Ex Post-Evaluation Brief

NICARAGUA: PRSC I and II

Sector	General budget support (51010)	
Programme/Client	Poverty Reduction Support Credit I and II BMZ No. (1) 2002 66 502*, (2) 2004 65 658	
Programme executing agency	Nicaraguan Ministry of Finance	
Year of sample/ex post evaluation report: 2010, 2011/2013		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	(1 + 2) no information	(1 + 2) no information
Financing, World Bank	(1 + 2) EUR 71 million	(1 + 2) EUR 71 million
Financing, BMZ funds	(1) EUR 4 million (2) EUR 6 million	(1) EUR 4 million (2) EUR 6 million

* random sample 2010

Short description: PRSC I and PRSC II were World Bank initiatives for programme-based community financing (budget support) in Nicaragua. The programme supported the implementation of Nicaragua's poverty reduction strategy. Following the completion of clearly agreed government reforms and the improvement of basic government services, external donor funds were to be directly injected into the government budget. Between 2003 and 2007, the German side cofinanced the reform programme, providing EUR 10 million from FC. The poverty reduction strategy was supported by other donors through parallel financing. This was coordinated by the "*Budget Support Group"*.

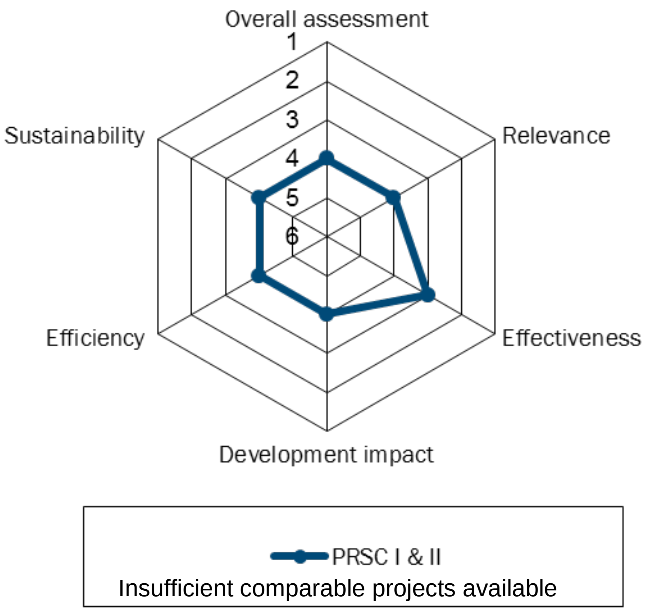
Objectives: The overall objective of the PRSC programme was to support the implementation of Nicaragua's 2001 poverty reduction strategy. The programme objectives were the improvement of public financial management, the promotion of economic growth, improvement of public services provision for the population classified as poor, improvement of the infrastructure needed for growth, and increased spending on social areas while maintaining macroeconomic stability. Specific targets to be met before the release of funds were agreed between the donors and the Nicaraguan government for all five of these areas (policy matrix). **Target group:** No target group was defined in the programme planning. From an ex post perspective, the programme was primarily intended to benefit around 2.5 million people, representing the country's poor population.

Overall rating: 4

The reform programme was stopped early. It suffered as a result of the misjudgement of the general conditions and limited national ownership.

The efforts to reduce poverty were not adequately strategically planned. The agreements focused on changes to the management of public finances.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating:

The Word Bank's budget financing programme Poverty Reduction Support Credits (PRSC I and PRSC II) starting in 2003, which were cofinanced by a German contribution totalling EUR 10 million, were the precursors to a (significant) proportion of the bilateral and multilateral budget support in Nicaragua. The core problems, targets and chains of effect defined for PRSC I and PRSC II were relevant, but the selected budget support approach was not viable. Due to significant, recognised risks, such as the limited national ownership of the poverty reduction policy and the political unenforceability of far-reaching reforms, budget support was not an appropriate means of financing the development cooperation in Nicaragua at that time. Overall, the programme's impact is unsatisfactory.

Rating: 4 (unsatisfactory), PRSC I and PRSC II

Relevance

PRSC I and PRSC II were part of the general budget support provided to Nicaragua. These initiatives were motivated by the donor community's confidence in the country's potential for reform at the start of the millennium. At that time, budget financing seemed to be an appropriate means of helping to resolve the country's complex problems. However, the lack of parliamentary support for government modernisation and institutional barriers to implementation could have been foreseen. The PRSC objectives were highly demanding, which was not appropriate for the realities in the country.

In addition, at that time, the suitability of budget support means of providing financing Nicaragua was limited. Although key economic indicators such as economic growth, budget deficit, currency reserves and external debt had improved somewhat, significant aspects of *good governance* had not yet become established at the beginning of the PRSC programme.

The policy matrix objectives were derived from the Nicaraguan poverty reduction strategy, were in line with global development goals and were consistent with the Federal Government's country concept at the time of the programme appraisal. No target group was defined in the programme planning. From an ex post perspective, the programme was primarily intended to benefit around 2.5 million people, representing the country's poor population.

The German FC contributions formed part of the overall PRSC programme implemented under the leadership of the World Bank. The core problems identified for the PRSC programme (I and II) are still correct from today's perspective. The matrix priorities were maintained or slightly expanded for the individual tranches. This reflects the long-term nature of the PRSC programme, which was originally planned to be implemented in three or possibly as many as four tranches (phases). In addition, the poverty reduction strategy was not updated – even through the donors pushed for firmer specifications and greater focus after Bolaños' government took office (2002).

An independent evaluation carried out by the World Bank (IEG 2010) found that the PRSC programme had in essence been developed in accordance with the traditional concept of a structural change and government modernisation programme. Approaches related to the social sectors and the targeted reduction of poverty were neither planned nor implemented strategically, particularly in the context of the difficult general conditions. The reforms and interventions specified in the PRSC I and PRSC II policy matrix were barely able to be implemented at all due to the institutional deficiencies and limited capacities. In addition, there did not appear to be a long-term "donor commitment" to budget support in Nicaragua; the budget support was discontinued in 2009.

Due to the – in hindsight – misjudged general conditions for budget support and the clearly overambitious policy matrix agreed, the relevance of the PRSC programme is rated as unsatisfactory.

Sub-Rating: 4 (unsatisfactory), PRSC I and PRSC II

Effectiveness

The programme objectives of the PRSC programme comprised four (PRSC I) and later five (PRSC II) areas for reform (components): (1) Improved management of government finances, (2) improved access to social services for poor people, (3) broad-based growth, (4) improvement of the infrastructure needed for growth (just PRSC II) and (5) increased spending to reduce poverty. These components were intended to contribute to the implementation of the Nicaraguan poverty reduction strategy (overall objective). The overall target structure is viable and there are no gaps in the logic. It was therefore also used for the ex post evaluation. In addition, the achievement of the objectives of the German cofinancing of PRSC I and PRSC II was assessed based on the overall PRSC programme. It is not technically possible to separate out the German FC contribution and this would be contrary to the spirit of budget financing.

In summary, the objectives in the five policy areas/components were still satisfactorily achieved. In particular, the overall programme achieved good results in relation to improving financial management and transparency. This would not have been achieved without the PRSC programme. Other significant sub-targets, such as poverty-oriented economic growth, improved government services for the poor population, development of infrastructure needed to reduce poverty and increased government spending to reduce poverty were much weaker. According to the World Bank's evaluation report, Nicaragua's economic growth at that time was also driven by regional trends, rather than impetus provided by the PRSC.

From an ex post perspective, the agreed programme objectives (policy matrix) were caught between the high level of demand for budget support and the realities of political and institutional implementation in Nicaragua. This was exacerbated by the budget support method, under which reform policies and objectives are agreed, but the measures to be implemented

to achieve them are not. Instead, the measures are meant to be determined and independently implemented by the relevant country.
Positive results in individual areas of the reform programme were offset by much weaker results in other areas; the overall effectiveness of the PRSC is still rated as satisfactory.

Sub-Rating: 3 (satisfactory), PRSC I and PRSC II

Efficiency

A total of EUR 81 million (incl. EUR 10 million from FC) was invested through the (discontinued) PRSC programme overall in the period from 2003 to 2007. This corresponds to approximately EUR 8.1 per year and per capita of the population classified as poor (2.5 million people, or 46% of the total population).

The efficiency of PRSC I and II can only be approximately evaluated. PRSC I and II were part of a good donor cooperation overall. The PRSC triggers for the individual disbursement tranches were the result of a dialogue between the government and the donors, which, although led by the donors, involved the full participation and partnership of both parties. When the new government took office in 2007, this changed considerably; the policy dialogue was only rudimentary in nature. In addition, at a total of just 12%, only a small proportion of all donor contributions were made in the form of general budget support, so further reductions in transaction costs for development cooperation could not be expected from budget financing in Nicaragua. In addition, disbursement continuity was disrupted due to failure to satisfy the conditions imposed.

Production efficiency (i.e. ratio of costs to target achievement) of the PRSC programme can only be determined on a rudimentary basis. There were positive effects on the transparency of government action and financial management. However, the impact on economic growth and the services provided to the poor population can hardly be attributed to the PSRCs. Whether use of the funds through programme financing, which accounted for around 88% of the external assistance, would have been more efficient remains questionable, however.

The assessment of allocation efficiency and the transaction costs is also clearly limited. An evaluation of the budget support carried out for the Netherlands government identified a (temporary) net reduction in transaction costs compared with programme financing, thanks to the harmonisation of the donor funds. However, a comparison of this sort (as for allocation efficiency) is only relevant if the same target achievement can be assumed from both budget and programme financing. The discontinuation of the reform programme had a negative impact. In summary, despite the good donor harmonisation amid the simultaneous general development standstill in Nicaragua, the efficiency of the PRSC is rated as no longer satisfactory.

Sub-Rating: 4 (unsatisfactory), PRSC I and PRSC II

Impact

Overall, there has been hardly any improvement in Nicaragua's poverty situation. The poverty indicators for 2005 had actually deteriorated compared with 2001. The recent improvement in the poverty situation is more attributable to cheap oil imports from the "friendly" Venezuela than the effects of the PRSC or the general budget support (IEG 2010). The results of both PRSC I and PRSC II therefore failed to meet expectations. It cannot be assumed that the PRSC programme had a noteworthy influence on the broad-based poverty reduction.

Although individual indicators for social services have improved, this has not led to a fundamental improvement in the living situation of poor people. The Netherlands evaluating body also came to this conclusion. It evaluated the budget support from 2005 to 2008 and determined that the budget support focused on governance and not on the broad-based reduction of poverty (IOB, 2010).

In addition, the desire of Bolaños' government to invest in far-reaching poverty reduction was overestimated. PRSC I and PRSC II were based on the Nicaraguan poverty reduction strategy, but Bolaños' government's ownership of this donor-driven strategy was limited. Ortega's government was also unable to develop *ownership* of the strategy not developed by his administration and clearly neglected the *fundamental principles* (basic principles agreed in a framework agreement, such as the commitment to democratic principles, good governance, etc.). The donors' *alignment* behind this strategy was rather formal in nature. The developmental effectiveness of the PRSC programme up to the time of the evaluation was unsatisfactory.

Sub-Rating: 4 (unsatisfactory), PRSC I and PRSC II

Sustainability

Due to the rather low level of ownership of the reform components of the PRSC by the current Ortega administration the comprehensive sustainability of the (limited) effects achieved cannot be assumed. The extent to which the *single treasury account*, one of the few significant results of PRSC I and PRSC II, continued after the budget support came to an end is unknown. Several financial planning instruments have been pragmatically continued by the Ortega government – despite the abandonment of the *fundamental principles*. However, in summary, the sustainability of the overall programme is rated as inadequate.

Sub-Rating: 4 (inadequate), PRSC I and PRSC II

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good result that clearly exceeds expectations
2	Good result, fully in line with expectations and without any significant shortcomings
3	Satisfactory result – project falls short of expectations but the positive results dominate
4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
6	The project has no impact or the situation has actually deteriorated

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.
Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Ratings 1-3 of the overall rating denote a "successful" project while ratings 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (rating 3).