

# The Nicaragua Challenge

## Donor Harmonisation: Between Effectiveness and Democratisation. Case Study II



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## Donor Harmonisation: Between Effectiveness and Democratisation. Case Study II

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January 2008

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Cover photo: Robert Croma  
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# Acronyms

<b>OH&amp;A</b>	Plan for Ownership, Harmonisation and Alignment
<b>JFA</b>	Joint Financing Agreement
<b>AECI</b>	Spanish International Cooperation Agency
<b>ALN</b>	Nicaraguan Liberal Alliance-Conservative Party
<b>NA</b>	National Assembly
<b>ODA</b>	Official Development Assistance
<b>GBS</b>	General Budget Support
<b>IADB</b>	Inter-American Development Bank
<b>WB</b>	World Bank
<b>DAC</b>	Development Assistance Committee
<b>EC</b>	European Commission
<b>CGR</b>	National Comptroller's Office
<b>CONADES</b>	National Council for Sustainable Development
<b>CONPES</b>	National Council for Economic and Social Planning
<b>CPC</b>	Citizen Power Councils
<b>TSA</b>	Treasury Single Account
<b>DfID</b>	Department for International Development (UK)
<b>PD</b>	Paris Declaration
<b>SGPRS</b>	Strengthened Growth and Poverty Reduction Strategy
<b>PRS</b>	Poverty Reduction Strategy
<b>IMF</b>	International Monetary Fund
<b>FONSALUD</b>	Health Fund
<b>FSLN</b>	Sandinista National Liberation Front
<b>SSF</b>	Supplementary Social Fund
<b>BSG</b>	Budget Support Group
<b>GGG</b>	Good Governance Group
<b>GTZ</b>	Gesellschaft für Technische Zusammenarbeit
<b>HIPC</b>	Heavily Indebted Poor Countries Initiative
<b>JCLA</b>	Joint Country Learning Assessment
<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>MINREX</b>	Ministry of Foreign Relations
<b>MP</b>	Member of Parliament
<b>SMEs</b>	Micro, Small and Medium Enterprises
<b>MTBF</b>	Medium Term Budget Framework
<b>MRS</b>	Sandinista Renovation Movement
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>NGO</b>	Non-Governmental Organisation
<b>CSO</b>	Civil Society Organisation
<b>GDP</b>	Gross Domestic Product
<b>PLC</b>	Constitutionalist Liberal Party
<b>NDP</b>	National Development Plan
<b>NDP-0</b>	National Development Operative Plan
<b>UNDP</b>	United Nations Development Programme
<b>PRORURAL</b>	Rural Development Programme
<b>PRSC</b>	Poverty Reduction Support Credit
<b>PSTAC</b>	Public Sector Technical Assistance Project
<b>SETEC</b>	Technical Department of the Presidency
<b>IFMAS</b>	Integrated Financial Management and Audit System
<b>NPIS</b>	National Public Investment System
<b>SYSODA</b>	Official Development Assistance Information System
<b>SYSONG</b>	Non-Governmental Development Cooperation Information System
<b>USAID</b>	United States Agency for International Development

## Foreword

Does aid foster freedom? Does democracy help in reducing poverties and inequalities? Is good governance a necessary condition for aid to be effective? These are some of the pertinent questions that have been in the background of most of the recent debates on what Northern countries should do when relating to developing countries. Although it becomes increasingly clear that issues “beyond aid” have more impact on the lives of those living in poverty, high hopes are set on aid and those who are charged with programming it. It is to these people this study is addressed.

This research project – entitled: *Donor Harmonisation: Between Effectiveness and Democratisation* – aims to explore only one dimension of the vast theoretical debate that unfolds from the above questions: What are the potential collateral damages that the growing coordination and harmonisation of aid donors inflict on the social contract in developing countries? And what are the implications for aid agencies, in their practices of political dialogue, their policies, their institutional set-up and their human resources strategies?

We depart from an analysis that a new architecture of aid relations has been constructed over the last decade. The state as developmental actor has been reinvigorated after a decade in which public services were relentlessly undermined under the Washington consensus. Today, a new consensus is being formed. Landmark events have been the Millennium Development Declaration in 2000, which defined objectives, the Monterrey Conference of 2002 that accordingly defined the resources and mutual obligations between North and South and lastly the Paris Declaration in 2005 that entered into defining the modes and institutions of delivery. In the meantime, new initiatives are fine-tuning the consensus. Amongst these are a drive for better complementarity, as in the EU Code of Conduct on division of labour, initiatives to connect regional integration with institution building

and development outcomes on national level, and the continuing debate on new roles for multilateral organisms.

Accordingly, the relation between recipient countries, recently renamed “partner countries”, and donors is changing. Since the 80s, conditionality reigned – either in the crude form of economic conditionality for liberal market principles or in the second-generation form of demands for political openness and accountable public office. Mutual accountability between donors shall replace this unfruitful relation, which has not been accomplished by anybody. We diagnose a “post-conditionality regime”, that is departing from confrontational approaches and bypassing structures, towards new modes of government-donor cooperation, that are, however, no less intrusive.

In the background of this research lies the assumption that not only state capacities, but also a social contract between citizens and the state, forms the base of successful and just development. There are a wide range of institutional configurations that can potentially enshrine this contract, and these are legitimate in their very local definition as historical sediments of social negotiations. For our research on the interface between aid harmonisation and democratisation, we use a political economy approach that asks for citizens to be informed of their opportunities, to participate and to hold those in power to account. What we are interested in, is what are the local definitions of these configurations in countries in the South – in Vietnam, Nicaragua, Mali and Peru in particular. Consequently we ask, what is the influence on these politics of Western countries in their role as donors. Is there a trend to harmonise their interaction with the partner government, but maybe less so with other relevant local actors, such as parliaments, civil society or public oversight institutions?

This research project is inspired to inform donors, taking a participative perspective that incorporates the opinions of a wide range of actors. Particularly, this research may be helpful for the future of the Spanish aid system. It was conceived during a previous project

(foroaid) that aimed to take a snapshot of the rapid reform process of the policies and institutions of Spanish development cooperation. It is also meant to facilitate dialogue between European donors, on their practices and lessons learnt. We want to thereby work towards a common European development policy.

The project has three phases. In the first phase we present an analytical framework and methodology for the country studies, that establishes the basis for the approaches and hypothesis for this research. The case studies are conducted in the second phase. Mostly, they are being drafted in partnership with researchers from the Southern countries. The third phase is a conclusion and the design of an applicable instrument of analysis. The aim is to take the findings into account within the daily practice of aid planners and implementers. Alongside the publication of the working papers, we attempt to integrate practitioners, policy makers and academics as much as possible by offering them work-in-progress presentations.

This case study on Nicaragua analyses the shifting governance and institutional conditions in which aid takes place in one of the donor darlings. As of 2007, the Paris agenda is living a rude awakening thanks to

the change of government. When the government of Daniel Ortega came to power, it opted for a strong governmental ownership that threatens the deliberative spirit of the aid effectiveness agenda, as promoted by the previous administration led by Enrique Bolaños. The Sandinista government also abandoned spaces for political dialogue and entered into a markedly hardline discourse against Western interference based on political conditionalities. In this context, the 2006-2010 development plan suffered poor ownership, as no civil society organisations stood up to defend it.

In the polarised political landscape of Nicaragua, state institutions are being dismantled and recreated with political clients. Stunned by the rapid decline of their former darling, and already divorced from the comfortable "special relationship" they enjoyed with the previous administration, donors seem helpless. There is an important lack of sound capacities for political dialogue in a suddenly adverse environment. One of the main lessons of this case study, as a result of a close collaboration between a Nicaraguan and a FRIDE researcher, is that donors need to improve their understanding of the political and institutional context in which aid is implemented if they are to foster sustainability of aid effectiveness.

# Nicaragua: a testing ground for Paris

Nicaragua, a country that since the beginning of the 1980s has received and depended on high levels of international development cooperation,<sup>1</sup> took its first steps towards the harmonisation of donors during the administration of Arnoldo Alemán (1996-2001), the second democratic government of the Constitutionalist Liberal Party (*Partido Liberal Constitucionalista*, PLC) after the electoral defeat of the Sandinista National Liberation (*Frente Sandinista de Liberación Nacional*, FSLN) in 1990. In Nicaragua, the beginning of coordination and harmonisation on the one hand, and the process of adhesion to the **Heavily Indebted Poor Countries Initiative (HIPC)** on the other, are closely linked.

Given that Nicaragua is a country immersed in a grave situation of poverty and inequality, in addition to its high levels of foreign debt, the HIPC process (which began in December 2001 and culminated in January 2004) allowed it access to extraordinary foreign support. This came alongside demands from the international community for changes to and advances in national efforts to reduce poverty. In this context, Nicaragua committed to designing a poverty reduction strategy (PRS), which was supported by the international community.

According to official data, the **Official Development Assistance (ODA)** received by Nicaragua in 2005 represented 20.7 percent of its Gross Domestic Product (GDP) and over 50 percent of its budgetary deficit. Since 1995, ODA has been increasing, especially in the form of loans, and has represented an income of between 95 to 123 dollars per capita.<sup>2</sup> The

average volume of aid received by Nicaragua between 2002 and 2005 amounted to 549 million dollars, of which 54 percent was donations and 46 percent loans. 56 percent of the aid came from multilateral development cooperation and 44 percent from bilateral development cooperation. The main multilateral bodies are the Inter-American Development Bank (IDB, 21.5 percent), the World Bank (WB, 17 percent) and the European Commission (EC, 8.2 percent). Of the total donations, 61 percent came from four countries alone: Denmark, Japan, Sweden and the United States.

Nicaragua, with one of the highest levels of ODA per capita worldwide, is a **donor darling** of international development cooperation. Since the 1980s, Nicaragua has received international support through solidarity movements – in particular from the Left – that endeavoured to support a country that was facing international aggression and a bloody civil war. During the 1990s, this solidarity was institutionalised in twin-towning and in non-governmental development cooperation. For its part, bilateral development cooperation followed the outlined path, in particular that of international non-governmental organisations (NGOs). Official agencies found favourable conditions for their work, since many Nicaraguan youngsters left the country to become professionals abroad.

In general terms, development cooperation in Nicaragua is a **very complex phenomenon**, not only because of its volume in relation to GDP, but also due to the high number of international actors involved, which causes a considerable level of fragmentation. According to official data, there are around 40 official agencies based in the country, which implies that harmonisation involves many diverse interests and political priorities. In addition, development cooperation takes place at different territorial levels (municipal, departmental and regional) and supports different public and private actors, such as NGOs, mayoralties and brotherhoods, amongst others.

<sup>1</sup> According to the Chancellor's Office, Nicaragua is one of the main recipients of aid in Latin America, having received an average of 650 million dollars from 1994 to 2005; and according to the Ministry of Treasury, in 2003 aid represented 29 percent of the GDP and 50 percent of the budgetary deficit.

<sup>2</sup> Gosparini, Paola et al (2006), p. 29.

## First steps of a pilot country before the Paris Declaration

The Nicaraguan context is unusual in its **early efforts** to coordinate foreign aid. Thus, between 1995 and 2003, the so-called **Consultative Groups** held five meetings, under the coordination of the IDB, in which development cooperation was discussed.<sup>3</sup> The Stockholm meeting in May 1999 was of special relevance, bringing about a broad consensus between government and donors on integral reconstruction (attending to political, economic and social aspects) after the Hurricane Mitch disaster in October 1998.

In 1998, the **Good Governance Group** (GGG) was created as a space for dialogue among donors with the main objective of creating a common voice in the face of a government that, on occasions, showed little respect for agreements with the international community. It also provided a means of following-up on the advances in adherence to the HIPC, especially with regards to the design of a poverty reduction strategy and the subsequent expenses.

On the government's part, institutional capacities were consolidated to attend to the development cooperation coordination process. Thus, the Ministry of Foreign Development Cooperation became a presidential department and then moved to the Chancellor's Office and a Deputy Ministry. At the same time, the **Technical Department** (SETEC) of the Presidency was created, which, with the support of the WB, the IDB and the International Monetary Fund (IMF), was responsible for designing the poverty reduction strategy.

Towards the end of the administration of Arnaldo Alemán (1996-2001), Nicaragua designed the **Strengthened Growth and Poverty Reduction Strategy** (SGPRS), which was approved by the WB, and consulted with the international community in at least four working sessions between 1999 and 2000. In addition, the **Supplementary Social Fund** (SSF)

was created as the first mechanism to channel resources to a pool assigned to the fight against poverty.<sup>4</sup>

Another relevant development was the creation in 1999 of the **National Council for Social and Economic Planning** (CONPES), a permanent space for civil participation with constitutional status and with the main function of advising the President of the Republic on the design, implementation and evaluation of social and economic policies. The President has the power to select the organisations that participate in the Council and appoints an executive secretary to run it.

The administration of Enrique Bolaños (2002-2006) gave greater impulse to **dialogue with the international community** and proposed a permanent dialogue structure among the different development actors: government, the international community and civil society. During this time, Nicaragua became a **true laboratory** to test the commitments that would later form part of the Paris Declaration (PD). The most relevant processes between 2002 and 2005 were the following (see also appendix 2):

- In 2002 and as a follow-up to the Monterrey Conference, the **First Development Cooperation Coordination Forum** took place, focussing debate on mutual understanding of the lack of effectiveness of aid for poverty reduction.
- In 2003, the government created, by presidential agreement, the **Sectoral Round-tables** for development cooperation coordination and the **Global Round-table**. The GGG disappeared to make room for the new dialogue system. The Second Forum was held, with debate focussing on the functioning of the Round-tables and the sector wide approaches, and the first sector wide approach in the area of Health was implemented. The Fifth Consultative Group was also held in Managua, assessing the change in focus from the SGPRS to the **National Development Plan** (NDP).

<sup>3</sup> The consultative groups organised by the IDB were held first in Paris in 1995, second in Washington in 1996, Third in Geneva in 1998, fourth in Madrid in el 2000, and fifth and last in Managua in 2003.

<sup>4</sup> A Government-Donors Committee was created to decide each year the destination of funds assigned to the FSS, to which public institutions from the social sector and mayoralities could also apply.

- In 2004, Nicaragua's **adhesion to the HIPC** was confirmed when it signed an agreement with the IMF. The **Budget Support Group (BSG)** was created and sectoral plans for governance, citizen security, education, health and rural development were presented. The creation of the **NDP and the NDP-0 (Operative)** was concluded. Moreover, the Third Forum was held, debating the functioning of the Round-tables and advances in the different sectors.
- At the international level Nicaragua gained importance thanks to the progress of governmental proposals to improve dialogue with the international community and the effectiveness of aid. In 2004, Nicaragua was also selected as a pilot country for the **Joint Country Learning Assessment (JCLA)**. During the same year, the High Level Mission of the Organisation for Economic Cooperation and Development (OECD) evaluated the JCLA advances and, immediately afterwards, the country hosted the first meeting of recipient countries associated with the OECD Development Assistance Committee (DAC). The findings of the JCLA and the debates gave rise to common positions among recipient countries in the Second High Level Forum in Paris, as well as the first version of the **National Plan for Ownership, Harmonisation and Alignment (Plan OH&A)**.

## Building the effectiveness structure

### Main steps after signing the Paris Declaration

The Paris Declaration (PD), signed in March 2005, finds a government and an international community highly aware of the need for change in the functioning of development cooperation, with numerous spaces for dialogue and a working process of improvement of institutional capacities.

The principles agreed in the PD required greater strengthening of planning and assessment instruments, particularly with regard to the processes and actors of harmonisation and alignment. With this end in mind, the Nicaraguan Ministry of Foreign Relations (MINREX) presented in November 2005 the **National Plan for Ownership, Harmonisation and Alignment (OH&A Plan)**. This document integrated efforts scattered around different sectors and assigned responsibilities not only to the government, but also to the donor community.

In addition, Nicaragua was again selected by the DAC to participate at the international level as a **pilot country in the monitoring of compliance with PD commitments**. In 2006, the country participated in the design of a questionnaire to create the DAC baseline for measuring PD advances.

With regard to institutional capacities in the public sector, Nicaragua has progressed substantially in **public financial management**, both in terms of management and transparency instruments as well as adequate legislation. Since 2003, the Integrated Financial Management and Audit System (IFMAS)<sup>5</sup>, the National Public Investment System (NPIS), the

<sup>5</sup> Permits online follow-up of public expenses.

Treasury Single Account (TSA),<sup>6</sup> and the new Financial Administration Law (2005)<sup>7</sup> have been created. All these instruments allow for greater transparency in the use of resources.

In spite of the country's role in different international fora, the concepts of harmonisation, ownership and alignment were only deeply disseminated within some circles of the public sector, most notably the directorates of planning, administration and financing. It wasn't so easy for civil society to access these new bases. It is worth highlighting that, traditionally, civil organisations centre their attention on questions related to the political and economic system, and do not consider aid effectiveness as a central issue in their agenda. This is changing insofar as the importance of debating development financing is now recognised.

## The Paris principles in Nicaragua

The OH&A Plan addresses the PD principles in five sections: Ownership and Leadership; Harmonisation, Alignment, Mutual Accountability, and Results-based Management. Following the logic of integration of the aid effectiveness agenda, as established by the PD at the international level, each epigraph has an objective, results, goals, indicators related to the PD, plan indicators, deadlines and actors involved. Implementation is developed according to a baseline, made up of 20 selected indicators in a continuous discussion process between the government and the international community, with civil society representatives as observers. In 2006, the first assessment of the plan was presented, but as yet it has had no significant impact due to its short life.

The Plan is coherent with the PD, but it carries weight in relation to instrumental and procedural aspects. Its main results are oriented towards changing administrative and financial procedures that depend on

<sup>6</sup> Single account where all resources of the national budget must be placed, regardless of the source.

<sup>7</sup> Obliges to include in the budget all resources to be spent, including donations. If a donation is not included in the Parliament-approved budget it cannot be used.

the institutional policies of each development cooperation agency. Nevertheless, most donors still face great difficulties in fulfilling their commitments to the Paris Nicaraguan chapter, as shown in a recent DAC evaluation.<sup>8</sup>

Joint development cooperation principles have also been defined in the Joint Financing Agreement (JFA) for the General Budget Support (GBS), which uses national systems and is included in the portion of the Republic's general budget that remains un-earmarked in order to cover financing gaps. This agreement, signed in 2005, establishes principles on democratic institutionalisation, transparency and human rights, amongst others. As part of the follow-up strategy, a matrix with performance indicators has been developed in five strategic areas: public finance, macroeconomics, the social sector, the production sector, environment, and governance. All indicators are linked to the NDP.

## The bases and spaces for political dialogue

Between 2002 and 2006 the government called for and held, on an annual basis, the so-called Development Cooperation Coordination Fora. In 2003, the Global Round-table and the Sectoral Round-tables of dialogue, between public sector institutions responsible for sectoral work and the international community that provides aid, were created with the objective of advancing the harmonisation and alignment agenda.

The Development Cooperation Coordination Fora, held between 2002 and 2006, are spaces for assessing progress in harmonisation and alignment in development cooperation. According to the previous government, "the Fora have become permanent dialogue mechanisms".<sup>9</sup> Nevertheless, the process has come to a halt in 2007 due to political issues.

<sup>8</sup> Donor performance can still be significantly improved with regards to provision of funds, the number of Project Implementation Units and mission coordination; see OECD/DAC 2006.

<sup>9</sup> Government of Nicaragua (2006b), p. 18.

The **Global Round-table for Development Cooperation** is the main entity of the political dialogue structure. It is formed of the sectoral cabinets' coordinators,<sup>10</sup> those in charge of the global institutions (Department of the Presidency, Treasury, Chancellor's Office and SETEC),<sup>11</sup> and the heads of mission of all donor countries. Its mandate includes sharing information regarding the fulfilment of commitments by the government and by the donor community.

The government is responsible for setting the date and agenda of the Global Round-table meeting. Currently, the Department of Economic Relations and Cooperation deals directly with the Round-table. In 2007, after the change of administration on 10 January, there was only one meeting (in the month of July) and a few bilateral meetings when the Round-table coordinator attended to the Hurricane Felix emergency. Initially, the **Sectoral Platforms**, created by Presidential Agreement 71-2003, were to consist of 6 platforms and 12 sub-platforms.<sup>12</sup> However, three sub-round-tables did not work: Citizen Security and Defence, Export Promotion, and Competitiveness. This failure was due to a lack of leadership from the governing institution in some cases, and low donor participation in others.

The sectoral round-tables and sub-round-tables were tasked with designing sector wide approaches that would translate into strategies with a paid-for sectoral plan. Each plan should include current and future

internal and external financing commitments. It was not an easy task, especially given the lack of provision of external resources. However, some sectors had a good starting base, such as the PRORURAL, whose strategy had already been designed and broadly consulted throughout the entire national territory.

The Bolaños administration formally advanced towards the **inclusion of civil society** in the design processes of some **sector wide approaches**. Civil society participation in the planning process of the OH&A Plan was formalised by the integration of CSO representatives in the National Plan Follow-up Group, made up by the MINREX, the United Nations, Japan, Netherlands, the EC, and the Civil Coordinator. However, the design process of strategies and sectoral plans demanded too much effort from the sectoral institutions in charge, and hence some of them decided to pass through this learning process without implying civil society actors (for example, the Supreme Court of Justice). In other cases, erratic functioning prevented the inclusion of civil society (for example, Citizen Security). Another determining factor was the fact that the debates were considered too complex (for example, in relation to the GBS). On some occasions, the CONPES was invited but failed to appoint adequate delegates to follow-up on the process.

## Mechanisms and instruments for harmonisation and alignment

Donor harmonisation has been more dispersed since the disappearance of the Good Governance Group. A **Global Donor Round-table**, whose members are the Heads of Mission who meet twice a month, exists. In these spaces, donors seek common positions for political dialogue with the government. However, some agency representatives consider the Global Round-table a formal and somewhat inefficient mechanism. Mechanisms with a more stable functioning are those created around multi-donor programmes, that is, around concrete operations, such as the Anti-Corruption Fund, the Public Sector Technical Assistance Credit (PSTAC) and the Budget Support Group (BSG).

<sup>10</sup> The Bolaños government organised the coordination of the public sector into sectoral cabinets: Social, Economic, Governance and Defence, Production and Competitiveness, and Infrastructure. Each had a minister acting as a coordinator; and a Coordination Cabinet made up by the 5 cabinet coordinators, led by the Secretary for Coordination and Strategies of the Presidency. This government has Council Coordinators (Atlantic Coast, Public Policies, Security and Food Sovereignty, Communication, and Citizenship) and Presidential Advisers with ministerial rank, all reporting to the President of the Republic.

<sup>11</sup> This central body of governmental management and its link to international development cooperation was recently suppressed by Presidential Decree (111-2007); published in *La Gaceta (Diario Oficial)*, 4 December 2007.

<sup>12</sup> Governance Platform, with the Sub-Platforms of Justice, Civil Security and Defence, Decentralisation, and State Reform; the Education Platform; the Health Platform; the Infrastructure Platform, with the Sub-Platforms of Transport, Water and Sanitation, and Energy; the Production and Competitiveness Platform, with the Sub-Platforms of Rural Development, Environment and Natural Resources, MIPYME, Competitiveness, and Promotion of Exports; and the Social Protection Platform.

Over the last four years, the international community has adopted measures that tend to reduce the number of individual projects and has increased joint funds modalities, delegated development cooperation and trust funds. This has implied an increasing harmonisation process and the reduction of the administrative burden of public institutions, especially through **joint programmes**.<sup>13</sup> From a donors' perspective, the main advantages lay in being more assertive with regards to priorities expressed in public policies, while the government appreciates its clear link to public budgets and greater control over programmes.

**Other mechanisms** of harmonised development cooperation have been those linked to general or sector wide budget support. The most important is the WB's PRSC that is co-financed by the German KfW and the Institutional and Municipal Strengthening Support Fund (GTZ, Finland and DfID). The EC has a *sui generis* form of budget support: funds are tied to advances in specific sectors, that is, that they measure the performance of the sector, without necessarily assigning additional funds other than those distributed by the general budget.<sup>14</sup>

## Mechanisms and instruments for ownership and alignment

The main ownership and alignment mechanism is the **NDP and the NDP-O (2005-2009)**, through which the government sets the country's priorities for the next five years. Sectoral and sub-national plans derive from the NDP, which is the revised version of the SGPRS and reinforces consideration of economic growth from territorial potential, such as inputs for poverty reduction. Territorial approaches prevail (development plans were designed in all of the country's departments

and regions under the NDP umbrella), in addition to sectoral strategies. At the time of writing, the new government has still not presented an official position in relation to the NDP and NDP-O.

The most evolutionary instrument derived from the NDP in the past few years has been the **sector wide approach**. Formally, this approach must have a sectoral strategy, a strategic plan, costs and financial-administrative agreements between the donor community and the public institutions involved. Herein, two types of instruments have arisen. Firstly, the **codes of conduct**, which establish the principles of aid in the sector – for example, co-responsibility for the results of aid implementation, prevision of resources, usage of national procedures, strengthening of national capacities and unified follow-up systems, amongst others. And secondly, the **memorandum of understanding**, that establishes the financial and administrative agreements.

The NDP-O and sector wide approaches have also strengthened results-based public management. The NDP-O, the GBS and the sectoral plans have **matrices for performance assessment** and a **National Follow-up System of Development Indicators (SINASID)**, which began in 2002. The SINASID periodically reviews advances according to the different assessment matrices.

Given the need for a planning horizon that stretches beyond the annual national budget, the government has designed **Medium Term Budget Frameworks (MTBF)** with the aim of better predicting demands and better managing the acquisition of international development cooperation resources. The MTBF is also needed in the new results-based management strategy, given that public processes hardly show any results in one year. In the search for transparent public management, the Ministry of the Treasury has developed the **Integrated Financial Management and Audit System (IFMAS)**, which allows anyone to review the implementation of the Republic's General Budget online, both according to institution and expenses. One IFMAS terminal is located at the National Assembly (NA) headquarters

<sup>13</sup> The most important joint programmes include the PSTAC; the Anti-Corruption Fund; the PRORURAL Support Pool; the Education Pool; FONSALUD; the Programme for the Modernisation of Political Parties and the National Assembly; the Civil Society Support Pool; as well as the Sexual and Reproductive Rights Support Fund.

<sup>14</sup> For a detailed assessment of EU development cooperation, see Grigsby and Membreño (2006).

and there is another at the CONPES headquarters – the President’s consultative body (see above) – in order to allow CSOs to carry out their own audits of public expenses.

The **Official Development Assistance Information System** (SYSODA) is the record and classification of international aid by type: loans or grants; geographical location; sector; and year. It has been a fundamental tool for the analysis of consistency between national priorities and the destinations of international funds. The SYSODA is currently operative and is updated to October 2007. Since it is published online, it can be used by anyone who is interested.

Finally and in parallel to the SYSODA, a **Non-Governmental Development Cooperation Information System** (SYSONG) was created, which reflects the projects of the NGOs active in Nicaragua. The follow-up of non-official development cooperation is still fragmented since it is a voluntary instrument and does not cover all decentralised development cooperation received by Nicaragua.

## The political system as an obstacle to social consensus

This study has taken as a point of reference the functional concept of democracy as a *permanent process of renegotiation of the social contract*.<sup>15</sup> This concept implies a certain state-citizenry relationship, rules of the game and capacities to fulfil entrusted roles. This section examines the relevance of the level of democratisation in the development context and the international development cooperation that supports it. In the development process democratisation is understood as a process that facilitates the growing institutionalisation of a substantive, inclusive participation, based on the rights of citizens in state decision-making and, in general, in a country’s political project and socio-economic development process.

Seemingly, the democratisation process in Nicaragua, a partially free country according to Freedom House and a hybrid regime according to *The Economist’s* democracy index,<sup>16</sup> has reached a certain level of formal maturity in terms of electoral processes and political pluralism, civil liberties, a functioning government oriented towards social demands and the possibility of civil political participation. However, an analysis based on **political culture and practise** reveals the great fragility of the functioning and sustainability of the democratic political system. One of the reasons why the democratisation process has still not led to a political game with accepted and respected democratic rules by all actors involved, is the nature of existing relations between actors and institutions. Thus, clientelism and chieftainship still characterise a large part of political environment. In addition, the high level of polarisation affects the society and the functioning of formally democratic institutions.

<sup>15</sup> See Meyer/Schulz (2007)

<sup>16</sup> See Freedom House (2006) and Kekic (2006).

In this sense, an analysis of the depth of democratisation based on **political actors' capacities for and the way of interacting** is crucial. This chapter describes the different obstacles to democratisation that affect the cluster of actors in the political economy of development. Amongst these, it is worth highlighting clientelism, polarisation and the weakness of democratic institutions that converge to create great difficulties in achieving social consensus.

## The rules of the game: political culture

Amongst the gravest characteristics of the current political culture are **clientelism** and **polarisation**. Both have deep historical roots, dating from the Somoza dictatorship (1934-1979) that ruled the country for 45 years, with a political, economic and military hegemony that guaranteed its perpetuity in power. In 1979, the Somoza government fell due to the opposing civil insurrection and uprising, led by the FSLN, which ruled for 10 years.

The Sandinista Revolution declared itself socialist, under a regime of a mixed economy, political pluralism and international non-alignment. However, it carried out a confiscation policy towards former Somoza supporters who fled into exile, and created large public corporations, nationalised the banking system and the mines, repressed the opposition and maintained a close relationship with the socialist bloc led by the former Soviet Union. This practise created a **gap between Sandinism and Anti-Sandinism** that still exists today. The Sandinista regime was considered authoritarian and there was confusion between state and party. It was, however, key to the incipient institutionalisation of democracy, since it supported free and transparent elections in 1990, which led to the end of the Sandinista government.

On the other hand, during the Sandinista decade the country suffered a six-year **bloody civil war**, financed by the United States government and supported by some countries in the region, which destroyed

production capacities, and widowed and divided Nicaraguan families. The gap created by different policies for the rich and the poor penetrated so deeply into the national identity that it became difficult to overcome this dichotomy in the political culture.

Democratic transition, that is, abandoning party statehood for the building of a public rationality based on the primacy of the greater good, which took place between the end of the Sandinista Revolution and the return to power of the FSLN, was not concluded. After 16 years of liberal democracy, the Nicaraguan state achieved fundamental progress in the construction of a free market system, civil liberties and political pluralism. However, during the first years of liberal democracy (1990-1996), following the Washington Consensus mandates, the government's institutional capacities were dismantled. Without doubt, the state compression process provoked a serious decrease in Nicaragua's institutional capacities, which were already frail. This still affects **extremely weak planning, public administration and resource management capacities** for the delivery of public services.

The Nicaraguan political system provides frail bases for tackling the country's political and social challenges. The state is constantly weakened by a **somewhat unstable public sector**, in which each change in government represents a complete substitution of high and medium level technical officers, which is generally guided by clientelism and partisanship. The result is a complete renovation of officers every five years with the subsequent loss of accumulated experience and a discontinuity in the delivery of public services at all levels. Although a Civil Service and Administrative Career Law was approved in 2005 in order to introduce a merit based system, it has only been partially implemented, apparently due to a lack of budget resources. Thus, between 2005 and 2006, only 5 percent of employees could be integrated into the human resources system.

## Representing interests: lack of channels for the poor majority?

The two major political parties (PLC and FSLN) are the main actors of the political system, but they do not function as political organisations that channel and interpret social demand, but rather as power groups that seek more and more control over the establishment and its institutions. The control of the NA, the courts, the Electoral Council, the CGR and the Prosecutor's Office is permanently on the parties' agenda. In addition to corresponding power quotas, political actors are interested in guaranteeing, at least temporarily, the immunity and impunity of some of their leaders and allies. This is facilitated by the control of public institutions, without leaving room for feedback from citizens. Representative democracy is in a state of crisis due to the weaknesses of party institutions. These latter have become organisations at the service of individuals and not ideologies or visions of development.

This does not imply a lack of a social bases, but these have deteriorated and dispersed in the last five years. The population with the least development opportunities see chieftains as offering the possibility of direct aid through subsidies and direct support programmes. The dispersion of social bases has promoted the creation of two alternative parties, namely the Nicaraguan Liberal Alliance-Conservative Party (*Alianza Liberal Nicaragüense-Partido Conservador*, ALN) and the Sandinista Renovation Movement (*Movimiento Renovador Sandinista*, MRS), which have managed to emerge as forces with parliamentary representation without achieving the majority of votes against their adversaries.

The most emblematic example of the traditional parties' agenda is *The Pact*, which consisted of a negotiation between the two chieftains Arnoldo Alemán (PLC) and Daniel Ortega (FSLN). In addition to reducing the necessary majority to win the presidency from 50 to 35 percent of votes, it aimed to bring about perpetual impunity for both them and their allies (against corruption accusations in the case of the

former and rape in the case of the latter). Moreover, they guaranteed mutual support for the survival of their parties with power quotas in all magistratures elected by the NA, when both parties controlled the Assembly. As a result, the parliament is still not an effective Round-table for debate and public policy decision-making.

**Civil society**, with somewhat recent historical roots, is an important actor. After the FSLN electoral defeat in 1990, several highly politically experienced Sandinistas began to move away from party ranks due to differences with the party leadership and thereby formed the genesis of the current civil society by founding the main national NGOs. Hence, civil society's origins are highly political. The former Sandinistas, who are the main leaders of civil society organisations, have a very critical relationship with their former party, and a contemptuous relationship with the Right. In this sense, communication between civil society and the political class is not always favourable or effective, but it does have a high level of autonomy.

Currently, **participative democracy** is undergoing a process of debate. Since 2003, Nicaragua has had a Citizen Participation Law with the aim of "*promoting full civil exercise in the political, social, economic and cultural arena, through the creation and operation of institutional mechanisms*". On this basis, institutional mechanisms – territorial and sectoral – were established for the interaction between government and citizens and applied to the processes of consultation and participation in development strategies. To this legislation, a proposal from the Bolaños administration for a participation system was added, which made it easier for smaller territorial levels to be represented at the higher level until all representations are united in CONPES, a body established by the Law.

This system of civil participation, initially conceived for a permanent dialogue in the search for consensus between society and the public sector, has national, sectoral and territorial concertation spaces. National spaces include the CONPES and the National Council for Sustainable Development (CONADES). The

CONPES acts as an advisory body to the President on social and economic issues, and the CONADES as a body for the design of sustainable development policies. Both are made up mainly by organised civil society with the participation of public sector members in debate and deliberation.

Thus, the debate on development and poverty reduction, promoted during the last ten years, has been channelled through a parallel system not directly linked to the political class. In other words, civil society has staged debates that did not coincide with the concerns of the political class. On a very few occasions, the parties have accepted civil society initiatives related to the fight against poverty, and given the current conditions, this is unlikely to happen in the future. Social consensus and the social contract can only be achieved when the main forces agree on a path and the models of development, however.

It can be currently affirmed that during the past 30 years, social divisions have deepened in Nicaragua. This has prevented the creation of a **vision of a nation or a vision of development**. The political system accentuates social differences through hardly democratic political practises such as polarisation, clientelism and chieftainship. This creates weak public institutions, especially concerning the independence of the powers of the state, and fragile rule of law, for example with regards to corruption. The lack of common objectives and joint development models, which separates the political and social groups, allows the elites to reach survival agreements only in situations of crisis due to natural or social disasters (such as Hurricane Mitch in 1998), when society has managed to unite under the same banner.

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## The Paris Declaration on shifting sands: the challenge of understanding the Nicaraguan political economy

### The effectiveness scenario: the actors and their interests

For the purpose of this study, the actors involved in the so-called political economy of harmonisation are, firstly, the public institutions of the Executive in charge of the design and implementation of global and sectoral policies. Based on the international consensus established by the PD, the Nicaraguan government is the principal interlocutor for donors and is responsible for providing an effective authority over development policies. Secondly, and following the methodology established for this study, the following axes of the "supervising triangle" have been identified: the National Assembly, the National Comptroller's Office and civil society. This triangle includes actors that influence or can influence in a relevant manner the political economy of development, the safeguarding or weakening of transparency, information and participation. As a whole, the national government and the supervising triangle represent the spectrum of public and private institutions active in the development process.

The **public sector** is the actor that has shown the greatest interest in the implementation of the PD in Nicaragua. One of the main reasons is that harmonisation gives, especially to the government, more margin for autonomy on public management decisions insofar as there is greater control, and

ultimately, liberty in the use of resources. Even though it has required considerable efforts in national and sectoral strategic planning, it has had the support of development cooperation to hire experts in the various aspects of the design and implementation of strategies and policies.

Ever since the first steps towards donor coordination, **Nicaraguan civil society** has been somewhat concerned about the harmonisation process. Amongst the main reasons for this is its critical stance on the quality of civil participation in the design of the SGPRS and the NDP, which, according to several sources, was limited on many occasions to simple information and consultation. The main interest of NGOs and civil society leaders, since they do not feel a sense of responsibility and ownership towards these strategies, lies in the continuity of funds to their activities.

At the time of writing, some organisations have accused the government of authoritarianism and undemocratic practises. In addition, there is open government contempt towards civil society organisations, as it questions their level of legitimacy amongst the population. On the other hand, the current government is promoting a new form of “civil” organisation – Citizen Power Councils (CPCs). The CPCs, which aim at orienting and supervising public management, are formed throughout the Sandinista party’s bases. Some civil society representatives see the CPCs as an element that could hinder the current functioning of the National Participation System and, consequently, erode the very bases of the democratic system. Finally, it is worth mentioning that in spite of civil society demands for a deep participation in discussion and decision-making about harmonisation, it makes little effort to harmonise itself and align to national policies.

The **National Comptroller’s Office (CGR)** is the public institution in charge of controlling the public administration and supervising governmental funds. Its role as supervisor gained importance in 2006, when it audited for the first time the totality of the state’s general budget. Currently, the CGR Superior Council is

made up of five members – three Sandinistas and two liberals – elected by the NA and whose party composition depends on the belligerent forces in the parliament.

Even though it is a body affected by political polarisation and corruption, its actions as a supervising body imply that the CGR has a high level of interest in the control and auditing of the new modalities of aid. Nevertheless, the effectiveness of its interventions is limited, since the CGR does not directly audit the actions of donors and their contributions to different programmes and governmental budgets. One of its structural weaknesses lies in the scarce number of auditors, which, according to the CGR itself, derives in part from limited collaboration with international development cooperation (only the AECI and the GTZ support the CGR). In this sense, the CGR perceives harmonisation as an essential part of its supervising agenda, especially given its relevance in financial and budgetary terms, but it seeks more support in order to be able to assume an effective role in the political economy of development.

Finally, the **National Assembly (NA)**, with 92 members and a five-year legislative term, plays a fundamental role in the approval of the Republic’s general budget, loan programmes and financial and fiscal legislation. Therefore, its attitude is especially relevant in relation to the new modalities of aid and public financial management within national systems.

In previous years, the NA came under strong pressure to approve changes in legislation required by the International Monetary Fund (IMF), which were translated into prerequisites for the disbursement of general and sector wide budget support funds. However, the NA has undoubtedly increased its influence and decision-making power insofar as resources are oriented by national norms and systems. The Commission for Economic Affairs, Budget and Finance, with 17 members, is the body directly involved. Its main role lies in legislation relating to fiscal and financial budgetary matters, including the approval, supervision and control of the State’s

General Budget Law. The NA receives support from international development cooperation within the framework of the NA Modernisation Programme, implemented by the United Nations Development Programme (UNDP) with funds from European donors. However, the high level of polarisation described in previous sections also affects the capacities of the NA to fulfil its parliamentary mandate of controlling the government. In this sense, harmonisation processes are still not a central issue on its agenda. In general, it seeks opportunities to influence the political economy in a fragmented and ad hoc manner.

In sum, the supervising triangle acts in an isolated manner and more in response to circumstantial demands than according to a deliberate strategy of social and institutional control of public management. There is a potential in the three sides of the triangle that could be reinforced and, above all, integrated with the rest of the actors. An example could be the alliances between civil society and the NA, which are under strong pressure from the political polarisation described in the previous section. The CGR is another key actor, a body whose importance is crucial to the political economy of development, but which does not have enough support, nor adequate interest and commitment, from the donor community.

## Governmental ownership or social contract?

Without doubt, the Bolaños administration bet on the participative character of the development plans and strategies and intended to achieve total ownership of the country's instruments, actively involving non-governmental organisations and citizens as a whole. The **NDP consultation** was divided into sectoral and territorial consultations. In the former, women, unions, youngsters, entrepreneurs and civil organisations, amongst others, were invited according to interest themes, even though the quality of participation was not always seen as adequate. For some civil society representatives it was limited to information gathering and formal consultation.

Against this background, the design of territorial development plans, later integrated into the NDP, had a principally participative character. Beyond political will, several limiting factors influence the possibilities for reaching full and institutionalised participation at the national level. The existence of deep political rivalries led to political rejection of any proposal by the Bolaños administration and the NDP was never presented to the NA. Hence, it was never recognised as a national project by the opposition.

Legally, Nicaragua has an incipient **National Participation System**, created in 2003 by the Citizen Participation Law, that includes and extends the existing spaces for public-private consultation. These spaces cover, in practice, the totality of public policies in Nicaragua. However, the Citizen Participation Law has still not managed to consolidate itself as a formal political space. In addition, given the country's existing situation of political polarisation, it has not been possible in recent years to guarantee adequate representation of the society's different interests, in particular those members of the population who live in conditions of extreme poverty and suffer social marginalisation. In this sense, on several occasions, participation has been limited to installed leaderships, that is, leaders based in Managua or the departmental heads, who have updated information, time and capacity to work, or members of NGOs whose task is to participate in consultation.

It is worth pointing out that **public policy consultation processes** with citizenry require, in addition to political will, at least three resources which are scarce in the national public sector: financial means, time and experience in participative methodology. International development cooperation has financed part of the consultation efforts, but this support has not been enough to establish a permanent consultation system. In other words, international development cooperation finances consultations according to the interest these might have in a specific policy or strategy which they wish to support with a participative and consultative process. On the contrary, public policies with less relevance or interest for donors do not receive enough

external resources for meaningful interlocution with citizens. In general, consultation spaces are perceived as practical; the government activates them only when it needs them.

Below the general level, some sectoral and territorial strategies, due to several **success factors**, have a broader level of ownership. It is obvious that in a rural development strategy (in this case, PRORURAL), the production sector's own interests and capacities facilitate greater involvement of non-governmental actors in the definition and consolidation of public measures. For their part, the National Plans for Health and Education reflect more concretely society's demands than the general definitions of the social policy. Concerning territorial plans, social actors are identified not only in terms of their production or social activities, but also by the very local culture that impregnates their local and regional demands. Among the necessary ingredients for the ownership by non-governmental actors is the utility of policies towards some actors that have enough capacities to influence the design and follow-up of public policies.

Far from reaching broader consensus, and with little perspective of becoming part of a social contract, the **public policy ownership model**, included in the NDP, is still fragmented and scarcely consolidated. From 2002 on, the government bet on formal civil participation processes and promoted legal bases as well as spaces. However, given the lack of resources and a political culture of polarisation and partisanship (for example in the case of the CPCs) of spaces and structures, it has not been possible to create a broader vision of ownership. In Nicaragua, it can be said that this has not only been limited to the governmental sphere, but it even refers to a specific government. In other words, with the new government, this ownership has disappeared and currently there is no actor – governmental or non-governmental – that defends the former government's public policies.

## Civil society in the political economy: capacities and restraints

Active civil society has been formed by Non-Governmental Organisations (NGO) rather than associations, social movements or an organised population. Hence the clarification that amongst the actors in this study, the sectors of civil society with greater influence are NGO networks, such as the Civil Coordinator, the Movement for Nicaragua, the Network for Democracy and Local Development, and associations of producers with national representation. This type of actors does not necessarily facilitate an effective and immediate civil participation. In the case of the NGO sub-sector, it is definitely a national development actor that shares two **main tasks**:

- Promoting local or national development processes, promoting audits and social control and civil participation in public management; and
- Acting as an intermediary for resources between development cooperation agencies and the communities or entities with which they collaborate.

Civil society participation is still fragile. In the design of **development strategies**, participation has been functional in the strategy making process, both in the SGPRS and the NDP. Both consultations were carried out using methodologies of opinion gathering, and the decision of which opinions to take into account was a prerogative of the former government. The lack of common perspectives is due to the fact that in Nicaragua there is no national mechanism for reaching basic consensus. On the contrary, given the quality of civil society representation, the voicelessness of marginalised groups and the type of actors (professional leaders rather than representatives of social interests), the government sometimes gathers contradictory opinions. Dissenting debate is meanwhile too deep to be resolved within a consultation process with short timeframes. Currently, social capacity to reach consensus has weakened thanks to the tendency of the current government of ignore both NGOs and the territorial consultation processes built by the former government.

Civil society has not developed strong links with other actors. Thus, it has not managed to make alliances with the NA with regards to the definition of norms and legislation, especially with regards to budgetary matters. One of the reasons for this lies in the fact that the NA is controlled by the two major parties that had functioning political agreements. In addition, its budget and financial reform agenda is defined by agreements with the IMF, and the design of these is not open to civil society participation.

Since 2007, with the new government and an increase in the representation of opposition parties (including ALN and the MRS) the relationship has improved. This is largely thanks to the initiatives of opposition MP who want to improve their legitimacy by means of a closer relationship with civil society groups. There is still no influence on the national budget, but there is on some important laws such as the Access to Information Law and the reforms of the Law on the Organisation of the Executive Power. In the case of the CGR, strategies for collaboration can be improved and up until now there have not been sufficient bases for possible alliances, for example with regards to transparency and accountability of the Executive. Being the visible interlocutor of civil society, NGOs maintain **direct communication with the funders** of their projects, and hence the government's involvement is not considered necessary. This serves to fuel the government's contempt for NGO workers that previously tried to improve information on financial flows through the SYSONG system (until now voluntary). The direct relationship would have ramifications for the effectiveness of governmental actions in certain sectors if civil society actions were contrary to government policies. Lastly, among NGOs there seems to be a certain level of competition for resources, especially with regards to the new modalities of aid, even though they have some funds of their own.<sup>17</sup>

The **spaces for consultation** supported by the previous government were important but insufficient. Thus, since

<sup>17</sup> The Civil Society Support Fund for Democratic Governance and the Sexual and Reproductive Rights Support Fund.

they are not binding, policy officers did not always take the CONPES resolutions into account. Questions remain over whether these spaces will survive, in spite of being based on legislation. Seemingly, the practise of the current government will be to consult broad groups of individuals directly through the CPCs on big decisions rather than deliberate. Such councils are promoted from the governing party structure and the civil society fears that they only represent party interests and may lead to a severe weakening of civil society's position in the political economy of development.

Finally, it is necessary to reinforce civil society's **response and initiative capacity** with regard to harmonisation and some aspects of the implementation of the new modalities (such as the GBS, that requires a good knowledge of public financial management). Concerns over other central issues to the country's democratic and institutional development leave little room for incentives to professionalise the work of civil society in this direction. Another issue is the lack of clear strategies among the donor community to accompany the new modalities with investment in civil society's parallel capacities.

## **The role of the donor community: actor or spectator?**

Agencies are divided into several groups according to their disposition and involvement in harmonisation. On many occasions, issues regarding the donor's institutional organisation determine this disposition, for example the level of autonomy that headquarters grants their offices. On the other hand, there is also a donor classification according to global involvement in the PD processes and general closeness to the policies promoted by the DAC. In this sense, the interests and capacities for political dialogue of the donor community are not homogenous and hence have a different impact on the political economy. The bilateral donor community can be divided into the following **classification**: A first group composed by the so-called "like minded" donors – Canada, DfID, Denmark,

Finland, Netherlands, Norway, Sweden and Switzerland – that share principles and strategies and have managed to create pools for controversial issues, such as the Anti-Corruption Fund, the Civil Society Support Fund, and the Political Party and NA Support Fund. This group usually delegates its development cooperation to one of the bilateral agencies or to a multilateral agency. A second group of donors – Austria, the European Community, Germany, the Inter-American Development Bank, Italy and Spain - shares coordination and harmonisation spaces and principles, but is more reluctant to delegate development cooperation and pools. A third group – Japan and USAID – is composed of donors with a deep bilateral culture in their development cooperation system, which is also more strictly subordinated to their foreign policy. Finally, there is the heterogeneous fraction of “new donors” active in Nicaragua, including Iran, Venezuela and Taiwan, whose presence and influence in the national political debate has increased significantly with the new government.

For the purpose of this study, special consideration has been given to the role of the donor community involved in or close to harmonisation, even though it is worth highlighting that new donors may represent a certain counterweight to the power of traditional donors. Amongst the development cooperation agencies linked to harmonisation, different **decentralisation** and liberty levels with regards to decision-making can be observed. Those donors with more decentralised offices, such as the Netherlands or Switzerland, achieve more agile changes in their forms of development cooperation negotiation and implementation. This, however, is not always an advantage, because they run the greatest risks in a context of low public institutionalism, where decision-making depends on the individuals holding certain posts and there is a fast rotation of personnel in charge of public entities. Another group of agencies, including the Spanish International Development Agency and the German GTZ, acts more cautiously and maintains a certain level of control over the use and destination of resources, adducing responsibility to its country’s taxpayers

and less trust in the viability and sustainability of national systems.

Generally, there is only incipient **sensibility with regards to the impact** of the development agenda on Nicaragua’s democratisation and political economy. On the one hand, procedures and technical management seem to dominate donors’ short and medium term concerns. And on the other hand, the majority of embassies reserve for themselves the exclusivity of political influence, without necessarily coordinating their actions with the development cooperation agencies. Finally, donor relations with the former government were very close and productive in terms of the aid effectiveness agenda. From a highly convenient situation for donors and government, it did not seem necessary to enter a debate on the power relations among national actors. As a result, its role in the political economy is unclear. This has limited response capacity, since the arrival of the new government, to drastic political changes.

In general, donors’ **analytical capacities** in the face of Nicaragua’s political challenges seem rather limited, despite their in-depth knowledge of the problems of the political system. With regard to issues such as polarisation and clientelism, donors tend to intervene in a rather spontaneous manner. They still avoid considering the determining factors of political processes, which could serve as a basis for designing and implementing strategies oriented towards the improvement of the political economy (for example, with regards to the possible success factors in sectoral policies).

There are several signs of the **impact on the political economy** of the actions of donors over the past five years. Thus, in relation to the triangle of supervising actors, the donors have acted, within their harmonisation processes, with a preference for the government, and with less perseverance in the search for civil society participation and consultation. However, collaboration with the NA and the CGR has not found a strategic place in harmonised development cooperation, and therefore it depends fundamentally on non-coordinated bilateral support.

Beyond the types of funding, it is important to highlight that the harmonised donors seem to have invested very little effort in the creation and consolidation of the supervising actors' own capacities. At the moment, practically all of these actors lack some of the fundamental bases (material and human resources, professional know-how, institutional maturity, amongst others) that would allow them to assume an active role in accountability, transparency or institutionalised participation in the design and implementation of the public policies supported by donors. On the other hand, the donor community has apparently not maintained a clear vision of the possible interaction between the different actors. The result has been the current "orphanhood" of the NDP, which was designed by the previous government and not taken up again by the current one. Betting on a mainly governmental ownership has not permitted a broadening of a feeling of ownership amongst the rest of national actors, especially among organised civil society. At the time of writing this study, the harmonised donors do not find allies with whom to debate the validity of the NDP-O, considered as a purely governmental product that does not stem from the social contract.

## Donors' unresolved issues: will we always have Paris?

Since the arrival of the new government at the beginning of 2007, the Nicaraguan political-institutional context has undergone deep changes that affect the processes of harmonisation and alignment.<sup>18</sup> The Sandinista government does not seem interested in continuing with the coordination guidelines that the previous government established with donors around the NDP and the different sectoral spaces. From a "stronger" ownership, the government is advancing towards a reassignment of the role of donors, which

could imply a significant reduction of their influence. In addition to this, there is a possible reconstitution of the spaces and mechanisms for civil participation outside the established system, and a significant deterioration in transparency and access to information.

These scarcely analysed processes have created a **complex environment for this study**, since the research had to take into account the progress of the effectiveness agenda over the past few years and its apparent demolition since the beginning of 2007. Against this backdrop, the research team chose to analyse the situation based on accumulated experience between 2002 and 2006, and to extract some possible lessons from the current situation in Nicaragua.

In general terms, although the discourse of the donor community acknowledges the possible impact of its alignment and coordination with the government in Nicaragua's political system, the debate on its **participation in the political economy** is still incipient. This is due to, on one hand, the extremely easy collaboration with the previous government; and, on the other hand, the open character of the Bolaños administration, which allowed donors to see an ownership beyond the government.

Hence, from a position of relative convenience in one of the PD's "laboratories", especially from a **privileged relationship with the previous government**, donors did not seriously consider the need for an assessment of the political economy of development in Nicaragua. However, the current political situation affects the power relations among all actors involved, especially between the government and donors on the one hand, and the government and civil society on the other.

This situation is the acid test for the harmonisation agenda in one of the "donor darlings" of the international aid system. However, it has also a **learning opportunity** in terms of the understanding of the role of donors in complex and changing political conditions. In this sense, recent developments seem to challenge the purely technical approaches of the application of the PD in the Nicaraguan context, if not incite a more

<sup>18</sup> For a more detailed analysis, see Nils-Sjard Schulz (2007).

holistic consideration of the role and space of donors in the political economy of development.

## Choice of instruments: isolated approaches

A broad understanding of how to create synergies among the different types of development cooperation has not yet been developed. Thus, some donor and civil society representatives insisted on the need to reinforce the capacities of the budget groups to accompany the use of the new aid modalities (for example, through fiscal alphabetisation). Nevertheless, an important obstacle to this parallel investment lies in the excess of civil society politicisation, which, according to some analysts, limits its “pragmatism” in the face of the maze-like budgetary processes.

The fragility of the national audit and accountability systems has prevented their consolidation as independent bodies in the medium term. Donor funding is not usually audited within national systems, however, but by international companies. Thus, the question is under what conditions would donors be willing to use and strengthen Nicaragua’s own systems. It is worth highlighting the fact that the donors with most reservations about the use of national systems are the ones that offer the greatest support to improve and broaden these very systems (such as Spain and Germany in the case of the CGR).

Another unresolved matter is the analytical capacities of civil society with regards to the aid effectiveness agenda. Knowledge of the PD principles is often limited to the professionals directly linked to this process (especially consultants and officials, from public bodies as well as development cooperation agencies). However, this debate has still not reached the actors of the supervising triangle in a significant way.

In addition to collaboration with each individual supervising actor, it is worth analysing the actions of donors with the triangle as a whole. Far from creating feedback among the NA, the CGR and civil society,

approaches have been isolated and have achieved only modest benefit for the political economy. It seems obvious that the new modalities could be accompanied by support for accountability in order to improve the capacities of actors at the different levels (horizontal and vertical) and at different stages (design, implementation and impact).

Nevertheless, it is important to take into account the possible negative incentives involved in empowering these actors with regard to control of the state’s budgets, when these are directly supported by donors. In general, donors prefer an inwards audit (towards “their” traditional audit systems, that is, parliaments and taxpayers of donor countries), fearing politicisation of this accountability. The majority of the donor community is aware of the scarce immediate results of general and sector wide budget support. Finally, the difficulties in attributing certain improvements to these type of modalities (“the attribution gap”) limit the capacity of donors to show real impact.

In sum, the same donor community that is involved in harmonisation may prefer to maintain exclusive control over its funds until political-institutional feasibility of the management of these instruments, and their impact on human development, has been secured.

## Capacities for political dialogue: convenience is not a good adviser

The capacities for political dialogue of those donors committed to harmonisation in Nicaragua are still not adapted to the challenges of the political economy. Generally, the donor community, based on a close relationship with the previous government, has focused on the “policy dialogue”, without advancing on the “political dialogue” in aspects related to the political system and the actors involved.

This has prevented, until the time of writing, a broader consideration of the possible political goals of cooperation and of the role of donors themselves in the power relations among national actors. Currently, the

donor community does not have a “road map” to ensure that foreign aid promotes democratisation.

In Nicaragua, donors engage in political dialogue at the following four levels, all of which have been poorly attended to.

#### *Dialoguing with the government: lack of basic cooperation criteria*

Over the last few years, dialogue with the government has focused mainly on the technical aspects and procedures of the process, as well as debates on some sectoral policies, especially education, health and rural development. Even though some structures include principles and indicators related to democratic governance,<sup>19</sup> dialogue with the government tends to be **limited to technical questions**, without an in-depth analysis of governance processes. Some donors insist on not interfering in the political dialogue of their respective embassies, but at the same time recognise that there is no close coordination with the embassies with regards to assessment of the political context and definition of lines of action.

On the other hand, the best place for political dialogue would be the Global Donor Round-table. Once the strategy for the fight against poverty has been defined, this structure tends to lack clear incentives for the inclusion of global issues of the political system, however. To this, it is necessary to add the **lack of a clear commitment** from the donor community to a series of **basic cooperation criteria** related to governance (such as, for example, legislation on participation and access to information). Such a commitment could lead, in the medium term, to the strengthening of public and political institutions.

#### *Dialoguing with the supervising actors: who fears whom?*

The focus on technical aspects and procedures has also led to somewhat unstable relations with the supervising actors. Without a solid analysis and understanding of the Nicaraguan political economy, donors consider the

complex political culture described in sections 3 and 4 as a **source of severe and hard to control risks**. This explains why the majority of donors, especially those most active in the new modalities, prefer to remain on the sidelines of such weak institutions, with whom it is very difficult to predict the results of political dialogue. In the case of organised civil society, the most serious limiting factors are the lack of analytical capacities and, to a lesser extent, the scarce tolerance towards pragmatic approaches in the face of the problems of the political system. Still, there is a close interaction with civil society on some specific political issues (gender and the environment, amongst others).

However, this has not translated into coordinated strategies for the improvement of the political economy. Rather, as some civil society representatives have indicated, the donor community applies its **values and principles in a circumstantial and fluctuating manner** that is perceived as practical and lacking long-term support.

#### *Dialogue among donors: the prisoner’s dilemma*

The potential for political dialogue among the members of the international community is subjected to the **high level of heterogeneity** of donors and their respective characteristics (see section 4). This diversity leads to difficulties in reaching agreements and consensus on political issues at the framework level.

The current situation of paralysis shows **important frictions**. On the one hand, there is a group of agencies willing to accept governmental guidelines with relative independence with regards to content. On the other hand, some donors consider the possibility of withdrawing from commitments that limit real control over the destination of funds. For donors involved in the new modalities, the fragmentation of possible donor approaches implies a situation similar to that of the prisoner’s dilemma, where the lack of cooperation leads to defecting from implicit basic agreements.

The donor community has not found a **common position** with regard to the changing Nicaraguan political scenario, and this is reflected in the scarce support for

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<sup>19</sup> For example, in the [Joint Financial Agreement](#) that provides the basis for the general budget support.

processes that were supported in previous years (such as the NDP or the National Participation System). This situation is due, at least partially, to a very weak consensus among donors on the development of the Nicaraguan political system, showing possible flaws in the political dialogue among the different agencies.

### *Supporting dialogue among national actors: beyond the "consulted" mark*

Building a sense of nationhood and a social contract around development is a very complex task in a country where the majority of actors are more centred on disagreements than on consensuses. The role of donors does not seem to have been favourable, since they have supported consultation and dialogue processes in a fragmented manner and according to their interests and preferences as donors. This has on occasions strengthened explicitly or implicitly a government that only needed the "consulted" mark. Thus, to date, Nicaragua needs to **consolidate its National Participation System**, which is being questioned by the current government.

## **Institutional set-up: decentralisation as a trap**

The organisational and institutional capacities of development agencies in the harmonisation processes have been developed according to the technical processes and mechanisms required by the PD principles. However, there is still a series of unresolved matters concerning the political dimension.

Analysis of the political economy is not a key aspect when many donors are immersed in institutional adjustments focused on joint procedures and mechanisms. Despite the fact that some donors have progressed in their **consideration of the political economy**,<sup>20</sup> this debate does not necessarily translate to local offices. In some cases, officials are unaware of the approaches designed by their headquarters and associated research centres. On other occasions, they

do not consider these very useful or relevant to their day-to-day work.

Another institutional dimension consists of the decentralisation (or "return") of analysis, the decision-making process, management and the resolution of problems from headquarters to the offices. Decentralisation is justified essentially by the need to interact more rapidly, easily and with greater flexibility and visibility in a more horizontal and direct relationship with the partner country. This can facilitate a **sensible improvement of the knowledge** of national contexts and ideally permit the accumulation of lessons learnt, which would in turn lead to meaningful specialisation of the offices in host countries.

The group of donors linked to the Paris process in Nicaragua includes, on the one hand, offices with a very limited mandate for harmonisation (for example, Germany and Spain), and, on the other hand, more independent offices with respect to decision-making (for example, the Netherlands and Switzerland). However, insofar as guidelines and strategies concerning the political economy do not concretely adapt to the challenges faced by officials, the benefits of decentralisation are of a merely technical nature. That is, they are reflected in the rapidity and agility of management. If this management is not accompanied by constant advice and training by headquarters, the responsibility for acting in the political economy rests with a **little-strengthened office**, which can carry certain risks.

Given that communication between headquarters and offices may experience some moments of conflict of interests (for example, with regards to expenditure), the more decentralised offices are exposed to dynamics of **increasing dependence on the actions of the government**, without sufficient resources for a deep political dialogue that tackles political goals at the macro level. In other words, a privileged relationship with the government ensures an adequate performance by the offices according to the criteria set by their respective headquarters, but does not necessarily ensure coherent analysis and decision-making with respect to the political economy.

<sup>20</sup> Amongst the methodologies worth highlighting are the [Power Analysis de SIDA](#) and the [Drivers of Change del DfID](#) approach.

## Human resources: wasted opportunities

At the level of human resource management, there is significant potential that has been analysed and attended to in a very incipient manner. Given the great commitment and close knowledge of office professionals, many of whom have friendly links with people in the partner country, there is an **extraordinarily fertile ground** for the consolidation of analytical capacities and continuous attention to the political economy.

Almost all participants in this study have good or excellent understanding of the political system in Nicaragua and the actors involved, in addition to having carried out comprehensive analyses of the PD principles. On this basis, the study has identified a significant demand for highly qualified and motivated officials that is not being attended to in an adequate manner. Even though the majority of consulted professionals acknowledges the need for greater focus on political dimensions, especially in countries highly dependant on foreign aid, most also indicate that it is not part of their mandate and that they have very few resources (time, tools and support, amongst others) to undertake this type of analytical work. In addition, analysis represents an important **change in the rhythm of work**, with regards to the more technical contents of their activities which are requested by their headquarters.

Nonetheless, one of the crucial aspects in the development of human resources is the **high rotation** of expatriate personnel, which implies a continuous leak of accumulated knowledge in the medium term. To date, there are scarce efforts to capitalise on the lessons learnt of these professionals.

The **national staff** in Nicaragua, who collaborates as officials or advisers in the development cooperation agencies, is worthy of special attention. In the country there is a group of approximately 200 highly qualified professionals for the strategic tasks of international development cooperation. This group develops its professional career, mostly with consultancy contracts, from the government and the different

ministries, national and international NGOs and research centres, and development cooperation agencies. Many also have broad experience in other Latin American and Caribbean countries. Without doubt, this cluster of professionals, which represents the Nicaraguan middle class, represents an enormous opportunity for understanding the political context and developing coherent strategies for the country's political economy. It has already created **informal networks** of colleagues that facilitate the immediate flow of information.

Moreover, it works in specif conditions of labour dependence, temporary contracts and conflict of interests (what is convenient for donors is not always convenient for the partner country). However, donors **do not have an integral strategy** to respond in an adapted manner to the capacities and opportunities of these professionals. Additionally, political polarisation discourages individuals from taking a stand that might be prejudicial to future contracts. Hence, it is not surprising that the majority of Nicaraguan officials and consultants prefer to be on the sidelines and not have an active presence in more political dimensions.

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## Looking beyond effectiveness: towards a constructive role in the political economy

In spite of the apparent volatility of the rules of the game for international development cooperation, the Nicaraguan case is a valuable case from which to draw possible lessons. Given that it is a country with a high dependence on foreign aid, it constitutes a complex scenario for donors in the political economy. The framework of institutional fragility and a political culture based on polarisation and clientelism has a

certain degree of **instability and lack of predictability** for all actors involved.

The future performance of donors in the face of challenges depends in large part on learning, in the short and medium terms, of the lessons of the current situation. In this sense, the aid effectiveness agenda proposed by the PD can be strengthened or weakened, according to donor capacities to **react proactively and constructively** to changing political-institutional conditions. On the other hand, it is necessary to translate the degree of knowledge and awareness of the political economy of development, which this study has found in almost all participants, into strategies, procedures and feasible and responsible mechanisms. Against this background, this study recommends that donors committed to the Nicaraguan chapter of the Paris agenda consider the following initiatives:

## Choice of instruments

### *To gather and share good practises in "modality menus"*

It is necessary to systematise the lessons learnt by different agencies in the implementation of interventions complementary to new modalities, especially when these concern the involvement and strengthening of any of the supervising actors. Success factors are easier to identify in the sector wide approaches, but they are also valuable to the GBS. As a whole, this learning could focus on the possible synergies and the existing risks, identifying in each case the success factors that could reorient already existing mechanisms.

### *To base support on the demand of supervising actors*

The supervising actors in Nicaragua are usually aware of the deep needs for institutional strengthening and resources. To consider their perspective is crucial in order to cover real demand and facilitate these actors a greater autonomy and capacity. These capacities refer to the political economy as well as to analysis of the effectiveness agenda based on the PD; these are processes, which, on occasion, are seen as barely relevant, since the actors are unaware of their

significance and real projection. There are several entry points, such as the party strengthening programme or the Civil Society Support Pool, which should lead to greater specialisation in aspects of the effectiveness agenda. Social movements and specialised associations might also need better articulation with the harmonisation process, for example with regards to social auditing. Another interesting initiative could be to create joint debate groups between agency officials, independent experts, academia and representatives from the supervising actors. Given that these are medium to long-term processes, support should be continuous.

### *To promote constantly constructive interaction among the supervising actors*

Some participants have emphasised the potential for synergies among the three sides of the triangle of supervising actors. Individual support for these institutions could be accompanied by strategies focussed on their collaboration on dimensions of the political economy. Collaboration among actors is one of the fundamental bases for the delimitation of interests and the creation of consensus. This is of special relevance in the context of the auditing of the funds from the new modalities, but also for NDP future actions. This study recommends initiating this process in specific themes in which some common denominators can be identified amongst the actors.

## Capacities for political dialogue

### *To deepen and share a joint analysis of the political economy*

The Nicaraguan case provides valuable lessons for improving analytical capacities with regard to the political dimensions of aid. To this end, donors need joint spaces and processes, preferably in an adequately established scheme of observation, analysis and follow-up (similar to the GGG). Beyond coordination, it is necessary to carry out more joint studies of the political economy and its relevance to development processes. It is likewise necessary to identify the determining factors and ingredients for consensus on the development of Nicaraguan actors. Constant

dialogue on the interests, limitations and incentives of each donor is also required in the face of a political context marked by polarisation and weak institutions. Finally, a specific code of conduct could improve donors' joint actions (consultation, strategies and communication, amongst others) in situations of political change, thus overcoming the prisoner's dilemma.

### *To establish road maps for governance and democratisation*

Taking into account the government's volatile commitment to governance and the instability of the democratic process, this study recommends donors jointly clarify the terms and strategies that could positively influence a deepening of democracy in Nicaragua. A close interaction with respective embassies, ideally in a coordinated manner, could facilitate a more coherent and consistent approach from each donor. The search for common positions is considered vital for effective political dialogue between the government and the supervising actors, and it should be reinforced with a common road map (at a strategic level), supported by a code of conduct (at the operational level) for the donors involved. This could be an initiative of the "like-minded" group. As far as possible, the gradual participation of donors that are still not involved in the harmonisation process should be sought.

### *To debate and agree political principles for cooperation with the government*

In order to ensure significant human and financial investment in the political economy, it is necessary to improve the security and sustainability of medium-term support. Such guarantees will only be achieved through a strengthening of governance that is based on criteria favourable to democratisation and the creation of social consensus. A horizontal political dialogue should identify the political criteria to reinforce processes that already have a judicial framework, such as the National Participation System, the Law on Access to Information and the Law on Judicial Career. More concrete agreements with Nicaraguan public institutions would prevent the donor community's commitment to certain values and principles, such as

the democratic game or rule of law, that currently respond only to short-term political developments.

## **Institutional set-up**

### *To include local offices in the analysis and adaptation of strategies*

Progress in the consideration of the political dimensions of the Paris agenda can be more systematically shared with office personnel. Research departments should create permanent links to provide feedback on tools and guidelines with input from those on the ground. This is particularly important when it comes to understanding the interaction between offices and the local actors. Another aspect that needs to be reinforced is the adaptation of tools and concepts to each national context, which implies designing more flexible and open-to-modification methodologies.

### *To reinforce decentralisation with specific attention to political dimensions*

In order to overcome the dominance of the technical component and minimise the risks for decentralised offices, this study recommends promoting and consolidating a prudent understanding of the political dimensions of actions undertaken by offices with national actors. On this basis, permanent feedback, monitoring and support mechanisms should be designed from headquarters on issues related to the political economy. In addition, a more active interaction among donors would help foster mutual understanding of risks and opportunities. This peer review mechanism could improve feedback among the different agencies. In the case of the European donor community, the EC could assume greater leadership and facilitate learning of the challenges posed by decentralisation, based on the existing European agreements (European Consensus on Development, European Code of Conduct on Complementarity and Division of Labour, etc.).

### *To create more stable links between headquarters and national personnel*

National staff hired by the agencies represents a huge opportunity for improving capacities, information and interaction between donors with respect to the actors

of the political economy. This link and loyalty to the values and principles promoted by donors can be vital, especially in moments of political change. In addition to paying adequate attention to labour aspects, it is necessary to acknowledge more clearly and transparently donor expectations and guarantees with respect to the link between these professionals and their interests and objectives in the political economy.

## Human resources

### *To open spaces for the analysis of the political economy*

In order to overcome concentration on day-to-day management issues, it is recommended that a specific time be assigned to the analysis of the political economy and that officials be involved in the design and implementation of action strategies, individually and in working groups. In general, investment in training, motivation systems and coaching could facilitate a better adaptation and use of the broad potential of the professionals involved. Another initiative could consist of the promotion of debates on specific issues relating to the political economy in which the entire personnel of each office (and the embassy, if applicable) participate.

### *To accumulate and systematise experiences and lessons learnt*

Given the high level of internal rotation of expatriate personnel, it is vital to improve knowledge management, which at the moment experiences permanent loss. Concrete options include the design of specific instruments of accumulation and systematisation of experience, such as continuous evaluations, the development of online fora focussing on the partner countries and updated manuals related to the political economy and its most relevant actors. More generally, a revision of the rotation system, with a certain level of flexibility in relation to the extension of permanence in partner countries, would be useful.

### *To improve complementarity between personnel on the ground and national professionals*

There is still room for improvement in the management of national professionals,<sup>21</sup> particularly in relation to

their potential as a source of information and as a link between offices and national actors. More efficient design of the roles assigned, combined with deeper integration in the offices and respective tasks, could lead to important benefits in terms of learning and feedback between national and expatriate staff. The link with informal information networks is another aspect that needs more strategic attention, especially with regards to "soft" information on the political economy.

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<sup>21</sup> This management should include fundamental aspects such as the design of profiles that are more integrated and adapted to the needs of donors with regards to the political economy, continuous training, motivation and "customer loyalty" in the medium and long terms; a formal performance assessment based on clearly defined indicators; communication channels (especially in more complex moments); as well as career promotion and evolution models.

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# Appendix

## Appendix 1: List of consulted actors

The authors carried out 19 interviews and 2 debate workshops in July and September 2007. Below is a list of the professionals that generously collaborated with this study.

No.	Name	Position	Institution
1	Paola Barreto	Director of Foreign Cooperation	Supreme Court of Justice
2	Nadine Cardenal	Inter-Agency Coordination	United Nations
3	Ramiro Caveró	Director	EC Institutional Support Programme (PAI-NIC)
4	María Luisa Domínguez	Governance Adviser	EC Institutional Support Programme (PAI-NIC)
5	Magaly Echegoyen	In charge of sector wide approach	Ministry of Health
6	Claudia Gazol	Inter-Agency Coordination	United Nations System
7	Inmaculada Gisbert	Co-director of Projects, Health Area	Technical Cooperation Office (AECI)
8	Ricardo Gómez	Director	Gesellschaft für Technische Zusammenarbeit (GTZ)
9	Mauricio Gómez	Former Foreign Cooperation Secretary	Ministry of Foreign Relations
10	Violeta Granera	Executive Director	Movement for Nicaragua
11	María José Jarquín	Regional Governance Adviser	Department for International Development
12	Mari Lankinen.	Cooperation Chief	Embassy of Finland
13	Irwing Larios	Chairman	Federation of NGOs
14	Kerry Max	Cooperation Chief and Chairman of the donor Round-table	Canadian International Development Agency
15	Patricia Mayorga	Director	Fundemos Group
16	Alfredo Missair	Resident Coordinator	United Nations System
17	Luis Ángel Montenegro	Comptroller General	National Comptroller's Office
18	Elena Montobbio	Coordinator	Technical Cooperation Office (AECI)
19	Georgina Muñoz	Civil Coordinator	Enlace Nacional
20	Carlos Pacheco	Programme Officer	Trocaire
21	Leonidas Saballos	Economist Consultant	Technical Department of the Presidency
22	Carolina Siu	Planning Director	Ministry of Health
23	Sten Ström	Economist	Swedish International Development Agency
24	Jan-Kees Verkooijen	Chief of Business Issues	Embassy of the Netherlands
25	Arturo Wallace	Coordinator of the Governance for Nicaragua Programme	Department for International Development
26	Pedro Pablo Villanueva	Representative	UNFPA
27	Eva Zetterberg	Ambassador	Embassy of Sweden / Swedish International Development Agency

## Appendix 2: List of the most significant milestones of the OH&A process per year

	<b>2002</b>
February	Reform of the CONPES functions
March	<i>Monterrey Conference on Development Financing</i>
June	First Development Cooperation Coordination Forum
	<b>2003</b>
February	<i>First High Level Forum on Development Cooperation Harmonisation (Rome)</i> Presidential Agreement 71-2003 on the Creation of the Sectoral Round-tables on Development Cooperation Coordination
March	Creation of the Global Round-table <i>First Regional Forum on Alignment and Harmonisation. Preparations for the First High Level Forum (Jamaica)</i>
June	Second Development Cooperation Coordination Forum Reactivation of CONAGRO
September	Implementation of SYSODA
October	Consultative Group. Declaration of Managua
November	Creation of the Health Sector Wide Approach Fund
	<b>2004</b>
January	Culmination of the HIPC
March	Creation of the Budget Support Group Presentation of Governance Sectoral Plan
May-October	<i>Joint Country Learning Assessment</i>
July	Declaration of Intentions. Coordination between the government of Nicaragua and donors to strengthen the education sector
August	Presentation of the Citizen Security Sectoral Plan Presentation of the National Development Plan
September	Presentation of the Common Education Work Plan <i>International workshop on aid management tools (Burkina Faso)*</i> Third Development Cooperation Coordination Forum Presentation of the National Development Plan-Operative
October	First Meeting of Countries Associated to the OECD-DAC <i>Regional Alignment and Harmonisation Forum (Tegucigalpa)*</i>
	<b>2005</b>
January	Signing of the Health Sector Code of Conduct Approval of the methodology for the medium-term budget framework
Fiscal exercise	Implementation of the medium-term budget framework in the Ministries of Health, Education, Transport and Infrastructure
February-March	<i>Second High Level Forum on Development Cooperation Harmonisation (Paris)*</i>
May	Signing of the Joint Financing Agreement for the General Budget Support
June	Presentation of the Five-Year Health Plan Signing of the PROASE Memorandum of Understanding
August	Signing of the FONSALUD Memorandum of Understanding

September	Signing of the Productive Rural Sector Code of Conduct Law 550 on Financial Management and Budget Regime Presentation of PRORURAL
October	Presentation of the Drinking Water and Sanitation Strategy
November	Approval of the National Action Plan for Alignment and Harmonisation Diagnosis of the implementation of the sector wide approaches in 10 sectors Government guidelines for the advance of the sector wide approaches in Nicaragua Fourth Development Cooperation Coordination Forum
<b>2006</b>	
February	Training workshops on sector wide approaches for public officers Approval by the Board of Directors of the World Bank of the NDP as a second generation SGPRS
March	Signing of the FC-PRORURAL Memorandum of Understanding
April	Pilot mission of the questionnaire for the follow-up of the OECD-DAC Paris Declaration commitments
May	<i>Vienna Special Forum on Development Cooperation Alignment and Harmonisation for Central American Integration</i>
July	Presentation of the Justice Plan
July-August	<i>Horizontal South-South Technical Cooperation on OH&amp;A issues between Guatemala, Honduras and Nicaragua</i>
August	Presentation of the 2006-2010 Support Programme for Nicaraguan Micro, Small and Medium Enterprises Implementation of the medium-term budget framework in all ministries Meeting of LAC countries associated to the OECD-DAC and adherent to the Paris Declaration. "Taking the Initiative"
September	Start of two diploma courses on alignment and harmonisation <i>Regional Forum on Alignment and Harmonisation. "Exercising Leadership to Accelerate Change" (Bolivia)</i> Indicators and baseline of the National Action Plan on Alignment and Harmonisation
October	Fifth Development Cooperation Coordination Forum

Source: SREC, National Chancellor's Office.

In blue international processes and in bold blue the ones carried out outside Nicaragua.

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This case study on Nicaragua analyses the changing governmental and institutional conditions in which aid to one of the most important “donor darlings” is implemented. Following the change of government in early 2007, a rude awakening has been experienced by those trying to put the Paris Declaration into operation. Since the Ortega government took power, it has opted for a firm governmental ownership that has provoked doubts about its adaptability to the deliberative spirit of the previous administration, which was headed by Enrique Bolaños. The Sandinista government has abandoned the established spaces for political dialogue and adopted a hard line on what it sees as European interference based on political conditionality. In this context, the National Development Strategy 2006-2010 barely seems workable, as Nicaraguan civil society do not back it. In the polarised political panorama of Nicaragua, state institutions are being taken apart and rebuilt according to the interests of political clients. The donor community, taken aback by the sudden change of heart of its former “darling”, not to mention the loss of the close relationship it enjoyed with the previous administration, meanwhile seems indecisive and impotent. One of the principal lessons to be learned from the Nicaraguan experience, examined here in a close collaboration between a Nicaraguan expert and a FRIDE researcher, is that in order to push forward the sustainability of aid effectiveness, donors need to improve their understanding of the political-institutional context in which harmonisation is pursued.

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