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**COUNTRY STRATEGY PAPER and MULTIANNUAL INDICATIVE
PROGRAMME 2014-2020**

NICARAGUA

COUNTRY STRATEGY PAPER and MULTIANNUAL INDICATIVE PROGRAMME

NICARAGUA 2014-20^{1 2}

EXECUTIVE SUMMARY

Nicaragua continues to face challenges with respect to poverty eradication, inequality, competitiveness, employment, preservation of the environment and resilience to natural disasters. Despite positive economic growth rates in recent years, the country has not been able to tackle extensive poverty as a result of numerous interdependent factors: weak economic development, social exclusion which exacerbates urban-rural and Pacific-Atlantic disparities, limited progress in governance, a mismatch between educational provision and the needs of the labour market, and climate change, which affects mostly the poorest. Although insecurity is less acute in Nicaragua than in the 'Northern Triangle' countries, it is on the rise, especially on the Caribbean coast.

More than 60% of Nicaraguan rural households are poor and 25% are extremely poor, with livelihoods limited to subsistence farming and local labour markets. Agriculture and agro-industry are the main axes for developing the national economy and eradicating poverty. EU support will be geared to promoting rural development by increasing sustainable productivity, competitiveness and the climate resilience of micro, small and medium-sized enterprises in agriculture and agro-industry, so as to reduce poverty and improve cohesion in rural areas.

Nicaragua is characterised by declining fertility rates and an increasingly young population, but low education standards, with a mismatch between the education and training on offer and the needs of the labour market, and a narrow range of skills in the economically active population are barriers to increasing productivity and to broad-based development. EU action will focus on increasing employability in the labour force, particularly among secondary education graduates, by improving the relevance and quality of general secondary education and technical/vocational education and training.

Due to its geography, Nicaragua is among the countries most vulnerable to climate change; it is prone to hurricanes, soil erosion, accelerating deforestation and uncontrolled urbanisation. Natural disasters and long-term environmental degradation contribute to driving people into poverty. Given that the national economy is largely based on the exploitation of natural resources, the worsening quality of the environment hinders economic development and constitutes a significant burden for future generations. The EU will support action aimed at increasing the resilience of the population to the impacts of climate change by improving integrated water resource management and alleviating pressure on natural forests.

The proposed strategy builds on lessons learnt from the evaluation of the EU's cooperation with Nicaragua in 1998 to 2008. A mid-term review of the multiannual indicative programme (MIP) planned for 2017 will pave the way for the adoption of a Joint Programming Document from 2018, to be agreed by EU Member States active in the country. Bilateral assistance will be complemented by activities financed under thematic budget lines, in close coordination with the regional (Latin America) and sub-regional (Central America) programmes.

The indicative allocation for Nicaragua (EUR 204 million) will be assigned to the following focal sectors:

- **Support to the productive sector, with a focus on rural areas;**
- **Effective education for employment; and**
- **Adaptation to climate change.**

¹ As the Joint Programming Roadmap agreed among the Heads of Missions of EU MS accredited in Nicaragua provides for formal joint programming as of 2018, a revision of this document is planned for 2017.

² See List of acronyms in Attachment III to the MIP.

1. COUNTRY ANALYSIS

1.1. POLITICAL SITUATION

Since 2007, Nicaragua has been ruled by President Ortega and the *Frente Sandinista de Liberación Nacional* (FSLN). A ruling of the Supreme Court of Justice paved the way for President Ortega's re-election for a second consecutive mandate in November 2011. With 62% of the vote, the FSLN obtained an absolute majority and 62 of the 90 seats in Parliament. The November 2012 municipal elections consolidated Sandinista party domination at local level.

The Ortega Government has focused on reducing poverty and maintaining economic growth, with positive results overall. In the international arena, it is a member of the *Alianza Bolivariana de las Americas* (ALBA) and maintains pragmatic relations with international partners, including the USA. Border disputes have recently affected relations with Costa Rica and Colombia. Nicaragua was the first country to ratify the EU-Central America Association Agreement in November 2012 and takes an active approach to expanding economic relations with the EU and to regional integration in Central America (CA).

As a result of the broad majority enjoyed by the governing party, the opposition has lost a great deal of political influence and observers note a decline in the quality of democratic debate. In January 2014, the National Assembly approved an extensive constitutional reform which reinforces the role of the executive and now involves lifting the limit on the number of times the President can be re-elected. In recent years, there have been question marks over the separation of powers, relations between party and Government, and the management of electoral processes. According to a European Union Electoral Observation Mission, management of the 2011 elections by the administration of the Supreme Electoral Council suffered from various weaknesses. The Government has to date not acted on the recommendations issued by the Observation Mission.

The Nicaraguan **judicial system** is based on autonomous institutions that collaborate in the judicial process: the Judiciary, the Public Prosecutor's Office, the National Police, the penitentiary system, the Attorney General's Office and the Attorney's Office for the Defence of Human Rights. Failings in the provision of justice and public access to justice are regarded as one of the most important obstacles to the consolidation of the rule of law in Nicaragua. The police and army generally comply with human rights standards and the work of the Commissioners for Women and Children contributes to the protection of the most vulnerable, but individual violations are not uncommon and the case-resolution rate remains low.

The legal framework is generally adequate, but it is not always sure that it will be implemented. Implementation of the *Ley de Participación Ciudadana*³ and the *Ley de Acceso a la Información Pública*⁴ could help improve the accountability and transparency of public administration.

Human rights are guaranteed under the Nicaraguan Constitution and there is an institutional framework for their promotion and protection. The Office for the Protection of Human Rights (*Procuraduría de Derechos Humanos*) has a specific mandate to ensure public institutions' respect for human rights, but struggles to deliver because of a lack of resources. Although human rights are formally protected in Nicaragua, the extent to which they are upheld is strongly conditioned by the high level of poverty in the country. Freedoms of association and political and civil rights have also been affected by long-standing social and political fractures pre-dating the Sandinista revolution.

Although the Government has made efforts to promote **gender equality** (e.g. by instituting mandatory gender parity for electoral lists), the gender gap in the general welfare of Nicaragua's citizens and the respect for women's rights in general are still key human rights concerns and significant obstacles to the country's economic development. Women represent half of the labour force, mainly in the services sector; however, the growth in employment has not been accompanied by an increase in quality. Violence against women remains a scourge, despite the 2012 adoption of the all-encompassing Law against Gender Violence (Law 799). There are considerable obstacles to the implementation of the law.

³ Law on citizens' participation.

⁴ Law on access to public information.

Nicaragua is located in the geographical corridor used by a variety of **transnational criminal organisations** involved in drug trafficking from producer to consumer countries. It has recorded an increase in drug seizures and an increasing incidence of organised crime in its border regions. Crime rates are increasing in the Atlantic regions RAAN and RAAS, where 42 homicides per 100 000 inhabitants were registered in 2011, more than four times the national average. The transnational drug trade tends to feed into other highly deleterious phenomena, such as human trafficking, arms trading and money laundering. The country does not face a challenge of gang activities to the same extent as its northern neighbours, but gangs are a growing concern among citizens, who have consistently placed it among their biggest worries in surveys.

In spite of the above, Nicaragua is considered one of the safest countries in Central America. The country has modest armed forces and a 12 500-strong police for a country more than four times the size of Belgium. The various state agencies involved in the prevention and control of organised crime and drug trafficking still need support to strengthen their capacity, particularly as regards better administration, improved technical skills and human resources, equipment, technology and broader regional and international cooperation.

1.2. ECONOMIC SITUATION, VULNERABILITY AND POTENTIAL

Nicaragua continues to be a country with high levels of poverty affecting over 40% of its people and feeding into GNI *per capita* of USD 1 650 in 2012, but there are positive trends for a number of economic and social indicators, in spite of a large urban-rural and Caribbean–Pacific gap. Progress is fragile because it is vulnerable to external threats, notably falling international commodity prices, worsening security, changing relationships between donor countries and commercial partners, climate change and natural disasters.

The economic management of Nicaragua is characterised by **macroeconomic** stability and fiscal discipline to foster economic growth, with more social benefits for the poorest. Key aspects of the policy are the sustainability of public finances and adequate international reserve buffers, under a crawling-peg exchange rate system. A new public expenditure and financial accountability (PEFA) report will soon be issued.

The Government **growth** projections for 2014-15⁵ have the economy growing by 4%. Within this moderate but positive growth path, trade with the EU has been increasing steadily since 2001 (+224%), with a blip in 2009, and the EU is currently Nicaragua's fourth most important trading partner. The Government's 2013-16 Economic and Financial Programme (PEF) is aimed at reducing inflation (5.7% in 2013) and boosting exports.

Although the perception of corruption has increased of late, **public finance management** (with the exception of ALBA funds) has been gradually consolidated. Decentralisation of public finance management and fiscal reforms to improve income redistribution are pending.

The balance of **public debt** was 40.4% of GDP in July 2013. It must be underlined that since 2008, public debt has been reduced by 10% and the Government seeks to bring it down further by 2016. A recent IMF mission⁶ acknowledged this positive trend, while recognising that public debt remains a critical issue for the future.⁷ In 2013, **remittances** from Nicaraguans abroad reached over USD 1 078 billion, or 6.3% above the level in 2012 (USD 1 014 billion). According to a report by FUNIDES,⁸ the income from remittances made up 9.6% of the country's GDP in 2013.

Foreign direct investment (FDI) is booming (equivalent to 12.2% of GDP) thanks to a good investment attraction policy, but does not have a sufficient impact on the rest of the economy. High returns on FDI and low domestic investment are indicators that investors still have little confidence in the country.

Nicaragua's economic structure depends mostly on its agriculture sector,⁹ which accounts for 32% of national employment and 30% of exports. However, its core is mainly made up of micro, small and medium-

⁵ Based on the IMF's April 2014 review of international perspectives.

⁶ The IMF 2013 mission was tasked with reviewing the implementation of Article IV of the IMF Agreement concerning rate regimes and general obligations of the member countries.

⁷ Nicaragua is part of the Heavily Indebted Poor Countries Initiative (HIPC).

⁸ <http://www.funides.com>.

⁹ i.e. agriculture, animal husbandry, forestry and fisheries.

sized enterprises/producers (MSMEs) which operate alongside a few advanced agro-business firms.

The **business climate** in Nicaragua has a low rating overall (albeit in the range of regional averages), but there are signs of improvement.¹⁰ The competitiveness of SMEs is hampered by both internal and institutional weaknesses. The strengthening of private-public dialogue, infrastructure (port services) and logistics (transportation and storage) improvements, enhanced market information and health and safety quality systems are pending tasks.

Industrial development has had some success on the back of foreign investment. Employment in free zones has already passed the 100 000 jobs mark. But the sustainability of a tax-free model, based on low-skilled and low-paid labour, neither contributes to state revenues (apart from employees' income tax and social security payments) nor generates spillovers to the rest of the economy, notably MSMEs, which represent 99 % of all businesses.

The International Monetary Fund (IMF) has underlined that, to further boost growth and reduce poverty, Nicaragua should strengthen its institutions, reduce labour market informality, enhance the effectiveness of public spending while reducing budget rigidities, and work on social security reform and reducing subsidies. Nicaragua suffers from structural factors that hamper the translation of macroeconomic growth into sustainable development represented by better living conditions for its people, stronger social cohesion and improved access to basic services.

Exports have boomed thanks to a rise in commodity prices but not in productivity. The energy and telecommunications sectors, which have attracted most FDI, are not labour-intensive and are mainly dedicated to purchases of capital goods. Also, these sectors are not significantly linked by value chains to other sectors of the economy. Domestic investment remains low and remittances are spent mainly for consumption rather than investment.

The increase in revenue (internal demand) has not stimulated enough domestic production, and this has pushed up the demand for imported products. The country remains highly dependent on imports of petroleum and derivatives, although the Government is striving to increase the proportion of renewable energy in the overall energy generation matrix. One of the main challenges to boosting economic development is shifting Nicaragua's economic structure towards more productivity, added value and diversification in key commodities which form its core exports (meat, coffee, dairy, shrimp and gold). In addition, Nicaragua depends on the favourable conditions of *Petrocaribe* oil imports from Venezuela. Any change in this scheme could be a source of potential vulnerability to the economy of Nicaragua.

In this context, the potential benefits from the EU-CA **Association Agreement** (AA) and from Central American integration will largely depend on the extent to which the above weaknesses of MSMEs and of the economic environment can be resolved. Nicaragua's private sector sees the AA as an important tool for diversifying the country's exports. Local authorities, private sector associations and EU programmes have made a real effort to prepare MSMEs so that they can obtain the qualifications they need to access the European market. However, much remains to be done and for most small-scale producers the EU is still a complicated market to access.

1.3. SUSTAINABLE AGRICULTURE AND FOOD SECURITY

Agriculture is the basis of the Nicaraguan economy. According to the recent (2011) Agricultural Census, there are more than 262 974 farms, covering six million hectares, which is roughly half the country's surface area. For 2011, the production gross value (PGV) of agriculture was estimated at USD 2.208 billion, based largely on livestock production, including small cattle, grain and other plant products. Nonetheless, almost 63.3 % of rural households are poor and 26.6 % are extremely poor.

Agricultural and agro-industrial products account for 64 % of total exports, with coffee, meat and dairy products featuring prominently. Almost half of the Nicaraguan population is directly or temporarily employed in agriculture or involved in an agriculture-related activity.

¹⁰ In the 2012 *Doing Business* report, Nicaragua was ranked 118 of 183 countries evaluated; thus the country's ranking improved by four positions from its ranking of 122 in 2011.

Nicaraguan agriculture consists of two types of farming that exist alongside each other: on the one hand, a very modern, efficient, highly productive, competitive, input-intensive production and cattle ranching, based on irrigation of the best soils and geared to exports; on the other, very traditional, climate-dependent, low-productivity and low-input production ensuring food production for the domestic market. The latter does not grow by improving productivity, but by pushing farmland boundaries deep into the humid forests and environmentally fragile eco-systems.

As a result, many land ecosystems in Nicaragua are degraded, with high to very high soil erosion rates, forests disappearing rapidly, endangered biodiversity and a diminished capacity to support agriculture, which in turn undermines food security. Low productivity among agricultural MSMEs and low added value of production are also linked to obsolete technology, scarce professional qualifications, high territorial dispersion and very low capitalisation. Another factor that affects the productive system as a whole, and the rural sector in particular, is the complete disconnect between educational provision and opportunities for paid work.

Small and medium-sized producers are responsible for most part of the food production (maize, beans, vegetables and fruit) and tend to be in the driest and mountainous areas of the country, which also suffer from chronic malnutrition. However, food security is more a problem of access than of production.

Poverty is concentrated among small producers, who do not produce surpluses for the market and are therefore largely excluded from value chains. This context is conducive to a growing tendency for people to move to urban areas, which is a challenge both for the sustainability of this agriculture-based economy and the efficient management of urban areas.

1.4. REGIONAL INTEGRATION

Regional integration in Central America is based on the Central American Integration System (SICA) and its economic pillar, the Central American Economic Integration Secretariat (SIECA). This system is still confronted with **challenges** such as a complex and weak institutional structure, the non-binding nature of its regulations, different visions of and enthusiasm for integration, few internal financing mechanisms, a lack of 'ownership' of the integration process and the absence of a long-term agenda for integration. Attempts have been made to draw up a proposal for a self-sustainable financial mechanism, but more work is needed. Nicaragua participates in SICA fora at all levels but, with more resources, it could play a more active and formative role.

Security and the implementation of the CA Security Strategy continue to be at the top of the agenda for SICA member states due to a sharp rise in violence in recent years, which impacts on the region's development. Drug trafficking organisations have expanded their routes throughout the region, organised crime has infiltrated Government institutions, youth gangs have grown in poor communities and petty extortion and street violence threaten many neighbourhoods. Beyond the 'Northern Triangle', other Central American countries, such as Costa Rica and Panama, present a potential risk of destabilisation, although crime rates seem to be much lower at present. Synergies exist (and more will be created in the future) between EU regional programmes and projects currently addressing security in Nicaragua.

As regards the **economy and trade**, after the 2008-09 crisis the economy in CA grew at an average rate of 4%. The EU-CA Association Agreement will be crucial to further support regional integration and growth. The trade pillar of the AA has applied to all countries since December 2013. The completion of the customs union process, which is considered possible in a timeframe of 10 years, as well as the fulfilment of requirements to access the EU market are amongst the most important factors to enable CA countries to realise the potential benefits of the AA..

One of the main difficulties in the regional integration process remains the adoption of a regional policy and strategy for **social integration**. Despite difficult conditions in recent years, some progress has been made in key areas of sustainable human development. However, the improvement has not been such as to overcome regional imbalances, especially those affecting indigenous peoples. Major intraregional migratory flows take

place between Nicaragua and Costa Rica. Those to the United States are steady but analysis is complicated by the low reliability and quality of the information available.

Climate change has become a top priority for CA, as reflected in the Regional Strategy for Climate Change approved in 2010. In terms of environmental integration, the rate of degradation exceeds, by far, the ability of CA states to respond promptly. Some relevant regional policies have been formulated and some strategic priorities established, but countries are still in the process of integrating them at national level. According to a report on the current and future status of biodiversity in CA¹¹, the loss of biodiversity in the region amounts on average to 52%. This loss is mainly due to land use, road infrastructure, natural ecosystem fragmentation and climate change.

1.5. SOCIAL SITUATION AND VULNERABILITY

Social vulnerability in Nicaragua affects a large part of the population. Poverty rates have fallen only slightly in recent years (43% of the population are still affected, of which 9.7% are in extreme poverty). Vulnerability is characterised by low and precarious incomes, the coexistence of ‘developed country’ diseases (chronic diseases, cancer, cardiovascular events) with ‘developing country’ diseases (dengue, malaria, diarrhoea), undernourishment affecting 19% of the people (mostly in rural areas) and a high rate of migration. The Gini Index was 0.45 in 2010.¹² However, up to 76% of the labour force is now engaged in informal labour and the gap between rural and urban poverty has not diminished.

Nicaragua is experiencing a demographic transition, with a peak in the ratio of the economically active to the dependent population. This presents a unique opportunity for growth and poverty reduction, but only if the economy offers more productive labour opportunities to the young and education can bridge the gap between supply and demand in the labour market.

The education system has improved in terms of elementary schooling coverage and literacy rates, but secondary and pre-school coverage remain limited and quality is still a major challenge. The quality of the education system is affected by the repetition and desertion rates.¹³ Technical education is particularly weak. Wealth disparities tend to be reflected in inequalities in access to and the quality of education.

The active working population in 2010 was 2.4 million, with an unemployment rate of 12.7%. The economy is mostly generating unstable and informal jobs¹⁴ with low productivity, which requires an unqualified, low-paid labour force. The purchasing power of these low salaries is below 2001 levels,¹⁵ mainly due to the low productivity and the fact that minimum wages are not adjusted to increasing food prices.

Regional mobility within the country is from rural to urban areas and from the Caribbean region to the Pacific region. Migration is motivated by poverty and its incidence is higher in rural areas and in the Caribbean region (the poorest regions in the country) and among the young. Nicaragua has a negative migratory flow. Costa Rica is the top destination for Nicaraguan emigrants.

The social protection system covers only 18% of the population. Access to health services is still problematic, mostly for those living in poverty (isolation, inability to access health centres, deficient and insufficient infrastructure, lack of human resources, etc.). Although there are several social protection schemes in place, they are characterised by a high degree of politicisation, which sometimes involves inequalities in access to these services.

1.6. ENVIRONMENTAL SITUATION

Nicaragua is a tropical country, located between the Pacific Ocean and the Caribbean Sea, in the middle of Central America. Due to its geographic position and social vulnerability, the impacts of climate change are particularly strong, recurrently causing significant economic and social damage. With a relatively low population density, the country’s substantial land, forestry, water, fisheries and biodiversity resources have formed the basis of an economy with inadequate production methods and low implementation of

¹¹ *Reporte Técnico del Estado Actual y Futuro de la Biodiversidad en Centroamérica*, IRBIO-PROMEBIO (CCAD), 2011

¹² Most recent data available.

¹³ 47.9% of children entering first grade finish primary education; this is the lowest rate in Central America.

¹⁴ Approximately 64% of the employment created in the last decade corresponds to black employment.

¹⁵ C\$ 1 400.8 in 2012, as compared with C\$ 1 422.6 in 2001.

environmental regulations. As a result, the impacts of climate change have been exacerbated by a degradation of natural resources.

The fact that the economy is mainly based on the exploitation of natural resources makes it particularly vulnerable to the ongoing degradation of soil, water and forests, compounded by the **impact of climate change**. Climate change is liable to have a considerable effect on Nicaragua's economy and development. In order to achieve greater resilience, especially in rural areas, Government action and budgets need to be reinforced, and understanding of technical concepts linked to climate change must be enhanced. The complex institutional structure of administrations dealing with the sector makes coordination complex.

The extended continental platform in the Caribbean Sea puts Nicaragua in a privileged position as regards fisheries. The main fisheries products are lobster, shrimp and a narrow range of fish species

The country has the highest water assets *per capita* in Central America, although it is classified with as suffering from 'economic water scarcity' due to the lack of financial resources for investment to produce safe water for human consumption and other activities. Despite the relative abundance of water, actual availability is threatened by the absence of an integrated management approach and the extent of deforestation due to traditional agriculture and cattle ranching practices. Access to drinking water and sanitation is improving but still insufficient, especially in rural areas (65% access to drinking water), where the improvement of health and nutrition indicators depends directly on water quality. A major problem in water management is the competition between domestic, industrial and agricultural consumption.

Waste management is also a major problem, especially around sprawling urban centres impinging on previously highly productive agricultural land and thus increasing the vulnerability of the poor. Inappropriate solid waste disposal practices, the lack of sewage facilities and deforestation also lead to the pollution of important water reservoirs. Institutional capacity for regulation and control is very low, as the Ministry of Environment and Natural Resources (MARENA) has insufficient human and financial resources.

The general energy matrix of the country is still based on the consumption of fuel wood (47%, according to the Ministry of Energy), mainly for domestic purposes (cooking) and the consumption of SMEs (bakeries, ceramics, *tortillerías*, etc.). A major energy user is the transport sector (gasoline and diesel), which accounts for 40.1% of consumption. The electrical matrix is dominated by fossil fuels, but is starting to tap the country's high potential for renewable energies. Access to electricity, a key component in economic development, has reached 64.83%¹⁶ on average, but this covers only 25% of the population in rural areas. Currently, the Government is implementing the National Programme for Sustainable Electrification and Renewal Energy (PNESER), a significant investment to increase the coverage to 86.6% of the population by 2015. Expectations are that by 2017, 90% of electricity will be generated from renewable sources.

1.7. COUNTRY CAPACITIES

State (national and local) institutions are generally affected by technical weaknesses. The centralisation of decision-making generates delays in service delivery, communication and/or staff appointments. Institutional capacity and decentralisation processes go in parallel with the institutionalisation of consultative and grass-roots groups, such as the *Consejos del Poder Ciudadano* ('citizens' power councils').

Civil society in Nicaragua is large and diverse. The right to organise and participate in democratic, social, cultural and economic life is recognised by the Constitution and governed by the 2003 Civic Participation Law. Civil society maintains some degree of autonomy and critical capacity. It is important that its capacity to contribute constructively to the design and implementation of public policies is strengthened.

According to Ministry of Development, Industry and Trade (MIFIC) and *Consejo Nicaragüense de la MIPYME*¹⁷ estimates, the **private sector** is composed mostly of micro, small and medium-sized enterprises, the vast majority of which operate in the informal economy. Fragmentation and the small size of enterprises limit their strength in terms of dialogue with the Government. In contrast, medium-sized and large enterprises have a significant level of organisation through chambers of commerce or industry, farmers'

¹⁶ Organización Latinoamericana de Energía (OLADE), 2010.

¹⁷ Nicaraguan Council of micro, small and medium-sized enterprises.

unions, etc. The roles and responsibilities of the public institutional framework dealing with the productive sector are not properly defined.

There are considerable disparities in terms of capacity and efficiency between the Pacific and Atlantic coasts. The Government has an active policy on establishing cooperatives, but the economic rationale is limited. Large companies are concentrated in a few sectors (agriculture, *maquila*, telecommunications, energy, etc.), and are well organised in the Council of Private Enterprises (COSEP), which includes the country's traditional economic elite and maintains effective contacts with the Government. Numerous laws and regulations have been the result of a consensus between the ruling party and private sector representatives.

2. OVERVIEW OF PAST AND PRESENT DONOR COOPERATION, COMPLEMENTARITY AND CONSISTENCY

2.1 EU DEVELOPMENT COOPERATION AND LESSONS LEARNED

Some lessons emerge from the decision to suspend budget support from January 2009. First, it is important not to restrict cooperation to a preferred single form of implementation. The EU has had to re-think how its programmes and projects are implemented, in particular through more flexible mechanisms.

Other lessons learned from the implementation of cooperation in different sectors are as follows:

- It is important to remain present in the sectors where the Government has a clear interest in the support of the donors, where dialogue can be fluid and where the EU has had a privileged position over the years (e. g.) in education and rural development).¹⁸ Other sectors could be targeted, but only through focused technical assistance, training and similar activities that strengthen the counterparts' capacities.
- In sectors where the Government is not in favour of allowing donors to work, other counterparts may be sought out to implement the cooperation (supporting democracy through non-state actors).
- In view of the effect of accelerated and widespread growth on environmental sustainability, mainstreaming climate change as a consideration in development is vital. Indeed, given Nicaragua's vulnerability to climate change, a special focus on climate change adaptation will be very positive. A lesson learned in this respect is that, to ensure public involvement and commitment, the fight against climate change and environmental protection should be linked to income- and wealth-generation issues.
- As regards humanitarian aid, the European Union and its partners in the region have provided an adequate, timely and well-targeted response in recent years. In addition to the usual response mechanisms, the EU is also funding small-scale response projects, which have proved to be very flexible and capable of responding immediately to disasters that are receiving insufficient attention.
- A number of disaster risk reduction (DRR) initiatives, such as risk mapping, early warning systems, the organisation of local emergency committees, the training of search and rescue brigades, the drawing-up of contingency plans, carrying out emergency drills, awareness-raising campaigns, the Safe Hospitals and Safe Schools initiatives, etc., have had a positive impact and reduced the number of human casualties. The coordination of key actors in DRR has improved significantly.

Part of the EU's DRR strategy is the Disaster Preparedness ECHO (DIPECHO) programme, which is often regarded as an example of coordination before, during and after the implementation of projects. Also, the EU is supporting the drought resilience initiative in the region, whereby good practices and intervention models in this area can be gathered and replicated elsewhere. More concrete links between humanitarian aid and development action should be promoted in the future in line with the newly adopted EU resilience approach.

¹⁸ As recommended in the evaluation of the European Commission's support to Nicaragua 1998-2008.

2.2 INFORMATION ON PROGRAMMES OF OTHER DONORS AND DONOR COORDINATION

With several donors phasing out activities in Nicaragua, those of the remaining donors need to be coordinated so as to maximise alignment, harmonisation, ownership, division of labour and, of course, the impact of the cooperation. Instruments that may enhance coordination include pool and/or trust funds, delegated cooperation, triangular cooperation and cooperation with regional banks Central American Bank for Economic Integration (CABEI) and Inter-American Development Bank (IADB). Joint programming will also help.

The main focal sectors for the major donors' cooperation in the coming years will be:¹⁹

- the social sector, including food security, health, water, education and social protection – donors focusing on this sector are the United Nations system, Canada, Germany, USAID, IADB, WB and Luxembourg.²⁰ The EU will focus on effective education for employment;
- economic development, including rural and productive development, technological innovation and industrialisation, energy, transport, communications and support for the private sector – donors focusing on this sector are the United Nations system, Canada, Japan, Switzerland, IADB, WB and Luxembourg. The first sector of concentration in the EU's 2014-18 Country Strategy Paper (CSP) will be support for agriculture and agribusiness production, partly with a view to exploiting the opportunities offered by the CA-EU Association Agreement;
- democratic governance, including human rights, support to civil society, etc. – the United Nations, USAID, Switzerland, and Luxembourg will be working in this sector. The EU will also remain a key source of support to civil society through its thematic activities;
- environment, risk management and climate change – the United Nations system, Japan, Switzerland and IADB will focus on these issues. The EU will divert part of its cooperation to climate change adaptation, which may include risk management and environment. The EU is also very active in these areas through its humanitarian aid; and
- citizens' security – Spain, the United Nations and USAID (through civil society) will concentrate part of their cooperation in this sector. The EU will address security as a cross-cutting issue and at regional level.

Remaining donors should work together to create synergies and ensure the complementary of their action. This coordination should be strengthened in local offices as well as at headquarters (HQs) level.

The EU Delegation to Nicaragua (EUD), EU Member States and other 'like-minded countries' (Switzerland and Canada) have been discussing the option of joint programming (JP) since February 2012. A first joint analysis of key cooperation sectors (economic development, social sectors, natural resources and governance) and cooperation instruments was conducted in spring 2012. The joint programming approach has been widely welcomed.

Nevertheless, the current programming calendar (Government, EU and Member States) would not allow for formal joint programming to start in 2014. 2018 is considered a more feasible starting date, as the various donors' calendars can then be synchronised with the new Government strategy to be adopted in 2017. This will entail working on the basis of a CSP for 2014-17 and joint programming from 2018 to 2020. However, participants have agreed to seek a sensible division of labour as from 2014, when some will review their strategies. The EU CSP will be used as a basis for joint analysis and subsequently converted into an 'EU response' document.

The CSP is based on exchanges with Member States. The division of labour will be evaluated in 2017 and the results will be fed into the joint programming process. A road map for the period to 2018 has been drawn up as a basis for discussion and agreement..

¹⁹ This classification has been made together with other donors to produce an overview of the different sectors of concentration. The classification does not correspond exactly to that normally used by the EU.

²⁰ Luxembourg's current cooperation programme will finish in 2014.

2.3 POLITICAL AND POLICY DIALOGUE BETWEEN DONORS AND PARTNER COUNTRY

The sometimes diverging views concerning recent electoral processes and good governance issues did not prevent the EU from engaging in a pragmatic dialogue with the executive on several themes of common interest, from trade to cooperation and political relations. EU involvement was confirmed by the deployment of an EU Electoral Observation Mission for the 2011 presidential and general elections, and through high-level visits to Nicaragua. The Delegation and Member State embassies began a dialogue with the Government in 2011, but it then lost momentum.

Nine Member States have closed down their representations in the country in recent years, leaving five (DE, ES, FR, IT and LU) represented and resulting in a greater role for the Delegation in presenting European positions to the Government.

The policy dialogue with the current administration has met with mixed results. Discussions on the National Development Plan (*Plan Nacional de Desarrollo Humano – PNDH*) were limited, but sectoral dialogue is sometimes more active, in particular where there is a common fund to finance the sector (e.g. agriculture, health, education). While the donor community was consulted on the first PNDH, its comments were not taken on board in the final document until the international financial institutions requested changes for an operational document (*Plan Nacional de Desarrollo Humano Operativo*) to be used as a basis for establishing priority sectors for financing. No arrangements have been made to review the plan together with the donor community. The current PNDH will come to an end in December 2016.

Continuous access to and dialogue with the Government is possible on most levels, in particular with the Foreign Ministry, which also coordinates cooperation issues, but also with other ministries relevant for EU work. In some sectors (e.g. the rural sector and education), the donor community has a good dialogue with the authorities, while in others (e.g. governance and justice in particular) contact is limited or non-existent. Since 2007, the bilateral donors' capacity to influence policies has gradually shrunk in line with their level of financing in specific sectors.

2.4 STATE OF PARTNERSHIP WITH PARTNER COUNTRY, AID EFFECTIVENESS AGENDA AND PROGRESS TOWARDS HARMONISATION AND ALIGNMENT

As Nicaragua has been receiving significant aid flows for 30 years, it has been possible to establish suitable coordination, harmonisation and alignment mechanisms in the country. Until 2010, it was a pilot country for EU work on the division of labour.

However, things have changed in recent years. The world economic downturn, the new emerging economies formerly considered developing countries, and shifting relations between the Nicaraguan Government and donors, among other things, are causing donors to turn their attention to countries that are more in need.

Since coming into power in 2007, the current Government has had a different relationship with international donors. It suspended the Plan for the Harmonisation and Alignment of Official Development Aid (ODA), which had been in place until then and which allowed for the revision of indicators and targets for complying with the Principles of the Paris Declaration on Aid Effectiveness.

The Government meets the donors at the highest level (ministers and ambassadors) in the 'global roundtable' (*Mesa Global de Diálogo*), but such meetings take place only once every two years on average and the format allows for only limited discussion.

The *Espacio de Administración del diálogo*, where the Vice-Minister of Foreign Affairs meets the president and secretary of the 'donors roundtable', seems to be the most useful forum for dialogue with the Government, and allows for the exchange of information and opinions. Experiences with the sectoral roundtables²¹ involving donors and line ministries have varied, as have their achievements.

As regards alignment, much European (Member State and EU) cooperation is disbursed using:

²¹ As of end 2013, there are 13 roundtables and technical roundtables (*sub mesas*), but not all are active.

- (1) programmatic support programmes (the PRORURAL, FONSALUD, PROMIPYME²² and Police²³ common pool funds), the content and procedures of which are aligned with the Government's; and
- (2) projects aligned with national policies, but using donors' procedures.²⁴

Also, donors are phasing out their involvement in sectors in which working with donors is not a priority for the Government (e.g. justice, governance, corruption, etc.).

The main obstacles facing donors as regards harmonisation and alignment relate to the centralisation of decision-making, which constrains sectoral dialogue and the efficiency of their cooperation, limited institutional capacities in some governmental institutions, the absence of strategic plans or policies in some sectors, and the degree of politicisation.

Regarding fulfilment of the International Aid Effectiveness Agenda, the Nicaraguan Government decided not to participate in the fourth OECD-DAC review (2011) presented in the Fourth High-Level Forum for Aid Effectiveness,²⁵ on the basis that it did not share the commitments signed in Paris (2005) and reiterated in Accra (2008).

Joint programming could be an important opportunity to foster aid effectiveness, harmonisation and alignment, but the Government's commitment and long-term support is a key precondition for success.

2.5. POLICY COHERENCE FOR DEVELOPMENT (PCD)

An analysis of EU policies and instruments and their possible impact on Nicaragua shows that the most relevant policies, in particular on trade, agriculture, environment, health and consumer safety, internal market, competition, information society, research, conflict prevention, etc. are consistent and coherent.

In most cases, EU policies and the strategy paper complement each other, in that they take a common view of the subject that is mainstreamed (e.g. gender).

The recently signed AA is designed to ensure coherence between the three pillars of EU-CA relations (political relations, trade and cooperation). In particular, it offers opportunities for economic development, job creation and income generation.

The Commission's Directorate-General for Humanitarian Aid and Civil Protection works closely with the EU Delegation, especially in the context of enhancing resilience. This makes for more effective collaborative action, bringing together humanitarian assistance, long-term development cooperation and ongoing political involvement. It is expected that the resilience approach will lead to a reduction in humanitarian needs and more sustainable and equitable development gains. Building resilience will focus on joint humanitarian/development strategic planning based on: joint analysis of vulnerabilities and risks, focus on the most vulnerable areas and populations, shared objective and priorities, coordinated action and regular monitoring and evaluation.

3. OVERALL LINES FOR THE EU'S RESPONSE

3.1 STRATEGIC OBJECTIVES OF THE EU'S RELATIONSHIP WITH THE PARTNER COUNTRY

²² The Netherlands.

²³ Spain, until beginning 2013.

²⁴ EU, IADB, WB, etc.

²⁵ Busan, 29 November to 1 December 2011.

As established by the EU's Development Cooperation Instrument (DCI),²⁶ the overarching objectives of EU development cooperation are the eradication of poverty in the context of sustainable development, including the pursuit of the Millennium Development Goals (MDGs), and the promotion of democracy, good governance and respect for human rights and the rule of law.

In this context, the analysis of challenges Nicaragua is facing, of its policies, and of past EU cooperation experience, leads the EU to orient its future cooperation with Nicaragua towards the reduction of poverty, by promoting a more productive, resilient and inclusive development model.

The following proposal for focal sectors is based on the opportunity of the demographic bonus the country is presently undergoing. The large number of young people entering the labour market every year represents an opportunity to increase national production; however more productive employment should be created in order to reduce poverty. It is even more critical that the labour market provides opportunities for young people, in a regional context of rising criminality potentially offering income alternatives.

3.2 CHOICE OF SECTORS

The following **focal sectors** are proposed for EU cooperation with Nicaragua:

Support to the productive sector (with a particular focus on rural areas)

The highest poverty rates in Nicaragua are concentrated in rural areas. More than 60% of rural households are poor and one in four is extremely poor. Livelihoods are limited to subsistence farming and local labour markets. The objective is to promote rural development by increasing the sustainable productivity, competitiveness and climate resilience of MSMEs in agricultural and agro-industrial sectors, to reduce poverty and to promote equality.

Effective education for employment

Nicaragua is currently undergoing a demographic transition, with declining fertility rates and an increasingly young population (55% of the population are under 25 years of age). Raising the skill levels of young people about to join the labour force and rates of equitable access to and completion of quality secondary education are crucial to improving productivity and inclusive economic growth. The objective is to improve the employability of the labour force, particularly secondary education graduates, by improving the relevance and quality of general secondary education and technical/vocational education and training.

Adaptation to climate change

Nicaragua is very vulnerable to climate change and prone to natural disasters. This, together with the long-term environmental degradation contributes to driving people into poverty. The objective of the support is to increase the resilience of the population to the impacts of climate change by improving integrated water resource management and alleviating pressure on natural forests.

The overall lines for the EU response and the choice of sectors are set out in more detail in the Multiannual Indicative Programme (MIP), which is annexed to the current Country Strategy Paper (Annex I).

Annexes

- Annex I: Multiannual Indicative Programme (MIP), including attachments 1-3
- Annex II: Country at a glance
- Annex III: Donor matrix showing indicative allocations per sector
- Annex IV: Country environment profile

²⁶ COM(2012)586 final and SWD(2013)227 final..

Annex I to the Country Strategy Paper

2014-20 Multiannual Indicative Programme for Nicaragua¹

1. OVERALL LINES FOR EU RESPONSE

1.1 STRATEGIC OBJECTIVES OF THE EU'S RELATIONSHIP WITH THE PARTNER COUNTRY

As established by the EU Development Cooperation Instrument (DCI),² the overarching objectives of EU development cooperation are the eradication of poverty in the context of sustainable development, including the pursuit of the Millennium Development Goals (MDGs), and the promotion of democracy, good governance and respect for human rights and the rule of law. The 7th EU-LAC Summit³ / 1st EU-CELAC Summit held in Santiago de Chile on 26-27 January 2013 identified as priorities for cooperation: sustainable development; environment; climate change; biodiversity; energy; education and employment to promote social inclusion and cohesion; investments and entrepreneurship for sustainable development.

The EU's development policy framework prioritises the development of a business environment favourable to sustainable growth. In particular, it focuses on promoting micro, small and medium-sized enterprises (MSMEs) and cooperatives, facilitating access to business and financial services, and promoting agricultural, industrial and innovation policies. The EU also prioritises action that gives poor people better access to land, food, water and energy while respecting the environment. The EU intends to help Nicaraguan institutions and the private sector to take advantage of the recent entry into force of the EU-Central America Association Agreement (AA) so as to foster growth and employment.

However, economic growth is not automatically translated into welfare if the benefits are not equitably distributed. In this context, the EU wants to contribute to extending the benefits of the AA to society at large, particularly to those more in need. It will seek poverty reduction by promoting result-oriented measures to achieve more productive, efficient, resilient and inclusive development. It will support rural development by promoting income-generating activities such as sustainable agro-industry.

The DCI and the comprehensive approach to human development under the Agenda for Change involve support in favour of an educated population, giving the workforce skills that correspond to the needs of the labour market, and reducing inequality of opportunity. Accordingly, the EU should help Nicaraguan workers to join the formal labour market. It will also aim to enhance the coverage and quality of education and strengthen linkages between education/training and the skills required by the labour market.

Development is not sustainable if it damages the environment, biodiversity and natural resources and increases vulnerability to natural disasters. The EU therefore promotes 'green economy' as a way to eradicate poverty, sustain economic growth, enhance social inclusion, improve human welfare and create opportunities for employment and decent work, while respecting the environment. It also emphasises the importance of improving developing countries' resilience to the consequences of climate change, *inter alia*, by mainstreaming climate change and disaster risk reduction in national development strategies.

The EU should aim to support Nicaragua's efforts to reduce the impact of climate change, including as regards food security and access to drinking water. It should promote the sustainable use of natural resources and measures to protect Nicaragua's unique environment. Such activities will be linked and coordinated with disaster risk reduction initiatives, so as to facilitate coordination between humanitarian and development aid.

¹ The Joint Programming Roadmap agreed among the Heads of Missions of EU MS accredited in Nicaragua provides for formal joint programming from 2018 after a review of the programming documents in 2017.

² Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020.

³ The Community of Latin American and Caribbean States, commonly known by its Spanish-language acronym, CELAC,

The above objectives are in line with national strategic documents and plans, which identify support for MSMEs in rural areas, education and climate change as priorities. The Multiannual Indicative Programme (MIP) will draw as much as possible on Nicaragua's National Human Development Plan (PNDH), once that is formally adopted. The design and implementation of all programmes and projects will also seek synergies with regional programmes for Central and Latin America. Complementarity with thematic lines will be ensured, fostering the participation of civil society in key sectors of EU external action. Good governance and human rights will be addressed as cross-cutting issues in all three priority sectors.

The EU Delegation leads a joint programming process with the participation of EU Member States and other like-minded donors. In order to synchronise cooperation with national development plans and the programming cycles of the parties involved, official joint programming will start as from 2018. In advance of this, the 2017 mid-term review of the Country Strategy Paper (CSP) CSP and multiannual indicative programme (MIP) will formally be the juncture for assessing focal sectors and results achieved in view of implementing joint programming in Nicaragua. The 2014-20 CSP will serve as the basis for an EU response document, so as to promote EU and Member States convergence towards a joint strategy to be implemented by 2018.

1.2 CHOICE OF SECTORS

On the basis of an analysis of current challenges, Government policies, means and targets, the following **focal sectors** are proposed for EU cooperation with Nicaragua:

Support to the productive sector (with a particular focus on rural areas)

The highest poverty rates in Nicaragua are concentrated in rural areas. More than 60% of rural households are poor and one in four is extremely poor. Livelihoods are limited to subsistence farming and local labour markets. Agriculture and agro-industry form the basis of the Nicaraguan economy, accounting for 20% of GDP, 32% of national employment⁴ and 30% of exports (of raw materials; 70% if one includes agro-industrial products like meat and sugar). Historically, the performance of the agricultural sector has been a determining factor for the performance of the country's overall economy. Nicaragua's richness in natural resources gives it a comparative advantage in agricultural production, despite it lagging considerably behind other countries in the region in terms of productivity.

Most businesses in agriculture and agro-industry are MSMEs and cooperatives providing (self-) employment to the poorest groups in rural areas. While agricultural or agro-industrial MSMEs employ most of the working population, their output is marginal. Micro enterprises are not very organised and therefore participate to a limited extent in the public-private dialogue; informality, particularly in rural areas, is also a very limiting factor for their development and sustainability. MSMEs are characterised by scarce professional qualifications and a low level of schooling, wide territorial dispersion and a lack of association. This situation is due, in part, to the highly extensive agricultural production model, and to the low levels of research, technology and innovation.

Nicaragua's PNDH sets the framework for policies in the field of rural and MSME development, with a particular focus on micro enterprises (small family enterprises, small farmers, etc.). Government policies in this area have helped to improve sectoral planning and implementation strategies and to promote efforts to align and harmonise. There is scope for improving governance in the sector through better coordination of the institutions involved, the strengthening of capacities and strategic planning.

The EU has collaborated with Nicaragua in this field for a long time, through the 'rural development' and 'trade and economic development' focal sectors. In 2014-20, EU aid in the sector will continue, promoting the transformation of the current economic model based largely on the unsustainable exploitation of natural resources; the efficient use of water, including for irrigation, will also be addressed (link with sector 3). More intensive production techniques will be encouraged, e.g. through training, best practices and technology transfer (link with focal sector 2). MSMEs will be at the heart of the EU approach. Attention will be paid to

⁴ 52% if one includes export as well as production.

strengthening public-private dialogue and to supporting associative mechanisms whereby MSMEs (particularly small-scale farmers or suppliers) can better represent and protect their interests (cooperatives, producers associations, etc.). Efforts will be made to improve the quality and safety of products, as imports often benefit from the low quality of domestic produce. Raising quality and safety levels could open up opportunities in the domestic and Central American regional markets and allow the country to take greater advantage of the various free trade schemes to which it is party, including the AA, thus facilitating its integration into the world economy.

The value-chain approach will be prioritised, fostering linkages between small providers and medium-sized and large companies. As larger producers benefit from opportunities under the AA, they will demand more goods and services from smaller actors in the chain. EU development cooperation will focus on the needs of the latter, tackle exclusion factors and barriers to market access, foster employment and self-employment, and ultimately reduce poverty in rural areas.

Recent assessments⁵ recognise that one of the main barriers to a more productive labour force is the size of the informal sector. Informality is most prevalent among women and the young. Hence, improving the skills of this target group through better education and more relevant training, and addressing barriers to entry into the formal economy, can help to reduce informality.

By way of example, the legal and institutional frameworks in place could be adapted (more flexible social security schemes, administrative simplification and benefits) to provide incentives for small firms or self-employed workers to join the formal sector. Such a strategy could have a bigger impact in rural areas, where the population living in poverty is concentrated. It could also be a vehicle for developing the requisite skills for 'green jobs', thus contributing to a green economy. Action in this sector would include options to complement EU regional cooperation in support of the implementation of the AA.

Effective education for employment

Nicaragua is currently undergoing a demographic transition, with declining fertility rates and an increasingly young population (55% of the population is under 25 years of age). Raising the skill levels of young people about to join the labour force and rates of equitable access to and completion of quality secondary education are crucial to improving productivity and contributing to inclusive economic growth. The low quality of education (as compared with global and regional standards), a mismatch between the education on offer and the needs of the labour market, and a narrow range of skills among the economically active population are uncontested barriers to greater productivity and the overall development of the country.

However, the current demographic situation, deemed as a 'demographic bonus' (the highest economically active proportion of the population in the history of Nicaragua), constitutes a unique opportunity to change the structure of the labour market and boost the country's economic and social development.

As highlighted in the 10-year evaluation of the EU's cooperation with Nicaragua⁶ on education, statistics show steady, albeit modest, improvements over the years:

- illiteracy rates fell;
- preschool education coverage increased; and
- gender parity has been achieved in access to primary education (although no gender balance can be reported for secondary education).

Further significant challenges remain, particularly the worsening drop-out and repetition rates in both primary and secondary education, the high proportion of unqualified teachers, high teacher-to-pupil ratios (often as a consequence of multi-grade teaching), overall low levels of educational attainment and a lack of education-related data. EU-supported institutional analysis⁷ has shown that:

- an estimated 500 000 school-age children (6-17 years) are not enrolled in education;

⁵ Including the IMF's 2012 Article IV consultation and the Government's draft strategy for technical and vocational education and training.

⁶ Evaluation of European Commission's Cooperation with Nicaragua - Ref. 1271

⁷ World Bank, *Education Strategy Support Project*. Report No: 67386-NI.

- in 2010, those aged 25 or more had spent an average of 5.8 years in education;
- 40 % of secondary-level teachers lack formal training (with the vast majority working in rural areas);
- the overall net enrolment rate in lower secondary education is 45 % (with only 28 % in rural areas, as against 61 % in urban areas, and only 20 % in the two Atlantic Autonomous Regions); and
- only 29 % of students who begin grade 7 finish grade 11 on schedule.

Recent data show that 8.4 % of children aged 5-14 are working and not in school, with another 7 % combining work and school. The worst forms of child labour in Nicaragua occur mostly in the agriculture sector.⁸

In the current socio-economic and sectoral contexts, one of the sector's biggest challenges is bridging the gap between the demand for skilled labour, on the one hand, and the academic education and training on offer, on the other. This is closely linked to improving the quality indicators in secondary education. Raising the quality and relevance of vocational education and the population's overall interest in it is a key priority.

The education sector in Nicaragua is governed by the Constitution and the Education Law (*Ley General de Educación*), which was approved in 2006. The current 2011-15 Education Sector Plan (*Plan Estratégico de Educación – PEE*), provides sound guidelines for support to basic and intermediate education. The Plan has been positively assessed by the Steering Committee of the Global Partnership for Education (GPE) and was endorsed by the local Donor Group on Education.

The draft strategy for technical and vocational education and training (TVET), included as an annex to the PEE, provides a strategic route to ensure that people obtain the professional qualifications they need, in a context of lifelong learning, to improve their employability. Nonetheless, the Ministry of Education (MINED) and the National Technological Institute (*INATEC*) have yet to forge a sufficient connection with the labour market to ensure that people acquire skills and competencies that would ensure their employability.

The plethora of institutions in the sector has generated a fragmented system that does not allow for adequate vertical and horizontal mobility. In the absence of a binding training model, each institution offers courses with different curricula and standards, resulting in unclear management of certification and under-utilisation of (scarce) existing resources in the departments and regions.

In view of the positive developments in basic education, in particular up to grade 6, achieved with the support of the EU, the World Bank and the GPE, the EU has decided to direct future support to secondary (general and vocational) education.

As from 2014, EU cooperation in education will consist of support to improve the quality of general secondary education and the relevance of technical and vocational education, and training to strengthen the link between education (formal and non-formal schemes) and the demands of the labour market, particularly in sectors that show the highest potential and allow for the development of skills for green jobs.

To this end, the EU will support the Government in involving the private sector and local and sectoral bodies to ensure that priorities, new training curricula and learning opportunities accurately reflect their needs. The EU will continue to support national efforts to improve the quality of general secondary education (without disregarding the remaining obstacles with regard to access and coverage).

Furthermore, the EU's experience of mainstreaming disaster risk reduction in the education sector will be taken into account and replicated wherever feasible. In addition, special attention will be paid to promoting the ILO Core Labour Standards and Corporate Social Responsibility as regards, *inter alia*, socio-economic rights, decent work, social inclusion, non-discrimination and equal opportunities for all, including access to employment for the most marginalised and vulnerable groups. Women's empowerment will be a priority.

Adaptation to climate change

Due to its geography, Nicaragua is among the countries most vulnerable to climate change; it is prone to hurricanes, soil erosion, accelerating deforestation and uncontrolled urbanisation. Natural disasters and long-term environmental degradation contribute to driving people into poverty.

⁸ UNDP *Human Development Report for Nicaragua* (2011).

The nation's economy is based largely on the exploitation of natural resources. The resultant worsening quality of the environment hinders economic development (tourism, investments, etc.) and constitutes a significant burden for future generations.

The increased frequency of droughts, floods and other climate-related events inflicts major economic and social damage, since it affects the livelihoods of communities that are heavily dependent on natural resources and fragile ecosystems such as wetlands, forests, mangroves and coastal areas. These events, resulting in water shortages or flooding, are amplified by deforestation and the absence of properly implemented land, river basin and waste management plans.

Climate-related events are especially destructive in the 'dry corridor', where drought is becoming the norm but people, the economy and ecosystems are not prepared for it. In the humid zones, floods threaten the livelihoods of many indigenous communities living along the riverbanks. Climate-induced displacement has been an issue in flood-prone areas and major cities.

According to the ECLAC (2010),⁹ climate change is already having negative effects on agriculture due to increasing temperatures and unpredictable rainfall, thus directly affecting rural poverty. Poverty and extreme poverty in Nicaragua are concentrated in rural areas where the livelihoods of the poor depend on agriculture. As a consequence, the increased frequency of catastrophic climatic events, combined with the increased annual and inter-annual variability of rainfall, is threatening Nicaragua's chances of overcoming poverty.

Deforestation due to the use of wood for fuel and inadequate productive practices is a major factor in vulnerability at watershed level, as it deprives soils of vegetation, increases water runoff and disrupts the water cycle. More broadly, it hinders the development of renewable energy sources, such as biomass and hydropower.

Climate change adaptation is a priority in the Government's PNDH and sectoral strategies are being developed. The Government has identified integrated water resources management as key in this area. The country is also committed to modifying the energy matrix, currently dominated by fossil fuels, so that more than 90% of its energy will come from renewable sources (hydraulic, photovoltaic, wind, biomass) by 2020. The provision of cheaper, more sustainable and readily available energy for productive and social uses would boost the fight against poverty in rural areas and at the same time substantially reduce greenhouse gas (GHG) emissions, thus contributing to the country's low-carbon development. Solutions for isolated communities, where the cost of access to the national interconnected grid is fairly high, could include small hydro, photovoltaic or more efficient biomass units.

Although adaptation to climate change is a new sector for EU cooperation, several projects have already helped to tackle issues in this area. In 2014-20, the EU will aim to improve sustainable water and forest management. Its programme will stress the link between the environment and human rights, especially when it comes to the impact of climate change on people's socio-economic rights and the vulnerabilities of specific groups, such as women, children, displaced persons and the indigenous population.

The three focal sectors have been selected on the basis of the following criteria:

Role and potential impact of bilateral cooperation, as compared with that of other stakeholders or instruments. For sectors requiring costly investment, such as energy or large infrastructure, financial institutions and private investors have more added-value. In these cases, the Latin America Investment Facility (LAIF) will be promoted. The EU response may be complemented by operations financed by the European Investment Bank (EIB). For sectors in which there will be no direct bilateral support, other instruments could be used (e.g. promoting democracy through EU thematic programmes).

Division of labour among donors. A deep analysis of possible complementarity and synergy between the different donors' activities concluded that the three selected sectors are the most suitable given the national context and the potential for the EU to provide added value. There are opportunities for achieving a critical mass and taking joint action in the economic development sector, with Spain and Canada supporting rural development, Luxembourg the tourism sub-sector and Switzerland SME development. Similarly, Spain is involved in education and Luxembourg focuses on vocational training. Switzerland and Canada are active donors in the field of climate change adaptation.

⁹ *Istmo Centroamericano, Efectos del cambio climático sobre la agricultura*, Mexico 2010.

Synergies with the Central American agenda and EU regional cooperation. Sub-regional cooperation with Central America, as set out in the *Latin America Regional Programme 2014-20* strategy document, emphasises economic integration, climate change and security. The fact that the first two overlap with the focus of cooperation for Nicaragua offers an opportunity to strengthen at national level the implementation of regional initiatives.

Building on previous EU achievements. In the productive sector, past EU cooperation financed activities and studies to inform policy-making within the institutions responsible for supporting MSME activities and facilitating the interaction between the public and private sectors. MSMEs received support to increase the quality of their products. The capacity of local laboratories (metrology, SPS controls, etc.) was strengthened. Successful action supported the wood value chain and the promotion of sustainable tourism as an economic alternative in rural areas. The EU has been active in the field of education. Since 2008 it has allocated EUR 57 million to this sector, and has established a deep and solid dialogue with other donors and the Government.

National ownership. Development cooperation can only be effective if it supports locally-designed strategies. Alignment with national development strategies was a key criterion for selecting the sectors for EU involvement.

Implementation modalities remain to be determined but could include direct management through a project approach and indirect management with Member State agencies, international organisations or other Latin American countries.

2. FINANCIAL OVERVIEW

The amount of financial resources earmarked for each sector is based on objective criteria.

The **productive sector** is the core of the EU’s 2014-20 development strategy for Nicaragua and the most promising area of intervention in terms of possible impact, added value and contribution to national development.

The proposed **education** envelope is consistent with financial commitments under the 2007-13 CSP and maintains a level of funding that would allow the EU to continue supporting the achievement of the objectives, as well as build on the results of previous programmes.

Adaptation to climate change is a new sector of EU intervention in Nicaragua. The institutional framework is more disperse and less used to EU project implementation procedures, rules and regulations. As a consequence, the envelope reflects a prudent approach that will allow the EU to finance critical projects without overloading the system.

Sector	Indicative amount	% of total
Support to the productive sector (with a focus on rural areas)	EUR 78 million	38 %
Effective education for employment	EUR 68 million	33 %
Adaptation to climate change	EUR 50 million	25 %
Support measures	EUR 8 million	4 %
Total	EUR 204 million	100 %

3. EU SUPPORT PER SECTOR

3.1. SUPPORT TO THE PRODUCTIVE SECTOR (INDICATIVE AMOUNT EUR 78 MILLION)

3.1.1. The following overall and specific **objectives** will be pursued:

Overall objective:

- to promote rural development by increasing the sustainable productivity, competitiveness and climate

resilience of MSMEs in agricultural and agro-industrial sectors, to reduce poverty and to promote equality.

Specific objectives:

1. to support agricultural and agro-industrial MSMEs so as to improve their productivity and competitiveness in a way that is compatible with environmental sustainability, and in turn reduce poverty and increase cohesion in rural areas; and
2. to promote an institutional framework better tailored to the needs of the agricultural and agro-industrial sectors, with a special focus on smaller producers and environmental sustainability.

3.1.2. The main expected **results** are:

For specific objective 1:

- the productivity, competitiveness, quality, safety, inclusiveness, environmental sustainability and climate resilience of agricultural and agro-industrial production are improved;

For specific objective 2:

- the capacity of public and private institutions to support the sustainable and inclusive development of agricultural and agro-industrial MSMEs is enhanced.

3.1.3. The main **indicators** are:

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 3.

3.1.4. Donor coordination and policy dialogue

The donors' roundtable in the rural sector is cited nationally and regionally as an example of good coordination. Since 2006, a technical level dialogue has been maintained between public institutions, international cooperation agencies and private sector organisations and this has led to good alignment and harmonisation practices. In the field of MSMEs, while donors hold periodical meetings to guarantee a minimum of coordination, there is scope to strengthen the leading role of the Government. A roundtable on sustainable tourism set up in 2012 is mostly inactive.

As regards harmonisation and alignment, various activities are consistent with sectoral policies and plans. Government-led national programmes have proved to be the best framework for alignment.

3.1.5. **The Government's financial and policy commitments are:**

The productive strategy of the PNDH for 2012-16 builds on agriculture and agro-industry as the main axes for boosting the national economy. The Plan lays special emphasis on micro and small rural and urban production, the involvement of the family in the economy, increasing household income to overcome poverty, and the importance of community and cooperative economy. The main policies and action lines in the productive strategy are: strategic food sovereignty and security and nutrition; agricultural and forestry strategy (PRORURAL); National Policy for Sustainable Development of the Forest Sector; industrialisation policy; the promotion of aquaculture and traditional fisheries; the promotion of tourism; the promotion of public-public and public-private alliances; specific policies, e.g. for cocoa, coffee, cattle, technology and agricultural innovation; the National Strategy on the Adaptation to Climate Change; gender policy; water policy; electrification policy; and policies to promote organic production.

As regards productive rural development, the national sectoral strategy aims to reduce rural poverty, improve productivity and production quality, and support the adaptation to climate change. The National Programme to Support MSMEs aims to consolidate and enhance their competitiveness, allow them to take better advantage of national and international markets, promote employment and increase the income of individuals, thus helping overall to reduce poverty. National policies also focus on generating added value in primary production, by strengthening and promoting new processes, such as improved production and

post-harvest processing.

The institutions directly linked to agricultural and agro-industrial development¹⁰ have recently (2006-12) been allocated an average annual budget of approximately USD 90 million, of which 66% comes from external resources and the remaining 34% from internal resources. Of this total, 54.5% was earmarked for current expenditures and the remaining 45.4% for capital expenditures, which are mainly covered by resources provided by international donors.

The national resources allocated (and executed) in 2006-11 show a significant (85%) increase, from USD 14.0 million in 2006 to USD 25.9 million in 2011. This is mainly due to the national resources allocated to implement the Government's *Hambre Cero* flagship food production programme. More than 100,000 rural and urban families benefited from the programme and improved their capacity to produce food.

According to the Government's medium-term expenditure framework for 2011-14, the budget levels required to support public policies will not grow significantly in real terms, possibly by between 1.2% and 2.4%. This scenario involves limited new resources for the rural sector and, in particular, for small agricultural producers/entrepreneurs, in the form of new public investment for infrastructure, credit, technology and marketing.

In conclusion, this sector remains a priority in terms of the Government's policy commitment, but is highly dependent on external aid.

3.1.6. The overall **risk assessment** of the sector intervention:

Possible major risks	Possible mitigating measures
<p>Governance risk: From an institutional point of view, two aspects could have an impact on the implementation of the EU support:</p> <ul style="list-style-type: none"> – the (sometimes) unclear definition of competences of the various institutions dealing with the sector could lead to confusion in the design of strategies and in the implementation of programmes and projects; and – the limited resources of some institutions and the large amount of projects being implemented increase the risk of overloading and exceeding operational capacities. 	<p>All EU initiatives should include a clear definition of roles and responsibilities, and thorough institutional assessments should be carried out.</p>
<p>Political risk: Given the number of national institutions and donors active in this sector, the preference of the Government to maintain bilateral contact with donors (rather than joint and comprehensive dialogue with all donors in the sector) increases the risks of resources being used inefficiently and activities overlapping.</p>	<p>The EU will support the Government's efforts to set up a sector-wide strategy to guide intervention in the productive sector. A wide, real and effective dialogue with the private sector will also be promoted, covering everything from the design of strategies and programmes to the operational implementation of projects.</p> <p>In general, the EU will continue to support positive practices in donor coordination and bolster its efforts to set up better coordination schemes in areas in which this has been less</p>

¹⁰ Ministry of Agriculture and Forestry (MAGFOR), INTA, National Forestry Institute (INAFOR), MIFIC and MEFFCA.

	effective. The implementation of joint programming as from 2018 will engage the Government in a joint dialogue.
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3.2. EFFECTIVE EDUCATION FOR EMPLOYMENT (INDICATIVE AMOUNT EUR 68 MILLION)

3.2.1. The following overall and specific **objectives** will be pursued:

Overall objective:

- to improve employability of the labour force, particularly secondary education graduates, by improving the relevance and quality of general secondary education and technical/vocational education and training.

Specific objectives:

1. to support sectoral strategies and policies to improve rates of equitable access to, completion of and the quality of general secondary education for girls and boys; and
2. to adapt the skills of the labour force to match the needs of the labour market, bearing in mind sustainability issues.

3.2.2. The main expected **results** are:

For specific objective 1:

- improved equitable access to and completion of secondary education; and
- improved quality of teaching in secondary education.

For specific objective 2:

- increased relevance, access to and completion of training that corresponds to labour market needs; and
- improved quality of teaching in technical and vocational education and training.

3.2.3. The main **indicators** are:

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 3.

3.2.4 Donor coordination and policy dialogue

Since 2003, the donor coordination scheme established by the Government for the education sector has been remarkably effective. However, sectoral dialogue had been hindered following changes in policy, strategies and institutions. The elaboration and subsequent approval of the 2011-15 Strategic Education Plan, endorsed by all active donors in the local Donor Group on Education, presented an excellent opportunity to resume dialogue.

Dialogue in 2013 was predominantly bilateral (between donors and their project counterparts) and focused on the implementation of projects financed by individual donor rather than on strategic sectoral reforms. However, donor coordination efforts are being made to create the conditions for re-establishing a more comprehensive sectoral dialogue.

The main donors in the education sector are the EU (in lower secondary education), the JICA and World Bank (in primary education), and GPE and IADB (pre-primary education); Luxembourg, Spain and Switzerland support the technical and vocational education and training (TVET) sector. The establishment

of a Working Group on Vocational Education and Training, as a sub-group within the local Donor Group on Education, represents a key development as regards Government-donor coordination. The EU has played a pivotal role in roundtable coordination in the sector and its recent support for TVET (TECNICA) facilitated the creation of a specific working group on TVET.

Nicaragua was selected to be a GPE partner country in 2002; since 2014, the EU Delegation has acted as ‘coordinating agency’ for the GPE grant, thereby serving as the communication link between the Government, the local Donor Group on Education and the GPE Secretariat.

3.2.5. The Government’s **financial and policy commitments** are:

The Government places a strong emphasis on the right to universal and free education. A series of sectoral policies and strategies have been launched since 2007, most notably an Education Sector Plan (PEE) for 2011-15, a strategy for ensuring universal access to early childhood education and a draft strategy to strengthen the links between TVET and education on offer, on the one hand, and the needs of the productive sectors, on the other.

The Ministry of Education budget is expected to increase from 2.7% of GDP in 2013 to still only 3.3% of GDP in 2017. This is still far below the 20% of the national annual budget recommended by UNESCO or the 6% of GNP recommended by the GPE. TVET funding depends heavily on the 2% of the payroll that registered companies must pay to the State Training Institute (INATEC), through which it is mainly channelled. The financial shortfall as regards meeting the PEE objectives for 2011-15 has been projected at around EUR470 million. In the case of the draft TVET strategy, the projected shortfall is approximately EUR20 million.

3.2.6. The overall **risk assessment** of the sector intervention:

Possible major risks	Possible mitigating measures
Governance risks: The institutions conferred by law with the main responsibilities in the sector — MINED, INATEC, MITRAB and the Autonomous Regional Council education secretariats — have not assumed their roles and functions.	The EU programmes will prioritise components aimed at supporting key institutions in the sector, addressing their critical weaknesses and improving their planning, statistical generation and analysis, and monitoring and evaluation capabilities.
Political risks: The relevance of public policies, sectoral strategies and instruments may be jeopardised by radical political changes resulting in strategic shifts or delays in strategy implementation.	The EU will rely on a sustained policy dialogue, along with Member States and donors involved in the education sector, to keep education at the top of the development agenda, placing emphasis on policy and strategy development and implementation.
Economic and fiscal risks: The projected financial allocations to the education sector may still prove insufficient to meet policy objectives and match the ambition of improving the quality of education and diversifying the skills of the population, as required for the projects envisioned in the country’s PNDH.	The EU will seek cost-effective solutions and keep the level and efficiency of public spending (particularly on education) at the top of its policy dialogue agenda.

3.3. ADAPTATION TO CLIMATE CHANGE (INDICATIVE AMOUNT EUR 50 MILLION)

3.3.1. The following overall and specific **objectives** will be pursued:

Overall objective:

- to increase the resilience of the population to the impacts of climate change by improving integrated water resource management and alleviating pressure on natural forests.

Specific objectives:

1. to support the recovery and protection of natural resources in selected river basins; and
2. to improve the sustainable management of forest and water resources as renewable and affordable energy resources for the rural population.

3.3.2. The main expected **results** are:

For specific objective 1:

- increased availability of safe and stable water resources, particularly in rural areas; and
- improved national and local capacities for the design, implementation and monitoring of climate change adaptation strategies and measures.

For specific objective 2:

- increased availability of renewable energy supply and energy efficiency measures at local level.

3.3.3. The main **indicators** are:

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 3.

3.3.4. Donor coordination and policy dialogue

Several projects being implemented, with Swiss and Canadian financing, are aimed at sustainable river-basin management in the areas of Nueva Segovia and Chontales. The EU has implemented disaster risk reduction activities and specific river-basin management activities to address drought in several parts of the country.

There is no formal donors' roundtable or organisational structure on climate change adaptation, but an informal technical group of donors active in disaster risk reduction and climate change adaptation has met since 2006. As regards energy, policy dialogue and Government/donor coordination take place mainly within the PNESER project,¹¹ supported by the EU through LAIF.

While national efforts have focused on providing electricity to the national grid, rural households, households in small cities and rural industries still often use firewood as their main source of energy. To date, no budgetary allocations have been made to the national firewood strategy approved by the Government. These issues should be addressed through policy dialogue.

3.3.5. The Government's **financial and policy commitments** are:

The PNDH establishes climate change adaptation as a priority for national development and as a cross-cutting issue for all sectors, as a result of which there is no specific budgetary allocation for this sector. In practice, the policy sectors that take climate change into account are agriculture and disaster risk reduction. There is still a need for real mainstreaming and for budgetary provisions for climate change adaptation

¹¹ PNESER — *Programa Nacional de Electrificación Sostenible y Energía Renovable de Nicaragua.*

measures, in specific areas and with specific targets and indicators.

The national agricultural policy (PRORURAL) establishes climate change adaptation as a priority and includes a specific strategy in this area, focused on the country’s dry zones. PRORURAL is implemented by four institutions (the Ministry of Agriculture, the Ministry of Family Economics, the Forestry Institute and the Institute for Agricultural Technology), each of which has an environmental policy in place and which together are sponsoring the new Agro-Ecology Act, which seeks to promote agro-ecology as a tool for adaptation to climate change. The Government has also adopted a ‘Mother Earth Declaration’ stating that environment and respect for nature is a priority.

3.3.6. The overall **risk assessment** of the sector intervention:

Possible risks	Possible mitigation measures
Adaptation to climate change defined only as natural resources preservation and disaster risk reduction.	Policy dialogue to focus on natural resource management as the basis for a resilient green economy.
Risk of overlap between climate change adaptation measures and policies and sector-specific activities and policies, e.g. for water, forests, land management, agriculture.	The sector should be very clearly defined and the concept agreed with the Government so that it is confused neither with natural resources protection nor with disaster risk reduction. Support will be designed to strengthen and be aligned with activities in each sector rather than working in parallel.

4. SUPPORT MEASURES (INDICATIVE AMOUNT EUR 8 MILLION)

The main aim of support measures is capacity building and providing technical assistance in a more efficient and structured manner. These resources are intended to support communication and visibility activities to raise awareness of EU aid. They can also be used for thematic studies and project impact assessments, support for the formulation of public policies and policy dialogue, short-term technical assistance and to support aid-efficiency initiatives such as donor coordination and division of labour.

Attachments to the MIP:

- 1) Sector intervention framework and performance indicators**
- 2) Indicative timetable for commitment of funds**
- 3) List of acronyms**

MIP Attachment I: Sectoral intervention framework and performance indicators

Where missing, baselines referring to the indicators below will be introduced in action documents at the latest.

Sector 1: Productive sector (agriculture and agro-industry).		
Specific objective 1: To support agricultural and agro-industrial MSMEs so as to improve their productivity and competitiveness in a way that is compatible with environmental sustainability, and in turn to reduce poverty and increase cohesion in rural areas.		
Expected Results	Indicators	Means of verification
Result 1: Productivity, competitiveness, quality, safety, inclusiveness, environmental sustainability and climate resilience of agricultural and agro-industrial production are improved.	Annual % increase in output (producción) and productivity (rendimiento) of seven top Nicaraguan agricultural commodities.	Nicaragua Central Bank (BCN) statistics; MAG statistics.
	Number of new phytosanitary certifications awarded per year to agricultural and agro-industrial MSMEs thanks to the EU intervention.	IPSA statistics; EU projects
	Number of new "environmentally friendly" certifications (<i>agroecologica</i>) awarded to agro-industrial MSMEs per year, thanks to the EU intervention.	MAG statistics based on the of the principles of the law <i>Ley de fomento de la producción agroecológica u organica – Ley N 765</i> ; EU projects
	% of increase of income per family (rural vs urban).	INIDE (<i>encuesta de nivel de vida</i>) statistics
	Agriculture value added per worker	World Bank
Specific objective 2: To promote an institutional framework better tailored to the needs of the agricultural and agro-industrial sector, with a special focus on smaller producers and environmental sustainability.		
Expected Results	Indicators	Means of verification
Result 1: The capacity of public and private institutions to support the sustainable and inclusive development of agricultural and agro-industrial MSMEs is enhanced.	Number of agro-producers with access to credit	<i>Censo Nacional Agropecuario</i> (CENAGRO) statistics; baseline 2011: 14% BCN statistics.
	Number of agriculture and agro-industrial MSMEs (in particular in rural areas) that receive technical support from state institutions, thanks to the EU initiatives.	MAG statistics; EU projects
	Annual number of formally registered agriculture and agro-industrial MSMEs	MEFCCA, MIFIC and INPYME statistics; EU projects
	Number of administrative procedures and time required for agriculture and agro-industrial MSMEs to access public services for the sector.	MEFCCA, MIFIC and INPYME statistics,; EU projects; Other projects (e.g. e-Regulations - UNCTAD)

Sector 2: Effective education for employment

Specific objective 1: To support sectoral strategies and policies to improve rates of equitable access to, completion of and the quality of general secondary education for girls and boys.

Expected Results	Indicators	Means of verification
Result 1: Improved equitable access to and completion of secondary education	<p>Drop-out rates by grade in general secondary education (broken down by gender and region).</p> <p>-----</p> <p>Net enrolment of disadvantaged groups (rural/urban, ethnic groups), as compared with overall population for secondary education (broken down by gender).</p> <p>-----</p> <p>Percentage of schools offering lower secondary education (9 years).</p> <p>-----</p> <p>Transition rates to lower secondary education (broken down by gender).</p> <p>-----</p> <p>Secondary education (9th and 11th grades), completion rates, broken down by gender.</p> <p>-----</p>	<p>Country and Institutional Statistics (MINED); EFA Global Monitoring Report.</p> <p>-----</p> <p>Country and institutional statistics (MINED)</p> <p>-----</p> <p>EU projects monitoring reports</p> <p>-----</p> <p>Country and institutional statistics (MINED); UNESCO, joint annual reviews (GPE)</p> <p>-----</p> <p>Country and institutional statistics (MINED); EU projects monitoring reports</p> <p>-----</p>
Result 2: Improved quality of teaching in secondary education	<p>Number of trained and certified teachers in general secondary education (annually).</p> <p>-----</p> <p>Ratio of students (over total students) to trained/certified teachers (over total teachers) in general secondary education.</p>	<p>Sector Policy monitoring reports; EU projects monitoring reports</p> <p>-----</p> <p>Country and institutional statistics (MINED, INATEC, INTECNA).</p>

Sector 3: Adaptation to climate change

Specific objective 1: To support the recovery and protection of natural resources in selected river basins.

Expected Results	Indicators	Means of verification
<p>Result 1: Increased availability of safe and stable water resources, in particular in rural areas.</p> <p>Result 2: Improved national and local capacities for the design, implementation and monitoring of climate change adaptation strategies and measures.</p>	<p>Number of water basins (watersheds) with integrated water resource management implemented with EU support.</p> <p>-----</p> <p>Area of forests (primary and secondary) under sustainable management (Hectares) within watershed areas where integrated water resource management is implemented.</p> <p>-----</p> <p>Government improvement and approval of the drought adaptation strategy in the 'dry corridor' area by 2016.</p> <p>-----</p> <p>Number of projects developed locally (per year) to implement integrated water resource management strategies to protect and preserve water basins (integrating biodiversity and ecosystems protection and restoration).</p> <p>-----</p> <p>Number of local waste management strategies developed and implemented annually by city councils/regional governments integrating biodiversity and ecosystems protection and restoration.</p> <p>-----</p> <p>Number of local / national forest management strategies developed and implemented annually by city councils/regional governments integrating biodiversity and ecosystems protection and restoration.</p> <p>-----</p> <p>Number of studies to verify the potential of selected river basins / watersheds for renewable energies (geothermic, aeolian, solar and hydraulic) produced annually by national institutions.</p> <p>-----</p> <p>An enhanced climate information system providing data for decision making at different territorial levels is put in place by 2019 (MARENA and INETER) with data available to the public by 2020.</p>	<p>MARENA statistics; EU projects statistics.</p> <p>-----</p> <p>Municipal statistics (<i>Plan de ordenamiento territorial</i> and <i>Plan de inversion municipal</i>); Forestry statistics (<i>Inventario nacional forestal – por Cuenca / Municipio / departamentos</i>).</p> <p>-----</p> <p>Drought action plan (<i>Plan de acción nacional para la lucha contra la desertificación y la sequía</i>); Climate change action plan (<i>Plan de Acción 2010-2015 de la Estrategia Nacional Ambiental y del Cambio Climático</i>); National development plan (<i>PNDH</i>).</p> <p>-----</p> <p>MARENA and MAGFOR administrative resolutions.</p> <p>-----</p> <p>ANA, MARENA, RAAS and RAAN regional government administrative resolutions</p> <p>-----</p> <p>MARENA, INAFOR and municipalities' administrative resolutions.</p> <p>-----</p> <p>MARENA, MEM administrative resolutions.</p> <p>-----</p> <p>Web page of <i>Sistema Nacional de Información Ambiental de Nicaragua</i> (SINIA); MARENA and INETER administrative resolutions.</p>

Specific objective 2: To improve the sustainable management of forest and water resources as renewable and affordable energy resources for rural population.		
Expected Results	Indicators	Means of verification
Result 1: Increased availability of renewable energy supply and energy efficiency measures at local level.	Number of new renewable energy units (hydro/solar/wind/bio gas etc.) set-up in isolated areas	MEM statistics and when not available ad hoc survey / methodology should be created by EU projects.
	Number of MSMEs applying energy efficiency measures thanks to EU support	ENATREL, MEM and - EU projects statistics.
	Volume of wood originating from registered plantations.	MEM and INAFOR statistics

The results, indicators and means of verification specified in the present annex may need to evolve to take into account changes intervening during the programming period.

Attachment II to the MIP: Indicative timetable for commitment of funds

	Indicative allocation	2014	2015	2016	2017	2018	2019	2020
SECTOR — Support to the productive sector	EUR 78 million	20		30			28	
SECTOR — Effective education for employment	EUR 68 million		20		15		33	
SECTOR — Adapting to climate change	EUR 50 million		20		15		15	
Support measures	EUR 8 million	5				3		
<ul style="list-style-type: none"> • Measures to support or accompany the programming, preparation or implementation of actions 								
Total commitments	EUR 204 million	25	40	30	30	3	76	

Attachment III to the MIP: List of acronyms

Acronym	Name in Spanish	Name in English
AA	<i>Acuerdo de asociación</i>	Association Agreement
ALBA	<i>Alianza Bolivariana para los Pueblos de Nuestra América</i>	Bolivarian Alliance for the Peoples of Our Americas
ANA	<i>Autoridad Nacional del Agua</i>	Water National Authority
BCN	<i>Banco Central de Nicaragua</i>	Central Bank of Nicaragua
CA	<i>América Central</i>	Central America
CENAGRO	<i>Censo Nacional Agropecuario</i>	Agriculture and Livestock Census
CEPAL	<i>Comisión Económica para América Latina</i>	Latin America Economic Commission
CSP	<i>Estrategia País</i>	Country Strategy Paper
DRR	<i>Reducción de riesgo de desastre</i>	Disaster Risk Reduction
ECHO	<i>Dirección General para Ayuda Humanitaria y Protección Civil de la Comisión Europea</i>	The European Commission's Humanitarian Aid and Civil Protection Directorate-General
ENATREL	<i>Empresa Nacional de Transmisión Eléctrica</i>	Electric Transmission National Company
EU	<i>Unión Europea</i>	European Union
EUEOM	<i>Misión de Observación Electoral de la UE</i>	EU Electoral Observation Mission
FAO	<i>Organización de las Naciones Unidas para la Alimentación y la Agricultura</i>	United Nations Food and Agriculture Organisation
FSLN	<i>Frente Sandinista de Liberación Nacional</i>	Sandinista National Liberation Front
FUNIDES	<i>Fundación Nicaragüense para el Desarrollo Económico y Social.</i>	Nicaraguan Foundation for Economic and Social Development
GoN	<i>Gobierno de Nicaragua</i>	Government of Nicaragua
GPE	<i>Partenariado Global para la Educación</i>	Global Partnership for Education
HIPC	<i>Iniciativa para los países pobres altamente endeudados</i>	Heavily Indebted Poor Countries Initiative
HLF	<i>Foro de Alto nivel</i>	High-Level Forum
IADB	<i>Banco Interamericano de Desarrollo</i>	Inter-American Development Bank
IFIs	<i>Instituciones Financieras Internacionales</i>	international financial institutions
ILO/OIT	<i>Organización Internacional del Trabajo</i>	International Labour Organisation
IMF	<i>Fondo Monetario Internacional</i>	International Monetary Fund
INAFOR	<i>Instituto Nacional Forestal</i>	National Institute for Forestry
INATEC	<i>Instituto Nacional Tecnológico</i>	National Technological Institute
INETER	<i>Instituto Nacional de Estudios Territoriales</i>	National Institute for Territorial Studies
INIDE	<i>Instituto Nacional de Información de Desarrollo</i>	National Institution of Information and Development
INPYME	<i>Instituto Nicaragüense de Apoyo a la Micro, Pequeña y Mediana Empresa</i>	SME Support Institute
INTA	<i>Instituto Nicaragüense de Tecnología Agropecuaria</i>	Nicaraguan institute for agro technology
INTECNA	<i>Instituto Tecnológico Nacional</i>	National Technology Institute
JICA	<i>Agencia Japonesa de Cooperación internacional</i>	Japan International Cooperation Agency
JP	<i>Programación conjunta</i>	joint programming
LAIF	<i>Facilidad de Inversión en América Latina</i>	Latin America Investment Facility
MAGFOR	<i>Ministerio Agropecuario y Forestal</i>	Ministry for Farming and Forestry
MARENA	<i>Ministerio del Ambiente y los Recursos Naturales</i>	Ministry of Environment and Natural Resources
MDGs	<i>Objetivos de desarrollo del milenio</i>	Millennium Development Goals
MEFCCA	<i>Ministerio de Economía Familiar, Comunitaria, Cooperativa y Asociativa.</i>	Ministry for Family, Community, Cooperative and Associative Economy

MEM	<i>Ministerio de Energía y Minas</i>	Ministry for Energy and Mining
MIFIC	<i>Ministerio de Fomento, Industria y Comercio</i>	Ministry of Development, Industry and Trade
MINED	<i>Ministerio de Educación</i>	Ministry for Education
MITRAB	<i>Ministerio de Trabajo</i>	Ministry for Labour
MS	<i>Estados Miembros UE</i>	EU Member States
MSMEs	<i>Micro, Pequeñas y Medianas Empresas</i>	Micro, Small and Medium-sized Enterprises
PANCC	<i>Plan de Acción Nacional contra el Cambio Climático</i>	National Climate Change Action Plan
PEF	<i>Plan Económico y Financiero</i>	Government Economic and Financial Programme
PGV	<i>Valor de Producción Bruta</i>	Production Gross Value
PNAIR	<i>Programa Nacional de Agro-industria Rural</i>	National Rural Agribusiness Programme
PNDH	<i>Plan Nacional de Desarrollo Humano</i>	National Human Development Plan
PROMIPYME	<i>Programa de Desarrollo de la Micro, Pequeña y Mediana Empresa Nicaragüense</i>	Development Programme for SMEs
PRORURAL	<i>Desarrollo Rural Productivo</i>	Productive Agricultural Development
PROSEN	<i>Programa de Apoyo al Sector Educativo</i>	EU Programme for Support to the Education Sector
RAAN	<i>Región Autónoma Atlántico Norte</i>	Autonomous North Atlantic Region
RAAS	<i>Región Autónoma Atlántico Sur</i>	Autonomous South Atlantic Region
RSP		Regional Strategy Paper
SMEs	<i>Pequeñas y Mediana Empresas</i>	Small and Medium-sized Enterprises
TVET	<i>Formación Técnica y Vocacional</i>	Technical and Vocational Education and Training
WB	<i>Banco Mundial</i>	World Bank

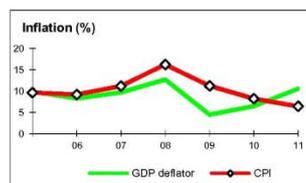
Annex II to the Country Strategy Paper

Country at a glance

Nicaragua

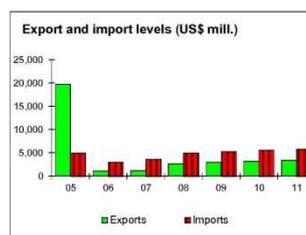
PRICES and GOVERNMENT FINANCE

	1991	2001	2010	2011
Domestic prices				
<i>(% change)</i>				
Consumer prices	2,945.0	3.5	8.2	6.4
Implicit GDP deflator	4,523.7	7.2	6.4	10.5
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	13.7	16.9	18.0
Current budget balance	..	0.5	1.2	2.3
Overall surplus/deficit	..	-6.5	-2.0	-0.8



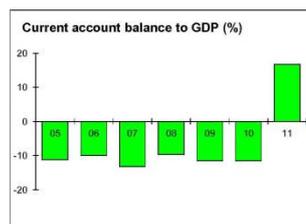
TRADE

	1991	2001	2010	2011
<i>(US\$ millions)</i>				
Total exports (fob)	272	1,916	3,151	3,392
Coffee	36	393	256	273
Shrimp and lobster	13	101	104	111
Manufactures	61	808	876	967
Total imports (cif)	751	3,915	5,568	5,778
Food	179	1,125	1,133	1,176
Fuel and energy	115	861	1,183	1,228
Capital goods	191	559	885	915
Export price index (2000=100)	..	91
Import price index (2000=100)	..	94
Terms of trade (2000=100)	..	98



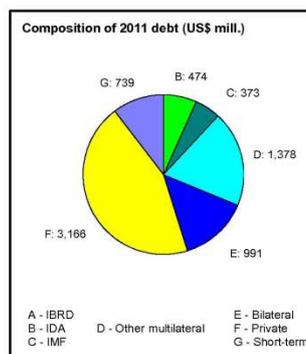
BALANCE of PAYMENTS

	1991	2001	2010	2011
<i>(US\$ millions)</i>				
Exports of goods and services	350	1,118	3,628	4,147
Imports of goods and services	843	2,157	5,486	4,863
Resource balance	-492	-1,039	-1,858	-716
Net income	-375	-240	-278	-211
Net current transfers	15	483	1,173	2,064
Current account balance	-852	-797	-963	1,555
Financing items (net)	868	683	1,185	-1,609
Changes in net reserves	-16	114	-222	54
Memo:				
Reserves including gold (US\$ millions)	205	383	1,799	1,743
Conversion rate (DEC, local/US\$)	4.9	13.4	21.4	22.4



EXTERNAL DEBT and RESOURCE FLOWS

	1991	2001	2010	2011
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	11,020	6,386	6,390	7,121
IBRD	124	0	0	0
IDA	113	691	447	474
Total debt service	546	340	578	658
IBRD	248	5	0	0
IDA	6	3	4	5
Composition of net resource flows				
Official grants	797	646	316	..
Official creditors	-19	177	211	176
Private creditors	-3	-117	516	623
Foreign direct investment (net inflows)	42	150	508	968
Portfolio equity (net inflows)	0	0	0	0
World Bank program				
Commitments	114	182	37	26
Disbursements	54	63	37	31
Principal repayments	114	5	0	2
Net flows	-60	57	36	29
Interest payments	141	3	3	3
Net transfers	-201	54	33	25



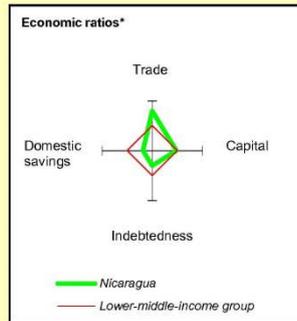
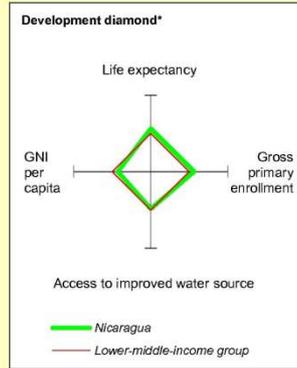
Note: This table was produced from the Development Economics LDB database.

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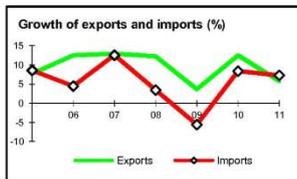
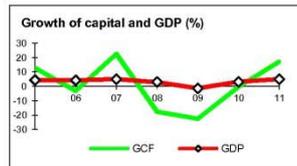
Nicaragua at a glance

3/17/13

POVERTY and SOCIAL	Nicaragua	Latin America & Carib.	Lower-middle-income		
2011					
Population, mid-year (millions)	5.9	589	2,533		
GNI per capita (Atlas method, US\$)	1,510	8,574	1,772		
GNI (Atlas method, US\$ billions)	8.9	5,050	4,488		
Average annual growth, 2005-11					
Population (%)	1.3	1.2	1.6		
Labor force (%)	2.7	2.0	1.3		
Most recent estimate (latest year available, 2005-11)					
Poverty (% of population below national poverty line)	43		
Urban population (% of total population)	58	79	39		
Life expectancy at birth (years)	74	74	66		
Infant mortality (per 1,000 live births)	22	16	46		
Child malnutrition (% of children under 5)	6	3	24		
Access to an improved water source (% of population)	85	94	87		
Literacy (% of population age 15+)	78	91	71		
Gross primary enrollment (% of school-age population)	118	116	104		
Male	119	118	106		
Female	116	114	102		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1991	2001	2010	2011	
GDP (US\$ billions)	1.5	5.3	8.4	9.3	
Gross capital formation/GDP	20.8	26.8	24.4	27.9	
Exports of goods and services/GDP	21.8	19.0	37.0	41.1	
Gross domestic savings/GDP	-9.9	6.9	7.4	8.5	
Gross national savings/GDP	-31.1	11.4	18.1	28.4	
Current account balance/GDP	-57.2	-15.0	-11.4	16.7	
Interest payments/GDP	13.8	1.4	1.4	1.3	
Total debt/GDP	740.2	120.0	75.8	76.4	
Total debt service/exports	151.5	30.0	15.9	15.5	
Present value of debt/GDP	25.0	
Present value of debt/exports	54.8	
	1991-01	2001-11	2010	2011	2011-15
<i>(average annual growth)</i>					
GDP	4.2	3.3	3.1	5.1	4.3
GDP per capita	2.1	2.0	1.8	3.6	2.9
Exports of goods and services	10.6	10.0	12.5	5.8	15.4



STRUCTURE of the ECONOMY	1991	2001	2010	2011
<i>(% of GDP)</i>				
Agriculture	..	18.3	19.0	20.0
Industry	..	23.3	24.3	25.8
Manufacturing	..	14.8	17.4	18.1
Services	..	58.4	56.7	54.2
Household final consumption expenditure	89.4	84.2	85.1	84.4
General gov't final consumption expenditure	20.6	9.0	7.4	7.1
Imports of goods and services	52.5	38.9	53.9	60.5
	1991-01	2001-11	2010	2011
<i>(average annual growth)</i>				
Agriculture	4.8	3.8	6.8	2.3
Industry	5.4	3.0	4.5	9.3
Manufacturing	5.2	4.9	6.9	7.4
Services	5.1	2.4	1.6	3.6
Household final consumption expenditure	-19.8	43.1	3.2	4.9
General gov't final consumption expenditure	6.2	2.2	0.1	4.5
Gross capital formation	11.5	0.3	-0.3	17.1
Imports of goods and services	11.6	5.3	8.4	7.3



Note: 2011 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Annex III to the Country Strategy Paper

Donor matrix showing indicative allocations per sector

Nicaragua

Public sector: 2012 grants and loans by donor and economic sector

	Agriculture, livestock, fisheries and forestry	Mining	Manufacturing Industry	Electricity, gas and water	Construction	Trade	Transport and communication	Financial intermediation	Social services, health and education	Public Administration	Others	Total
Bilateral												
2012	14.5	0	0	31.1	14	0	0.3	0.4	51	16.5	4	131.8
Austria	0	0	0	0	0	0	0	0	0.4	0	0	0.4
Canada	4	0	0	2.7	0	0	0	0	0	0	0.1	6.8
China - Taiwan	0	0	0	0	0	0	0	0	0	1.9	0	1.9
Denmark	0	0	0	0	0	0	0	0	0	0	0	0
Finland	4.8	0	0	0	0	0	0.3	0	2.9	0	0	8
Germany	0	0	0	8.7	0	0	0	0	5.7	0.2	2.6	17.2
Great Britain	0	0	0	0	0	0	0	0	0	0	0	0
Iceland	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	0	0.1	0	0	0.1
Iran	0	0	0	0	0	0	0	0	0	0	0	0
Italy	0	0	0	0	0	0	0	0	0	0	0	0
Japan	0.6	0	0	6	14	0	0	0	1	0	0	21.6
Luxembourg	0	0	0	0.5	0	0	0	0	2.1	0	0	2.8
Norway	0	0	0	0.3	0	0	0	0	0	0.5	0	0.8
Russia	0	0	0	0	0	0	0	0	31.2	6.3	0	37.4
South Korea	0	0	0	0.4	0	0	0	0	1	0.1	0	1.5
Spain	1.6	0	0	0.8	0	0	0	0	6.3	1.9	0	10.6
Sweden	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	3.5	0	0	11.7	0	0	0	0.4	0.5	5.4	0.4	21.8
The Netherlands	0	0	0	0	0	0	0	0	0	0.2	0.7	0.9
United States	0	0	0	0	0	0	0	0	0	0	0	0
Venezuela	0	0	0	0	0	0	0	0	0	0	0	0

Source: Central Bank. 2012 Report on Official Development Cooperation.

Nicaragua

Public sector: 2012 grants and loans by donor and economic sector

Agriculture, livestock, fisheries and forestry	Mining	Manufacturing industry	Electricity, gas and water	Construction	Trade	Transport and communication	Financial intermediation	Social services, health and education	Public Administration	Others	Total
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Multilateral

2012	15.5	0	0	81.5	55.5	2.2	23	7.1	74.4	71.3	9.2	339.7
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Central American Bank for Economic Integration (CABEI)	0.7	0	0	12.8	18.5	0	11.4	0	0	1.5	0	45
Common Fund for Commodities (CFC)	0	0	0	0	0	0	0	0	0	0	0	0
European Investment Bank (EIB)	0	0	0	10.9	0	0	0	0	0	0	0	10.9
European Union	0	0	0	0	0	0	0	0	0	5	5.5	10.5
Food and Agriculture Organization (FAO)	1.8	0	0	0	0	0	0	0	0.5	0.7	0	3.1
Global Environmental Fund (GEF)	0	0	0	0	0	0	0	0	0	0	0	0
Inter-American Development Bank (IADB)	6.5	0	0	47.4	15.7	2.2	9.7	6.2	27.1	55.4	1.8	172.1
International Atomic Energy Agency (IAEA)	0	0	0	0	0	0	0	0	0	0	0	0
International Fund for Agricultural Development (IFAD)	5.6	0	0	0	0	0	0	0	0	0	0	5.6
International Monetary Fund	0	0	0	0	0	0	0	0	0	0	0	0
International Organization for Migration (IOM)	0	0	0	0	0	0	0	0	0	0	0	0
Nordic Development Fund	0	0	0	0	0	0	0	0	0	0	0	0
OPEC Fund for International Development (OFID)	0	0	0	0	3.5	0	0	0	0.3	0	0	3.1
Organization of American States (OAS)	0	0	0	0	0	0	0	0	0	0	0	0
Pan American Health Organization (PAHO)/ World Health Organization (WHO)	0	0	0	0	0	0	0	0	3.4	0	0	3.4
The Global Fund to fight AID, Tuberculosis and Malaria	0	0	0	0	0	0	0	0	0	0	0	0
United Nations Development Programme (UNDP)	0	0	0	3.2	0	0	0	0	1.6	0.2	1.4	6.5
United Nations Children's Fund (UNICEF)	0	0	0	0	0	0	0	0	11.2	0	0	11.2
United Nations Conference on Trade and Development (UNCTAD)	0	0	0	0	0	0	0	0	0	0	0	0
United Nations Educational, Scientific and Cultural Organization (UNESCO)	0	0	0	0	0	0	0	0	0	0	0	0
United Nations Industrial Development Organization (UNIDO)	0	0	0	0	0	0	0	0	0	0	0	0
United Nations Office for Project Services (UNOPS)	0	0	0	0	0	0	0	0	0	0.1	0	0.1
United Nations Population Fund (UNFPA)	0	0	0	0	0	0	0	0	0	0	0	0
World Bank (IDA)	0.8	0	0	7.3	17.8	0	1.9	1	25.5	8.4	0.4	63
World Food Programme (WFP)	0	0	0	0	0	0	0	0	5.2	0	0	5.2

Total 2012	30	0	0	112.6	69.5	2.2	23.3	7.5	125.3	87.8	13.2	471.5
Total 2011	62.3	0	1.5	218.8	67.2	8.9	57.3	657.8	169	150.8	15.9	1409.5
Total 2010	62.5	5.4	17.3	197.2	85.8	8.1	20.1	564.3	227.4	137.6	20	1345.7

Source: Central Bank. 2012 Report on Official Development Cooperation.

Annex IV to the Country Strategy Paper

Nicaragua Country Environment Profile

Nicaragua is situated in the centre of Central American isthmus, between the Atlantic and the Pacific Ocean. The surface of the country is of 130.682 sq. km.; lakes represent 8% of this surface. The length of coasts is of 305 km. on the Pacific side and of 450 km. on the Atlantic. The climate is tropical, with two distinct seasons, winter or rainy season, and summer or dry season. Precipitations are decreasing from South-East to North-West, from up to 5 000 mm. per year in the area of San Juan River to 700 mm. per year in the dry areas of the Pacific. The annual average temperature varies from 28°C at sea level, to the 22° in the mountainous parts, depending of altitude. Nicaragua has two large lakes, Xolotlán or Lake Managua of 1.040 sq. km., and Cocibolca or Lake Nicaragua with an extension of 8.200 sq. km.

The country is divided into three geomorphologic regions: the Pacific region, the Central mountainous region and the Atlantic region, with important differences due to altitude, topography, soils, climate and natural vegetation, making the country an important biodiversity hotspot. The Pacific area is characterised by seismic and volcanic activities, with deep soils derived from volcanic ashes. The natural vegetation is dominated by deciduous tropical forest. By contrast, the Atlantic region is characterised by old soils, an absence of active volcanoes and a fairly flat relief. The natural vegetation is a tropical humid forest of low altitude associated with high rates of biodiversity, large surface of pine forests in the North-East and swamps in the deltas of the large rivers of the region. The Central mountainous region is characterised by sharp relief and small intra-mountainous valleys, with sub-deciduous and cloud forests in the highest areas.

Nicaragua is divided into two large hydrographical regions: the Pacific slope of 12 183 sq. km. and the Atlantic slope with 117420 sq. km. The rivers of the Pacific slope are short, of small flows and generally seasonal. In the Atlantic, the rivers are draining water from the central mountainous area and are long, large flowed and often navigable in good part of their length. Groundwater is important in the region of the Pacific, with large quantities in the plain of León–Chinandega, the isthmus of Rivas and the north-east of Lake of Managua. In the North and Atlantic, groundwater reserves are poor and of low return, therefore superficial water is the main source of water. This water availability, together with the existence of Lake Nicaragua are the basis for a project of a new Interoceanic Channel for post — Panamax boats, using the Lake and its watershed as its most important water source, planned by the present Nicaraguan Government that would start construction works during 2019 with the support of Chinese companies. Such a channel has the potential to endanger the capacity of Nicaragua Lake to provide clean water for many Nicaraguan cities, sustain biodiversity, tourism, irrigation and many other economic activities and the present country's development path.

Since 2012 and after a decision issued by the International Court of Justice on a lawsuit vs Colombia, a large maritime area, approx. 90 000 Km², in the Caribbean Sea was incorporated into the national territory. The area contains rich fisheries and presumably oil resources and poses major challenges in terms of sustainable management, protection and security for the country.

Nicaragua does not have an important fishing fleet. Shrimps, lobsters and fish are the main resources being exploited in the fishing areas of Cayos Miskitos, Corn Island (in the Atlantic) and the Pacific. The temperature increase caused by climate change has already had an effect on fisheries, especially in the shallow Caribbean areas, causing fish schools to go farther from the traditional fishing areas, thus increasing costs and fishing efforts.

A National Protected Areas System includes significant samples of all ecosystems in the country, covering more than 10% of country's surface, in approximately 80 protected areas in many management categories. A Biosphere Reserve called Seaflower was already declared by UNESCO in the area and should be incorporated into the Nicaraguan National System. However, even if the legislation is present, there are major budgetary and capacity constraints for the effective management

and conservation of protected areas.

The countries' rich natural resources are subject to important degradation problems, beginning with deforestation due to inadequate cattle ranching and agricultural technologies. Habitat loss threatens biodiversity and rich agricultural soils are being converted to urban areas, without any appropriate planning. Inadequate land use aggravates the problems of floods by reducing the amount of water infiltrating to the underground waters and increasing water runoff and pollution in coastal zones and marine areas. Current agriculture and cattle farming technologies lead to soil erosion, degrade the fertility and structure of soils, and tend to use excessive agrochemicals that also pose human health and ecosystem hazards.

Primary ecosystems are strongly affected by deforestation: in the Pacific, less than 10% of the primary forests still exist, including the mangrove swamps of the north-west, where activities of shrimp farming are growing. In the Central North area, the primary forest has been replaced by extensions of coffee plantations, an agro-forestry system that preserves the native fauna, but also by basic grains cultivation in the slopes with minimal productive returns and an important negative impact on soils and native fauna. In the Atlantic, the agricultural frontier, associated to the chaotic logging, has provoked that the large forests are more and more reduced to smaller extension and biodiversity is decreasing significantly.

Gold extraction in the areas of Chontales, Siuna and Bonanza, and León, has caused considerable impacts, not only because it is open-sky extraction by large companies, but also through the use of heavy metals by the small miners. The most visible impacts are erosion and sedimentation of rivers, deforestation in the mining areas, and effect on the wild fauna and cattle that drink contaminated river water. Effects of mining on human health have not been investigated.

The growing urbanisation induces problems of accumulation and collection of solid and liquid waste. Informal trash collectors are observed around all cities of Nicaragua and many water bodies are contaminated. The problem also exists on the beaches during summer time. In the largest cities, air pollution due to vehicles is increasing. Industry is also a major pollutant due to the absence of treatment of its waste. Even though tourism is a more and more promoted activity and though the attractions of Nicaragua are predominantly its natural resources, pollution, urbanisation and environmental degradation threaten this promising economic activity.

The country has a comprehensive institutional and legal framework in environmental matters, with a General Act for Environment, Forest Act and regulations for protected areas, Environmental impact regulations, and a Water Act, in addition to many other legal instruments. It also has ratified all the international agreements relating to it. However, the lack of financial resources to make operational the institutions, but above all the lack of an environmental conscience among the population and among the same State institutions, is a serious obstacle to sustainable development.

Paradoxically, the different donors directly active in environmental field, which includes most traditional donors, are facing absorption capacity problems for sustainable projects or programmes. A general conclusion for the donors community is the need for a better mainstreaming of environment within development projects and national policies, which this should be the preferred way to support environment.

Climate change is already having an effect on Nicaraguan ecosystems. The increased frequency of climatic events such as El Niño / La Niña, increased rainfall uncertainty in the rainy season and temperature increases are already affecting an economy and a society based on natural resources. Fire outbreaks on pine forests, fungal epidemics on coffee, dengue epidemic, increased floods, small tornados, are last year's examples of natural events that could be attributed to climate change. Adaptation to climate change is a priority for the Government.