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# Nicaragua

## Economic Performance Assessment



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# Nicaragua

## Economic Performance

### Assessment

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Sponsored by the Economic Growth office of USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT), and implemented by Nathan Associates Inc. under Contract No. PCE-I-00-00-00013-00, Task Order 004, the Country Analytical Support (CAS) Project, 2004-2006, has developed a standard methodology for producing analytical reports to provide a clear and concise evaluation of economic growth performance in designated host countries. These reports are tailored to meet the needs of USAID missions and regional bureaus for country specific analysis. Each report contains:

- a synthesis of data drawn from numerous sources, including World Bank publications and other international data sets currently used by USAID for economic growth analysis, as well as accessible host-country data sources;
- international benchmarking to assess country performance in comparison to similar countries and groups of countries;
- an easy-to-read analytic narrative that highlights areas in which a country's performance is particularly strong or weak, thereby assisting in the identification of future programming priorities.

Under the CAS Project, Nathan Associates will also respond to mission requests for in-depth sector studies to examine more thoroughly particular issues identified by the data analysis in these country reports.

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## **A NOTE ON NICARAGUA DATA**

The set of up-to-date statistics for Nicaragua from standardized international sources is limited. When possible, the CAS team used more up-to-date statistics from country sources such as the Central Bank. Some indicators from national sources, however, are not reported in a manner directly comparable to the international benchmark data. The International Monetary Fund's Article IV review is a standard source for timely and reliable data on macroeconomic indicators. At the time this report was written, the most recent IMF review documents for the Nicaragua were not available to the public. As the report was being finalized, the IMF released the 2005 Article IV Consultation. Where the updated figures differ substantially from the Central Bank figures, the latest numbers have been used.



## HIGHLIGHTS OF NICARAGUA'S PERFORMANCE

Economic Growth	GDP growth is recovering after the devastation of Hurricane Mitch in 1998 and the economic downturn of 2001–2002. Although fixed investment has been very strong, 28.4 percent for 2005, there are problems with capital and labor productivity indicators.
Poverty and Inequality	Close to 50 percent of the population in Nicaragua lives below the national poverty line. Like many of its neighbors, Nicaragua is one of the most unequal societies in the world.
Economic Structure	With 30.5 percent of the workforce dedicated to it, agriculture is the largest employer and yet the least productive sector, contributing 19.2 percent to GDP.
Demography and Environment	Although showing a slight decline, the population growth rate is high, at 2.0 percent, and exceeds the LMI-LAC average by a full percent point. The age dependency ratio shows a declining trend, which should boost per capita income growth.
Gender	Gender indicators point to overall equity in women's access to health and education services. However, female labor participation is low, at 38.5 percent.
Fiscal and Monetary Policy	Nicaragua's macroeconomic indicators remain relatively strong, although future fiscal austerity is subject to election outcomes expected in November 2006. Fiscal discipline remains essential to maintain stability because of the government's revenue-generating constraints. Monetary growth is strong and is an area of concern, with inflation at 9.6 percent in 2005.
Business Environment	Nicaragua's business climate faces the barriers of corruption, poor regulatory quality, and delays in registration while performing well on basic business processes.
Financial Sector	Financial sector indicators are relatively strong. Some indicators beat the regional high performer, Costa Rica, but overall the financial system still does not provide the quality of services needed to promote economic and business growth.
External Sector	CAFTA-DR offers Nicaragua many new opportunities. Taking advantage of enhanced access to the U.S. market is essential to Nicaragua's future economic development.
Economic Infrastructure	Economic infrastructure quality is poor in Nicaragua, falling behind in the categories of access to the Internet, port quality, and railroad quality. Telephone density, however, has seen rapid increases in recent years.
Health	The country suffers from a weak public health system and low public health expenditure, which translates into poor overall provision of health care services.
Education	Primary enrollment is low but shows signs of improving. Youth literacy rate is lower than in all comparator economies. Insufficient resources are devoted to secondary education, while resources are abundant at the tertiary level.
Employment and Workforce	Labor force participation rates are low overall and in particular for women. A large informal sector masks the true scope of employment.
Agriculture	Growth in agriculture has been strong in the past five years, with average growth in agricultural value added at 4.7 percent between 2001 and 2004. Productivity measures such as value added per worker and cereal yields exhibit slight improvement.

*Note: The methodology used for comparative benchmarking is explained in the Appendix.*



## NICARAGUA: NOTABLE STRENGTHS AND WEAKNESSES— SELECTED INDICATORS

Indicator	Strength	Weakness
Growth Performance		
Real GDP growth	✓	
Share of gross fixed investment in GDP	✓	
Poverty and Inequality		
Poverty headcount, by national poverty line		✓
Economic Structure		
Output structure, agriculture value added, percent GDP		✓
Demography and the Environment		
Population growth rate		✓
Gender		
Adult literacy rate, male to female ratio	✓	
Gross enrollment rates, all levels, male-to-female ratio	✓	
Labor force participation rate, female		✓
Fiscal and Monetary Policy		
Cash/surplus deficit (% of GDP)	✓	
Growth in the broad money supply	✓	
Government revenue (% of GDP)		✓
Business Environment		
Corruption Perception index		✓
Cost of starting a business, % GNI per capita		✓
Time to enforce a contract	✓	
Financial Sector		
Domestic credit to the private sector, % of GDP		✓
Interest rate spread		✓
Money supply (M2), % of GDP	✓	
External Sector		
Trade Policy index	✓	
Current account balance		✓
Gross international reserves, months of imports		✓
Economic Infrastructure		
Internet users per 1,000 people		✓
Overall Infrastructure Quality index		✓
Telephone density, fixed line and mobile per 1,000	✓	
Internet users per 1,000		✓

Indicator	Strength	Weakness
Health		
Access to improved sanitation	✓	
Access to improved water source		✓
Births attended by skilled health personnel		✓
Education		
Net primary enrollment rate (total, male, and female)		✓
Persistence in school to grade 5, percent of total		✓
Expenditure per student, % of GDP per capita, primary and secondary		✓
Employment and Workforce		
Labor force participation rate, total and female		✓
Unemployment rate		✓
Agriculture		
Agriculture value added per worker		✓
Cereal yield		✓

*Note: The chart identifies selective indicators for which Nicaragua's performance is particularly strong or weak relative to the benchmark standards; details are discussed in the text. The separate Data Supplement presents a full tabulation of the data examined for this report, including the international benchmark data, along with technical notes on the data sources and definitions.*

# 1. Introduction

This paper is one of a series of Economic Performance Assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of a broad range of indicators relating to economic growth performance in designated host countries. The report draws on a variety of international data sources<sup>1</sup> and uses international benchmarking against reference group averages and comparator countries (Chile and Costa Rica) to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty.

The methodology used here is analogous to examining an automobile dashboard to see which gauges are signaling problems. Sometimes a blinking light has obvious implications—such as the need to fill the fuel tank. In other cases, it may be necessary to have a mechanic probe more deeply to assess the source of the trouble and discern the best course of action.<sup>2</sup> Similarly, the economic performance assessment is based on an examination of key economic and social indicators, to see which ones are signaling problems. In some cases a “blinking” indicator has clear implications, while in others a detailed study may be needed to investigate the problems more fully and identify an appropriate course for programmatic action.

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.<sup>3</sup> Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, measures aimed at reducing poverty and lessening inequality can help to underpin rapid and sustainable growth. These interactions create the potential for stimulating a virtuous cycle of economic transformation and human development.

Transformational growth requires a high level of investment and rising productivity. This is achieved by establishing a strong *enabling environment for private sector development*, involving multiple elements: macroeconomic stability; a sound legal and regulatory system, including secure contract and property rights; effective control of corruption; a sound and efficient financial system; openness to trade and investment; sustainable debt management;

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<sup>1</sup> Sources include the latest data from USAID’s internal Economic and Social Database (ESDB) and readily accessible public information sources. The ESDB is compiled and maintained by the Development Information Service under PPC/CDIE. It is accessible to staff through the USAID intranet.

<sup>2</sup> Sometimes, too, the problem is faulty wiring to the indicator—analogue here to faulty data.

<sup>3</sup> In USAID’s white paper *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004), transformational growth is a central strategic objective, both for its innate importance as a development goal and because growth is the most powerful engine for poverty reduction.

investment in education, health, and workforce skills; infrastructure development; and sustainable use of natural resources.

In turn, the impact of growth on poverty depends on policies and programs that create opportunities and build capabilities for the poor. We call this the *pro-poor growth environment*.<sup>4</sup> Here, too, many elements are involved, including effective education and health systems, policies facilitating job creation, agricultural development (in countries where the poor depend predominantly on farming), dismantling barriers to micro and small enterprise development, and progress toward gender equity.

The present evaluation of these conditions must be interpreted with caution, because a concise analysis of this sort cannot provide a definitive diagnosis of economic problems or simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems for economic growth on the basis of a review of selected indicators, subject to limits of data availability and quality. The results should provide insight about potential paths for USAID intervention, to complement on-the-ground knowledge and further in-depth studies.

The remainder of the report discusses the most important results of the diagnostic analysis, in three sections: Overview of the Economy; Private Sector Enabling Environment; and Pro-Poor Growth Environment. Table 1-1 summarizes the topic coverage. The appendix provides a brief explanation of the criteria used for selecting indicators, the benchmarking methodology, and a table showing the full set of indicators examined for this report.

Table 1  
*Topic Coverage*

Overview of the Economy	Private Sector Enabling Environment	Pro-Poor Growth Environment
<ul style="list-style-type: none"> <li>• Growth Performance</li> <li>• Poverty and Inequality</li> <li>• Economic Structure</li> <li>• Demographic and</li> <li>• Environmental Conditions</li> <li>• Gender</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal and Monetary Policy</li> <li>• Business Environment</li> <li>• Financial sector</li> <li>• External sector</li> <li>• Economic Infrastructure</li> <li>• Science and Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Health</li> <li>• Education</li> <li>• Employment and Workforce</li> <li>• Agriculture</li> </ul>

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<sup>4</sup> A comprehensive poverty reduction strategy also requires programs to reduce the vulnerability of the poor to natural and economic shocks. This aspect is not covered in the template because the focus is economic growth programs. In addition, it is difficult to find meaningful and readily available indicators of vulnerability to use in the template.

## 2. Overview of the Economy

This section reviews basic information on Nicaragua's macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and indicators of gender equity.<sup>5</sup> Some of the indicators cited here are descriptive rather than analytical and are included to provide context for the performance analysis.

### GROWTH PERFORMANCE

With an estimated per capita GDP of \$867 in 2005, Nicaragua ranks as the second-poorest country in Latin America, after Haiti. This GDP falls well below the \$2,358 average for lower-middle income countries in Latin America and the Caribbean (LMI-LAC).<sup>6</sup> By contrast, estimated GDP per capita was \$4,526 for Costa Rica and \$6,272 for Chile in 2005.

Growth was a strong 7 percent in 1999, driven by the reconstruction after Hurricane Mitch, which devastated the country in 1998.<sup>7</sup> By 2002, growth had dipped sharply to a low of 0.8 percent because of a drastic drop in coffee prices, internal debt from the banking sector crisis, and higher-than-expected oil prices. By 2005, real GDP growth was 4.0 percent, having benefited from steady growth in the previous two years.<sup>8</sup> Nicaragua's 2005 growth compares favorably with the benchmark regression estimate of 3.6 percent for a country with Nicaragua's characteristics and with the LMI-LAC average of 3.7 percent. The Nicaraguan government must aim to sustain growth rates at or above the level projected for 2006—4 percent—to eventually climb into the low middle-income bracket and deliver visible and widespread improvements in living standards (Figure 2-1).<sup>9</sup>

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<sup>5</sup> The separate Data Supplement provides a full tabulation of the data for Nicaragua and the international benchmarks, including indicators not discussed in the text, as well as technical notes for each indicator.

<sup>6</sup> Nicaragua is a low-income country according to the World Bank's country classification system. Our methodology calls for comparing Nicaragua's performance against low-income and low-income Latin American and Caribbean countries, but there is only one other LAC low-income country to compare with Nicaragua, so we chose the higher-income bracket for comparison.

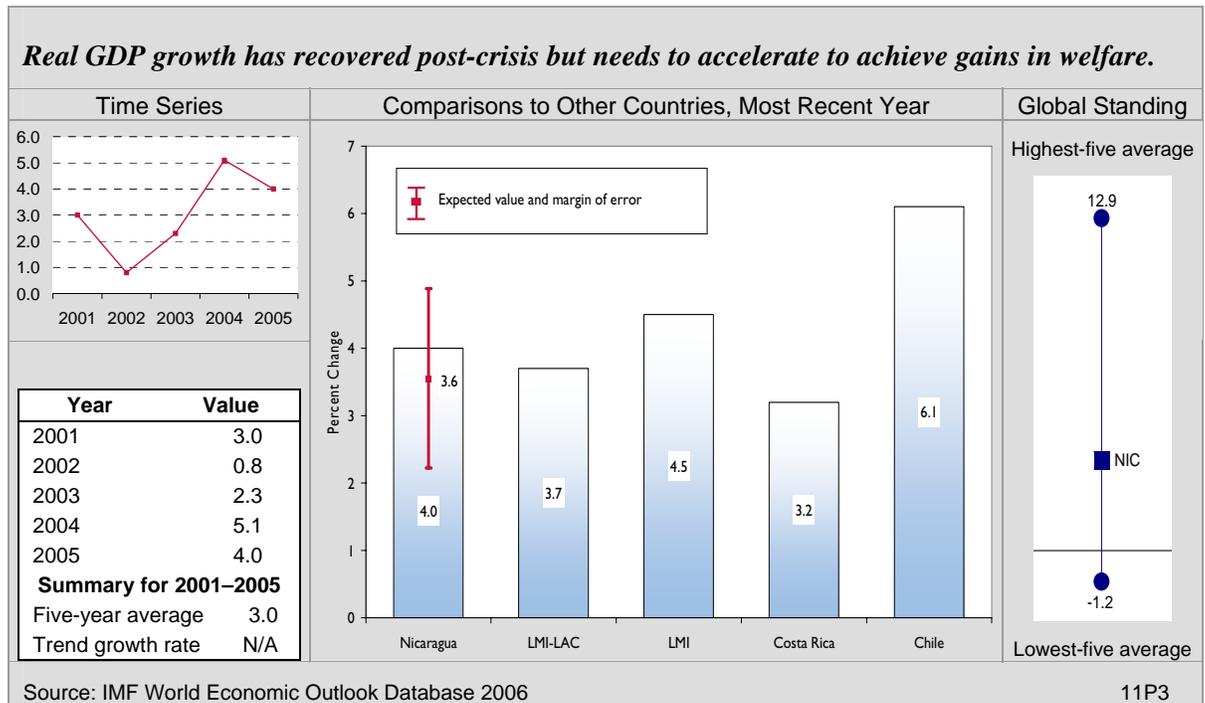
<sup>7</sup> Hurricane Mitch ravaged Nicaragua. An estimated 3,000 people died or are missing and an estimated 18 percent of the population was affected by the storm. More than 30,000 houses were totally or partially destroyed, 70 percent of the roads were unusable and at least 71 bridges were destroyed or heavily damaged.

Data on 1999 growth rate from Nicaragua's Central Bank's webpage [http://www.bcn.gob.ni/estadisticas/red/Nicaragua\\_RED\\_Tables\\_FML.pdf](http://www.bcn.gob.ni/estadisticas/red/Nicaragua_RED_Tables_FML.pdf), Statistics Tables of Macroeconomics Variables (1994-2004), Table 1: Nicaragua: Gross Domestic Product by Expenditure.

<sup>8</sup> IMF, Nicaragua: Poverty Reduction Strategy Paper, December 2005.

<sup>9</sup> IMF, World Economic Outlook data, estimate.

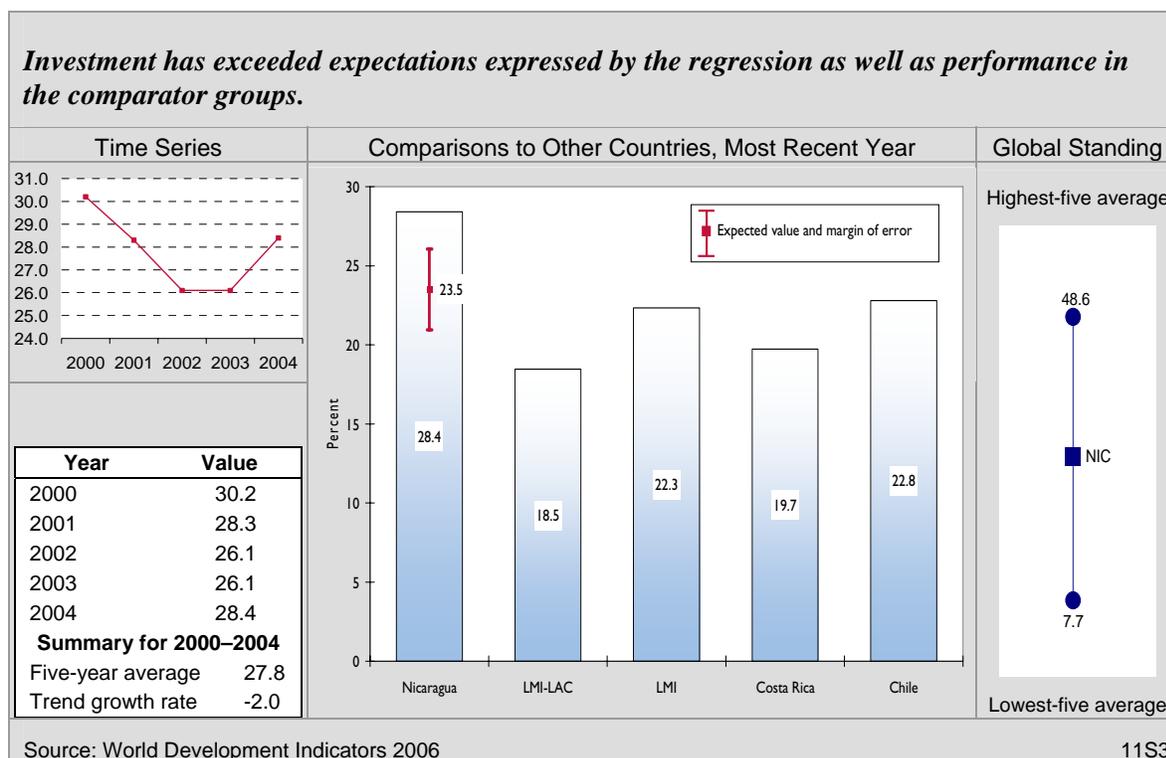
Figure 2-1  
Real GDP Growth



Investment has been remarkably high in Nicaragua. The share of gross fixed investment in GDP averaged 28.4 percent between 2000 and 2004, nearly five percentage points higher than the regression benchmark of 23.5 percent and higher than the LMI-LAC average of 18.5 percent, as well as recent performance in Costa Rica (19.7 percent) and Chile (22.8 percent) (Figure 2-2). It is difficult to assess the private sector's investment level because there are no data on fixed private investment for Nicaragua. The incremental capital-output ratio (ICOR) is a basic measure of investment productivity. Over the five years to 2004, the ICOR value was 9.1, which means that \$9.10 of investment has been needed to produce an extra \$1 of output. International experience suggests that an ICOR of 4.0 or less indicates that capital investment is very productive.

Productivity of the labor force has also been weak. Labor productivity growth was negative between 2001 and 2003, after no growth rate in the five years to 2003. Recent negative growth rates in labor productivity have been heavily affected by the economic downturn of 2001/2002. Still, improving in the quality of the labor force by investing in health, education, and training (see Section 4); closing gender disparities in opportunities to work; and introducing new technologies could improve the country's growth and labor productivity performance.

Figure 2-2  
Gross Fixed Investment, percent GDP



## POVERTY AND INEQUALITY

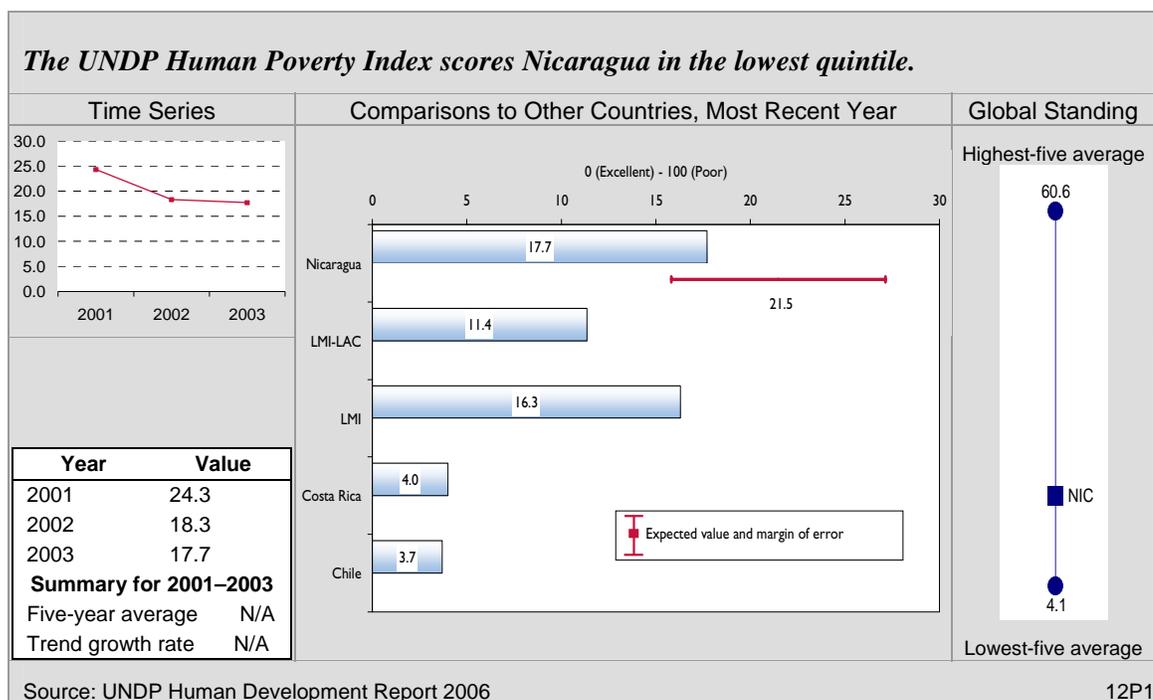
Nicaragua suffers from high levels of poverty in terms of income, even as some areas of social poverty have improved. On the UNDP’s Human Poverty Index, which gauges income poverty as well as social indicators of poverty such as access to education and health care, Nicaragua scored a 17.7 (on a scale of 0 for excellent to 100 for poor) (Figure 2-3).<sup>10</sup> The average score of the highest five scores is 60.6, which places Nicaragua in the lowest quintile and underscores the relative strength of the country’s performance on this indicator. Nicaragua’s above-average performance on components of child malnutrition and probability of not surviving to age 40,<sup>11</sup> however, is the driving force behind the score.<sup>12</sup>

<sup>10</sup> The Human Poverty Index is a composite index comprised of eight interrelated indicators that address development factors such as health life, knowledge and standard of living. Nicaragua’s high score is influenced by its relatively good performance on surviving to the age of 40, adult literacy, and access to improved water source despite poor marks on indicators pertaining to income.

<sup>11</sup> A full explanation of the Human Poverty Index, including its components and scores for Nicaragua and other countries is available at <http://hdr.undp.org>

<sup>12</sup> Indicators in this section should be interpreted with caution. Poverty figures are dated, hindering our ability to conduct an adequate assessment. Furthermore, the World Bank warns in its Country Assistance Strategy that because national surveys in the Nicaragua are unable to capture many of the most vulnerable populations, such as those living on the border and the undocumented, social indicators may in fact be worse than indicated by surveys.

Figure 2-3  
Human Poverty Index



At the same time, Nicaragua's high level of income poverty is marked by a poverty headcount by national poverty line of 51.9 percent for 2005.<sup>13</sup> Although this is near the level suggested by the regression benchmark (46.2 percent), it is well above the LMI-LAC average of 37.5 percent and high by absolute standards. Tackling endemic poverty is essential for creating broad growth because those entrenched in the poverty cycle find it difficult to contribute to a growing economy in meaningful ways. To address the poverty challenge fully, Nicaragua requires an adequate accounting of the poverty problems it faces. The most recent data available for Nicaragua on poverty and inequality indicators date to 2001 and therefore do not give a good indication of the current scope of poverty. Fortunately, Nicaragua has just completed a household survey to address this issue. When the data are processed and released, policymakers will be in a better position to formulate pro-poor growth strategies.

Nonetheless, the 2001 data substantiate more recent indications that poverty is widespread in Nicaragua. The poor are concentrated in the northeastern regions of the country.<sup>14</sup> The population living on less than \$1 a day (purchasing power parity dollars) was 45.1 percent, while the poverty gap at \$1 a day was 16.7 percent, much worse than the LMI-LAC average of 6.9 percent, meaning that extreme poverty is a serious problem. By comparison, the regression benchmark

<sup>13</sup> Preliminary data from the Nicaraguan National Development Plan. Detailed report for the LSMS household survey results for 2005 are not yet available.

<sup>14</sup> Based on the CIESIN Columbia University Headcount Index, [http://www.ciesin.org/povmap/downloads/data/maps/temp/country/NIC\\_ADM2\\_FGT\\_0.pdf](http://www.ciesin.org/povmap/downloads/data/maps/temp/country/NIC_ADM2_FGT_0.pdf)

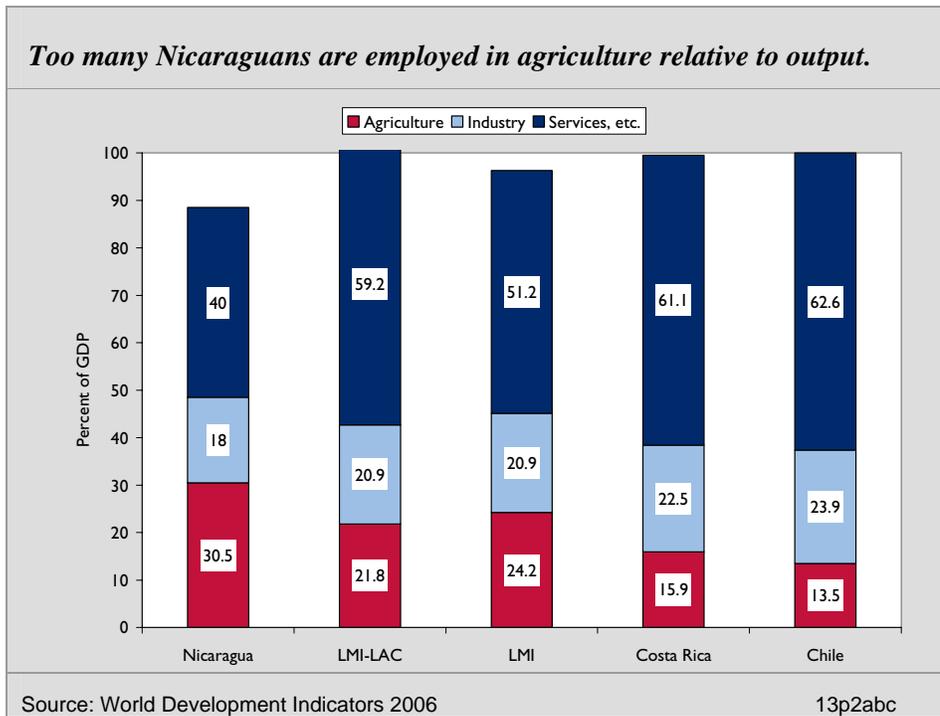
predicts that a country of Nicaragua's characteristics should have 24.1 percent of the population living on less than \$1 a day.

Income inequality is also problematic. The income share accruing to the richest 20 percent of Nicaraguans was 49.3 percent in 2001, while the income share accruing to the poorest was 5.6 percent. Although these figures are slightly better than for Latin America as a whole (LMI-LAC averages for the richest and poorest are 57.2 percent and 2.9 percent, respectively) inequality is still a problem in absolute terms, because a burgeoning middle class is usually the linchpin to sustainable growth, leading domestic consumption and providing a sophisticated workforce. Meeting poverty reduction goals should be a high priority for international donor programs, which should include funding for improving health care, education, and the competitiveness of productive sectors.

## ECONOMIC STRUCTURE

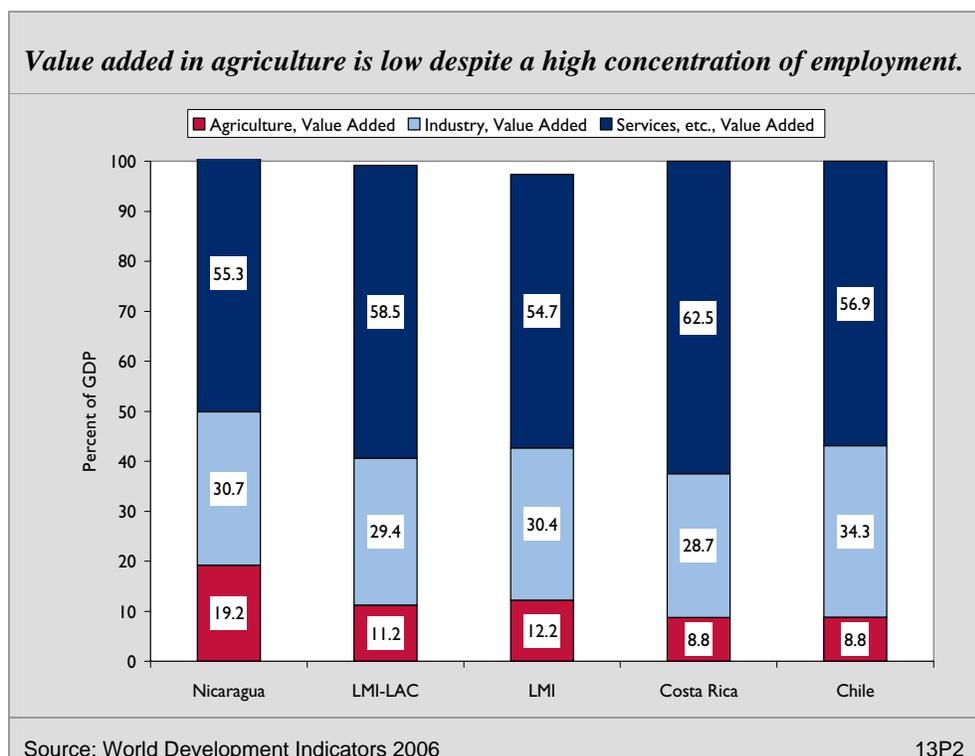
As in many developing countries, a substantial proportion of employment in Nicaragua centers on agricultural production, accounting for 30.5 percent of the labor force in 2003. This value is well above the LMI-LAC average of 21.8 percent and the 15.9 percent for Costa Rica and 13.5 percent for Chile. Nicaragua has a small but growing industrial sector, with 18.0 percent of the workforce dedicated to industry in 2003, an increase from 14.7 percent in 2001. Unlike many other Central American countries Nicaragua does not host a sizeable *maquila* sector, although that may change soon as access to the U.S. consumer market widens through CAFTA-DR. The services sector accounted for 40.0 percent of employment in 2003. This high figure should be interpreted with caution—it is a function of the relative size of the agricultural and industrial sectors rather than an indication that Nicaragua hosts a substantial services sector (Figure 2-4). Although this division of labor is fairly typical for the region, it has important implications for overall economic productivity.

Figure 2-4  
*Labor Force Structure*



The output structure reveals that although agriculture employs one-third of Nicaraguans, it accounts for the least added value as a percent of GDP (19.2 percent)—less than industry, at 30.7 percent, or services, at 55.3 percent (Figure 2-5). This distribution of value added is consistent with the pattern found throughout the region, although low agricultural productivity is more pronounced in Nicaragua than in Costa Rica and Chile (both with 8.8 percent) or the LMI-LAC average of 11.2 percent. Boosting agricultural productivity is particularly important for countries such as Nicaragua that have both high poverty rates and high employment in agriculture, because increases in agricultural productivity have the potential to boost incomes and increase agricultural consumption. Again by default, the services sector makes up a substantial share of output. Nevertheless, improving the competitiveness of the services sector and building linkages between services and industry may be key to fostering dynamic growth.

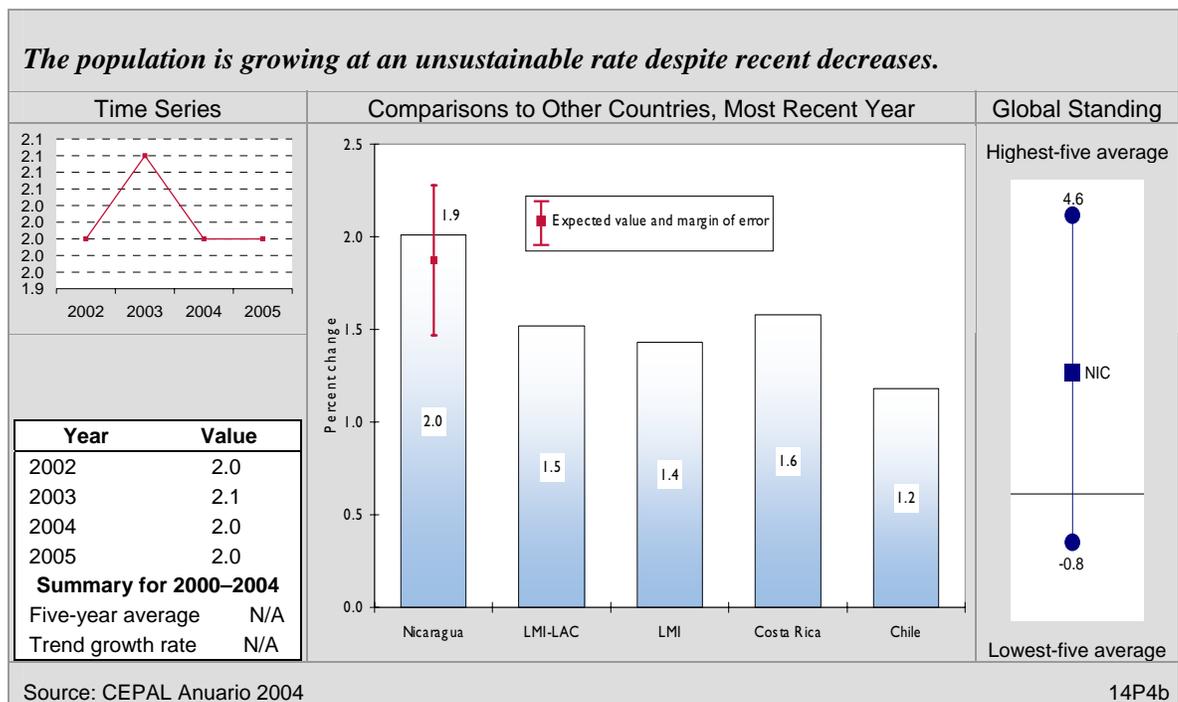
Figure 2-5  
Output Structure



## DEMOGRAPHY AND ENVIRONMENT

Nicaragua has an estimated population of 5.5 million people, which is growing at a rate of 2.0 percent per year. The population growth rate is higher than the average for LMI-LAC (1.5 percent), the regression benchmark (1.9 percent), and Chile’s (1.2 percent) and Costa Rica’s (1.6 percent) population growth rate (Figure 2-6). This is of great concern, because the decline in population growth rate was negligible in the four years before 2005. The age-dependency ratio (0.75 dependents per worker) in Nicaragua is much higher than in comparator countries and benchmarks. It shows a significant declining trend, however, which will ease the burden of providing public services such as education and health care while providing the demographic foundations for increased per capita growth in the coming years.

Figure 2-6  
Population Growth



As the demographic characteristics of Nicaragua transform and provide opportunities for greater growth, policymakers can galvanize this growth potential by improving the population's productive capacities. The 2004 adult literacy rate was 76.7 percent<sup>15</sup> of the adult population,<sup>16</sup> well below the LMI-LAC average of 85 percent. Improving the educational attainment of the population will enable Nicaraguans to compete better in a knowledge-based economy.

In 2004, an estimated 57.7 percent of the population lived in urban areas, a rate lower than in Costa Rica (60.6 percent) or Chile (86.6 percent) and than the LMI-LAC average of (64.2 percent). The somewhat low number for Nicaragua may reflect the abundance of very small villages scattered throughout the central portion of the country.

More generally, Nicaragua scores poorly on an international index of environmental sustainability. On a scale of 0 (poor) to 100 (excellent), Nicaragua's score of 50.2 is below the LMI-LAC average (52.4) as well as the scores for Costa Rica (59.6) and Chile (53.6). Nicaragua especially lags behind in reducing ecosystem stress, private sector responsiveness, and reducing environment-related natural disaster vulnerability. The latter is extremely important because Nicaragua is located in a natural hazard zone, having suffered from three earthquakes, one

<sup>15</sup> Adult literacy figures derived from the standard data sources were found to be inconclusive and therefore have been supplemented by secondary sources.

<sup>16</sup> PRED Bank 4.0 Country Profiles, United Nations Department of Economic and Social Affairs, Population Division.

tsunami, two major volcanic eruptions, and several droughts between 1990 and 2001.<sup>17</sup> Improvements are clearly needed in environmental governance. Government and donor initiatives should shift resources towards the mitigation of natural disasters and natural-hazard education in areas of high vulnerability.

## **GENDER**

Nicaragua's performance on gender indicators points to overall gender equity in access to health and education services. One standard indicator for assessing the gender gap is adult literacy. Nicaragua scores a 1.00, indicating no disparity in the literacy rates of men and women. This is in line with the LMI-LAC average of 1.02 and Chile's and Costa Rica's scores of 1.00. For health, a basic gender indicator is the ratio of male-to-female life expectancy. For Nicaragua the ratio equals 0.93 for 2004, reflecting that fact that women live longer than men. This is close to the LMI-LAC average of 0.92 and the ratios for Chile and Costa Rica of 0.92 and 0.94, respectively. A similar result can be seen in the male-to-female gross enrollment rates at all levels of education. The ratio for Nicaragua stood at 0.97 in 2004, revealing gender inequality levels equal to Costa Rica's, at 0.97.

Education, however, needs to be complemented by opportunities for women to use their knowledge in obtaining suitable employment. The labor force data indicate an overwhelming disparity between male and female participation rates. (See section entitled Employment and Workforce). Closing the gender gap in a country's labor market tends to be instrumental in accelerating growth and improving living standards.

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<sup>17</sup> World Bank, Nicaragua Country Brief, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/NICARAGUAEXTN/0,,contentMDK:20214837~pagePK:141137~piPK:141127~theSitePK:258689,00.html>, March, 2006.



# 3. Private Sector Enabling Environment

This section reviews indicators for key components of the enabling environment for encouraging rapid and efficient growth of the private sector. Sound fiscal and monetary policies are essential for macroeconomic stability, which is a necessary (though not sufficient) condition for sustained growth. A dynamic market economy also depends on basic institutional foundations, including secure property rights, an effective system for enforcing contracts, and an efficient regulatory environment that does not impose undue barriers on business activities. Financial institutions play a major role in mobilizing and allocating saving, facilitating transactions, and creating instruments for risk management. Access to the global economy is another pillar of a good enabling environment, because the external sector is a central source of potential markets, modern inputs, technology, and finance, as well as competitive pressure for efficiency and rising productivity. Equally important is development of the physical infrastructure to support production and trade. Finally, developing countries need to adapt and apply science and technology to attract efficient investment, improve competitiveness, and stimulate growth in productivity.

## FISCAL AND MONETARY POLICY

Nicaragua's macroeconomic indicators show overall good performance<sup>18</sup> despite the instabilities of 2001–2002. The inflation rate (a Millennium Challenge Account [MCA] indicator) has been maintained at single digits in recent years despite being subject to fluctuations in international prices for oil. Escalating oil prices were a driving factor in peak inflation rates throughout the five-year period leading to 2005, with rates of 4.7 percent for 2001 and 9.6 percent for 2005. The 2005 inflation rate is higher than the regression benchmark at 6.9 percent and the LMI-LAC average of 5.3 percent. In 2001, the money supply increased by only 4.1 percent, but in 2004 it reached 17.2 percent. The International Monetary Fund in its most recent review attributes the recent surge in money supply growth to “increased economic activity, renewed confidence in

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<sup>18</sup> In 2005, the World Development Indicators (WDI) database adopted a new system for classifying fiscal data, even though most developing countries still use the old classification. Subsequently, the WDI database has fiscal data for very few developing countries; because of the limited sample size, most of the group averages derived from WDI are not meaningful. In this section, comparisons are based on absolute standards or benchmarks derived from 2004 WDI data, as well as figures for Chile and Costa Rica.

economic management, and falling interest rates.”<sup>19</sup> This virtuous growth in money supply needs to be complemented by an inflation-adverse government policy.

In regards to Nicaragua’s fiscal management, the mild austerity of recent years appears to have been relaxed in part to accommodate the election cycle. According to the IMF, from 2003 to 2004 (last year of data), government expenditures decreased slightly from 20.3 percent of GDP to 19.7 percent while revenues increased from 20.6 percent of GDP to 21.3 percent, leaving a public cash deficit of 1.0 percent of GDP (after grants). But the Economist Intelligence Unit Country Report for Nicaragua (January 2006) reported that in 2005 government spending rose by more than the increase in government revenues and created a deficit of 5.6 percent of GDP. The report expressed the reasonable expectation that election-year spending in 2006 will deepen the deficit without the guarantee of a fiscally responsible government taking the helm in 2007.<sup>20</sup> The PRSP provides supporting evidence to the Economic Intelligence Unit’s assessment, reporting a combined public sector deficit after grants of -5.3 percent for 2001–2005.<sup>21</sup> The PRSP projections, however, show that substantial improvements in fiscal policy will be in place and should bring the deficit to -1.4 percent in the next five years.<sup>22</sup> Nicaragua’s ability to stay on track with its fiscal spending program is therefore contingent on the electoral outcomes.

According to the standard sources, the ratio of government expenditure to GDP from 2000 to 2004 is close to all the benchmarks. The average of 20.1 is close to the regression benchmark for the most recent year (19.8 percent) and Costa Rica’s performance (23.4 percent) and is higher than Chile’s rate (18.4 percent) and the LMI-LAC average (16.8 percent). The government exhibits some excess spending, however: in the wage bill, which accounted for 35.0 percent of expenditure in 2004, and in subsidies, which accounted for 37.4 percent of spending.

The ratio of government revenue to GDP in Nicaragua is close to all the benchmarks. From 2001 to 2004, government revenue averaged 19.4 percent of GDP, compared with a regression benchmark of 18.5 percent, Costa Rica’s 22.7 percent, and Chile’s 21.2 percent. Nicaragua’s revenue ratio is well above the average for LMI-LAC (at 16.2 percent), which suggests that revenue mobilization is a serious issue for many countries in the region.

#### *IMF Program Status*

In January 2006, the IMF completed the seventh, eighth, and ninth reviews of Nicaragua’s performance under its Poverty Reduction and Growth Facility (PRGF) arrangement and approved additional support despite the failure to meet all of the performance criteria. Previously, Nicaragua qualified for 100 percent debt relief under the Multilateral Debt Relief Initiative (MDRI) in December 2005, after reaching the HIPC completion goal in January 2004.

<sup>19</sup> Nicaragua: Fifth and Sixth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, International Monetary Fund, November 2004, page 8.

<sup>20</sup> Estimates are not from regular sources and are omitted from the Data Supplement.

<sup>21</sup> Nicaragua: Poverty Reduction Strategy Paper, December 2005, paragraph 21.

<sup>22</sup> Ibid.

To ameliorate inefficiencies in revenue collection, the government instituted the minimum tax law in May 2003,<sup>23</sup> but met heavy resistance from taxpayers. Then, under the guidance of the IMF, the first tax code was introduced in 2005 to help solve tax evasion problems. The legislation was vague, however, and modifications to the bill are still under consideration.<sup>24</sup> Despite the fact that a more effective tax administration could increase the resources available to the government for delivering services to promote growth and equity, tax policy reform may continue to be delayed for political reasons.

## BUSINESS ENVIRONMENT

Institutional impediments to doing business stymie private sector development by increasing entry and operational costs for businesses that can make starting a business cost prohibitive. Nicaragua's business climate faces barriers of corruption, poor regulatory quality, and delays in registration but performs well on procedural measures of basic business processes.

Nicaragua ranks poorly on the corruption perception index, with a score of 2.6 for 2005 on a scale that considers any score below 4 to be indicative of endemic corruption.<sup>25</sup> Similarly, the Rule of Law index ranks Nicaragua below the median, at -0.65 on a scale of -2.5 to 2.5. Although LMI-LAC as a group fares poorly in this category, with a regional average of -0.58, both Chile and Costa Rica maintain positive scores, of 1.16 and 0.57 respectively. The index for regulatory quality also ranks Nicaragua below the mean, with a score of -0.15. As on the Rule of Law index, Nicaragua scores near the LMI-LAC average (-0.13) on the regulatory quality index but underperforms compared to Chile (1.62) and Costa Rica (0.67). In absolute terms for both regulatory quality and rule of law, any score below the median of 0 indicates poor regulatory quality or rule of law. The public sector has a key role to play in enabling a business environment where private enterprise can thrive by establishing the rules of the game through regulatory transparency and good governance of institutions that oversee business processes such as registration and arbitration. If the country is to become competitive in international trade and attractive to foreign investors, Nicaragua must improve public sector efficiency by reducing corruption and improving adherence to the rule of law.

Inefficiency in the public sector translates into slower and more arduous and expensive processes to complete basic transactions. For instance, in Nicaragua it takes 65 days on average to register property—more than the LMI-LAC average (48 days), more than twice Chile's score (31 days), and more than triple Costa Rica's score (21 days). Furthermore, the entry costs for starting a business are high in Nicaragua, at 139 percent of GNI per capita (Figure 3-1). Exceedingly high costs to start a business are detrimental to the growth of a diverse, homegrown business community, as would-be entrants, especially small and medium-sized enterprises, are priced out of business before they have a chance to begin.

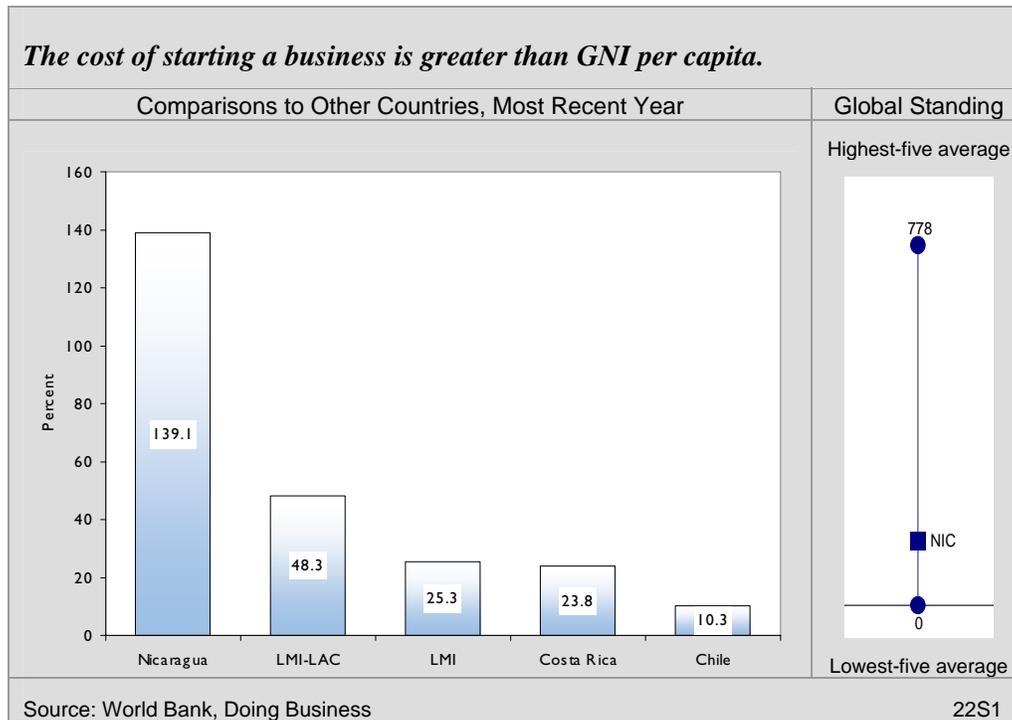
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<sup>23</sup> Nicaragua: Fifth and Sixth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, International Monetary Fund, November 2004, Page 7, Section 3.

<sup>24</sup> Economist Intelligence Unit, Country Report for Nicaragua, January 2006.

<sup>25</sup> The Corruption Perception Index ranks from 1 (poor) to 10 (good).

Figure 3-1  
*Cost of Starting a Business, Percent of GNI Per Capita*



Nonetheless, Nicaragua shows signs of improvement in procedural efficiency (the number of procedures it takes to render basic business transactions) and in some measures of temporal efficiency (the time it takes to carry out basic business transactions). The number of procedures required to enforce a contract and the number required to start a business in Nicaragua both are below the LMI-LAC average as well as figures for Costa Rica and Chile (Figures 3-2 and 3-3). Nicaragua has also cut the time required to enforce a contract to 155 days, while the LMI-LAC regional average is 409 days, and Costa Rica and Chile require 550 days and 305 days respectively.

Special attention should be paid to lowering entry costs and facilitating small and medium enterprises precisely because it is these types of firms which lend a national character to the business environment, become entrenched in the communities in which they operate, create backward linkages into the domestic economy and therefore support growth and poverty reduction through employment.

Figure 3-2  
*Procedures Required to Enforce a Contract*

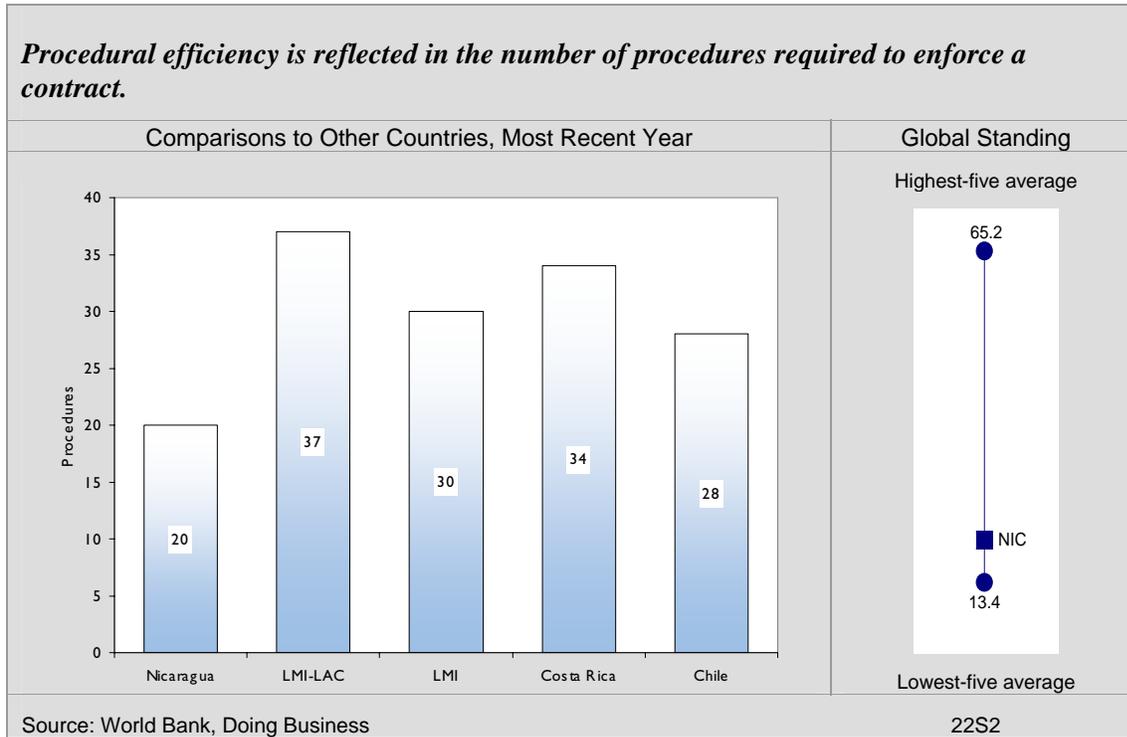
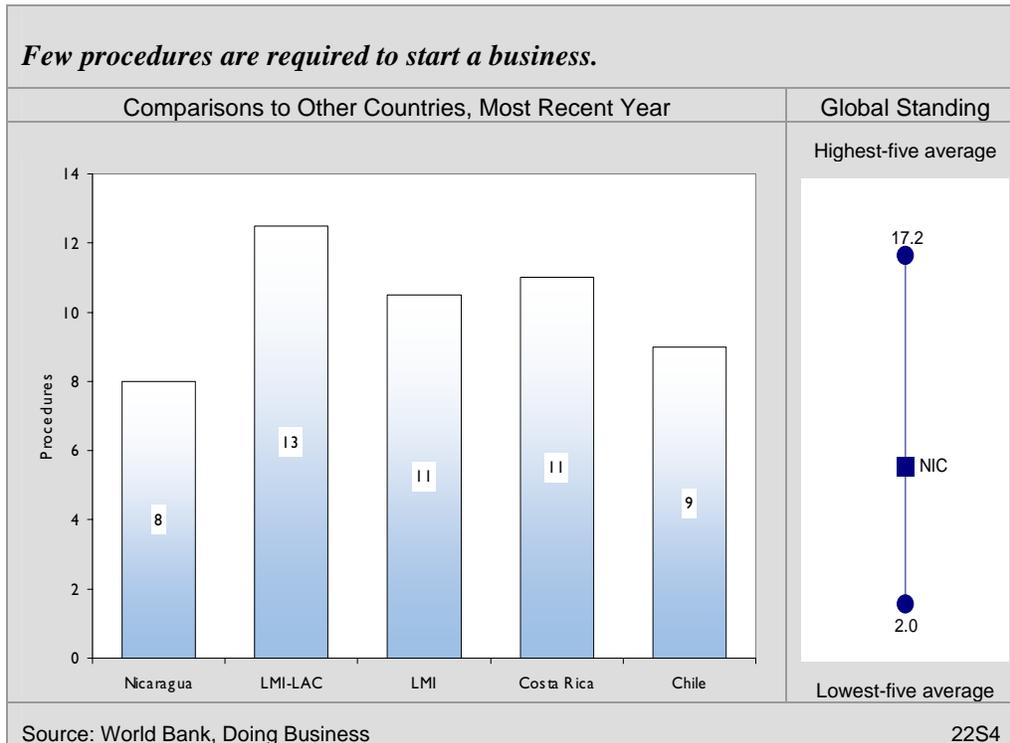


Figure 3-3  
*Procedures Required to Start a Business*

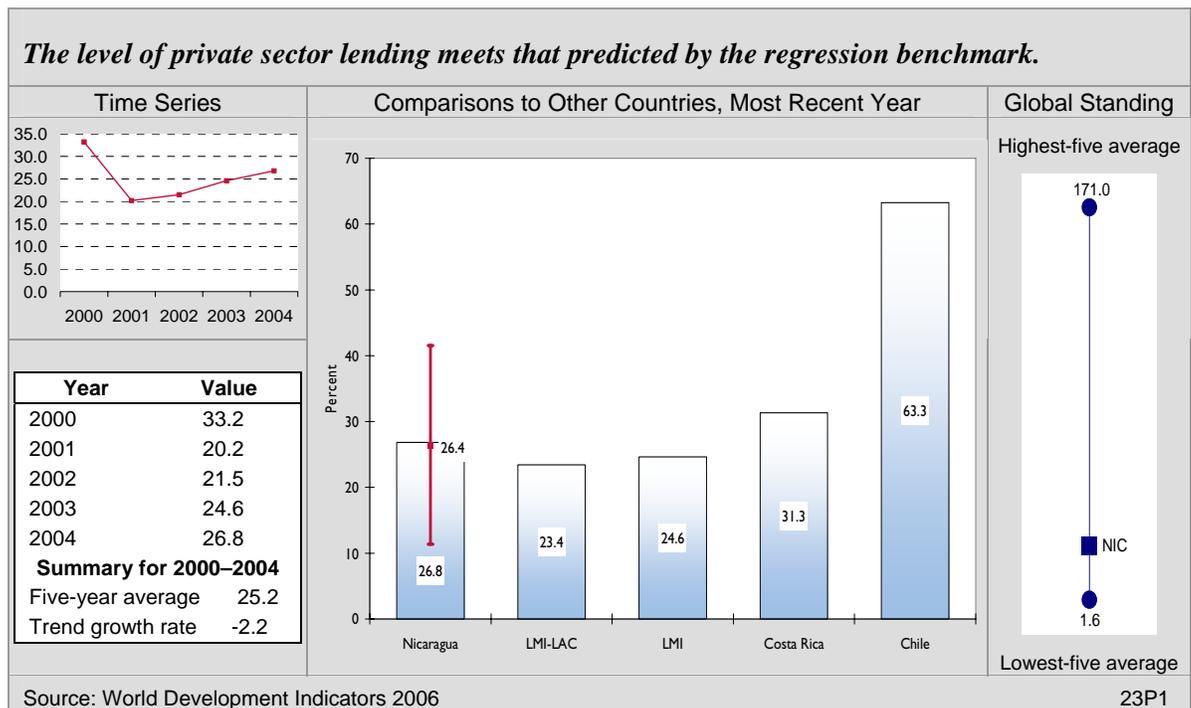


## FINANCIAL SECTOR

A sound, efficient, and competitive financial sector is a key to mobilizing savings, fostering productive investment, and improving risk management. Nicaragua's financial sector indicators are mixed. Considering that the economy suffered from a banking sector crisis in 2001,<sup>26</sup> the indicators seem stable, and some are even stronger than the benchmarks. Yet when compared to the LMI-LAC average, the Nicaraguan financial sector does not show the vigor needed to promote rapid economic and business growth.

One simple indicator of financial development is degree of monetization, measured by the ratio of broad money (currency plus bank deposits) to GDP. In 2004, Nicaragua's money supply equaled 38.8 percent of GDP, much higher than the LMI-LAC average of 30.1 percent and higher than in Chile and Costa Rica in 2003, at 36.8 percent and 37.6 percent, respectively. Average domestic credit to the private sector as a percent of GDP was 25.2 percent for 2000–2004—similar to the regression benchmark of 26.4 percent and LMI-LAC and global lower middle income (LMI) averages of 23.4 percent and 24.6 percent, but lower than Costa Rica's 31.3 percent, and significantly lower than Chile's 63.3 percent. The data, however, show a rapid increase in the three years leading to 2004 (Figure 3-4).

Figure 3-4  
*Domestic Credit to the Private Sector, percent GDP*



<sup>26</sup> In 2000 and 2001, mismanagement and fraud in four of Nicaragua's 10 principal banks led to a banking crisis. The U.S. Department of Commerce reported "Between November 2000 and March 2002, banking regulators intervened to liquidate four banks...amid findings of fraud, mismanagement, and failure to comply with regulatory norms for solvency. The remaining six banks have not exhibited the extreme weaknesses of the four liquidated banks." After the crisis, a number of banking reforms were put into law, including increases in the capital adequacy ratio requirement, caps on bank shares held by individuals, loan limits to individual borrowers, and prohibition of lending to related companies (Heritage Foundation 2006).

The real interest rate (bank lending rate, adjusted for inflation) was 8.8 percent in 2000 before the crisis and jumped to 14.6 percent in 2002. By 2003 the real interest rate had returned to single digits—8.2 percent—and for 2004 reached 3.0 percent. The recent lower real interest rates coincide with an increase in lending activity, suggesting proper risk assessment in the marketplace. Nicaragua's performance is in line with LMI-LAC, is better than Costa Rica's, and lags behind Chile's.

As could be expected, the crisis raised intermediation costs. The spread between lending and borrowing rates increased from 7.0 percentage points in 2001 to 10.5 percentage points in 2002, and subsequently dropped to 8.8 percentage points for 2004. Although the regression benchmark shows 11.6 percent as normal for a country such as Nicaragua, Chile's rate of 3.5 percent shows that there is room for improvement.

This analysis suggests that strengthening the financial sector should be a high priority for Nicaragua and donor agencies. The IMF considers the high degree of dollarization an additional vulnerability of the financial system.<sup>27</sup> Although the major banks have been stabilized, internationally assisted inspections identified important gaps in the banking sector.<sup>28</sup>

## EXTERNAL SECTOR

### CAFTA-DR

The entry into force of the United States-Central America/Dominican Republic Free Trade Agreement (CAFTA-DR)<sup>29</sup> will create new market opportunities for Nicaragua as well as new structural and competitive challenges. The central opportunity provided by CAFTA-DR is expanded and permanent market access to the United States as well as other relatively large consumer markets in Central America, such as Costa Rica and El Salvador. This access is underpinned by the phasing out of tariffs on Nicaraguan goods and the elimination of barriers to numerous services subsectors (such as telecom, financial services, and energy). CAFTA-DR also provides favorable rules of origin for apparel produced in Central America,<sup>30</sup> which, in light of the end of the Multifiber Agreement in 2005, promises to give Central American countries a competitive advantage over Asian producers in the U.S. market.

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<sup>27</sup> Nicaragua: Fifth and Sixth Reviews under the Three-Year Arrangement under the Poverty Reduction and Growth Facility, Request for Waiver and Modification of Performance Criteria, and Financing Assurances Review, November, 2004.

<sup>28</sup> The IMF reports that “[B]ank supervisors need better legal protection (several judiciary rulings on supervisory decisions have made it difficult for bank supervisors to effectively fulfill their mandate) and the supervision of the operations of “foreign” parallel banks needs to improve—because lack of consolidated supervision, the true condition of financial groups is uncertain” (International Monetary Fund, November, 2004.)

<sup>29</sup> Nicaragua is expected to ratify the agreement in April of 2006.

<sup>30</sup> DR-CAFTA: Challenges and Opportunities for Central America, World Bank, Central American Department and Office of the Chief Economist, page 4

CAFTA-DR marks an evolution in the formulation of regional trade agreements in that it contains a trade capacity building process in which the United States will assist the Central American countries with negotiation, implementation, and behind-the-border adjustment to the agreement. Trade capacity building projects have assisted and will continue to assist the CAFTA-DR countries in facilitating economic growth, reducing poverty, and fully implementing the liberalization specified in the agreement. Trade capacity building activities have included helping producers meet sanitary and phytosanitary standards required for exporting agricultural products, assisting with customs reform initiatives to improve administrative efficiency and reduce administrative costs, training on the enforcement of intellectual property rights, and technical assistance in building the capacity of labor enforcement institutions.<sup>31</sup>

Under CAFTA-DR, Nicaragua, like the other signatory countries, has agreed to rules and procedures for government procurement, intellectual property rights, treatment of foreign investment, and the like. All the Central American countries therefore will need to carry out institutional reforms to modernize and improve the transparency of many systems and procedures. Nicaragua and Honduras especially will require intensive assistance in implementing the agreement and taking full advantage of its development potential. Donors can support the institutional reform process by tailoring their programs to fit Nicaragua's circumstances and meet its trade capacity building needs. Assistance could include conducting needs assessments; strengthening roads, ports, and other transport infrastructure; promoting national systems of intellectual property rights protection; strengthening financial sector institutions to give small and medium-sized enterprises access to credit; and providing export promotion services to key value-added sectors such as nontraditional agricultural exports, apparel, and tourism.

## **INTERNATIONAL TRADE PERFORMANCE**

Nicaragua's level of integration into the world trading system is determined by its size, level of development, and geographic location. As a small developing economy with limited capabilities to produce a sophisticated basket of consumables (such as pharmaceuticals and machinery), Nicaragua remains dependent on imports, and its level of trade is therefore high. Trade as percent of GDP, which gauges trade openness, reached 80.8 percent in 2005, with a five-year average between 2001 and 2005 of 75.6 percent. In comparison, the LMI-LAC average is only 52.6 percent, the statistically predicted benchmark is 69.1 percent, and Chile's trade amounts to 68.3 percent of GDP. Costa Rica, an exporter of sophisticated products with links to global supply chains, also exhibits high levels of trade openness, with 95.4 percent of GDP. This openness to trade, driven by imports, necessitates a commensurate level of exports to maintain a reasonable trade balance.

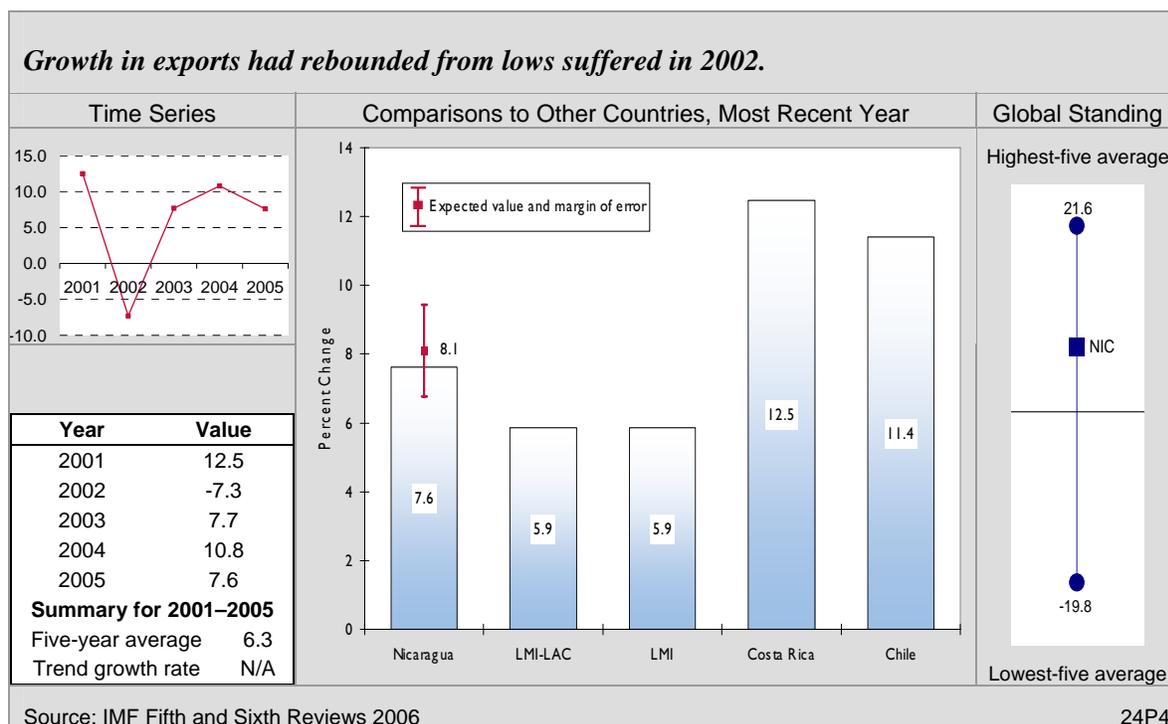
The growth of exports of goods and services rebounded from -7.3 percent in 2002 to 7.6 percent in 2005, with a five-year average of 6.3 percent. This level is near the benchmark regression of 8.1 percent and exceeds the LMI-LAC average of 5.9 percent, but leaves room for improvement to the levels found in Chile (11.4 percent) and Costa Rica (12.5 percent) (Figure 3-5). Because Nicaragua runs a consistently negative trade balance, continued growth in exports will be

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<sup>31</sup> Building Trade Capacity Under the CAFTA, Office of the United States Trade Representative, CAFTA Policy Brief, February 2005.

essential to remedy these chronic imbalances. However, Nicaragua currently faces a number of challenges to its international competitiveness, including diminishing terms of trade. In fact, the Central Bank reports in its 2004 annual report that export prices rose 14 percent in 2004,<sup>32</sup> making Nicaraguan goods more expensive on world markets.

Figure 3-5  
Export Growth of Goods and Services



Food accounts for 84.8 percent of Nicaragua’s total merchandise exports (Figure 3-6). Major exported products include coffee, beef, lobster, shrimp, gold, and fruits, including bananas, mangoes, melons, and oranges (Figure 3-7).<sup>33</sup> Exports of manufactured products are a distant second, making up just 11.3 percent of total exports. Although Nicaragua’s exports of manufactured goods are eclipsed by larger free zone producers in Honduras, El Salvador, and the Dominican Republic, Nicaragua may have opportunities to exploit its comparative advantage in the food sector by expanding into processed foods, and possibly horticultural goods as well. CAFTA-DR will necessitate the formulation of an export strategy that balances Nicaragua’s strengths vis-à-vis its Central American neighbors with new opportunities to exploit large consumer markets, particularly the U.S. market.

<sup>32</sup> Informe Anual 2004, Banco Central de Nicaragua, p.129.

<sup>33</sup> Information of specific products from: Informe Anual 2004, Banco Central de Nicaragua

Figure 3-6  
Structure of Merchandise Exports

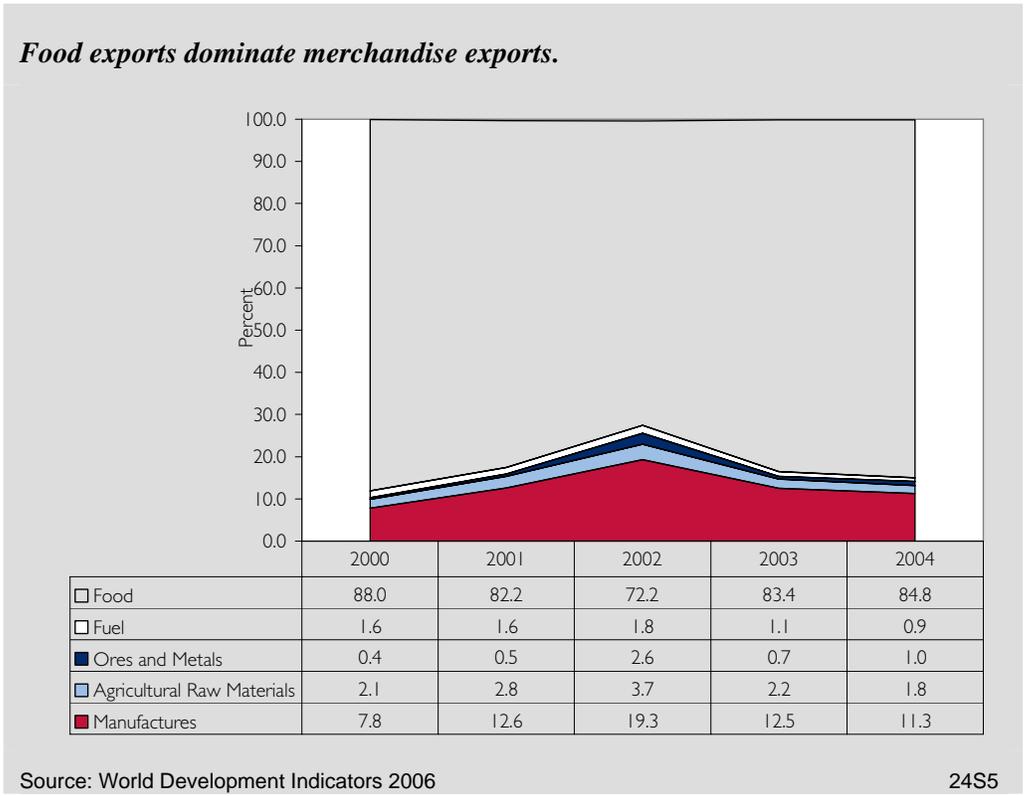
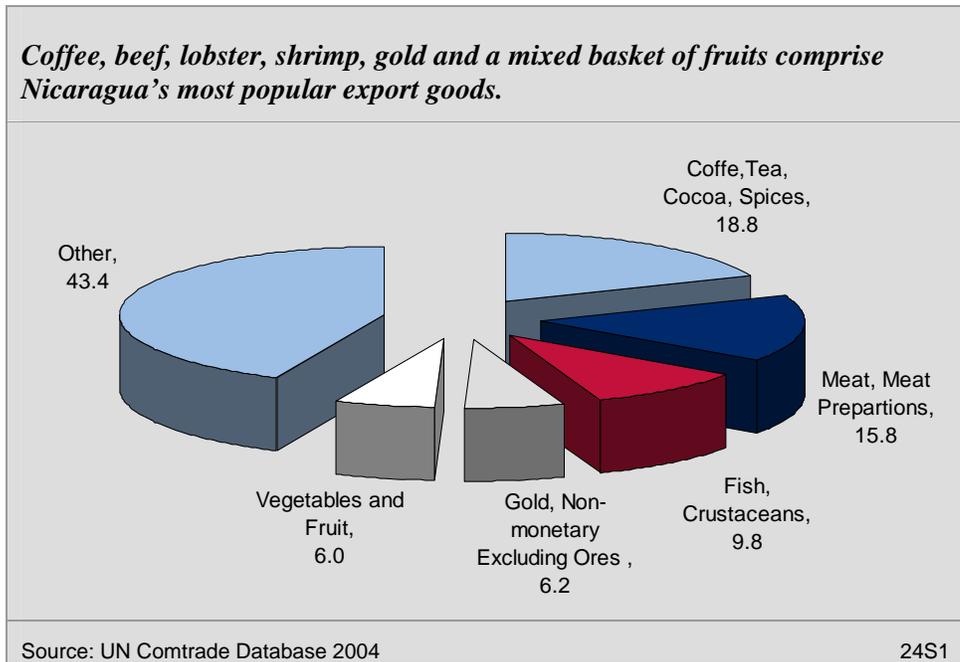


Figure 3-7  
Concentration of Commodity Exports



Nicaragua's exports of services have declined slightly in the period between 1999 and 2003, from 22.2 percent of total exports to 19.2 percent, with a growth trend of -3.1 percent for the period.<sup>34</sup> Although this share exceeds the LMI-LAC average (16.5 percent) and approaches the levels in Chile (18.6 percent) and Costa Rica (24.9 percent), a declining trend in services exports may indicate declining competitiveness in the services sector. Nicaragua's predominant export sectors in services include transport, tourism, and communications.<sup>35</sup> Programs that lend technical assistance in improving the competitiveness of these sectors may be an important way to diversify the character of Nicaraguan exports and augment the progression towards a diverse economy, which includes a robust services sector, among others.

Nicaragua's largest partner in intra-CAFTA trade is the United States—nearly 57 percent of its intra-CAFTA exports and 52 percent of its intra-CAFTA imports. Trade between Nicaragua and its other CAFTA-DR partners is mixed. In descending order of importance Nicaragua's non-U.S. CAFTA-DR export trading partners are El Salvador, Costa Rica, Honduras, Guatemala, and the Dominican Republic, while its import markets in descending order of importance are Costa Rica, Guatemala, El Salvador, Honduras, and the Dominican Republic (Figures 3-8 and 3-9). Nicaragua has run consistent trade deficits with the United States, Costa Rica, and Guatemala while maintaining a surplus with the Dominican Republic, Honduras, and El Salvador (although the Salvadoran surplus is small). The direction of trade between Nicaragua and its CAFTA-DR counterparts is indicative of Nicaragua's overall economic structure, that is, an import dependence on higher value-added goods and an export combination of primary food commodities and *maquila* manufactures. Nicaragua's ability to diversify its export to CAFTA-DR countries has the potential to contribute to dynamic growth.

Nicaragua has relatively liberal trade policies, thanks in large part to the CAFTA-DR process: it scored 2 on the Heritage Foundation's Trade Policy index for 2005, while the LMI-LAC average is 4.<sup>36</sup> Nonetheless, Nicaragua could benefit from improved efficiency in the trade process. The average time to trade in Nicaragua (import and export) is 38 days. With an LMI-LAC average of 34.7 days and 39.0 days for Costa Rica, Nicaragua is on par with its neighbors with respect to export and import efficiency. However, Chile, at 23.5 days, gives Nicaragua a goal to aspire to. Better trade efficiency reduces the unit cost of traded goods and therefore makes exports more competitive. Strengthening the institutions that support international trade (customs administration, government ministries that govern trade, port authorities, etc.) has a direct effect on improving trade efficiency.

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<sup>34</sup> Services imports in the same period remained roughly constant, at an average of 15.7 percent.

<sup>35</sup> Informe Annual 2004, Banco Central de Nicaragua.

<sup>36</sup> 1 for Excellent and 5 for Poor

Figure 3-8  
Composition of Merchandise Imports from CAFTA Countries

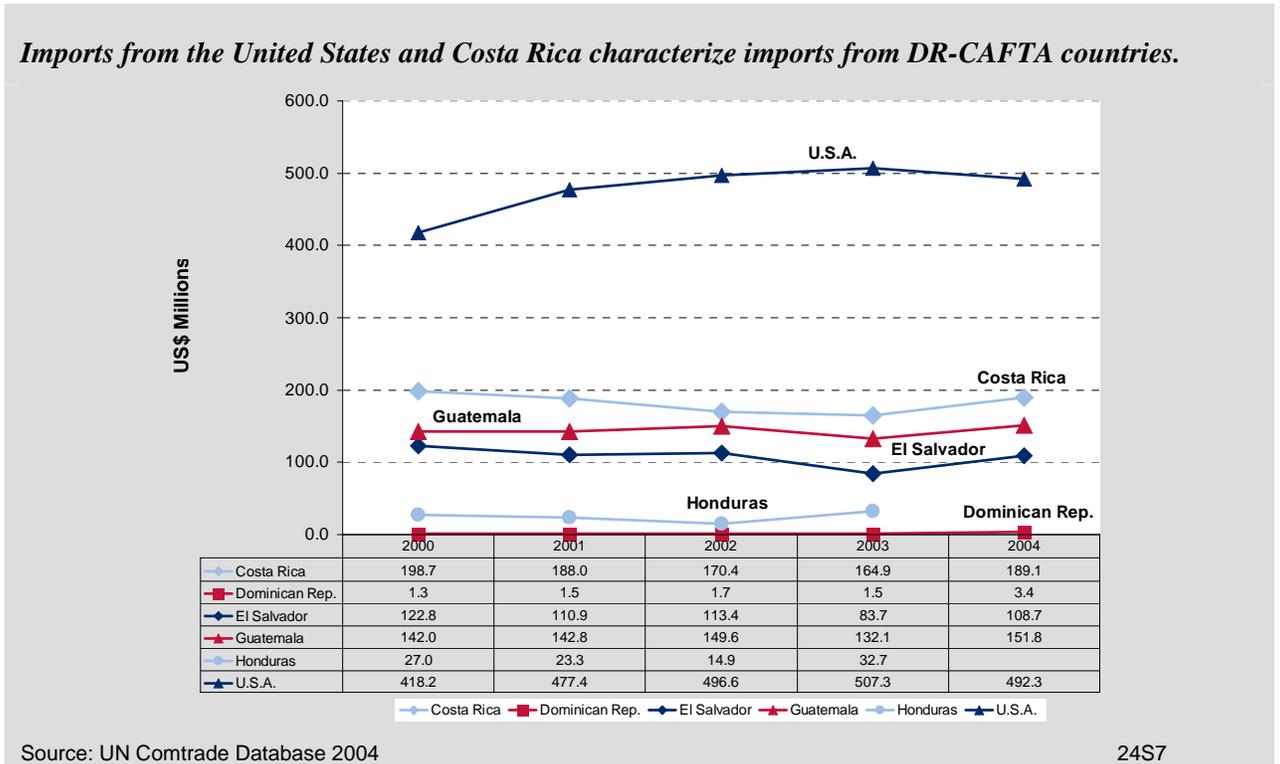
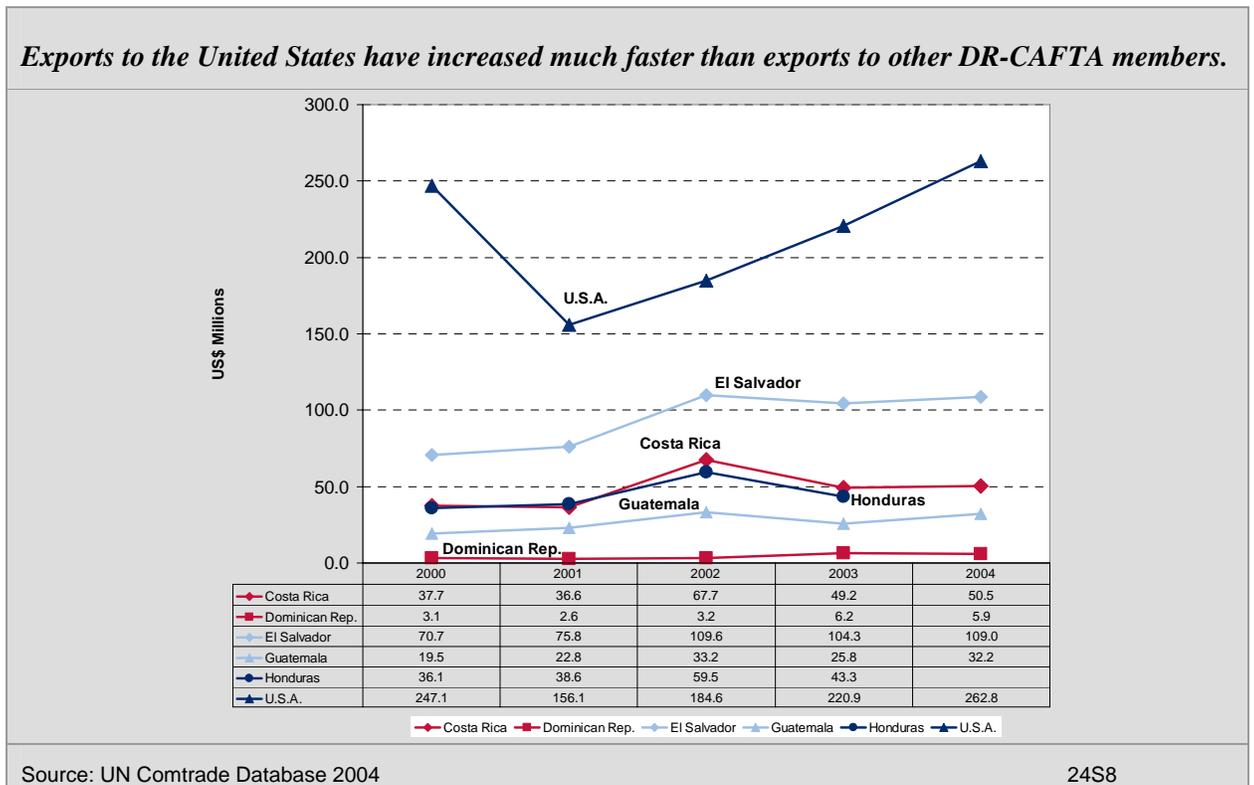


Figure 3-9  
Composition of Merchandise Exports to CAFTA Countries

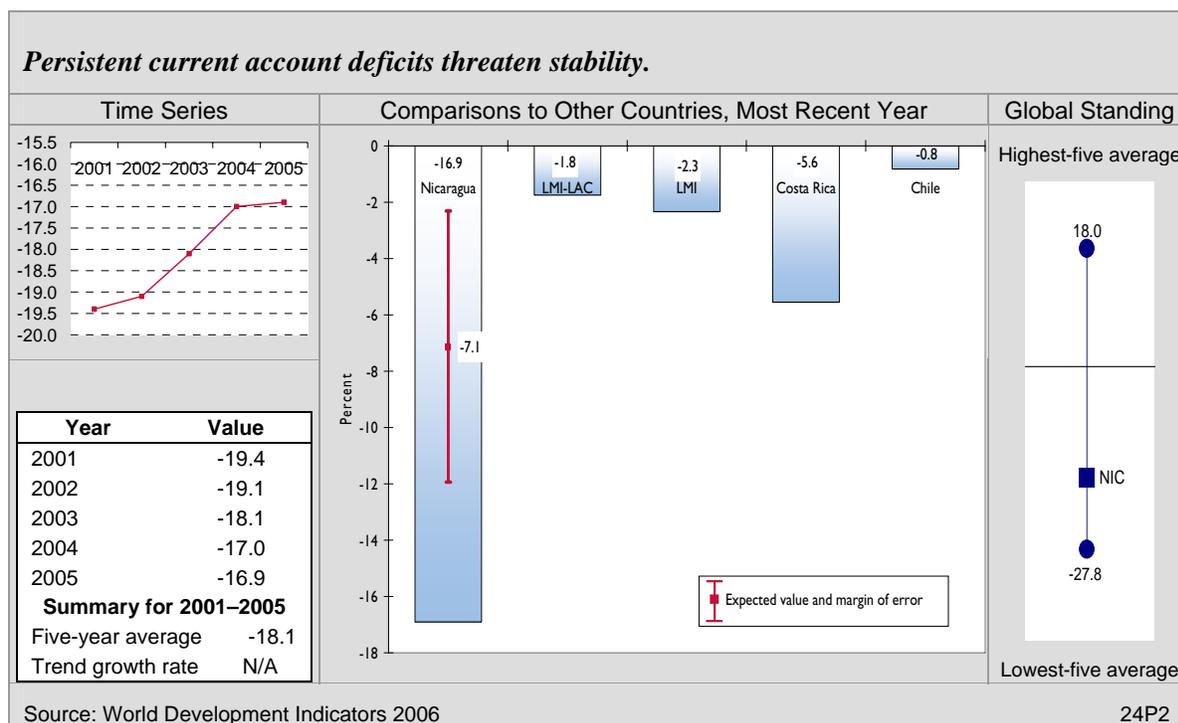


Good institutions support growth through international trade by providing the essential regulatory frameworks that enable exporters to meet international standards and enter new markets. This is particularly relevant for exporters of food products because these products are subject to sanitary and phytosanitary (SPS)—or food safety—standards. Because food products are Nicaragua’s largest export, donors should consider enhancing their cooperation with both the public and private sectors in the SPS area. This would give Nicaragua a great opportunity to take advantage of the liberalization commitments made by the U.S. in CAFTA-DR on food products. Assistance in the SPS area will also aid Nicaragua in diversifying into greater value added sectors of food production (i.e. fresh cut, processed, frozen and canned goods) which would create higher-paying jobs for Nicaraguan workers.

### CURRENT ACCOUNT

Nicaragua’s import dependency has translated into persistent current account deficits in the period between 2001 and 2005. The current account deficit expressed as a percent of GDP has decline slightly over the period, but at -16.9 percent for 2005 it is well above the statistically predicted benchmark of -7.1 and the regional comparators: -1.8 percent LMI-LAC average, -5.6 for Costa Rica, and -0.8 in Chile (Figure 3-10).

Figure 3-10  
Current Account Balance, percent GDP



More troubling is that despite this imbalance, much of the deficit has already been compensated for through remittance receipts, which were valued at 31.4 percent of exports of goods and services in 2004 (a rate consistent with the five-year average of 31.4 percent.) Remittance receipts

among LMI-LAC countries averaged 19.7 percent of exports.<sup>37</sup> The most recent data on remittances<sup>38</sup> reports that in 2004 remittances as a percent of exports f.o.b. (exports of goods exclusive of services) equaled 89 percent. Remittances are an essential form of foreign exchange income for most Central American countries, and although these receipts can compensate for current account imbalances, their utility must be measured against the potential volatility of these types of capital inflows because they are subject to the nature of international labor mobility.

Besides running a consistent current account deficit Nicaragua fails to maintain adequate international reserves (although the IMF has lauded Nicaragua's recent accumulation of reserves).<sup>39</sup> The accepted standard reserve position required to insulate against crisis is approximately four months of imports. Nicaragua held an average reserve position of 3.0 months of imports in 2005 with a five-year average of 2.7 percent between 2001 and 2005. The LMI-LAC average is consistent with the international standard, at 4.0 months of imports, and Chile has an exemplary 6.8 months of reserves. Nicaragua's low reserve position is troubling in the face of its consistent current account deficit. Maintenance of adequate levels of reserves may prove to be essential for warding off crisis in the face of increased openness and therefore increased vulnerability to exogenous shocks.

## INVESTMENT CLIMATE AND FDI

Nicaragua is increasingly a site for international investment—a trend that is expected to continue as CAFTA-DR comes into fruition. Foreign direct investment (FDI) is often seen as the most virtuous of international capital inflows because it contributes directly to growth in production and hard economic assets and is inherently less speculative than other forms of investment. FDI reached 5.5 percent of GDP in 2004, while the regression benchmark and Costa Rica had a value of 3.3 percent, the LMI-LAC average was 2.2 percent, and Chile's value was 4.1 percent (Figure 3-11). In addition to excellent performance in attracting FDI, overall private capital inflows increased steadily in the period 2001 to 2005, with a five-year average of 5.8 percent of GDP and an overall growth trend of 7.5 percent. The favorable rules on investment in CAFTA-DR should make Nicaragua a more attractive investment location for foreign investors and facilitate economic growth through the infusion of international capital.

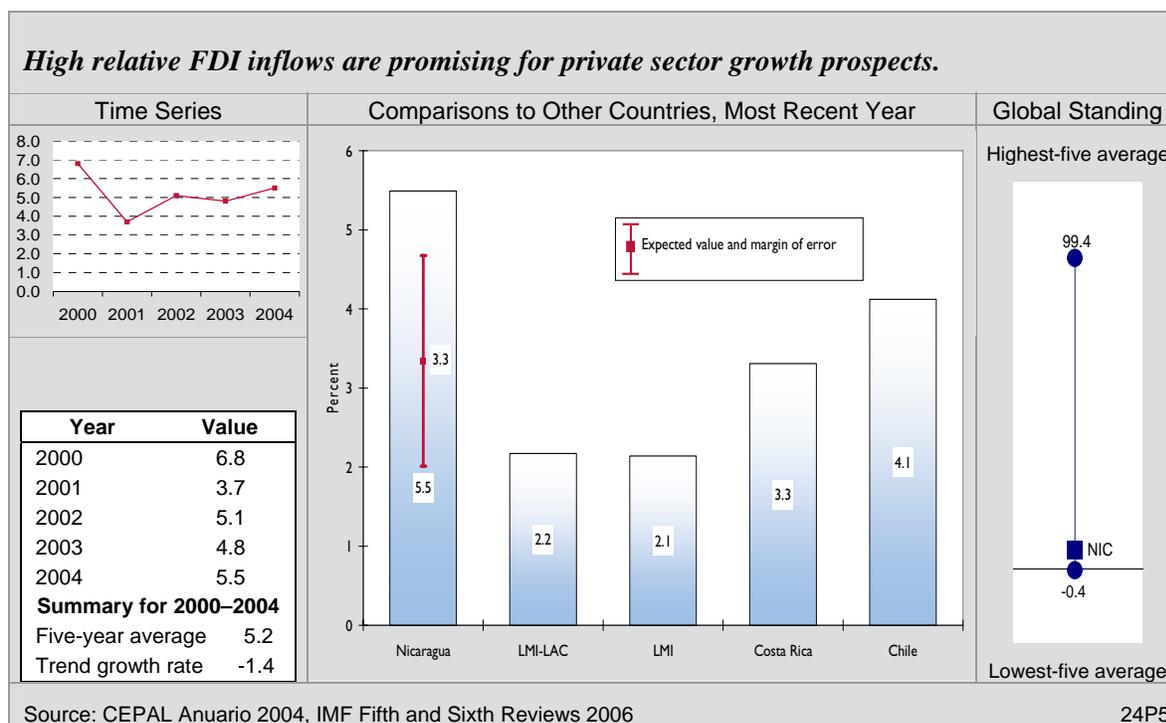
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<sup>37</sup> Data on remittances for Chile are unavailable through the standard data sources for this report. With a minute 3.8 percent of exports, Costa Rica is not relevant to the remittance discussion because they have not had the push factors that sent thousands of its citizens abroad.

<sup>38</sup> The Inter-American Development Bank's Remittances 2005 reports remittances as a percent of exports f.o.b (i.e. exclusive of services exports) and therefore is not comparable with figures from the standard data set.

<sup>39</sup> Nicaragua: Fifth and Sixth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, International Monetary Fund, 2004.

Figure 3-11  
*Foreign Direct Investment, Percent of GDP*



## INTERNATIONAL FINANCING

Nicaragua, as a beneficiary of the Highly Indebted Poor Country (HIPC) initiative, has seen a drastic reduction in its debt service obligations in the past five years. In 2001 its debt reached 22.4 percent of exports. However, by 2005 its debt service ratio had fallen to 3.6 percent of exports. Furthermore, the IMF recently announced 100 percent debt relief for Nicaragua on all debt incurred before January 1, 2005.<sup>40</sup> This reduction in debt service obligations gives Nicaragua an excellent opportunity to orient additional government finances toward social spending and to finance the underlying improvements in its competitiveness architecture that will be important for a successful adaptation to CAFTA-DR. Despite significant debt reduction, Nicaragua remains a recipient of other types of international assistance. In 2004 aid as percent of GNI was 28.3 percent, a large sum in comparison to the size of the overall economy. The health and education sectors could benefit greatly from these resources.

## ECONOMIC INFRASTRUCTURE

Economic infrastructure, that is, access to electricity, road, ports and modern telecommunications provides the primary conduit for productive activities to take place. The absence of good economic infrastructure fundamentally handicaps commerce.<sup>41</sup> Nicaragua has substantial gaps in

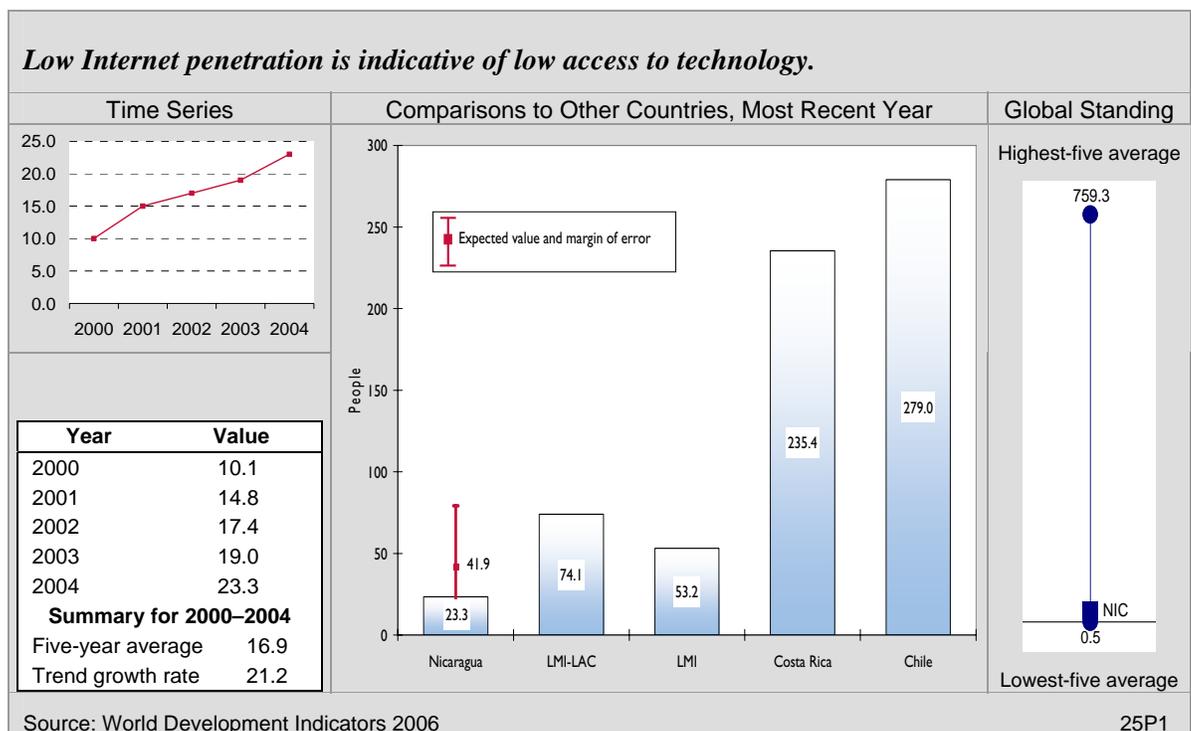
<sup>40</sup> “IMF to Extend 100 percent Debt Relief to Nicaragua Under the Multilateral Debt Relief Initiative” IMF Press Release No. 05/299.

<sup>41</sup> This section relies on perception indicators to assess infrastructure quality and adequacy. Objective measures of infrastructure quantity often have little diagnostic value. For example, a low value for

the quality of its economic infrastructure. The Global Competitiveness Report's Overall Infrastructure Quality index scores Nicaragua an exceedingly low 1.9 on scale from 1 (for poor) to 7 (for good). Although this is not much worse than the predicted regression benchmark of 2.2, it is almost a full point behind the LMI-LAC average of 2.8 and Costa Rica's 2.9 and pales in comparison to Chile's score of 4.8. Nicaragua's low overall score is driven by the poor quality of its ports and railroads, with scores of 1.7 and 1.1 respectively.

With respect to telecommunications infrastructure, Nicaragua's performance is mixed. Telephone density increased rapidly between 2000 and 2004, more than tripling from 51 fixed and mobile lines per 1,000 people in 2000 to 177 in 2004. With the regression benchmark only 126, this is a great improvement, although there is still room for improvement—the LMI-LAC average is 321, and Costa Rica and Chile have telephone density figures of 362 and 732 respectively. But although Nicaragua has made great strides in telecommunications infrastructure, access to the Internet remain insufficient, at merely 23 users per 1,000 inhabitants in 2004. This is half the regression benchmark estimate of 42 and woefully behind the LMI-LAC average and values for Costa Rica and Chile (Figure 3-12).

Figure 3-12  
*Internet Users Per 1,000 People*



kilometers of paved roads does not imply that there is a problem to be fixed, because unpaved all-weather roads may be more efficient than paving secondary and tertiary roads in poor countries.

Growth planning needs to address Nicaragua's shortcomings in economic infrastructure through port revitalization, provision of better road and rail networks, and enabling widespread access to Internet technology.

## **SCIENCE AND TECHNOLOGY**

Science and technology are central elements of a dynamic growth process, because technical knowledge is a driving force for rising productivity and competitiveness. Even for lower-income countries such as Nicaragua, transformational development increasingly depends on acquiring and adapting technology from the global economy and applying it in ways that are appropriate to their level of development. A lack of capacity to access and utilize technology prevents an economy from leveraging the benefits of globalization.

Unfortunately, few international indicators of science and technology are available for judging performance in low-income countries. Such is the case for Nicaragua. Of the standard indicators used for this series of reports, data for Nicaragua are available only for the FDI Technology Transfer index. This index measures executives' perceptions of the quality of FDI as a source of new technology on a scale of 1 (FDI brings little new technology) to 7 (FDI is an important source of new technology). Nicaragua's latest score (2004) of 4.2 is equal to the regression benchmark but below the LMI-LAC average of 4.6. Chile and Costa Rica had high scores of 5.3 and 5.5. These figures show that Nicaragua could do a better job of acquiring technology through FDI.

Technology is so important to modern economic growth that the country needs to be much more aware of technology transfer when evaluating projects. The lack of reliable data in itself points to the need for the government to improve intellectual capacity and human capital through research and development, education, and training.



# 4. Pro-Poor Growth Environment

Rapid growth is the most powerful and dependable instrument for poverty reduction, yet the link from growth to poverty reduction is not mechanical. In some cases, income growth for poor households exceeds the overall rise in per capita income, while in other conditions growth benefits the non-poor far more than the poor. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor, while reducing their vulnerabilities. Pro-poor growth is associated with improvement in primary health and education, the creation of jobs and income opportunities, the development of skills, microfinance, agricultural development, and gender equality.<sup>42</sup> This section focuses on four of these issues: health, education, employment and the workforce, and agricultural development.

## HEALTH

Quality health care is an essential component to pro-poor growth because healthy populations have higher productivity and a longer productive span over a lifetime. Nicaragua performs poorly on indicators of public health. For instance, the LMI-LAC average maternal mortality rate is 150 maternal deaths per 100,000 live births, while in Nicaragua it is 230. Although the regression benchmark predicts that a country of Nicaragua's characteristics would have a maternal mortality rate of 324.5, this figure is very high and indicates poor health care (Figure 4-1).

Similarly, the rate of births attended by health care personnel is low at 66.9 percent,<sup>43</sup> whereas the LMI-LAC average is 80.0 percent and Chile and Costa Rica boast full or almost full coverage with rates of 100.0 percent and 98.0 percent, respectively. Life expectancy, another indicator of overall health, is on par with the regional average—70.0 years compared to the LMI-LAC average of 70.2—while the regression benchmark predicts 67.1 years. In Chile and Costa Rica, however, life expectancy levels are appreciably higher, at 76.4 years and 78.6 years respectively, and show that more can be achieved in this respect.

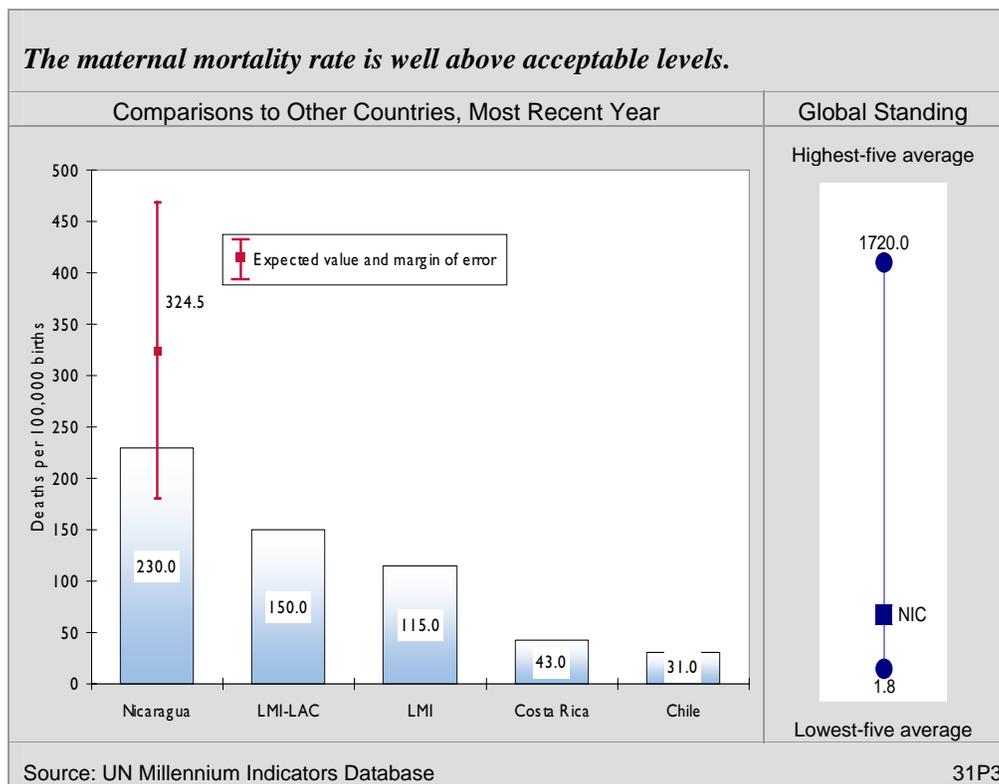
Access to an improved water source is substandard in Nicaragua, with only 75.8 percent of the population having access to clean potable water, compared to the LMI-LAC average of 89.5 percent. Nicaragua does perform well, however, on access to improved sanitation, with 87.1 percent of the population in 2004, compared to the LMI-LAC average of 71.0 percent.

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<sup>42</sup> Since this report focuses on economic growth performance, this report does not cover emergency relief.

<sup>43</sup> These data go back to 2001 and therefore should be used with caution.

Figure 4-1  
Maternal Mortality Rate



Nicaragua's poor performance on health-related indicators may be linked to low public expenditure for health programs. Between 1999 and 2003 Nicaragua spent an average of 3.7 percent of GDP per annum on public health. Programs that improve access to clean water and basic health care, particularly pre- and post-natal care, will significantly improve standards for public health care.

## EDUCATION

Nicaragua's education system needs substantial improvement, especially at the secondary and preschool levels.<sup>44</sup>

The net primary enrollment rate<sup>45</sup> for Nicaragua was 88.0 percent in 2004, lower than the regional benchmarks. The LMI-LAC average is 95.1 percent, while the corresponding figures for Costa Rica and Chile are 90.4 percent and 86.4 percent, respectively. Although enrollment rates are high, in 2004 just 73.5 percent of the students persisted to grade 5.<sup>46</sup> This falls well below the

<sup>44</sup> Preschool education is not an indicator usually used for economic performance assessments for country analytical reports, but Nicaragua's National Development Plan 2005 specifies preschool education as an intermediate goal to increase women's participation in the workforce.

<sup>45</sup> Net primary enrollment rate is an MDG indicator.

<sup>46</sup> Persistence to grade 5 is an MDG indicator.

persistence rate for Chile (99.9 percent) and Costa Rica (91.6 percent). The secondary school enrollment rate is estimated to be 36 percent for males and 42 percent for females.<sup>47</sup>

The quality of education is difficult to gauge. One rough proxy is the pupil–teacher ratio in the primary schools.<sup>48</sup> Nicaragua’s ratio of 35:1 is higher than the average of 24:1 for LMI-LAC, as well as the ratios for Costa Rica (23:1) and Chile (33:1).

Nicaragua’s youth literacy rate (86.2 percent) may be consistent with the regression benchmark, but it is well below the regional average. A sign of improvement is the average growth trend of 4.2 percent in the youth literacy rate during the five years ending in 2001.

The National Development Plan, released in November 2005, set goals to increase the primary school enrollment rate to 90.5 percent and the rate of secondary education to 49.7 percent by 2010.<sup>49</sup> To accomplish these goals the government will need to increase expenditure in primary education as a percent of GDP.<sup>50</sup> The 1.4 percent for 2005 lags behind the LMI-LAC and LMI averages of 2.93 percent and 2.29 percent, respectively.

Spending at the secondary level has improved recently. In 2004, Nicaragua spent 10.7 percent of per capita GDP per secondary student (from 5.2 percent in 2002). Although it is far behind Costa Rica’s 22.9 percent and Chile’s 16 percent, it nears the LMI-LAC average of 11.1 percent. Remarkably, tertiary expenditure per student as a percentage of GDP per capita is 62.4 percent. This is much higher than all the comparable benchmarks, with Costa Rica at 50.6 percent and Chile at 17.7 percent. It is difficult to assess the benefits of such disproportional funding, given the lack of resources at the primary and secondary levels.

Education is a cornerstone of development and current and future initiatives must do a better job in addressing the country’s education needs. Programs to retain children past primary school and to increase enrollment in secondary school should be stimulated if Nicaragua is going to reach its goals.

## **EMPLOYMENT AND WORKFORCE**

A strong and fully utilized labor force is the lynchpin of economic growth because it is the source of a nation’s productive capacity. Underemployment and employment in the informal sector threaten to undercut efforts at human development because workers are often paid low wages and have no legal recourse for abuse by employers. Workers in the informal sector also do not pay

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<sup>47</sup> UNICEF – At a Glance: Nicaragua, Tables 2006. This is not a standard CAR indicator, but considered here due to the lack of other data. Secondary figure is net enrollment.

<sup>48</sup> Evidence of the link between class size and quality of education obtained is far from conclusive. However, there is a presumption that small class sizes allow teachers the opportunity to offer more individualized attention thereby facilitating learning and retention. In this regard, pupil-teacher ratio is widely used as a rough indicator of education quality and measure of commitment to primary education.

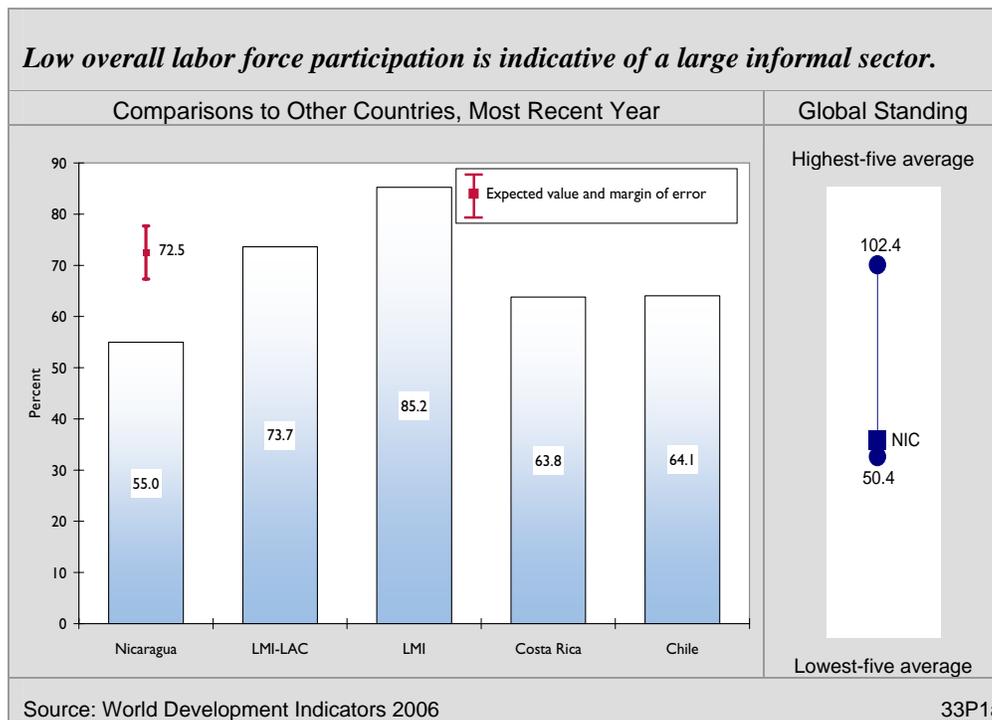
<sup>49</sup> Republic of Nicaragua, National Development Plan, November 2005. p. 22.

<sup>50</sup> Education expenditure as a percentage of GDP is an MCA indicator.

taxes, which reduces the amount of funds available for public spending on health, education, and other public goods.

Nicaragua's labor force participation rate is extremely low, at 55 percent for 2005. The benchmark regression predicts a labor force participation rate of 72.5 percent for a country with Nicaragua's characteristics (Figure 4-2). The Rigidity of Employment index, based on scale of 0 for minimum rigidity to 100 for maximum rigidity, ranks Nicaragua at 47.0, or roughly at a mean score indicating that the (formal) labor force is neither excessively rigid or too flexible. With that in mind, Nicaragua's low labor force participation rate is attributable to a large informal sector rather than a lack of employment opportunities caused by rigid rules for hiring and firing employees. Formal unemployment, at a five year average of 10 percent, is high by OECD standards but not outside the norm for the developing world.

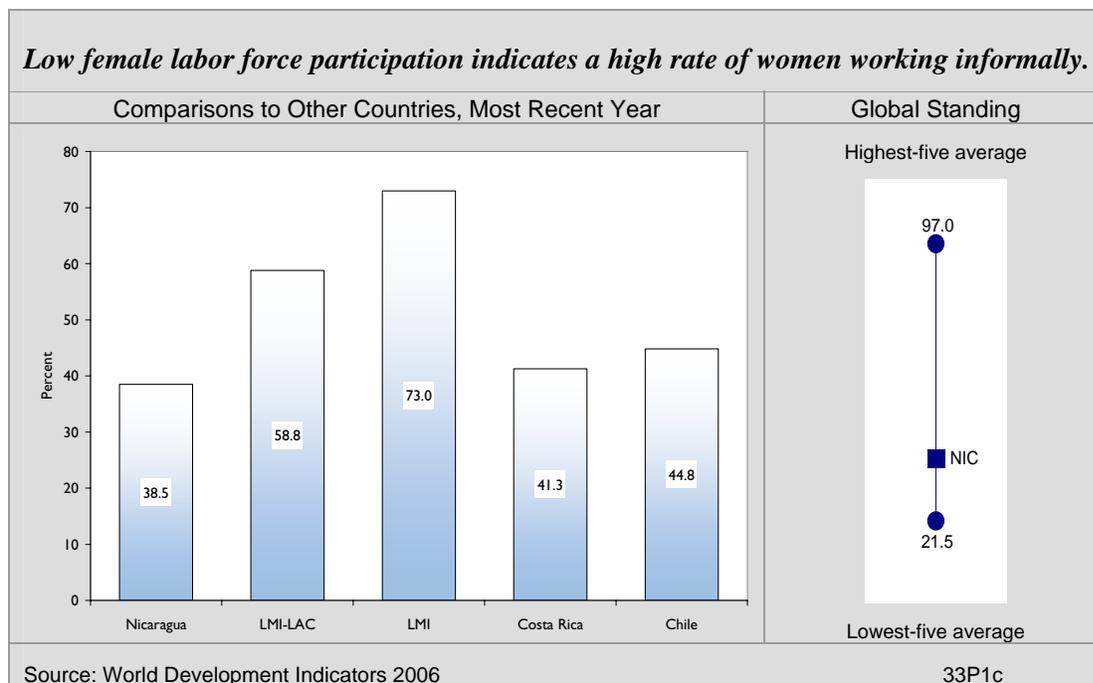
Figure 4-2  
*Total Labor Force Participation Rate*



More troubling is the large gender discrepancy in labor force participation. The female labor force participation rate of 38.5 percent is only slightly more than half the male labor force participation rate of 72.0 percent, signifying a greater tendency for women to be employed in the informal sector (Figure 4-3). Accordingly, women have proportionately fewer rights than men in the labor force. Donors may wish to consider targeting interventions to mitigate the constraints on formal employment for women. Expanded female employment has the potential to reduce poverty substantially because women's incomes tend to be reinvested in human capital through the provision of education for children and increased household nutritional consumption. Nonetheless, with a labor force that is growing at a rate of 2.9 percent (2004) per year, job

creation will continue to be the primary programmatic priority for Nicaragua in the coming years, regardless of gender.

Figure 4-3  
Female Labor Force Participation Rate



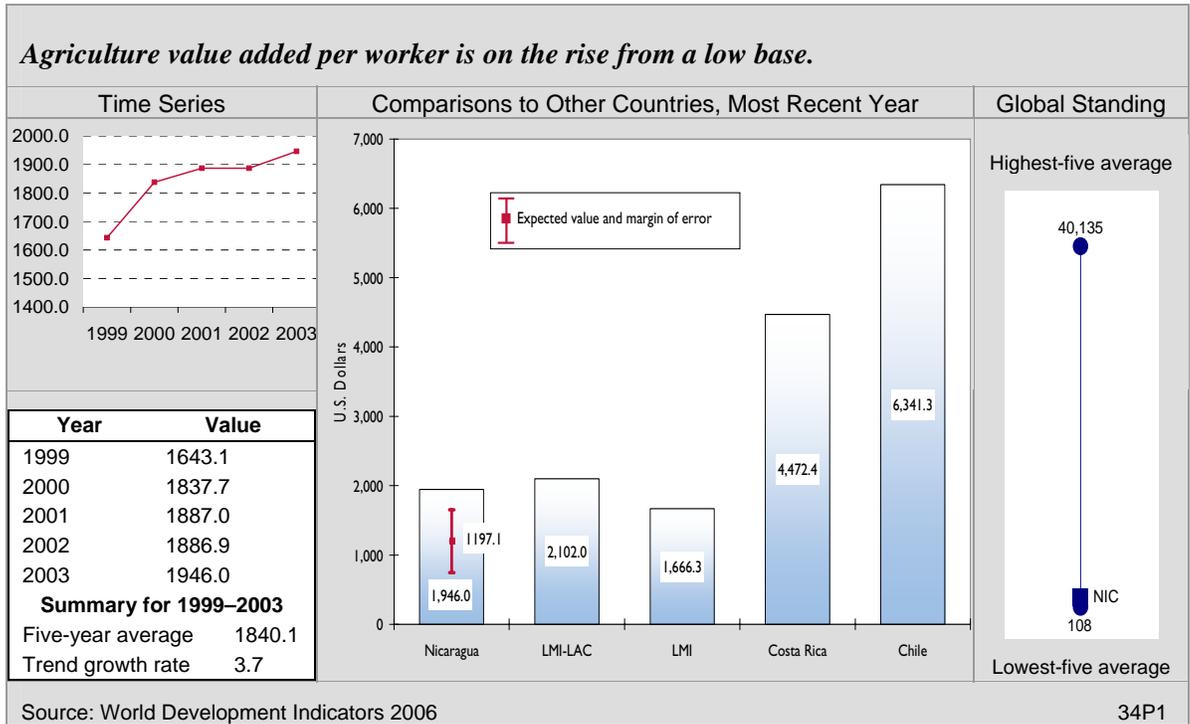
## AGRICULTURE

As mentioned in the Economic Structure section, agriculture has accounted for about 19.5 percent of GDP in recent years, yet employment in the sector accounts for 30.5 percent of total employment. Employment in agriculture exhibits decreasing trend, accompanied by a slight increase in agricultural value added (4.7 percent from 1999 to 2004), indicating small gains in labor productivity. This is comparable to the LMI-LAC average of 2.0 percent. Nicaraguan agricultural value added per worker rose by 3.7 percent per year during the period, reaching US\$1,946, which is close to the regional benchmark of US\$2,102 for LMI-LAC and much higher than the regression benchmark of US\$1,197, although Chile far outperforms Nicaragua in this category at agricultural value added of US\$6,341 per worker (Figure 4-4).<sup>51</sup> Cereal yields improved 1.2 percent in the five years leading to 2005, reaching 1,789.3 kg per hectare for 2005. These improvements are not sufficient, amounting to less than half of Costa Rica’s 3,803 kg per hectare yield and about one-third of Chile’s 5,313 kg per hectare yield.

Nicaragua is an agricultural economy with significant potential. However, continued productivity enhancements should be emphasized to expand this essential sector.

<sup>51</sup> See Technical Notes for details. Data measured in constant 2000 US\$.

Figure 4-4  
Agriculture Value Added Per Worker



# Appendix

## CRITERIA FOR SELECTING INDICATORS

The economic performance evaluation is designed to balance the need for broad coverage and diagnostic value, on the one hand, and the requirement of brevity and clarity, on the other. The analysis covers 15 economic governance–related topics, and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the “dashboard lights” appear to be signaling problems, which suggest possible priorities for USAID intervention. The accompanying table provides a full list of indicators examined for this report. A separate Data Supplement contains the complete data set for Nicaragua, including data for the benchmark comparisons, and technical notes for every indicator.

For each topic, the analysis begins with a screening of *primary performance indicators*. These level I indicators are selected to answer the question “Is the country performing well or not in this area?” Primary indicators also include descriptive variables such as per capita income, poverty head count, and age dependency rate.

When level I indicators suggest weak performance, a limited set of *diagnostic supporting indicators* is reviewed. These level II indicators provide additional details or shed light on *why* the primary indicators may be weak. For example, if economic growth is poor, one can examine data on investment and productivity as diagnostic indicators. If a country performs poorly on educational achievement, as measured by the youth literacy rate, one can examine determinants such as expenditure on primary education, and the pupil-teacher ratio.<sup>52</sup>

The indicators have been selected on the basis of the following criteria. Each one must be accessible through USAID’s Economic and Social Database or convenient public sources, particularly on the Internet. They should be available for a large number of countries, including most USAID client states, to support the benchmarking analysis. The data should be sufficiently timely to support an assessment of country performance that is suitable for strategic planning purposes. Data quality is another consideration. For example, subjective survey responses are used only when actual measurements are not available. Aside from a few descriptive variables, the indicators must also be useful for diagnostic purposes. Preference is given to measures that are widely used, such as Millennium Development Goal indicators, or evaluation data used by the Millennium Challenge Corporation. Finally, an effort has been made to minimize redundancy. If two indicators provide similar information, preference is given to one that is simplest to understand or most widely used. For example, both the Gini coefficient and the share of income

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<sup>52</sup> Deeper analysis of the topic using more detailed data (level III) is beyond the scope of this series.

accruing to the poorest 20 percent of households can be used to gauge income inequality. We use the income share because it is simpler and more sensitive to changes.

## BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The analysis draws on several criteria rather than a single mechanical rule. The starting point is a comparison of performance in Nicaragua relative to the average for countries in the higher-income group and region—in this case, Latin American and Caribbean countries with lower middle incomes.<sup>53</sup> For added perspective, three other comparisons are made: (1) the global average for this income group; (2) respective values for two comparator countries selected by the LAC Bureau (in this case, Chile and Costa Rica); and (3) the average for the five best- and five worst-performing countries globally. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account when this information sheds light on the performance assessment.<sup>54</sup>

For some variables, a second source of benchmark values uses statistical regression analysis to establish an expected value for the indicator, controlling for income and regional effects.<sup>55</sup> This approach has three advantages. First, the benchmark is customized to Nicaragua’s specific level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows the margin of error to be quantified and establishes a “normal band” for a country with Nicaragua’s characteristics. An observed value falling outside this band on the side of poor performance signals a serious problem.<sup>56</sup>

Finally, when relevant, Nicaragua’s performance is weighed against absolute standards. For example, if the Corruption Perception index for a given country is below 3.0, this is a sign of serious economic governance problems, regardless of the regional comparisons or regression result.

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<sup>53</sup> Typically the same income group is chosen for analysis when income groups are defined by the World Bank for 2005. For this study, a higher income group is chosen because there are only two Latin American low-income countries: Nicaragua and Haiti. In addition, the average is defined in terms of the median rather than the mean because the values are not distorted by outliers.

<sup>54</sup> The five-year trends are computed by fitting a log-linear regression line through the data points. The alternative of computing average growth from the end points produces aberrant results when one or both of those points diverge from the underlying trend.

<sup>55</sup> This is a cross-sectional OLS regression using data for all developing countries. For any indicator,  $Y$ , the regression equation takes the form:  $Y$  (or  $\ln Y$ , as relevant) =  $a + b * \ln \text{PCI} + c * \text{Region} + \text{error}$  – where  $\text{PCI}$  is per capita income in PPP\$, and  $\text{Region}$  is a set of 0-1 dummy variables indicating the region in which each country is located. Once estimates are obtained for the parameters  $a$ ,  $b$  and  $c$ , the predicted value for Nicaragua is computed by plugging in Nicaragua-specific values for  $\text{PCI}$  and  $\text{Region}$ . When applicable, the regression also controls for population size and petroleum exports (as a percent of GDP).

<sup>56</sup> This report uses a margin of error of 0.66 times the standard error of estimate (adjusted for heteroskedasticity, where appropriate). With this value, 25 percent of the observations should fall outside the normal range on the side of poor performance (and 25 percent on the side of good performance). Some regressions produce a very large standard error, giving a “normal band” that is too wide to provide a discerning test of good or bad performance.

## LIST OF INDICATORS

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
<b>OVERVIEW OF THE ECONOMY</b>			
<b>Growth Performance</b>			
Per capita GDP, \$PPP	I		11P1
Per capita GDP, current US\$	I		11P2
Real GDP growth	I		11P3
Growth of labor productivity	II		11S1
Investment Productivity - Incremental Capital-Output Ratio (ICOR)	II		11S2
Gross fixed investment, % GDP	II		11S3
Gross fixed private investment, % GDP	II		11S4
<b>Poverty and Inequality</b>			
Human poverty index	I		12P1
Income-share, poorest 20%	I		12P2
Population living on less than \$1 PPP per day	I	MDG	12P3
Poverty headcount, by national poverty line	I	MDG	12P4
Income-share, richest 20%	I		12P5
Ratio of income shares, richest 20% to poorest 20%	I		12P6
PRSP Status	I	EcGov	12P5
Population below minimum dietary energy consumption	II	MDG	12S1
Poverty gap at \$1 PPP a day	II		12S2
<b>Economic Structure</b>			
Labor force structure	I		13P1
Output structure	I		13P2
<b>Demography and Environment</b>			
Adult literacy rate	I		14P1
Age dependency rate	I		14P2
Environmental sustainable index	I		14P3
Population size and growth	I		14P4
Urbanization rate	I		14P5
<b>Gender</b>			
Adult literacy rate, ratio of male to female	I	MDG	15P1
Gross enrollment rate, all levels, ratio of male to female	I	MDG	15P2
Life expectancy at birth, ratio of male to female	I		15P3
<b>PRIVATE SECTOR ENABLING ENVIRONMENT</b>			
<b>Fiscal and Monetary Policy</b>			
Govt. expenditure, % GDP	I	EcGov	21P1
Govt. revenue, % GDP	I	EcGov	21P2

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
Growth in the money supply	I	EcGov	21P3
Inflation rate	I	MCA	21P4
Overall govt. budget balance, including grants, % GDP	I	EcGov	21P5
Composition of govt. expenditure	II		21S1
Composition of govt. revenue	II		21S2
Composition of money supply growth	II		21S3
<b>Business Environment</b>			
Corruption perception index	I	EcGov	22P1
Ease of doing business ranking	I	EcGov	22P2
Rule of law index	I	MCA / EcGov	22P3
Cost of starting a business, % GNI per capita	II	MCA / EcGov	22S1
Procedures to enforce contract	II	EcGov	22S2
Procedures to register property	II	EcGov	22S3
Procedures to start a business	II	EcGov	22S4
Time to enforce a contract	II	EcGov	22S5
Time to register property	II	EcGov	22S6
Time to start a business	II	EcGov	22S7
<b>Financial Sector</b>			
Domestic credit to private sector, % GDP	I		23P1
Interest rate spread	I		23P2
Money supply, % GDP	I		23P3
Stock market capitalization rate, % of GDP	I		23P4
Cost to create collateral	II		23S1
Country credit rating	II		23S2
Legal rights of borrowers and lenders index	II		23S3
Real Interest rate	I		23S4
<b>External Sector</b>			
Aid , % GNI	I		24P1
Current account balance, % GDP	I		24P2
Debt service ratio, % exports	I	MDG	24P3
Export growth of goods and services	I		24P4
Foreign direct investment, % GDP	I		24P5
Gross international reserves, months of imports	I	EcGov	24P6
Gross Private capital inflows, % GDP	I		24P7
Present value of debt, % GNI	I		24P8
Remittance receipts, % exports	I		24P9
Trade, % GDP	I		24P10
Exports of services, % total exports	I		24P11
Imports of services, % total exports	I		24P12

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
Actual and expected trade size, index	I		24P13
Time to trade, days	I		24P14
Merchandise imports from CAFTA countries, millions of current USD	I		24P15
Merchandise exports to CAFTA countries, millions of current USD	I		24P16
Concentration of exports	II		24S1
Inward FDI Potential Index	II		24S2
Net barter terms of trade	II		24S3
Real effective exchange rate (REER)	II	EcGov	24S4
Structure of merchandise exports	II		24S5
Trade policy index	II	MCA / EcGov	24S6
Composition of merchandise imports from CAFTA countries, by country, millions of current USD	II		24S7
Composition of merchandise exports to CAFTA countries, by country, millions of current USD	II		24S8
<b>Economic Infrastructure</b>			
Internet users per 1,000 people	I	MDG	25P1
Overall infrastructure quality	I	EcGov	25P2
Telephone density, fixed line and mobile	I	MDG	25P3
Quality of infrastructure – railroads, ports, air Transport, and electricity	II		25S1
Telephone cost, average local call	II		25S2
<b>Science and Technology</b>			
Expenditure for R&D, % GNI	I		26P1
FDI and technology transfer index	I		26P2
Patent applications filed by residents	I		26P3
<b>PRO-POOR GROWTH ENVIRONMENT</b>			
<b>Health</b>			
HIV prevalence	I		31P1
Life expectancy at birth	I		31P2
Maternal mortality rate	I	MDG	31P3
Access to improved sanitation	II	MDG	31S1
Access to improved water source	II	MDG	31S2
Births attended by skilled health personnel	II	MDG	31S3
Child immunization rate	II		31S4
Prevalence of child malnutrition (weight for age)	II		31S5
Public health expenditure, % GDP	II	EcGov	31S6
<b>Education</b>			
Net primary enrollment rate	I	MDG	32P1

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
Persistence in school to grade 5	I	MDG	32P2
Youth literacy rate	I		32P3
Education expenditure, primary, % GDP	II	MCA/ EcGov	32S1
Expenditure per student, % GDP per capita – primary, secondary, and tertiary	II	EcGov	32S2
Pupil-teacher ratio, primary school	II		32S3
<b>Employment and Workforce</b>			
Labor force participation rate, females, males, total	I		33P1
Rigidity of employment index	I	EcGov	33P2
Size and growth of the labor force	I		33P3
Unemployment rate	I		33P4
<b>Agriculture</b>			
Agriculture value added per worker	I		34P1
Cereal yield	I		34P2
Growth in agricultural value-added	I		34P3
Agricultural policy costs index	II	EcGov	34S1
Crop production index	II		34S2
Livestock production index	II		34S3

<sup>a</sup> Level I—primary performance indicators, Level II—supporting diagnostic indicators

<sup>b</sup> MDG—Millennium Development Goal indicator

MCA—Millennium Challenge Account indicator

EcGov—Major indicators of economic governance, which, according to USAID’s Strategic Management Interim Guidance, include “microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth.” The term encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.