BUFF/07/28

March 1, 2007

The Acting Chair's Summing Up
Nicaragua—Ex Post Assessment of Longer-Term Program Engagement
Executive Board Meeting 07/16
February 23, 2007

Directors welcomed the opportunity to review Nicaragua's experience with Fund-supported programs, focusing on the three ESAF-PRGF arrangements since 1994. They noted that the long-term program engagement with Nicaragua and the actions implemented by the authorities have been instrumental in supporting fundamental and wide-ranging reforms that helped restore macroeconomic viability and reduce the economy's vulnerability to shocks. Notable results have been achieved in a number of areas, in particular in strengthening the country's fiscal position largely as a result of tax policy and administration reforms. Directors, however, noted that performance in achieving successive programs' growth and inflation objectives has been mixed, and regretted that the pace of poverty reduction remains slow.

Directors considered that the Fund's macroeconomic policy recommendations have been broadly appropriate. Considerable flexibility in adapting to evolving conditions, while keeping the broad framework in place, has helped prevent worse outcomes. However, poor initial conditions, several exogenous shocks and delays in implementing parts of the large reform agenda have contributed to an uneven program performance. The need at times to resort to short-term program conditionality to address pressing concerns also delayed medium-term structural reforms. It was also noted that more recent programs have tended to yield better results based on improved ownership of a more focused reform agenda.

Against this background, Directors noted that Nicaragua continues to face significant challenges in reducing poverty and achieving a higher medium-term growth path, while reducing the economy's vulnerability to internal and external shocks and its dependence on external financing. In this context, they underscored the need to develop a broad consensus across society for a comprehensive reform package to maintain macroeconomic stability and further advance structural reforms. Directors emphasized the importance of hard budget constraints at all levels of the economy, including local governments, autonomous entities, and the energy sector. A more independent central bank and implementation of the financial sector roadmap would enhance Nicaragua's ability to maintain low inflation. Improving governance and advancing pension and civil service reforms would help improve the efficiency of public spending and further reorient government expenditure toward priority areas.

Directors agreed that the Fund can continue to play an effective role in supporting Nicaragua's reform process in its core areas of expertise by helping to ensure macroeconomic stability and anchoring the reform process. Building on the lessons from past program experience, they stressed the need to be realistic about attainable goals within the timeframe of any Fund-supported program by taking into account institutional and capacity constraints. Future programs should also strike a balance between flexibility in accommodating unforeseen factors and the need for sustained and vigorous implementation in areas critical to the achievement of the macroeconomic objectives of the programs. Directors also stressed the importance of limiting conditionality to areas that are critical to the success of a program, of greater ownership in program design, of effective collaboration with Nicaragua's development partners and well-targeted technical assistance in support of critical reform efforts, and of less ex-post discretion in implementation in order to help achieve program objectives. Full creditor participation in the HIPC Initiative will also be key to securing the debt relief targets. Given Nicaragua's still large imbalances and financing needs, several Directors saw merit in a new Fund arrangement that would incorporate the lessons from past experiences, although it was also suggested that other types of Fund engagement be explored that could help secure continued donor support.