NICARAGUA COUNTRY REPORT - August 2008

Background and debt sustainability	Nicaragua is a post-HIPC/MDRI Lower Middle Income Country with a per capita GNI of US$980 as of 2007 (WB Atlas Method). Real GDP growth has been moderately positive during the last decade, averaging 3.9% during 2006-07. Inflation rose sharply from 9.5% to 17% in 2007 due to external price shocks. Nicaragua began the HIPC process as the most indebted of the Latin American HIPCs, with external debt at 177% of GDP in 1997. It reached HIPC decision point in December 2000 and completion point in January 2004, and debt relief has reduced its debt ratio to only 59% of GDP by 2007. In assessing debt sustainability, Nicaragua is using DSF (high performer) indicators for external debt and CBP indicators for domestic debt. It continues to have sustainability problems, with high domestic debt levels, due to financial sector crises and the significant amount of Bonos de Pago por Indemnización (BPIs), and external debt being unsustainable in terms of PV because several key external creditors have not provided HIPC relief.
CBP support and impact	Nicaragua's assistance from the CBP began with a demand assessment mission in July 1998 and a national workshop in May 1999, which was vital to ensuring Nicaraguan eligibility for HIPC relief, because it clarified that re-exports and remittances should not be included in export ratios. Since then, it has participated in 10 regional workshops; benefited from three further national workshops, in 2001, 2006 and 2008; an intensive programme of capacity-building assistance in 2000-02 cofinanced by SECO and SIDA; and enrolled 6 students in the latest intake of the CBP distance learning programme. The CBP has also provided considerable long-distance assistance to Nicaragua's negotiations with the Paris Club, non-Paris Club bilateral and multilateral creditors, and advice on lawsuits; and assisted Nicaragua to design a comprehensive debt law in 2004, establishing a debt committee mandated to present a debt strategy as part of the budget. During phase IV the CBP has undertaken one institutional mission in 2005, which recommended improvements in amounts and quality of external financing, through greater division of labour/information flows among government agencies and coordination with the donor community, improved recording of grants in the budget, a Procedures Manual for new financing, and wide-ranging staff training and incentive measures. Two national workshops in 2006 and 2008 updated the debt strategy, culminating in formal approval of the strategy in June 2008. Both concluded that if Nicaragua receives 100% participation of its creditors in HIPC and MDRI relief, its external debts will be sustainable; enhanced strategies are needed to make domestic debt sustainable; Nicaragua will require a sharp increase in concessional financing if it is to meet the MDGs without returning to unsustainable debt levels. Nicaragua has also received Debt Pro training and simulated domestic debt reduction scenarios through a national workshop in 2007, and participated in Regional Workshops on the LIC-DSF (2006), Domestic Debt (2007) and Training for Trainers (2008). Nicaragua has improved its debt management sharply during the period of the HIPC CBP, in part due to CBP assistance. Though after an initial increase there was some decline in capacity during 2002-04, mainly due to staff turnover in the Ministry, scores have risen particularly sharply in phase 4. The debt strategy score (MT2a) has risen from 3 to 4.4, and the strategy is currently updated annually, formally approved and implemented. The legal and institutional framework has improved from 3 to 3.8, though implementing regulations still require reinforcement to ensure closer coordination on domestic debt policy and new external financing. Capacity to train has risen from 1 to 4, but needs a little strengthening in new financing and domestic debt.. The main ongoing challenge for Nicaragua will be to retain debt management capacity at the Ministry of Finance, especially as it is the lead institution in debt management according to the 2004 law, enhance domestic debt and risk analysis as well as improve analysis and coordination mechanisms in new financing issues.
Objectives and content of proposed country assistance	Consistent with the previous and results, the work plan states the following activities for the rest of Phase IV: • One national workshop focused on domestic debt strategy, to continue improving MT2a and ST 3a scores. • One sensitization seminar addressed to Government bodies to improve strategy dissemination and capacity-building implementation. • Participation in Medium Term Debt Strategy Regional Workshop that addresses risk analysis. This activity would improve the quality of Debt Strategy which is related to MT2a.

	Nicaragua has already met or exceeded all the phase 4 targets which are within the control of the CBP. The forthcoming events should reinforce this progress and, together with efforts by the international community, could help contribute to restoring debt sustainability.

Country Debt Strategy Progress

Progress and Intended Results

CBP Logical Framework Performance Indicators	Initial Score (DRI - 1998)	Phase IV Baseline	Current Score (2008)	Phase IV Target
LT 1. Debt sustainability	3.0	1.0	2.0	4.0
MT 2a. Debt management strategy updated at least once a year.	3.0	1.6	4.4	4.0
MT2b. High-quality legal and institutional frameworks for debt strategy	3.0	3.4	3.8	3.8
ST 3a Availability of trained personnel capable of formulating and executing national debt strategies	1.0	2.0	4.0	3.0
ST 3c. High-quality capacity building plans which are implemented and annually updated.	1.0	1.0	3.4	3.2

Expenditure and Budget

Overall spending on Nicaragua since the start of CBP activity has been US$104,480. Total Expenditure allocated to support specific events for Nicaragua in phase 4 is US$264,784.