaragua, especially those people living in the rural areas, fails to reach basic health standards and levels. The success of all health programs in addressing these problems will depend to a large extent upon the capability of the health sector's personnel to deliver effective services to the rural areas. Delivery mechanisms must be developed that are low cost and cover the target areas. The sector's administrative and management capability to design these effective and efficient delivery systems and implement broad health programs will face serious challenges because of the magnitude of the problems.

b. Nutritional Concerns

The GON is aware of the significance of the nutritional problems in the country and the negative impact nutritional deficiencies have upon the physical and intellectual development of Nicaragua's citizens. Nutrition is not regarded as a sector but as a multi-sectoral, inter-disciplinary activity that is implemented in the agricultural, education and health sectors. DAP No. 2 explained the nature of the nutritional problems in Nicaragua and what the GON strategy is to address them.

The GON feels that the nutritional problems of Nicaragua can best be addressed through an integrated multi-institutional approach with the objectives of getting all organizations interested in and thinking about the nutritional consequences of their programs and policies. In order to organize and coordinate a multi-sectoral approach, the government has established an intersectoral commission at the ministerial level. This commission has the overall responsibility for coordinating the policies and programs of each sector which have nutritional components. The commission is being advised by a Technical Committee on Food and Nutrition which provides technical expertise to the various sectors and develops and designs nutritional policy and programs. The principal functions of the Technical Committee on Food and Nutrition are as follows:

1. Obtain, analyze and interpret the pertinent information that will serve as the base for making decisions on the formulation and reformulation of nutritional policies;
2. Identify alternative nutritional strategies;
3. Evaluate nutritional programs at all levels;
4. Promote coordination on the technical level between Ministries.

The Technical Committee on Food and Nutrition cooperates with the Ministries of Agriculture, Health and Education along with other organizations in designing programs and projects that have a favorable nutritional impact upon the target population. The Technical Committee does not implement projects; rather it acts as the nutrition advisory and planning unit for the GON.

The success of the GON nutritional strategy will depend to a large degree on the institutional capability of the Technical Committee. Multi-sectoral coordination will require a great deal of competent management and planning on a day-by-day basis. In addition, an education process must take place within the operational ministries and organizations to make them more aware of the positive impacts their present and future programs can have upon the nutritional levels of their target groups.

4. Urban Sector

The decentralization strategy of the GON is a result of two major policy commitments. First, is the commitment to decentralize industry and commerce to secondary cities to protect a portion of basic economic activities from the catastrophic destruction that occurred with the earthquake in December, 1972. Secondly, in its efforts to promote the development of the rural areas, the GON realized that the linkages between all urban areas must be strengthened in order to provide adequate developmental channels through which goods and services can flow to and from the rural areas.

A formalized urban strategy remains to be developed to transform the policy of decentralization into operational terms. There is no major guideline of how to implement the decentralization policy or how and where to allocate future resources and projects in Nicaragua. The GON is presently analyzing nationwide urban/regional relationships in an effort to determine what the appropriate strategy should be. This study should be completed in June, 1977. Preliminary results of the GON study show that the three principal objectives of the urban/regional strategy will be the following:

- a. Integrate the rural and urban poor into the local decision-making process by strengthening local and municipal institutions;
- b. Stimulate the development of an integrated and efficient system of secondary urban centers which will act as growth poles for the surrounding areas;

c. Increase the number of employment opportunities for the poor and improve the equity of the income distribution by encouraging social and physical infrastructure development, small business and industry development, etc.

The organizational make-up of the urban sector is multi-institutional with no one organization controlling all the resources and services that the cities and towns require. The Ministry of Government (MOG) has the strongest position in the urban sector as it controls the budgets of every municipality in Nicaragua and provides assistance in legal, accounting and management matters. MOG influence in Managua is lessened to some extent by the National District (DN) which has ministerial rank and manages the metropolitan Managua area. The Vice-Ministry of Urban Planning (VMPU) and the National Planning Board are also involved in developing urban and regional plans for Nicaragua. VMPU has especially developed a technical capability, through its involvement in the reconstruction effort, that could prove to be a vital component in any GON institutional strategy for the urban sector.

The realization of the preliminary objectives expressed in the GON's urban strategy can be foreseen only in the long-term (15-25 years). Nevertheless, the institutional capability to carry out an urban sector program must be developed and strengthened at this time. Plans need to be developed, priorities determined and responsibilities delegated before large amounts of resources are directed at urban/regional problems.

C. Opportunities for Participatory Development

Attempts to involve local beneficiaries in making decisions concerning implementation of projects that affect their future in receiving greater emphasis by the Government of Nicaragua. New GON institutions have been established and new development strategies programmed that attempt to develop direct links to the urban and rural poor. New autonomous agencies are putting a large percentage of their personnel in the field so that the institution can be more aware of and responsive to the needs of the target groups. Feedback mechanisms are being institutionalized and project managers are taking significant steps in orienting their thinking towards serving their rural and urban clientele.

Active involvement at the local level in the development process is becoming the cornerstone of the government's integrated development programs. One way in which local participation is being

encouraged is through the formation of local committees that make decisions which determine the level and direction of GON services being provided at the community level. Government resources are presently being invested to form and develop these local groups as it is recognized that their proper functioning is essential to the success of a nationwide, integrated rural development program. New GON programs in agriculture, education and health all rely on active community development.

The GON has also made a commitment towards decentralizing political and administrative activities by encouraging the development of stronger municipalities. The ability of the municipal government to provide adequate social services will be strengthened through an infrastructure investment program. The management practices of the municipal officials and employees will be improved through technical assistance and training. Small enterprise investment programs will also be developed to assist the private sector in these urban areas. As the role of the municipality in local development is strengthened, citizens will have access to the people who make decisions regarding local needs and problems. People will also have a greater opportunity to make inputs into the decision-making process so that resource demands will be made to the central government on the basis of locally felt needs.

In Nicaragua this bottom-up approach to development has been followed from time to time in the past but has not received any major emphasis. This situation is changing, and the GON now seems committed to a developmental approach which is based on community or local level participation. It's the GON's belief that such a strategy is a more efficient means by which rational investments can be made and community support for development programs can be sustained. Increasingly, the GON is considering community involvement at all stages of project development as essential in generating active community support and insuring a greater degree of project success. As will be outlined below, the central direction across all sectors of A.I.D.'s program will be to support and strengthen these institution building efforts at the local level.

IV. Resource Requirements and Availabilities

The growth of Nicaragua's gross domestic product has averaged five to six percent since 1970. This performance, based mainly on increasing export earnings, and to a lesser extent a continued dynamism in the internal market, places the economy on a sound basis. Data support the following basic conclusions at the macro-economic level:

-The external debt situation has worsened considerably over the 1970's, but is not to a point where the solvency of the government should be questioned.

-Tax reform over the past decade had some success in terms of realizing an increase in revenues.

-A shift to a more progressive tax system is still not in sight.

A. General Fiscal Background

This section provides a brief analysis of the central government revenue, expenditure and debt picture for Nicaragua.

The actual role of government in Nicaragua is larger than the figures below indicate. While central government expenditures for 1977 represent 18.5% of the GDP, the total goods and services commanded through the central government and autonomous agencies is 30% to 35% of the GDP. However, autonomous agencies are self-financial public sector enterprises that borrow and finance their activities directly through sales of goods and services. Since they are not intended to make direct long-run claims on the central government budget they are excluded from analysis of central government revenues and expenditures.

1. Composition of Revenues

Table 3 presents global shifts in the collection of revenues over the past decade. The years 1966-1967 and 1976-77 were chosen so as to avoid effects of special taxes imposed for earthquake rehabilitation, and to present instead the long-run trend in revenue collection. Estimated 1977 collections may overstate actual collections, but by no more than 10%. Taxes as a percent of the GDP are used as a convenient index of tax effort. Total tax revenue as a percent of the GDP have risen from an average of approximately 9.5% to 11% over the decade. This represents an improvement in collection efforts of 16%. However, there have been important shifts between tax

categories. Income taxes have gone from 1.5% to 1.9% of the GDP. This represents an improvement of 31% from a very small base resulting from improved administration over the decade and revised tax schedules adopted in the tax reform of 1974. As a result of this reform, the number of taxpayers has increased 16.3% in the past year. Other direct tax collections have been extremely stable, and direct taxes as a percent of total current revenues have increased only slightly, from 22% to 25%, over the decade.

Sales and excise taxes have increased from 3.5% to 5.1% of the GDP, representing a 31% improvement over the decade. This increase has resulted from improved administrative efficiency, simplification of the rate structure and broadening the list of goods upon which taxes are collected, as well as an increase in the general sales-tax charged from 3% to 6% over the decade. However, these efforts have been offset by decreased yields of import taxes which have fallen from 3.5% to 2.9% of the GDP. Import duties collected as a percent of the total value of imports have declined from 15.8% to 8.6% over the decade representing the general reduction of tariff barriers that has accompanied the development of the Central American Common Market.

The shift from usually regressive indirect taxes to a more progressive tax structure has been minimal, and Nicaragua has not been successful in developing an overall progressive tax system that ensures taxes as a percent of income will automatically rise with growth.

2. Composition of Expenditures

Table 4 presents the breakdown of expenditures by sector for the same years as Table 1. Two years were averaged to eliminate some variation due to lumpiness in capital expenditure budgets. The amortization of internal and external debt is treated as a separate item. Since the aggregated data do not permit an in depth analysis of line items behind these summary figures, conclusions should be treated with caution. The largest single increase in expenditures has been for interest payments on debt. When amortization is included, debt repayment has risen from 7% of the total budget to 17% over the decade. This should be kept in mind when viewing the declining importance of other sectors. For example, health and education have both fallen in terms of their share of budget allocation. However, expenditures in both sectors have increased as a percent of the GDP which indicates increased efforts on the part of the Government to expand these basic social services. In both of these sectors, the ratio of capital expenditures to current expenditures has risen rapidly which

represents the recent acceleration in the expansion of the health and education systems. Although this means increased current expenditures needs in the future, these sectors as a percent of the budget are small enough so that Nicaragua's projected 6% growth rate should provide the leeway needed for increased financing of these sectors which are considered by the GON as priority sectors for expansion.

3. Deficit Financing

Tables 3 and 4 combined present a clear picture of the general financial trend in the government sector. Current expenditures as a percent of the GDP have remained constant at about 10%. However, increased capital expenditures have raised the total central government budget as a percent of the GDP from 12.7% to 17.7% of the GDP. During the same period, the government through tax reforms has only been able to raise taxes from an average of about 9.5% to 11% of the GDP. To date, there has been minimal internal financing of the resulting deficit. As of December 31, 1976, the internal debt was the equivalent of approximately \$66 million. Of this, no more than \$19 million was held by the private sector with the remainder held by government agencies such as the Social Security Institute and Central Bank.

The majority of central government deficit financing has been through foreign borrowing which has risen from 1.3% of the GDP in 1966 to 5.0% in 1977. Foreign financing presently funds 59% of the capital budget.

Given Nicaragua's growth rate in the 1960's of 7.1% high returns to both private capital and social infrastructure and the present growth rate of 6.5%, the above trends have not necessarily represented a policy that is harmful to Nicaragua's financial and economic position. The alternative could well have been slower growth and a worse records in overcoming the economic difficulties of the early 1970's.

4. External Public Debt

Table 5 presents a concise picture of the growth of external public debt as compiled from the annual reports of the Central Bank. This debt includes not only debt covered by the central government budget as discussed above but also that of autonomous institutions and private entities which are to be paid out of the earnings of each enterprise. At the end of 1976, the external debt structure broke down as follows:

Central Government	\$ 350,063,000
Autonomous Institutions	346,096,000
Private Guarantees	<u>6,187,000</u>
Total External Public Debt	\$ 702,346,000

International organizations held 34% of the debt; the U.S. held 14%, and commercial banks held 50% of the debt. The average rate of interest was 6.02%. As Table 5 shows, much of this debt structure was accumulated in the early 1970's. This came as a result of earthquake reconstruction and the financing of the energy crisis. From 1970 to 1977, the ratio of debt to the GNP rose from 19% to 32.8%. However, disbursements to total investment, both private and public, continued to rise until 1975, but is now below its 1970 level. Due to an excellent balance of payments situation, the debt service ratio to exports of goods and services has remained at or below 13%, which represents above average performance for the decade of the 70's in comparison to most LDC's. At the same time Nicaragua's reserve standing with the IMF continues to improve with international reserves at the end of 1976 at a level of \$176 million.

In Annex I of the DAP revision of November 1976, total donor lending through 1979 was estimated at approximately \$180 million per year. There have not been substantial revisions of those estimates to date. By USAID estimate, external debt servicing will cost the government approximately \$130 to \$150 million per year from 1978 through 1981. If disbursement of loans rises above the projected level shown in Table 5 of \$133 million for 1977 to \$150 million thereafter, that would mean that debt servicing would equal disbursements from approximately 1978 through 1981. A positive aid inflow would only resume thereafter. This is only a cursory USAID estimate, and we would look to the multilateral banking agencies and Government of Nicaragua to develop an improved schedule of debt repayments and an optimum level of aid inflow within which the Government should operate.

B. Balance of Payments

Table 6 is included to improve the perspective on the debt situation. If the triple disaster of earthquake, drought, and energy crises created a deteriorating financing situation for Nicaragua in the early 1970's, the recent improvement is the balance of payments can provide the means to finance repayments of much of the 50% debt which is high interest commercial paper coming due over the next half decade. This is not due solely to improved prices of coffee and

cotton, which now account for 50% of exports, but also to continued expansion of all exports except sugar. Continued favorable prices over the next year could result in a current account surplus and continued rapid growth in international reserves. An overall policy to tax these earnings or borrow foreign reserves from domestic holders has yet to be developed by the Government.

C. Tax Reforms and Other Government Policies

As carefully outlined in the IBRD report of November, 1975, the tax reform of 1974 replaced the emergency taxes which helped finance domestic costs of earthquake reconstruction. This reform (a) added progressivity to the tax system, (b) unified real property tax rates and (c) unified the general sales tax structure - all in an attempt to simplify tax collection efforts and raise government revenue offtake on a permanent basis. In general, collections are running 10% to 20% below expectations. This is probably due more to problems of tax administration and evasion than to the legal structure of the tax reform or to faulty revenue projection. The government continues to develop programs to overcome these problems. For example, in the area of land taxation, the government is launching a program to accelerate the cadastre in Region 5, simplify appraisal procedures and in this way accelerate its ability to collect taxes. Recently, the government has placed a tax of \$5 per quintal on exported coffee to obtain revenues for its campaign against the Roya. It is issuing special bonds equal to \$43 million in 1977 in an attempt to use excess liquidity in the banking system deriving from export earnings to finance government expenditures. Although these moves, as well as those of the past decade, may still be judged insufficient to meet Nicaragua's long-run development needs, they have been consistently in the right policy direction.

The government fully realizes both the taxation and debt financing problems of a long-run nature which it needs to solve plus the need to manage import policy in order to avoid any inflationary tendencies induced through the balance of payments' inflows to the private sector. In April, 1977, an IMF mission visited Nicaragua to review the situation with the government. The government has now requested technical advice from the IMF and has begun an intensive review of alternative policies. At the same time, it is just undertaking a review of future budget demands that will be created by present development policies. Until those reviews are completed, USAID/Nicaragua does not have the information necessary to comment on future government policy changes.

TABLE 4
CENTRAL GOVERNMENT EXPENDITURES
ECONOMIC AND FUNCTIONAL CLASSIFICATION
(Million cordoas)

	2 year average 1966-1967			2 year average 1976-1977		
	Actuals	Actuals	%	Budget	Budget	%
	Current	Capital	Total	Current	Capital	Total
Gen. Admin.	103.8	8.0	111.8	311.4	95.3	406.7
Defense	55.2	-	55.2	229.3	1.6	230.9
Education	98.2	4.0	102.2	262.6	80.4	343.0
Agriculture	31.9	2.0	33.9	65.1	93.9	159.0
Health	49.2	4.5	53.7	141.0	55.4	196.4
Commerce	22.7	1.5	24.2	9.0	6.0	15.0
Housing	1.5	2.0	3.5	-	33.3	33.3
Ind. & Elect. Power	6.6	11.5	18.1	0.4	113.4	113.8
Econ Services	14.3	-	14.3	26.8	99.7	126.5
Social Services	8.8	3.5	12.3	31.2	2.2	33.4
Transport	12.1	98.0	110.1	50.7	216.1	266.8
Interest on Debt	19.1	-	19.1	196.3	-	196.3
Totals ^{1/}	423.4	135.0	558.4	1,328.8	797.3	2,121.1
	76%	24%	100	62%	38%	9
Central Government Amortization			21.8			204.5
GDP			4,563.0			13,140.0
Education/GDP			2.2%			2.6%
Health/GDP			1.2%			1.5%
Agric/GDP			0.7%			1.2%
Transport/GDP			2.4%			2.0%
Total Budget/GDP ^{2/}			12.7%			17.7%

^{1/} Excludes Amortization
^{2/} Includes Amortization

Source: Court of Accounts, Ministry of Finance, Data adjusted by USAID to fit sector categories, Annual Budget, Ministry of Finance.

TABLE 3

CENTRAL GOVERNMENT REVENUES
(Million Cordobas)

	<u>1966</u>	<u>% of GDP</u>	<u>1967</u>	<u>% of GDP</u>	<u>1976</u>	<u>% of GDP</u>	<u>Est. 1977</u>	<u>% of GDP</u>
Direct Taxes								
Income Tax	61.3	1.4	69.5	1.5	245.8	1.9	255.2	1.9
Property Taxes	30.6	0.7	32.2	0.7	82.3	0.6	95.2	0.7
Others	7.4	0.2	8.9	0.2	22.1	0.2	24.6	0.2
Sub-Total	<u>99.3</u>	2.3	<u>110.6</u>	2.3	<u>350.2</u>	2.7	<u>375.0</u>	2.8
Indirect Taxes								
Import Duties	157.9	3.6	155.4	3.3	367.3	2.9	390.6	2.9
Export Duties	9.8	0.2	10.4	0.2	13.4	0.1	19.5	0.1
Consumer & Excise	<u>154.7</u>	3.5	<u>161.9</u>	3.4	<u>656.9</u>	5.1	<u>724.5</u>	5.4
Sub-Total	<u>322.4</u>	7.3	<u>327.7</u>	6.9	<u>1037.6</u>	8.1	<u>1134.6</u>	8.4
Total Tax Revenue	421.7	9.6	438.3	9.3	1387.8	10.8	1509.6	11.2
Non-tax Revenue								
Current Transfers	<u>1.4</u>	-	<u>4.9</u>	-	<u>6.0</u>	-	<u>3.9</u>	0.8
A Total Current Revenues	447.7	10.2	463.8	9.8	1499.6	11.7	1621.7	12.0
B Special Receipts	11.6	0.3	8.2	0.2	24.2	0.2	65.0	0.5
C Capital Receipts	<u>55.5</u>	1.3	<u>66.8</u>	1.4	<u>479.4</u>	3.7	<u>683.4</u>	5.1
Loans (Foreign)	55.5	1.3	66.8	1.4	476.0	3.7	675.7	5.0
Grants (Foreign)	-	-	-	-	3.4	-	7.7	-
Other	-	-	-	-	-	-	-	-
D GRAND TOTAL	514.8	11.7	538.8	11.4	2003.2	15.6	2371.0	17.6

TAXES COLLECTED BY:

Social Security	51.2	1.2	61.4	1.3	232.3	1.8	256.5	1.9
JNAPS & Municipalities	56.6	1.3	65.6	1.4	193.3	1.5	216.0	1.6
GDP (Current)	4,395.0		4,731.1		12,832.0		13,448. <u>1/</u>	

Source: Court of Accounts Reports, Ministry of Finance
Annual Budget Reports, Ministry of Finance

1/ Since the data presented here has been gathered from various sources, they will not always be consistent between tables. For example, 1977 GDP in Table 3 is 13,448 million cordobas since revenue projections were based on that figure (C\$7 = US\$1.00). However, the latest estimate of C\$14,952.3 million is used in Table 4 for estimating debt ratios.

TABLE 5
GROWTH OF EXTERNAL PUBLIC DEBT
(Million of \$)

	1970	1973	1974	1975	1976	1977
External Public Debt (million of \$)	246.5	702.1	791.3	887.9	1087.5	1272.7
Total Loans Contracted (start of year)						
Undisbursed	(98.0) ^{1/}	(447.1)	(444.6)	(383.0)	(445.3)	(586.4)
Disbursed	(148.5)	(255.0)	(346.7)	(504.9)	(642.1)	(702.3)
Debt Service	27.0	43.5	48.7	56.2	84.5	100.1
Interest	(8.8)	(18.6)	(28.4)	(35.9)	(50.7)	(53.7)
Amortization	(18.2)	(24.9)	(20.3)	(20.3)	(33.8)	(50.4)
Disbursements during Period	45.3	131.0	174.4	159.4	94.0	133.5
Commitments during Period	20.8 ^{1/}	114.1	116.9	199.5	217.0	155.0

^{1/} IBRD Records Adjusted
^{2/} USAID Estimate

	% Ratios	
Debt to GNP	19.0%	23.0%
Debt Service to GNP	3.5%	4.0%
Debt Service to Export Goods & Services	13.0%	12.8%
Disbursements to Total Investment	31.3%	38.5%
GNP	CS	7,575.0
	\$	781.1
Investments	CS	1,082.0
	\$	1,835.3
Exports Goods & Services \$		262.2
		144.5
		207.6
		340.1
		458.9
		464.2
		633.5
		775.0
		11,149.8
		1,592.8
		2,424.4
		346.3
		479.3
		775.0
		12,952.3
		1,850.3
		2,499.6
		357.1
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		775.0
		14,952.3
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TABLE 6
BALANCE OF PAYMENTS
(Million dollars)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	USAID Est <u>1977</u>
Current Account Balance	<u>-256.7</u>	<u>-184.1</u>	<u>-64.0</u>	<u>-30</u>
Exports (FOB)	379.6	374.9	541.2	680
Imports (FOB)	-540.2	-482.2	-496.2	-590
Net Services	-111.6	-93.5	-119.0	-130
Net Donations	15.5	16.7	10.0	10
Private Capital (Net)	<u>58.1</u>	<u>44.5</u>	<u>15.4</u>	<u>20</u>
Official Capital	<u>173.4</u>	<u>112.2</u>	<u>95.7</u>	<u>80</u>
Loan Disbursements	174.4	159.4	94.0	133.5
Amortization	-20.3	-20.3	-33.8	-50.4
Others (Net)	19.3	-26.9	35.5	-3.1
Errors and Omissions	<u>-13.7</u>	<u>-4.3</u>	<u>-7.4</u>	<u>-</u>
Balance of Payments	-38.9	-31.7	39.7	70
Change in International Resources. ^{1/}	<u>38.9</u>	<u>31.7</u>	<u>-39.7</u>	<u>-70</u>
Central Bank	23.1	13.1	-25.1	-
Commercial Banks	15.8	18.6	-14.6	-

^{1/} Minus sign represents increase in reserves

Source: Annual Reports, Central Bank of Nicaragua.

V. MISSION STRATEGY

A. Overall Assistance Strategy

The Mission's overall assistance strategy is to help the Government of Nicaragua on a highly selective basis in its direct attack on poverty. We will assist with those efforts, not being supported by other donors, which appear to have a reasonable chance of helping the poor majority in Nicaragua to help themselves in improving their quality of life.

Although basically committed to a general economic growth strategy, the GON realizes that such a policy is not enough to reach the nearly two-thirds of its population who live in the traditional economy or on the outer fringes of the modern economy. The continued growth of the modern economy with its base in export agriculture and industrialization is essential for the future well-being of all of the Nicaraguan people. It is a clear priority goal of Nicaraguan development thinking. But, a broad level of economic growth is not enough. Such growth will not "trickle down" to meet the needs of poverty groups in Nicaraguan society fast enough to be acceptable to either the planners or the people themselves. What is being implemented is a complementary strategy of fostering direct growth in the traditional economy, principally in the area of small farm agriculture. This is the development philosophy of the current five year National Reconstruction and Development Plan and of the GON in its annual Operational Plan investment budget. It is this philosophy which has given high priority in the past two years to the small farmer development program of the INVIERNO Institute. It has also given impetus to the urban sector assessment process as a means of developing a balanced urban-rural growth plan with regionally distributed employment opportunities.

Our basic assistance strategy is to help those Nicaraguan initiatives which promise to contribute to the equity aspects of its development programs when it appears that we have some comparative advantage (vis a vis other assistance sources) to do so. Our assistance will be oriented over the next five years to both the rural and urban poor and will be channeled through both public and private organizations concerned with agricultural productivity, social services, and small enterprise employment generation. The reconstruction of Managua will continue to receive our assistance with currently available funds.

B. Nicaragua as a Middle Income Country

Figures are misleading. Nicaragua is at the lead in gross growth figures for Central America. Overall per capita income figures at \$607 per year in 1975 prices place Nicaragua as a "middle income country" not as one of the poorest of the poor. We can share with the Nicaraguans their pride in their growth rate. U.S. official assistance and private investment has helped the process, but as their own National

Development Plan clearly indicates gross growth rates are not enough. A direct concern for the distribution of the benefits of growth is also needed. The AID program in agricultural productivity, social services and employment generation is aimed at these equity-distribution concerns.

At the same time we can expect our assistance program to change as overall Nicaraguan growth continues. Further loan assistance will require an increasing, Nicaraguan contribution especially in both health and education where their expenditures as a percentage of GDP are among the lowest in the region. We will expect Nicaragua to do more in these areas. In all of our project activities we will seek to phase down our support and increase GON contributions during the life of the project.

If the Nicaraguan economy continues to strengthen, and Nicaragua's capacity to handle non-concessional financing improves, we could consider a further hardening of loan terms. The IDB, IBRD and CABEL are expected to continue to meet the primary development infrastructure needs of the country.

IMPROVED NICARAGUAN PERFORMANCE IN TAXING ITSELF TO FINANCE MORE OF ITS DEVELOPMENT INVESTMENT SHOULD BE THE SUBJECT OF CONTINUING CONCERN BY THE USG AND OTHER DONORS. IN THE FIELD, BOTH USAID AND THE EMBASSY WILL TAKE ADVANTAGE OF APPROPRIATE OPPORTUNITIES TO EMPHASIZE THIS CONCERN, AND TO SEEK RE-ENFORCEMENT FROM OTHER DONORS HERE REPRESENTED. WE SUGGESTED THAT AID/W COULD ALSO HELP BY EXPRESSING OUR SHARED CONCERN TO OTHER DONORS, PARTICULARLY IDB, IMF, AND IBRD, THE LATTER OF WHICH IS NOT REPRESENTED IN NICARAGUA, AND ENSURING THAT THIS CONCERN IS EMPHASIZED ON SUCH OCCASIONS AS ANNUAL CEPCIES REVIEWS.

C. Participation Policy

There are two key areas in which broader participation is needed in the development strategies being supported by AID: small farmer organizations and community self-help organizations. The first - associations of small farmers - are needed to assist with the implementation of strategies being developed by institutions such as INVIERNO. To reach small farmers with a variety of services on a country-wide basis is a herculean task. The only feasible method for doing so with a reasonable sized staff and administrative overhead is to organize farmers into groups who can retail services among themselves. The second - community organizations - are the ad-hoc or permanent associations which, for example, serve as a health committee to determine priority community needs in the Ministry of Health's present out-reach program. They are the committees which form to build a school or to help support a school program as a parents' group. They are the essential grassroots groups which are necessary for the success of any social development program at the community level. In some cases, these local organizations need formal status but in most cases, they are created around specific needs for specific purposes. We

intend to continue our efforts to build these types of organizations into the implementation plans of USAID projects.

D. Family Planning

Like the United States, the Government of Nicaragua does not have an articulated population policy. There is little fear of continued population growth at this time or realization of its costs on the part of many GON officials or opinion leaders. However, the evidence to date has shown that there is an increasing demand for family planning services on an individual basis. In response, the government is constantly expanding family planning services as a part of its health program. By 1983 it's expected that about 75% of the population will have fairly good access to family planning services, either through private sources, government health centers or the community based distribution programs managed by the Ministry of Health and the Nicaraguan Demographic Association. About 12% of the fertile age women (ages 15-45) were active family planning acceptors in December, 1976 and this is expected to double by 1980.

We plan to support initiatives that will provide Nicaraguans with MCH/family planning services on a broader scale, especially in rural areas. This includes support to training activities, promotion and motivation efforts, and provision of commodities/contraceptives in order to upgrade the health system's ability to supply its clientele with adequate family planning services. At the same time we will assist research in the area of population dynamics and impact analysis in order to further the long, slow process of sensitizing officials to the trade-offs a society implicitly makes between the costs of high population growth and levels of living for its population. We consider the population effort in Nicaragua a special program to be developed in response to opportunities as they present themselves. By 1983, it is anticipated that provision of family planning services will be a fully integrated part of Nicaragua's health delivery system, and population concerns will be considered by Nicaragua's planning institutions as an important variable in the planning process.

E. Statement of Program Priorities

Chapters II, III and IV of this DAP present a summary analysis of poverty groups and the constraints under which they operate, the Institutional structure the government is developing to deal with this problem, and the macro-economic budgetary constraints under which the government is operating. From this, the Mission has defined areas of activity where total resource needs far exceed the budget limitations placed upon the USAID assistance program as well as the present capacity of the Mission or the GON to implement new programs. Clearly we cannot work directly with the entire target group. As a result we attempt to define three program dimensions and a priority ranking that establishes a selection criteria to rank any project the Mission might consider for project development. These dimensions rank (1) poverty groups on a rural to urban continuum (2) projects on a regional basis and (3)

technical support on an institutional basis.

1. Poverty Group Priorities

The largest relative concentration of the poorest groups of the population are in rural areas possessing potential for small farm development. Therefore our priorities result in the following subdivision and ranking of poverty groups from high to low:

- a. Small farmers in reasonably accessible rural areas with incomes below \$150 per capita.
- b. Rural landless laborers in the same areas as group (a).
- c. Other rural poor and urban poor living in communities up to the size of secondary cities serving agricultural regions.
- d. Groups outside of the above categories would be programmed for assistance only on a special project basis thru PVO or other requests.

2. Regional Priorities

The poverty groups defined above are also concentrated by region. For this reason and to provide continuity with our efforts to date, we have established the present geographic priorities from high to low.

- a. Region V (Central Highlands) and adjacent areas of Region VII (Northeast Region)
- b. Rural areas in Region II (Central Pacific Area).
- c. Region II (secondary cities)
- d. All other regions would be programmed for assistance only on a special project basis through PVO or other requests.

3. Institutional Priorities

Chapter III describes in detail the evolving institutional structure being developed in Nicaragua aimed at serving the needs of poverty groups. It is the opportunity to work with these institutions, as they are evolving programs, policies and their own organizational capacities, that gives the Nicaraguan Program a high probability of payoff for our projects. Institutional strengthening that will help

these organizations to become "lobbies" for the interests of the poor, to obtain a larger share of the resource pie and to deliver those resources to the poor through development programs can be considered a major long-run goal of the program. Priorities for selection of institutions to receive technical assistance are ranked as follows:

a. Public and private organizations mandated to develop programs that are or will be placed on a community self-help basis. (e.g., INVIERNO, FUNDE);

b. Central Government planning units who will be responsible for developing and coordinating such efforts (e.g., VMPU, DIPSA, National Planning Directorate);

c. Assistance to other institutions will be considered only on a special project basis.

F. Program Directions

Section E established a set of criteria to help in ranking priorities of present and future project proposals. It is also possible to outline the present thrust of our program development, subject to these outlines, in such a way, that we define areas of program commitment that cut across priority guidelines and meet specific development goals.

1. Integrated Rural Development

Integrated rural development as defined by the Government of Nicaragua refers to the coordination and delivery of a set of inputs which allows a family unit to raise its level of living on a self-sustaining basis. The process involves coordinating two types of integrated programs. The first program impacts directly on the productive capacity of the rural areas. Through the efforts of a number of institutions in the agricultural sector coordinated by INVIERNO, credit for productive agricultural activities, technical assistance, training, production inputs, marketing services and community development are channelled to meet the economic development needs of the rural poor.

However, economic inputs as described above are considered necessary, but not of themselves sufficient, to improve the well-being

of the target group. Social services such as education, preventive health, family planning and nutrition programs are also necessary to raise the target group's general level of living and welfare. Although these social programs are implemented by the Ministries of Health and Education, INVIERNO acts as the coordinating agency, thereby insuring maximum complementarity and effectiveness. This represents the second component of the integrated development strategy.

AID has concentrated its efforts in supporting this integrated development effort through INVIERNO and the Ministries of Health and Education. Initiated in 1975, the INVIERNO program has had an extremely successful beginning. However, it must be understood that, although INVIERNO may be the catalyst in the government's integrated strategy, the success of this overall program will be determined in large part by the other participating governmental agencies.

The task of carrying out and coordinating integrated rural development programs requires that the implementing institutions develop management systems that are dynamic and flexible. Innovative modifications in the integrated development program will be necessary as INTA, IRENA, the Ministry of Health and the Ministry of Public Education play increasing roles in the program. AID proposes to grant continued support during the initial development stages of those innovations. We will continue to develop projects which fall within our mandate as part of the specific project strategy. As the GON integrated development strategy evolves, we may modify levels of loans and technical assistance from that proposed in Section V.G. below, in order to address the dynamic conditions in Nicaragua. However, we expect the integrated rural development program will continue to have the general scope outlined above.

Of special interest in our integrated rural development strategy is the need for conservation and the productive development of Nicaragua's deteriorating base of renewable natural resources. IRENA's programs will complement and support the integrated development in Regions II and V and the development efforts in the agricultural frontier. Both the GON and AID are becoming increasingly convinced that intelligent conservation and development of soils, water, flora and fauna will be needed to assure the success of the regional and frontier programs for which increasing levels of investment will be channelled in the years ahead.

AID will support the design and creation of IRENA and the development of an initial set of priority interventions. Additional AID support is contemplated in strengthening IRENA's programs and in carrying out priority projects. While IRENA will be developing projects and seeking assistance from various donors, projects funded by AID will be limited to those that support the integrated rural development effort (e.g. reforestation, and soil conservation within or affecting Regions II and V) or the development of the agricultural frontier (e.g. soils mapping and land use planning).

An additional concern in the integrated rural development program is the land use patterns in Nicaragua. Aside from supporting GON efforts to increase the value of small farmer production, AID is encouraging the GON's development of two types of instruments to affect land redistribution, land tax reforms and a land sale guarantee program. The major land tax reform is aimed at changing the land assessment and collection procedures of the current system and reducing widespread tax evasion. Since land assessment will be based on potential and not actual use, it will penalize both unutilized and underutilized lands. Simultaneously, the direct penalty tax on unutilized and underutilized land that has been in effect since the 1963 Agrarian Reform Act will be changed to become a stronger incentive to put land to its optimum use. The second type of instrument to be employed is the land sale guarantee mechanism which will assist individuals and small farmer groups to obtain adequate land for viable operations by guaranteeing the buyer's note to the seller.

New land is also an integral part of the overall GON strategy to develop the agricultural frontier. Based on the IRENA's soil mapping efforts, lands will be identified, surveyed and titled to small producers. Efforts to secure clear titles for those small producers already settled in the frontier will also receive major attention. AID will support the above efforts. With this approach, we believe the problems of land misallocation in the settled regions can be substantially relieved and rational resource development can proceed in a more equitable manner.

2. Agricultural Frontier Development

The integrated rural development program will not only evolve, but will also expand into new geographical areas. Expansion into the fringe areas of Region V and Region VII will be a logical extension of existing efforts in Region V because of the migrant inflows from Region V into the agricultural frontier. Integrated programs to address the developmental needs of the settlers in this agricultural frontier are essential, especially as the GON begins to build infrastructure (e.g. roads).

As discussed in Section III.B.1.d., the GON is proposing an integrated development strategy for the frontier. INVIERNO, IAN, INTA, IRENA, Public Works and the Ministries of Health and Education will all play important roles. The coordinating institution will be the Ministry of Agriculture (MAG). There will need to be modifications in the INVIERNO model because the development task in the frontier has complex dimensions that the GON rural development efforts in more settled areas of the country have not had to address. The agricultural frontier has no historical precedents for development. The GON does not know what the productive potential of the land will prove to be. Vital physical infrastructure is not in place. Finally, the participants in such development will not be exclusively the rural and urban poor. The new programs must take into consideration the roles of large commercial farms and ranches, agro-industry, wholesalers and suppliers

for the effective development of the region.

AID expects to program efforts in the eastern fringe areas of Region V and into Region VII. Our efforts will be in response to meeting the development needs of the poor in those areas. In addition to assisting a gradual expansion of the INVIERNO program, we will support efforts to evaluate present activities and develop new programs which assist in the settlement of new lands. AID's efforts in the frontier will be highly selective, with a large component of research activities which will yield information for developing projects funded by other donors. For example, through Title XII, we plan to evaluate the effects of major new road construction linking the country's main population centers with the east coast. This project would also assist the GON in evaluating the productive potential of Region VII and the types of programs that will most effectively develop that potential with particular regard for opportunities for participation by the poor.

3. Secondary Urban Centers and Regional Development

The involvement of AID in urban areas is an extension of our support of the GON's integrated rural development strategy and concurrently supports the GON policy on decentralization through regional development. Vital urban services and facilities such as markets, slaughterhouses, agricultural input suppliers, and information outlets are needed to increase production and efficiency in the agricultural sector. By promoting the development of market towns, service centers and secondary cities, the GON will create a spatial structure that will make these services and facilities more accessible to the rural areas and lessen the dependency on Managua. Without this structure, the rural development program will be constrained in reaching its stated goals.

Direct and strong linkages exist within regions. Goods and services should flow efficiently between urban and agricultural areas in order for the agricultural sector to develop and modernize. The GON is emphasizing programs that increase opportunities in the rural areas; and it realizes that an improved and strengthened system of market towns, service centers and secondary cities must be developed if these new productive opportunities are to be long lasting and beneficial to both rural and urban population. This strategy of strengthening rural-urban linkages and spatial development is the major thrust of the GON's decentralization policy.

We do not intend to develop major new programs directed at the urban sector. Other donors (IBRD, IDB, CABEI) the GON and the private sector are actively developing large infrastructure and agribusiness employment generation programs. Nevertheless, we feel that AID has a role to play in the urban areas due to the nature of our target group and our programs. We are already involved in fostering the institutional development of municipalities and improving municipal

infrastructure. It seems logical that we should continue in the role of promoting pilot projects and innovative approaches directed at the needs of the lower income people within these urban areas. AID will address concerns in the following areas: (a) urban/regional planning; (b) rural-urban linkages; (c) employment generation; (d) essential services for the urban poor.

a. Urban-Regional Planning

Under the Managua reconstruction program, AID assisted the GON in developing a special urban planning capability through organizations such as the Vice-Ministry of Urban Planning (VMPU). The focus of our assistance in this area in the coming years will concentrate on facilitating the institutionalization and integration of these planning capabilities into Nicaragua's overall planning structure. Most importantly, these capabilities will be channelled to address urban problems outside of the capital city. This activity will result in a realignment of human resources and commitments by the GON to continue providing the necessary policy and financial support for work in this area.

b. Rural-urban Linkage

AID/GON efforts have already been directed at strengthening rural-urban linkages. AID's collaboration with INVIERNO and the Ministry of Government's newly created Municipal Development Department provide a mechanism through which significant interventions can be made in small to medium-sized urban areas in Nicaragua. This program is addressing public administration and infrastructure needs of towns, service centers and some secondary cities to that they may better function as poles of development in serving their agricultural hinterlands.

c. Employment Generation

The third activity which AID will support in the urban areas is the promotion of small business and industrial opportunities. This program will be based upon programs that AID has supported under the reconstruction program. Specifically, credit and technical assistance for small businesses will be channelled through the Special Development Fund (FED) of the Central Bank and the Banco Popular. Evaluations have shown that these programs have a direct impact on the target group, especially through employment generation. This activity will support the GON's policy of decentralization, as it will provide a financial environment conducive to strengthening the private sectors in rural towns, market centers and secondary cities.

d. Essential Services

The fourth area of AID involvement will be assisting

the GON in developing utility service programs, such as water, sewer and electricity connections in low income barrios. Where feasible, core housing and home improvement programs will be considered along with infrastructure and community facilities. Such programs will follow the model of the Las Americas program but will be financed through the Housing Guaranty Program rather than development loans. In order to enhance replicability, we will work with the GON toward making these programs self-financing to the maximum extent possible with subsidies, if any, kept to a minimum.

The above activities will be concentrated mainly in Regions II and V. However, in the interest of helping the poor majority, and on a pilot basis, we would not necessarily rule out activity in urban concentrations outside of these regions where there were some special justification; e.g. follow through on AID's financial urban development planning project for Leon.

We expect these initial efforts to be designed and selected on the basis of low cost with a high potential for replicability. We recognize that the employment generating potential of this program will be somewhat limited and that the substantial investment necessary for the generation of large numbers of jobs must come from the private sector and other donor programs. The aim of our efforts will be to promote and encourage the necessary investment in support of integrated regional development, while simultaneously attempting to improve the quality of life for the urban poor through innovative programs.