

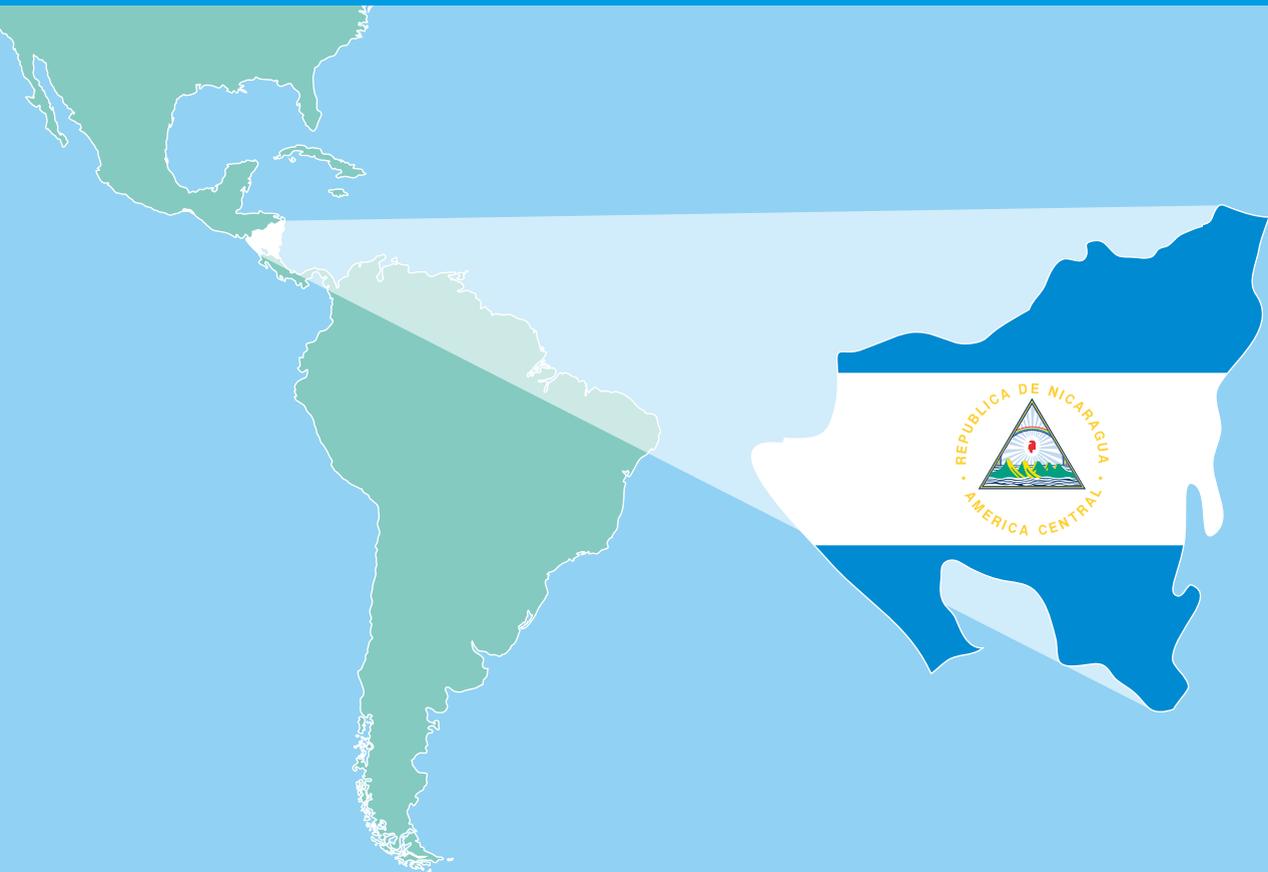


Ministry of Foreign Affairs

IOB Evaluation

Impact of Ending Aid Nicaragua country study

Nicaragua country study | IOB Evaluation | no. 415 | Impact of Ending Aid: Nicaragua country study | IOB Evaluation | no. 415 | Impact of Ending Aid: N



IOB Evaluation

Impact of Ending Aid

Nicaragua country study

July 2016

Geske Dijkstra
Caspar Lobbrecht

Table of contents

List of tables and figures	5
List of acronyms and abbreviations	6
1 Introduction	8
2 Country context	11
2.1 Introduction	12
2.2 Political development	12
2.3 Socio-economic development	13
2.4 The changing role of ODA	15
2.5 Challenges	17
3 The phasing-out process	19
3.1 Introduction	20
3.2 Background: the Dutch role before phasing out	20
3.3 The exit process	21
3.4 Conclusions	23
4 Budget support and the macro-impact of phasing out	24
4.1 Introduction	25
4.2 The role of the Netherlands in ODA and the government budget	25
4.3 General budget support	26
4.4 The phasing-out process	27
4.5 The impact of Dutch withdrawal	28
4.6 Changes in the policy dialogue	29
4.7 Conclusions	29
5 Education	30
5.1 Introduction	31
5.2 Development of the sector	31
5.3 The role of the Netherlands in the sector	32
5.3 The phasing-out process	34
5.4 The impact of Dutch withdrawal	34
5.6 Conclusions	36
6 Health and SRHR	37
6.1 Introduction	38
6.2 Development of the sector	38
6.3 The role of the Netherlands in the sector	39
6.4 The phasing-out process	42
6.5 The impact of Dutch withdrawal	43
6.6 Conclusions	46

7 Summary and conclusions	47
References	50
Annexes	53
Annex I Literature overview school meal programmes	54
Annex II Access to health vs. Health outcomes	56
Annex III List of interviewees	57

List of tables and figures

Tables

Table 2.1	Macro-economic indicators	14
Table 2.2	Socio-economic indicators	15
Table 2.3	Aid to Nicaragua	17
Table 3.1	Dutch bilateral aid to Nicaragua	21
Table 4.1	Nicaragua aid indicators	25
Table 4.2	General government finances	27
Table 4.3	Government expenditure related to poverty	29
Table 5.1	Education indicators	32
Table 5.2	Ministry of Education expenditure	33
Table 5.3	Financing of school meals	35
Table 5.4	MoE expenditure	36
Table 6.1	Health Indicators	39
Table 6.2	Ministry of Health expenditure	40
Table 6.3	Netherlands' support to the health and SRHR sector	41

Figures

Figure 2.1	Distribution of development cooperation to the public sector in Nicaragua	16
Figure 4.1	Budget support to Nicaragua	28
Figure 6.1	Distribution of FONSALUD 2007-2014	40
Figure 6.2	Extension of health coverage, by source	43
Figure 6.3	Correlation of health expenditure and access to health in Nicaragua 2007-2013	44
Figure II.1	Correlation between access to health and health outcomes 2007-2013	56

List of acronyms and abbreviations

BSG	Budget Support Group
CAMAJs	Municipal Councils of Adolescents and Youth
CBI	Centre for the Promotion of Imports from developing countries
CIDA	Canadian International Development Agency
EC	European Commission
EKN	Embassy of the Kingdom of the Netherlands
FCG	Finnish Consulting Group
FDI	Foreign direct investment
FONSALUD	Fondo Nicaragüense para la Salud (Nicaraguan Fund for Health)
FSLN	Frente Sandinista de Liberación Nacional (Sandinista National Liberation Front)
GBS	General budget support
GoN	Government of Nicaragua
GPE	Global Partnership for Education
HC	Honorary Consul
IDB	Inter-American Development Bank
INIDE	Instituto Nacional de Información de Desarrollo (National Institute of Development Information)
JFA	Joint financing agreement
MAP	Central America Programme
MASP	Multi-annual strategic plan
MoU	Memorandum of Understanding
MOSAFC	Modelo de Salud Familiar y Comunitario (Model of Family and Community Health)
ODA	Official Development Assistance
ORIO	The Facility for Infrastructure Development
PASMO	Pan American Social Marketing Association
PAHO	Pan American Health Association
PFM	Public Finance Management
PROASE	Programa de Apoyo al Sector Educación (Programme for Aid to Education Sector)
PSI	The Private Sector Investment Programme
PSI (org.)	Population Services International
PUM	Netherlands Senior Managers
RAAN	Región Autónoma de la Costa Caribe Norte (North Caribbean Coast Autonomous Region)
RAAS	Región Autónoma de la Costa Caribe Sur (South Caribbean Coast Autonomous Region)
SBS	Sector Budget Support
SILAIS	Sistemas Locales de Atención Integral de Salud (Local System of Integrated Health Care)
SRHR	Sexual and Reproductive Health and Rights

List of acronyms and abbreviations

VOZ JOVEN	Program for Promotion of Sexual and Reproductive Health aimed at Teenagers and Young People in Nicaragua
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
WB	The World Bank
PCN	Partido Conservador de Nicaragua (Conservative Party of Nicaragua)
MRS	Movimiento de Renovación Sandinista (Sandinista Renovation Movement, Nicaragua)



1

Introduction

In 2010, the Minister of Foreign Affairs and the State Secretary for Foreign Affairs of the Netherlands decided to reduce its number of partner countries from 33 to 15. An official argument was the conviction that decreasing fragmentation and specialisation would enhance the efficiency and effectiveness of Dutch bilateral aid. It would give the Netherlands a better position for gaining more in-depth knowledge of the political, economic, social and cultural structures in the (remaining) countries and would help to reduce the costs of operational management. At the same time, the reduction was instrumental for introducing budget cuts, as the government had decided to reduce Dutch ODA from 0.8% to 0.7% of the GDP.

The State Secretary promised to coordinate the partner country choices with other donor countries and the EU in order to achieve a more effective division of labour among donors and to develop a country-specific exit strategy. To ensure a smooth and successful exit, the embassies in question would develop an exit strategy, including a timetable and an assessment of the possibilities for ending the development relationship or transferring the development cooperation programme to other partners. The State Secretary also phased out support to the social sectors (education and health), focusing more on the economic sectors as it was believed that the value added of the Netherlands in the latter would be higher. Budget cuts also hit the Netherlands Ministry of Foreign Affairs, forcing it to reduce the Dutch presence abroad. The embassies in five countries where the Netherlands had decided to phase out bilateral development cooperation were closed as well.

| 9 |

Nicaragua is one of the countries where the Netherlands has discontinued its bilateral development relationship, after having provided support for more than 30 years. Nicaragua was a moderate recipient of Dutch aid. The Netherlands, however, was among the major donors in the country. Subsequent to the decision to end development cooperation, the Dutch government announced that the Embassy of the Kingdom of the Netherlands (EKN) in Managua would be closed as well.

The House of Representatives in the Netherlands has requested an analysis of the effects of the budget cuts in bilateral aid on developing countries. In a reaction, the State Secretary promised that the independent evaluation department of the ministry (IOB) would evaluate the effects of discontinuing the development cooperation partnership.

The aim of the evaluation is to assess the impact of ending bilateral development cooperation on the former partner countries:

- at the macro level, focusing on the Dutch decision to phase out and the effect on total aid and the policy dialogue;
- at the micro level, focusing on the impacts on specific programmes and projects that were previously supported by the Netherlands.

IOB conducted six country case studies: Nicaragua, Guatemala, Bolivia, Burkina Faso, Tanzania and Zambia. The evaluation department selected these countries on the basis of income level and the relative importance of Dutch development assistance for the country.

In each of the six country studies, the evaluation analyses the impact on key sectors that received Dutch support.

This report summarises the results for the Nicaragua case study. It presents the findings that assess the impact of ending support related to governance and transitional justice. The report is based on an analysis of information obtained through interviews with various stakeholders, the review of documentation and existing evaluation reports, and the analysis of financial and other statistical information. The report was written by Geske Dijkstra and Caspar Lobbrecht (both IOB), with the valuable support of national consultant Alejandro Uriza.

Chapter 2 presents the country context. Chapter 3 discusses the process of phasing out. Chapter 4 addresses the macro-impact of the exit and budget support. Chapters 5 and 6 discuss respectively the impact on the education and health sectors. Chapter 7 provides the main conclusions.



2

Country context

2.1 Introduction

This chapter describes Nicaragua's political and socio-economic development in order to contextualise the Dutch exit decision. In 2006, Nicaragua became a lower middle-income country. Despite economic growth in the country, this chapter addresses the enormous challenges that it faces in terms of persistent poverty and inequality. The incidence of poverty in Nicaragua is among the highest in the region, and there is enormous inequality of economic opportunity and services between deprived departments, such as the two autonomous regions on the Atlantic coast, and the more well-off parts of the country, such as Managua and Rivas. Since the election of Daniel Ortega, from the left-wing Sandinista party, reducing poverty and inequality became a core element of Nicaraguan policy. Many challenges remain, however.

2.2 Political development

For decades Nicaragua was ruled by the Somoza family in a dictatorial way. After a devastating civil war, the Sandinista National Liberation Front (FSLN) succeeded in overthrowing this dictatorship in 1979. The new socialist government began to reconstruct the country and introduced ambitious campaigns to improve the income, health and education of the poor majority of the population. Domestic and international ideological tensions soon rose, however, erupting in a new civil war. This internal conflict was an extension of the Cold War, in which the counter-revolutionaries (*'contras'*) were supported by the US and the CIA. The conflict had a destructive effect on the country's economic development. By the end of the 1980s, the economy was in a shambles. Income per capita was down to the level of the early 1960s and inflation was rampant.

| 12 |

The 1990 election victory of a broad coalition under the leadership of Violeta Chamorro ended the civil war. The government began to carry out an IMF-supported structural adjustment programme. The country gradually started to solve domestic conflicts in a peaceful way. Presidential elections and municipal elections were held every six years. Yet, actual power in Nicaragua was dominated by a struggle between elites (Everingham, 1998). In 1999, the liberal President Alemán signed a Pact with FSLN leader Daniel Ortega that divided all seats in important state organs such as the Supreme Court and the Supreme Electoral Council between the two parties.

Enrique Bolaños, former vice president under Alemán and member of the same party, won the 2000 elections. He initiated a large investigation on corruption during the previous administration. As a result, former President Alemán was sentenced to 20 years in prison for misappropriating USD 97 million. President Bolaños became popular in the donor community and gained international support for his neoliberal modernisation agenda. Although poverty reduction was not among his policy priorities, some donors were satisfied with minimal lip service to this objective, while others were convinced that economic growth would 'trickle down' resulting in poverty reduction. The downside of sentencing

former President Alemán, however, was that Bolaños lost all parliamentary support, which undermined the successful implementation of his programmes.

In 2006, the Nicaraguan parliament passed a controversial law prohibiting therapeutic abortion with support of the FSLN. This gained the FSLN support from the Catholic Church, which helped its candidate Daniel Ortega win the presidential elections in that year. Although the Bolaños government had been in favour of an even more conservative version of the abortion law, donors criticised the new FSLN government. This was when donor-government relationships in Nicaragua began to turn sour.

Ortega had other policy priorities and a different attitude towards donors than his predecessors. Poverty reduction and the reduction of inequality became pivotal. Education and health care became free of charge for all Nicaraguans. Ortega became critical of aid conditionalities by traditional donors and stated that the work of (international) NGOs interfered with domestic processes and sovereignty. The emergence of non-traditional donors, and in particular the unconditional money transfers from Venezuela, allowed him to take this more critical stand. The relationship between the government and traditional donors deteriorated further as the result of the ban of two opposition parties (PCN and MRS) in 2008. Fraudulent behaviour during the 2008 municipal elections caused major protests among opposition parties as well as among the donors. Although the constitution stipulated that presidents cannot run two consecutive terms, Ortega managed to bypass this by having the Supreme Court of Justice issue a resolution. He was re-elected in 2011 with no less than 62% of the votes. Two years later, a constitutional amendment guaranteed the possibility of a president's unlimited re-election. Nicaragua's centralised style of governing, Ortega's strong executive power and the absence of separation of powers deteriorated the country's relationship with traditional donors.

| 13 |

2.3 Socio-economic development

The victory of President Chamorro in 1990 not only meant the end of the civil war, but this government also managed to stabilise the inflation-ridden economy within two years. Several debt rescheduling and reduction initiatives, from Paris Club creditors, non-Paris Club creditors and commercial banks significantly reduced Nicaragua's public debt (Dijkstra and Evans, 2003). However, for a long time growth was limited. Average growth increased substantially in the 2000s. Between 2004 and 2010, per capita income more than doubled. In 2006, Nicaragua became a lower middle-income country. Nevertheless, Nicaragua remains the poorest country in Latin America (table 2.1)

	2008	2009	2010	2011	2012	2013	2014	2015
GDP (current USD billion)	8.5	8.4	8.7	9.8	10.4	10.9	11.8	12.7
Population (million)	5.8	5.9	5.9	6.0	6.1	6.1	6.2	6.3
GDP per capita (USD)	1,469	1,432	1,476	1,627	1,720	1,773	1,902	2,027
Real GDP growth (%)	2.9	-2.8	3.2	6.2	5.6	4.5	4.6	4.9
Exports (USD billion)	1.5	1.4	1.8	2.3	2.7	2.4	2.6	2.4
Imports (USD billion)	4.3	3.5	4.2	5.2	5.9	5.7	5.9	5.9
Trade balance (USD billion)	2.8	2.1	2.4	3.0	3.2	3.2	3.2	3.5
Current account balance (% of GDP)	-17.8	-8.7	-9.0	-12.1	-10.5	-10.9	-7.7	-8.2
Remittances (USD billion)	0.8	0.8	0.8	0.9	1.0	1.1	1.1	1.2

Source: Central Bank of Nicaragua.

Note: Figures for 2015 are estimates.

The most important contribution to economic growth over the past 15 years has come from the tertiary sector: commerce and services such as hotels, restaurants and financial services (IOB, 2010b; Central Bank of Nicaragua). Although the primary sector (agriculture, livestock, forestry and fisheries) is the largest in terms of output and employment, it contributed only modestly to overall growth. Production as well as the prices of the main crops (coffee, sugar and basic grains) varied a lot from year to year. Agro-industry, the largest sector within manufacturing (i.e. the production of beverages, sugar, beef, tobacco, etc.) registered quite high growth rates.

| 14 |

A free trade agreement between the Central American countries and the United States went into effect in 2006, increasing Nicaragua's export opportunities for agricultural and manufactured goods. Between 2007 and 2013, exports almost doubled. Nicaragua's main export products remained the primary products coffee, beef and gold. Together, these products comprised roughly half of Nicaragua's exports in 2013. Furthermore, the import of goods and services also increased, and remained at a level that was more than double that of exports (table 2.1). Foreign direct investment in Nicaragua also increased in the previous decade.

While the US remained Nicaragua's largest export market, trade with Venezuela became increasingly important. In general, the majority of Nicaragua's exports went to the Americas, and exports to countries in the European Union remained limited. Only 1% of Nicaragua's exports went to the Netherlands. The EU's 2012 Association Agreement with Central America, however, aimed to increase trade flows in both directions by eliminating trade barriers.

Positive growth rates in the late 1990s and early 2000s hardly led to a decrease in poverty. While there was some decline in the percentage of the population living on less than 2 USD a day between 1998 and 2001, it increased between 2001 and 2005 (IOB, 2010b). Low growth rates in the primary sector contributed to this widening gap: poverty is far more widespread in rural than in urban areas. After 2005, poverty, and in particular extreme poverty, decreased

but extreme poverty increased again in 2013 (table 2.2). The increase in extreme poverty in rural areas is mainly due to the deteriorating terms of trade for the rural population (FIDEG, 2014).

	2009	2010	2011	2012	2013	2014	2015
Poverty incidence (% of population)	45	45	44	43	41	-	39
Extreme poverty (% of population)	10	9	8	8	9	-	8
Extreme poverty (% of rural population)	18	16	12	13	17	-	14
Gini index	.37	.35	.34	.33	.35	-	.33
Informality (% of employment)	72	75	74	74	75	-	72
Human Development Index	-	.62	.62	.63	.63	.63	-

Sources: FIDEG, 2015 and UNDP.

Note: This table presents the Gini index based on consumption levels and cannot be compared with the World Bank estimates, based on income.

Note 2: FIDEG defined poverty and extreme poverty levels on the basis of daily calorie consumption and essential life costs at USD 2.50 and USD 1.20 per capita per person.

Although the official unemployment rate was moderate at 7% in 2013, almost three quarters of the employed population continues to work in the informal sector and has a low and vulnerable income. Poor working and living conditions led to high labour migration; between 10% and 20% of all Nicaraguans work abroad – temporarily or permanently. Remittances play an important role in reducing poverty levels in Nicaragua. According to FIDEG (2013), general and extreme poverty levels would have been higher (47% and 11%, respectively, in 2012) in the absence of remittances. Households in urban areas received relatively more remittances than those in rural areas.

| 15 |

2.4 The changing role of ODA

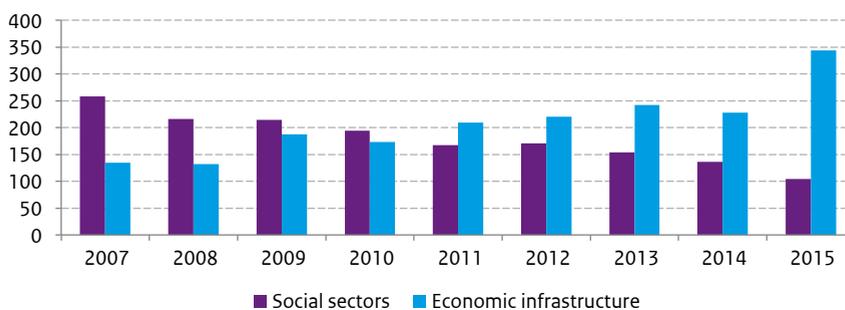
Aid levels increased substantially during the Bolaños administration (2001-2006). Both the government and donors embraced the Paris principles. In addition to the dialogue between the government and the Budget Support Group, there was a parallel structure of high-level meetings and sector round tables in which all donors participated. The government often participated in these groups through external consultants paid by donors. These consultants were hired to develop sector plans, in line with donor preferences, which could serve as a basis for sector support.

The election of President Ortega marked a turning point in the relationship between donors and the Nicaraguan government, as described above. The Ortega government ended the contracts of all externally paid consultants, and started to carry out the dialogues with donors through regular officers. After the electoral fraud in 2008, many donors, including the Netherlands, suspended general budget support, while the US did the same with its

Millennium Challenge Account. Between 2008 and 2012, eight traditional European donors decided to end their aid programmes in Nicaragua altogether.¹

At the same time, many emerging donors started operating in Nicaragua. In 2007, Presidents Chavez and Ortega signed an oil agreement. Venezuela started to supply Nicaragua with oil; half of it would be paid by Nicaragua immediately while the other half was provided on a highly concessional loan basis.² Through this arrangement, Venezuela quickly became the largest external financier in Nicaragua. In 2014, money from the oil arrangement with Venezuela accounted for about half of total aid. Other non-traditional donors operating in Nicaragua include Argentina, Brazil, Taiwan, Chile, Colombia, Cuba, Mexico, Peru, Russia, Uruguay and Venezuela (Walshe Roussel, 2013). Contrary to the traditional donors, the emerging donors focused more on establishing mutual beneficial relations with Nicaragua.

Figure 2.1 Distribution of development cooperation to the public sector in Nicaragua (in USD million)



Source: Central Bank of Nicaragua.

The new donors do not participate in the round tables and have their own bilateral relationships with the government. The functioning of the sector round tables was further affected by a government requirement that representatives of the Ministry of Finance and the Central Bank need to be present in all meetings with donors. The position of the line ministries was weakened. As a result, basket support mechanisms expired and were not renewed. All in all, donor harmonisation and coordination almost disappeared. This was not only due to the changes in donor composition, but also to the lack of strategic sector proposals by the government.

International cooperation to Nicaragua continued to increase until 2011, and it slightly decreased after that. But the composition of aid changed; grants to the government, such as general budget support or basket funding mechanisms to the social sectors, decreased substantially (see table 2.3). The focus of aid to the government shifted away from the social

¹ The announcements were made in the following sequence: Sweden, the United Kingdom, Iceland, Denmark, Norway, the Netherlands, Austria and Finland.

² The loan has a grace period of two years, an interest rate of 2% and a 25-year repayment period, implying a grant element of 30%.

sectors to economic infrastructure (figure 2.1). The combined number of grants to the public and private (NGO) sector more than halved between 2007 and 2014.

The emerging donors generally work with the private sector and provide loans rather than grants. The decrease in loans in 2013 and 2014 is mainly the result of smaller amounts of oil made available by Venezuela and declining oil prices.

	2008	2009	2010	2011	2012	2013	2014	2015
Netherlands ODA	38	31	27	21	10	6		
Total budget support	30	53	64	46	46	45	45	65
Total bilateral	489	429	327	364	292	204	151	192
Total grants to GoN*	315	276	233	236	228	218	171	145
Total grants to GoN as % of government expenditure	22	19	16	15	13	12	9	6
Total ODA to GoN	529	770	518	493	485	506	518	531
Venezuelan oil arrangements	305	282	522	564	556	559	436	309
Other support to private sector	420	313	297	399	340	232	195	267

Source: Central Bank of Nicaragua, Ministry of Finance and Netherlands Ministry of Foreign Affairs.

*GoN = government of Nicaragua

2.5 Challenges

Incidence of poverty in Nicaragua is among the highest in the region and there is enormous inequality of economic opportunity and services between deprived departments, such as the two autonomous regions on the Atlantic coast and the more well-off parts of the country such as Managua or Rivas. Poverty levels decreased somewhat in recent years due to economic growth, remittances and the policies of the Ortega government. However, the percentage of the population living in extreme poverty increased in 2013, especially in rural areas, mainly due to deteriorating terms of trade for poor farmers. The current government introduced free access to basic health and education services, but the country still faces enormous challenges in terms of access and quality of services. The government also carries out specific anti-poverty programmes such as *Hambre cero* and *Usura cero*. In previous years, however, there were some concerns about political influence in the selection of beneficiaries in *Hambre cero* (Kester, 2009).

On the political side, there are some concerns about the democratic nature of the government and about the human rights situation. The government operates in a centralised manner and curtails criticism of its policies, for example regarding the controversial construction of a new channel between the Pacific and the Atlantic. It actively attempted to reduce the

numbers protesting. Yet the situation with respect to political freedom and human rights is still favourable compared to many other countries in the region. The country suffers from increasing crime levels and drug trafficking, but far less so than in El Salvador, Honduras or Guatemala.



3

The phasing-out process

3.1 Introduction

The Netherlands has had a long bilateral relationship with Nicaragua. Unlike most other donor countries, the Netherlands was already providing continuous support to the war-torn country in the 1980s. In recent years, the Dutch embassy was a frontrunner in the harmonisation process and the implementation of the Paris Declaration in the country. Nevertheless, in 2011 the Netherlands decided to transform its relationship with Latin America and end development cooperation, including in Nicaragua. Moreover, it also decided to close the Dutch Embassy in Managua.

A gradual Dutch exit was not foreseen in the Multi-Annual Strategic Plan (MASP) for 2008-2011. The EKN tried to minimise the negative effects of the Dutch exit. One of this chapter's conclusions is that guidelines from headquarters made it difficult to achieve this aim. Moreover, transferring financial responsibilities to other donors was difficult given that eight traditional European donors had ended support to the country during the period 2007-2013.

3.2 Background: the Dutch role before phasing out

The Netherlands provided continuous support to Nicaragua during the civil war of the 1980s, focusing mainly on reconstructing the war-torn country. The main rationale was to prevent further isolation and radicalisation (IOB, 2010a). After the election result in 1990 and with the first structural adjustment programme in 1991, most traditional donors and international organisations (re)started development cooperation to Nicaragua. Together with other donors, the Netherlands provided debt relief to Nicaragua in the 1990s and early 2000s, aiming to promote political and economic stability. Nicaragua's public debt declined rapidly in terms of GDP and exports (Dijkstra and Evans, 2003).

In line with the MDGs, the Netherlands focused mainly on the social sectors and poverty reduction in Nicaragua in the 2000s. The Dutch embassy played a leading role in incorporating the Paris Declaration principles in Nicaragua from the mid-2000s onward. During this period, nine donors signed a Joint Financing Arrangement (JFA), in which they agreed to provide general budget support (GBS). The Netherlands was the largest bilateral donor of GBS, took the lead in sector support for the health sector and was a silent but substantial partner in the education sector until 2010. Table 3.1 presents the distribution of Dutch development cooperation to Nicaragua.

	2008	2009	2010	2011	2012	2013
General budget support	8.8					
Education	13.7	9.2	3.3			
Health and SRHR	10.4	10.1	12.6	8.2	4.2	1.0
PSD and business climate	3.8	6.8	7.3	9.1	4.4	3.0
Other	1.0	4.7	3.6	3.3	1.6	1.9
Total	37.6	30.9	26.8	20.7	10.1	5.9

Source: Ministry of Foreign Affairs.

The Netherlands played a pivotal role in the policy dialogue with the Nicaraguan government regarding governance issues and women's rights. After the law prohibiting therapeutic abortion was passed in 2006, the Dutch embassy arranged a meeting with the Nicaraguan Minister of Health and donors participating in the health sector basket fund FONSALUD. It was agreed during this meeting that the ministry would continue to protect health workers conducting abortions on women whose lives were in danger. Furthermore, the EKN continuously pressured the Nicaraguan government to alter the controversial law on abortion. At the same time, the Netherlands supported civil society organisations challenging the law and working in the area of Sexual and Reproductive Health and Rights (SRHR) in general.

| 21 |

Following the ban of two political parties in 2008 by the Government of Nicaragua, former Minister Koenders decided to halve the committed amount of budget support in 2008. The Netherlands ended its budget support to Nicaragua after electoral fraud occurred later that year. In the following years, the relationship between the Netherlands and Nicaragua deteriorated further. As a result, the EKN decided to reduce the amount of sector support and to increasingly engage in private sector development and in support to NGOs.

3.3 The exit process

The Netherlands transformed its relationship with Latin America, ending development cooperation to the continent and focusing on economic relations (IOB, 2013). In order to ensure a smooth and sound exit, the ministry in The Hague had asked the embassies in question to develop an exit strategy, including a timetable and an assessment of the possibilities for ending the development relationship or handing over Dutch funding of development cooperation programmes and projects to other partners. The exit strategy should adhere to the recommendations of the joint exit evaluation of 2008 (Slob and Jerve, 2008) and the Dutch reaction to this evaluation (TK, 2008-2009, 31 250, no. 56). Specifically, the recommendations demanded:

1. timely communication at a political level with the countries involved;
2. taking into account the interests of these countries;
3. realistic timetable with input from the countries in question;

4. flexibility in the allocation of budgets;
5. respecting existing obligations and political commitments; and
6. taking into account the existing institutional capacity, in order to prevent the destruction of capital and to ensure the sustainability of results.

The newly appointed Head of Cooperation requested additional financial means for the exit and hired a part-time local communication expert to develop an appropriate communication strategy. Shortly after the decision to end the aid relationship with Nicaragua, the Dutch embassy informed the *Cancillería* (Nicaraguan Ministry of Foreign Affairs) about the decision to end Dutch support. The *Cancillería*, in turn, informed the Ministries of Health and Education about the Dutch decision. Subsequently, the former Nicaraguan Minister of Foreign Affairs travelled to the Netherlands to discuss the decision with State Secretary for Foreign Affairs Ben Knapen. The Dutch Embassy informed the other supported organisations in writing and donors were informed through donor communication platforms. While the communication was generally well-timed, the decision to phase out the aid relationship had been unilaterally taken in The Hague and was definite.

Soon after the decision to discontinue development cooperation with Nicaragua, Headquarters announced that the embassy in Managua would close by late 2013. The embassy in San José would get a more regional function and focus, also representing El Salvador, Honduras, Guatemala and Nicaragua. The embassy and the communication expert repeatedly stated that while the embassy would close, the Netherlands would continue to operate in the country. An Honorary Consul (HC) was appointed in Nicaragua. Furthermore, the economic instruments PSI, ORIO, CBI and PUM remained available to the country. The Netherlands granted USD 21 million to an ORIO project for a regional hospital in Managua in 2013.³ While the post in Costa Rica hired an economic assistant for continued implementation of the economic instruments in Nicaragua, the absence of the embassy in Nicaragua seriously impeded a true transition from aid to trade.

Within the given framework, the timetable for finalising ongoing activities in the exit strategy was feasible and the embassy was able to respect most commitments. The majority of activities could be finalised within the given time horizon and without making new commitments. The fact that the Netherlands had provided core funding to several organisations for longer periods, however, led to the expectation of continued support from the Netherlands beyond the actual commitment.

Additionally, there was no 'true' input from the counterparts, as the time horizon and the end of the commitment had already been decided. As a result, the flexibility in the allocation of budgets was limited. However, the EKN agreed to a budget-neutral extension of two activities and made some additional funds available for investments in public-private partnerships. The Central America Programme (MAP) made it possible to continue funding

³ While in the perception of certain Nicaraguan policymakers the grant compensated somewhat for the Dutch exit from other sectors and programmes, the grant was entirely unrelated to the Dutch exit.

for two Dutch projects in the human rights sector in Nicaragua.⁴ However, the MAP has merely been palliative in facilitating the Dutch withdrawal, both due to its limited funding and the early announcement that it would not be extended after 2015.

Regarding complying with previously made agreements, an important exception was the support to the basket fund for the Ministry of Health. Upon signing a Memorandum of Understanding (MoU) in December 2010, the Netherlands pledged USD 5.3 million of annual support to FONSALUD until 2015. However, as there was no officially signed contract yet, the Netherlands was able to evade financial responsibility. A contribution of USD 1.4 million was already approved and transferred in early 2011 and an additional USD 1.4 million was approved for 2012. In the exit strategy, the embassy requested an additional USD 2.8 million to support FONSALUD for the remainder of the exit period, but the allocation of the funds was not approved. Dutch support to the health sector in Nicaragua therefore ended with only a small fraction of the financial support committed in the MoU.

It was clear from the outset that handing over responsibilities to other donors to guarantee the sustainability of obtained results would be problematic. By this time, several large donors, such as Denmark, the United Kingdom (UK) and Sweden, had already announced that they were ending their support to Nicaragua. Exits have never been part of donor coordination or harmonisation in Nicaragua, and all exit decisions of 'like-minded' donors were taken unilaterally based on domestic considerations. As such, opportunities for successfully transferring financial responsibilities to other donors were limited. In addition, the remaining traditional donors largely switched their priorities from the social sectors to economic infrastructure and the private sector.

3.4 Conclusions

The Netherlands was a frontrunner in implementing the Paris Declaration and encouraged the process of donor coordination and alignment with the government's priorities.

The decision to end bilateral support, however, was taken in the opposite spirit – unilaterally and without consulting other donors or the Nicaraguan government. This is not a unique phenomenon. In seven years, as many as eight traditional European donors decided to end support to the country without any form of real coordination. The donors still operating in Nicaragua have largely changed their priorities. In light of this, it is not surprising that it was difficult to hand over activities to other donors.

⁴ The intention of the MAP was to prevent loss of capital of previous Dutch development cooperation in the region. The plan covered the period 2012-2015. As part of the new Dutch set of priorities in international cooperation, the programme aimed to improve security and rule of law in the region and create conditions for deeper economic development there. The MAP mainly focused on the Northern Triangle (Guatemala, Honduras and El Salvador) and Nicaragua. The closing embassies in Nicaragua and Guatemala were actively involved and engaged in setting up the MAP. The budget for the entire MAP was USD 9.6 million in 2012 and USD 19.3 million annually for the period 2013-2015. Within the regional programme it was possible to (regionally) extend two already existing activities in Nicaragua: OAS' Judicial Facilitators and a programme with the national police. Soon after the MAP was initiated, however, Minister Ploumen announced that the Central America Programme would not be continued beyond 2015. The relationship with the region would be transformed to a trade and economic one, given the region's income status.



4

Budget support and the macro-impact of phasing out

4.1 Introduction

This chapter sketches the macro-economic impact of the Dutch exit and specifically analyses general budget support (GBS) in Nicaragua. During the provision of GBS, the Netherlands was the third GBS donor and the largest GBS donor. Before ending support, Dutch aid to Nicaragua constituted almost 2% of the country's government expenditure. In recent years, the share of overall ODA and GBS to finance government expenditure decreased, mainly as a result of increased domestic revenue. Nevertheless, at the macro level, development cooperation remains a relevant instrument.

4.2 The role of the Netherlands in ODA and the government budget

During the Alemán government, Dutch aid decreased somewhat but during the Bolaños presidency, and especially after general budget support was introduced, aid increased again, to USD 33 million in 2006, and it remained more or less at this level until 2008. In 2008, Dutch aid still constituted 2.3% of Nicaraguan government expenditure (table 4.1). In 2009, Dutch aid went down to USD 28 million and gradually diminished during the phasing out process, until it ended in 2013.

The ending of support by the Netherlands and many other traditional donors around 2012 has generally led to a small decrease in the total aid flow, also in relation to GDP. The importance of aid to the government decreased as a percentage of government expenditure over time, but still represented more than 17% of government expenditure in 2015. The deviation in the amount of aid to the government in 2009 is attributable to a loan of USD 202 million from the IMF.

| 25 |

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total ODA	52.4	42.8	48.4	40.8	32.2	26.0	23.1	18.3	-
Dutch ODA	2.7	2.3	1.9	1.6	1.1	0.5	0.3	0.0	0.0
Total GBS	11.8	1.9	3.2	3.7	2.4	2.1	2.0	1.8	2.3
Dutch GBS	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total GBS as % of GDP	2.1	0.4	0.6	0.7	0.5	0.4	0.4	0.4	0.5
Total grants	15.7	11.4	9.2	7.7	7.4	6.6	4.9	4.7	4.6
Total grants as % of GDP	2.8	2.2	1.8	1.5	1.5	1.3	1.0	1.0	1.0

Source: The authors' own calculations, based on data from Ministry of Foreign Affairs, Central Bank of Nicaragua and OECD/DAC

Note: Total ODA and Dutch ODA include aid not allocated through the government.

4.3 General budget support

Together with Sweden, The Netherlands played a critical role in introducing GBS in Nicaragua. In May 2005, after lengthy negotiations, nine donors signed a Joint Financing Agreement (JFA) with the Nicaraguan government. The other donors in the Budget Support Group (BSG) were the European Commission (EC), the World Bank (WB), the Inter-American Development Bank (IDB), Finland, Germany, Norway, Sweden and Switzerland. The Netherlands was the third GBS donor and the largest bilateral GBS donor, providing 16% of the total amount between 2005 and 2008. In 2008, the Netherlands decided to provide only half of the committed amount after two opposition parties were excluded from the elections in Nicaragua. In late 2008, after fraud occurred in the Nicaraguan municipal elections, the Netherlands announced that it was ending budget support altogether.

In 2009, IOB carried out an evaluation of GBS in Nicaragua (IOB, 2010b). It concluded that the results in the area of poverty reduction were meagre while Bolaños was in power (2005-2006). Spending on poverty (signalling the government's intentions) was maintained but did not increase after 2005, and most of the social indicators agreed upon in the performance assessment matrix did not improve. Some of them, e.g. school enrolment, even deteriorated. It was clear that the policy dialogue on budget support was not very effective in changing the government's priorities. The objectives regarding the agreed indicators were mostly met or even surpassed during the Ortega government in 2007-2008, and poverty and social indicators began to improve.

| 26 |

As far as the objective of changing governance and institutions is concerned, budget support, together with technical assistance, led to improvements in public financial management and also in government transparency – issues under control of the executive and for which there was a high degree of ownership. But in other governance areas, little was achieved. After exerting substantial pressure and after long delays, donors managed to have external budget audits carried out and a Judicial Career Law approved, but this did not lead to more effective control of government expenditure, nor did it improve the functioning of the judiciary.

While Ortega's government ruled, donors were not able to prevent governance from deteriorating, for example in the areas of women's reproductive rights (the law prohibiting therapeutic abortion), free and fair elections, and to some extent also human rights, given the occasional harassment and intimidation of NGO directors.

GBS did have some positive intermediate effects over the period, however. GBS reduced transaction costs and helped to improve government systems by using them. Given that budget resources were fluctuating strongly over the years and that most of the resources were disbursed at the end of the budget year, they were hardly used for additional spending. In fact, GBS resources over the years 2004-2007 were in fact used for the amortisation of domestic debts (= negative net internal financing). Given that domestic debts charge high interest rates, GBS has thus contributed to macro-economic stability. It was easier for the Nicaraguan government to maintain fiscal balance in subsequent years.

Table 4.2 General government finances (in % of GDP)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	19.9	19.4	19.3	20.7	21.5	22.3	22.4	22.7	23.6
Expenditure	21.1	21.5	22.3	22.1	21.9	23.0	23.6	24.4	25.4
Budget balance	-1.2	-2.1	-3.0	-1.4	-0.4	-0.8	-1.2	-1.6	-1.8
<i>Financing of the deficit</i>									
Grants	2.8	2.2	1.8	1.5	1.5	1.3	1.0	1.0	1.0
Net external financing	2.0	1.1	2.4	1.9	1.4	1.3	1.6	1.8	2.0
Net internal financing	-3.6	-1.2	-1.2	-2.0	-2.5	-1.8	-1.4	-1.2	-1.2
Budget support	2.1	0.4	0.6	0.7	0.5	0.4	0.4	0.4	0.5
Overall balance after grants	1.6	0.0	-1.2	0.1	1.1	0.6	-0.2	-0.6	-0.8

Source: The authors' own calculations, based on data from Central Bank of Nicaragua

On the whole, these results show that there is a trade-off between political and socio-economic objectives for budget support (Dijkstra, 2013). The Netherlands and other bilateral donors in Nicaragua gave priority to political and governance objectives. During the Bolaños presidency, they continued budget support even though poverty reduction was a low priority for this government. They were – naively – optimistic about using budget support as leverage to improve governance. During Ortega's presidency, they stopped budget support due to their dissatisfaction with developments in governance, and as a result they no longer supported the Ortega government's efforts to increase the productive capacities of the poor or improve their access to social services. In addition, donors missed the opportunity to engage in a dialogue on these poverty reduction policies.

| 27 |

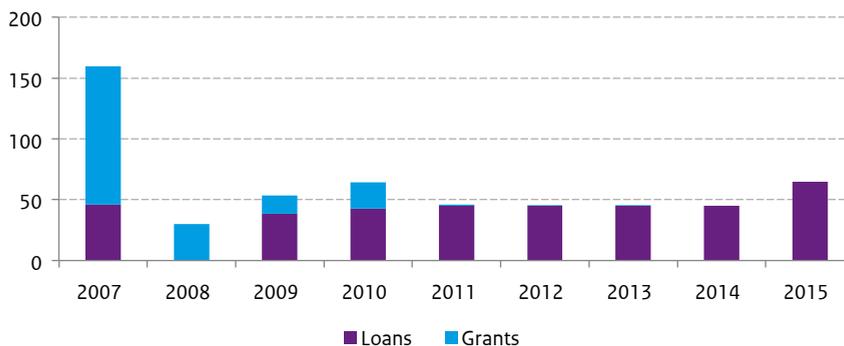
4.4 The phasing-out process

Faced with governance problems, the BSG was no longer united: as headquarters took over it was impossible to coordinate responses in the country. For the WB and IDB, governance issues were no reason to stop disbursing. While the EC, Finland and the Netherlands responded to the election fraud by deciding to halt budget support, Norway and Switzerland wanted to continue, but did not want to be the only bilateral donors to do so.⁵ The remaining bilateral donors and the EC attempted to continue the dialogue with the government in 2009 in order to try and resume GBS. Much to the government's chagrin, however, the dialogue was no longer about policies, but only about governance issues. These efforts failed, and when the JFA formally came to an end in 2010, it was not renewed.

⁵ Sweden, Germany and the UK had already stopped disbursing budget support in 2008, for various reasons.

In fact, IDB was the only remaining GBS donor after 2009. IDB decided to double the amount of this modality to USD 40 million annually, thus compensating for the fact that the World Bank no longer disbursed freely spendable resources from 2010 onward (figure 4.1).

Figure 4.1 Budget support to Nicaragua (in USD million)



Source: Central Bank of Nicaragua.

4.5 The impact of Dutch withdrawal

| 28 |

In 2008, the government suddenly received USD 60 million less GBS than anticipated. This was not only due to bilateral and EC responses to the election fraud, but also to the political turmoil itself that prevented parliament from meeting and approving the GBS loans from IDB and WB. These loans were eventually disbursed in early 2009. The deficit increased somewhat in 2008 and the government repaid a much smaller amount of domestic debt, meaning that macro-economic stability was negatively affected that year.

In 2009, the deficit increased even more, and the amount of domestic debt repaid was even less than in 2008. This was due to lower GBS disbursements but also to the global economic crisis that pushed down GDP and revenue. However, after that revenues recovered (table 4.2). From 2010 onward, deficits decreased as well and the negative net internal financing (meaning, amortisation of the costly domestic debts) also partly recovered compared to 2008 and 2009. The surplus after grants became positive again from 2011 onward. The withdrawal of traditional donors is reflected by the smaller overall external financing (compared to 2007) and in the increasing importance of loans relative to grants. Yet virtually all of these loans are concessional and interest payments on foreign debts are still modest.

Thus, after two difficult years (2008 and 2009), less GBS and less aid to the public sector in general have not had a major impact on macro-economic stability. The government also managed to more or less maintain poverty reduction expenditure and social expenditure as a percentage of total expenditure (table 4.3). Yet in the counterfactual situation of more aid grants after 2009, the government would have been able to spend more or to repay more domestic debt, while maintaining an equally small deficit.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Poverty expenditure	760	850	808	848	922	1009	1090	1269	1407
o/w health	209	226	220	239	254	288	305	367	386
o/w education	192	230	239	228	241	254	278	328	357
as % of total expenditure	59	55	55	57	56	56	58	60	60

Source: The authors' own calculations, based on data from the Ministry of Finance

Note: Central government expenditure

The bilateral donors' return to project aid after 2008 has been accompanied by increased transaction costs for donors and government. On the other hand, Nicaragua has further improved its performance in public finance management (PFM). But the earlier IOB evaluation of GBS already concluded that while GBS contributed to these improvements, technical assistance programmes and strong local ownership were also important.

4.6 Changes in the policy dialogue

| 29 |

From around 2008 onward, donors mainly brought up governance issues in the policy dialogue, but as mentioned above, they were not able to change the law banning therapeutic abortion or improve election processes. The focus on governance also meant that donors gave up the possibility to influence the government's poverty spending efforts. The opportunity to do so disappeared completely in 2010 with the end of the JFA. Several donors expressed their doubts on the effectiveness of the government's poverty reduction programmes such as *Hambre Cero* and *Usura Cero*. It is possible that donors involved in the budget support policy dialogue could have had a positive influence on these programmes, for example by asking for independent evaluations of them.

On the other hand, the end of the policy dialogue on budget support in 2010 does not seem to have led to a deterioration of the governance situation, thus confirming the argument that donors had limited influence on these issues. A social audit based on a survey of more than 6,000 Nicaraguan households shows that the perception of corruption decreased in recent years (CIET, 2014).

4.7 Conclusions

The share of budget support in government expenditure decreased as a result of economic growth. Following sharp reductions in GBS and aid to the public sector, Nicaragua faced with a higher deficit and lower domestic debt repayment than expected in 2008 and 2009. However, in the longer term there was no major impact on macro-economic stability. Moreover, the policy dialogue on budget support was not very effective in changing the Nicaraguan government's priorities, so ending budget support did not have a large impact in that respect. Nevertheless, development cooperation remains a relevant instrument as Nicaragua's social sectors (education and health) are still underfunded.



5

Education

5.1 Introduction

This chapter outlines the development of Dutch support to the education sector and the impact of Dutch withdrawal. Education was not among the embassy's priorities but an input target made it necessary to spend on education. The Netherlands joined Canada and Denmark in a pooled basket fund as a silent donor but became the largest contributor in the basket. In the wake of the other donors, the Netherlands ended support to the basket in 2011, and the exit strategy did not commit to additional funding, effectively dismantling the basket. The Ministry of Education strategically used the basket's means to fill financial gaps in the budget, and this chapter shows that after the basket ended the Ministry was unable to continue filling some of these gaps.

5.2 Development of the sector

The FSLN's election to power caused a shift in Nicaragua's education policy. The previous government adhered to a neoliberal model and supported the privatisation of schools, while the current government firmly restored government responsibility and viewed education as a *right for all Nicaraguans*. In 2007, one of the first acts of newly elected President Ortega was to abolish school fees for basic education. According to the government, this has led to 94,000 additional school-going children. The ministry's overall objective is to increase the number of years of schooling and progress towards a universal, free and high-end education system, explicitly prioritising poorer areas and deprived groups.

| 31 |

As a result of a constitutional requirement, however, a fixed (6%) part of Nicaragua's national budget has to be allocated to universities. In 2014, there was a parallel budget for universities of about USD 125 million. Most of the spending for tertiary education favours the non-poor part of the population. Nevertheless, the allocated budget for the Ministry of Education (MoE) increased from roughly USD 195 million in 2007 to USD 330 million in 2014.

In recent years, the largest part of the ministry's investments was spent on infrastructure, refurbishing classrooms, and improving and equipping schools. Higher ongoing costs (as a result of increased teacher salaries), however, used up most of the increased education budget. Some of the expenditures that the MoE is currently making include a school meal project that aims to increase the number of children in schools by providing daily meals to pupils in pre-primary and primary schools.⁶

⁶ According to the ministry, the rationale for this programme is twofold: starting the meals programme was expected to increase children's motivation to enrol in school. Furthermore, the school meals programmes were expected to increase the children's cognitive and learning skills.

	2008	2009	2010	2011	2012	2013	2014	2015
Primary net enrolment rate	87	87	87	95	92	92	92	91
Secondary net enrolment rate	46	45	45	46	48	50		
Primary retention rate	95	90	90	92	91	92	92	94
Secondary retention rate	91	84	85	86	88	88	86	88

Sources: Ministry of Finance.

The education sector continues to face challenges.⁷ Access to education is still not universal. While the ministry aimed to increase the net primary enrolment rate to 97% by 2015, actual primary enrolment rates hardly increased over time (table 5.1). Regional differences in enrolment and completion rates also remained unchanged, with the Pacific region performing best and the Central and Caribbean regions doing worse. In the poorest departments, enrolment rates are still about 10 percentage points lower than in the Pacific departments. Moreover, access to formal pre-schooling is almost entirely confined to the richer Pacific departments. In 2014, the government intervened with the MoE, forcing the minister and several high officers to resign as a result of fraud allegations linked to school construction and renovation contracts and the procurement of school materials. Disappointing progress in increasing enrolment rates allegedly played a role as well.

| 32 |

The quality of education remains problematic in parts of the country. There is a perennial lack of sufficiently skilled teachers throughout the various levels of education (UNFPA, 2014). According to data from the MoE, the percentage of qualified teachers increased from 77% to 83% between 2009 and 2013 for primary education but remained stable (around 57%) for secondary education. UNFPA concluded that the quality of education continues to be poor, especially in the rural parts of the country.

5.3 The role of the Netherlands in the sector

In the mid-2000s, education was not one of the embassy's priority sectors, yet headquarters was looking for a way to spend on education without putting too much burden on the embassy.⁸ One of the solutions was to provide sector support to the Nicaraguan MoE, as a silent partner. In 2005, Canada and Denmark had already started a pooled fund (PROASE) supporting the national education plan. The Netherlands joined in 2007. While the Netherlands was a silent partner, the Dutch contribution was linked to that of the lead donor Canada at a 3:1 ratio. Between 2012 and 2011, the Netherlands allocated about 42% of the means and was the fund's largest contributor.

⁷ In 2012, the World Bank conducted a survey among 328 World Bank stakeholders in Nicaragua. Among the respondents, basic education was seen as the most important development challenge in Nicaragua (World Bank, 2012).

⁸ In line with the parliamentary commitment to spend 15% of the development cooperation budget on education.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
MoE expenditure (USD million)	193	233	245	231	243	257	282	332	361
o/w/ PROASE (USD million)	16	26	15	7	8				
PROASE as % of MoE expenditure	8.4	11.1	6.2	3.2	3.5				
MoE expenditure in % of central government expenditure	14.9	16.0	16.7	15.6	14.9	14.2	15.0	15.8	15.5
MoE expenditure in % of GDP	2.6	2.7	2.9	2.6	2.5	2.5	2.6	2.8	2.9

Source: The authors' own calculations, based on data from the Ministry of Finance

During 2007-2009, between 20% and 30% of the education budget came from external sources, of which the pooled fund was the largest source. In its peak year in 2008, PROASE resources constituted 11% of the budget (table 5.2). In addition to basket support, the Ministry of Education received substantial amounts of SBS from the EU, particularly in 2007 and 2009, and direct assistance for basic education through the Global Partnership for Education (GPE).

Generally, the Netherlands aimed to assist Nicaragua in its national policy to increase access and quality of education, thereby contributing to achieving the MDGs. The ministry could spend the money as it saw fit, the only exception being that it should not directly be used for teacher salaries. The Netherlands monitored progress in the education sector on four indicators: net enrolment rates in pre-primary, primary and secondary education, completion rates, test results for Spanish and math in third and sixth grade, and the budget for education as a percent of GDP.⁹ The latter should be maintained above 2% of GDP. As table 5.2 shows, the latter target was met easily while the other indicators failed to show consistent trend (table 5.1).

PROASE was meant to support pre-primary, basic and secondary education. The Ministry of Education, however, had an ongoing financing gap. The Ministry of Education strategically used PROASE's means to fill financial gaps in the budget (Byron et al., 2009). Seventy-seven per cent of the financial means from the basket were used to account for current expenses between 2005 and 2011. The largest expenses covered were school meals and school materials, which used up 31% and 14% of PROASE's budget, respectively. An indirect effect of PROASE, therefore, was that the Ministry of Education was able to increase teacher salaries with its own resources (IOB, 2010a). Teacher salaries increased between 15% and 25% from 2007 to 2009.

⁹ Test results for math and Spanish are only available for 2006.

5.3 The phasing-out process

By the end of 2009, it became clear that lead donor Canada was considering ending its support to PROASE, while Denmark was announcing its exit from the country altogether. The possibilities of an effective policy dialogue with government counterparts were limited. Given the status of silent partner in the sector and the new priorities of Dutch development cooperation, the Netherlands also decided to discontinue support to the education sector during the phasing-out process. A final contribution to PROASE was made in 2011 through the delegated partnership with CIDA. In accordance with the MASP, no additional funding was made available during the exit process. The Netherlands had identified the EU and the World Bank as alternative donors for the education sector programme. Indeed, until 2009 the EU provided sector budget support to the MoE. However, the World Bank and the EU's preferences shifted to project support for education in Nicaragua and no other alternative donors could be identified. After 2011, there were no donors left for PROASE, and the fund was dismantled in 2011.

5.4 The impact of Dutch withdrawal

Current expenditure

Despite the reduction and finalisation of PROASE, the government maintained higher teacher salaries.¹⁰ Other activities previously supported by PROASE, however, decreased. The annual expenditure on schoolbooks and 'solidarity school packs', for example, declined in 2010 and 2011.¹¹ The most visible reduction in expenditure was in Nicaragua's school meal project.

In the period 2008-2014 the donor fund PROASE budgeted USD 35 million for school meals, but in reality only disbursed about USD 18 million. Other donors that contributed were the World Bank, the World Food Programme and the United States from 2012 onward. In 2009 and 2010, the contributions from PROASE and other donors were substantially lower than projected or not released at all. The Dutch contribution to PROASE was postponed until 2011, affecting the available budget for school meals in 2010. The lower PROASE funds for school meals were not (fully) compensated by other donors or the government, and that therefore meant fewer funds were available, especially in 2009 and 2010 (table 5.3).

¹⁰ Compared to the entire ministry's budget, salary costs increased substantially until 2009 and fluctuated around 72% between 2009 and 2014.

¹¹ Solidarity school packs included backpacks, school utilities and shoes, and were provided to children living in extreme poverty.

	2008	2009	2010	2011	2012	2013	2014
PROASE	11.9	2.4	0.5	3.6	0.0	0.0	0.0
Other donors	6.1	6.3	5.6	5.6	4.2	3.8	5.2
Domestic	0.0	0.7	5.3	6.5	12.4	13.9	14.6
Total	18.0	9.5	11.4	15.6	16.6	17.7	19.8
School meals (in millions)	138	116	143	138	147	154	151
Beneficiaries (in 1,000s)	956	784	967	909	1004	1038	1026

Source: Ministry of Education and Ministry of Finance.

Note: The number of beneficiaries and the total number of school meals in 2009 and 2014 are estimates.

There is a direct relation between budget allocation and output in terms of school meals and beneficiaries. The drop in available funds from the World Bank and PROASE meant that about 260,000 children in pre-primary and primary schools did not receive school meals in 2009 and children only received school meals in 41% of the days in 2010 and 74% of the days in 2011. From 2012 onward, the Nicaraguan government was able to substitute the reduced donor funds with more domestic recourses for school meals. With higher domestic resources, the total expenditure per meal and the total amount of school meals provided increased again between 2012 and 2014. In 2015, about 1.06 million children enrolled in pre- or primary schools received school lunches in Nicaragua.

| 35 |

Empirical literature suggests that school meal programmes have had a threefold impact see Annex I: higher school enrolment and attendance rates among children; improved dietary and micronutrient status; and increased learning outcomes. Evidence on the latter impact is not conclusive, but the first two impacts have been demonstrated in a range of countries and settings. The final report of the first phase of PROASE also found that school meals in Nicaragua increased school enrolment rates (Byron et al., 2009). The report confirmed that school meals in Nicaragua were especially relevant for Nicaragua's poor population. The number of school lunches decreased as a result of lower donor funds, which negatively affected school enrolment rates, especially in the period 2009-2011. While the enrolment rates for pre-primary and primary school children increased during this period, this increase would have been higher in the counterfactual scenario of prolonged donor support, especially among poor households.

Investment

The Nicaraguan government maintained higher teacher salaries and continued to increase its spending every year, with the exception of 2010. Despite spending more on education, the government's budgets allocated to investment decreased substantially. In 2007, the Nicaraguan government allocated about USD 29 million to capital expenditure on education, of which almost two-thirds was accounted for by donor resources. The end of PROASE and sector budget support from the EU led to a severe reduction in discretionary resources at the ministry and had a seriously negative impact on investments until 2013

(see table 5.4). The government only managed to allocate more money to capital investments in 2014 and 2015.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current expenditure	164	211	221	217	236	247	268	312	340
<i>o/w salaries</i>	104	152	173	169	182	194	202	237	252
Capital expenditure	29	22	24	15	8	9	14	20	21
<i>donor resources</i>	18	10	13	6	5	2	2	7	8
<i>domestic resources</i>	11	12	11	9	3	7	12	13	14
Total MoE expenditure	193	233	245	231	243	257	282	332	361

Source: Nicaragua Ministry of Finance, annual reports. Adapted by IOB.

The bulk of all investments by the Ministry of Education were for the refurbishing and construction of schools and classrooms. According to the ministry, the lack of school furniture in the various levels of education was among the most important impediments for a sufficient quality of education in Nicaragua. Empirical evidence suggests that upgrading school facilities and investments in schooling infrastructure positively affects education outcomes in low- and lower- middle-income countries (IOB, 2011; Glewwe et al., 2011).¹² The conclusion, therefore, is that ending PROASE, and ending EU sector budget support, have led to a setback in terms of investments and therefore have also affected the quality of education in Nicaragua.

| 36 |

5.6 Conclusions

This chapter revealed that the education sector in Nicaragua is underfunded. The PROASE basket fund provided the Ministry of Education with discretionary funds. The withdrawal of these funds has had several effects. The Ministry of Education strategically used PROASE to fill financial gaps in the budget. The end of the basket fund therefore forced the ministry to temporarily reduce its expenditure on schoolbooks, solidarity school packs and school lunches. School lunches were provided less and less frequently, especially in 2009 and 2010. It took several years for the government to substitute donor funds with other resources. The end of the basket fund therefore impacted school enrolment in Nicaragua, especially among the country's poorest groups. Moreover, investments in education dwindled from 18% to 4% of the education expenditure between 2007 and 2012, slowing down progress in the sector.

¹² In a systematic review analysing 79 empirical studies, 43 of which are classified as high quality, Glewwe et al. (2011) summarise and analyse the main estimates of various interventions on learning outcomes in developing countries between 1990 and 2010. In terms of upgrading classrooms, they mainly found positive effects on the school infrastructure index on learning outcomes. Positive effects on the quality of education were revealed in terms of the availability of sufficient desks, tables and chairs.



6

Health and SRHR

6.1 Introduction

This chapter describes Dutch support to the health and SRHR sector and subsequently the impact of Dutch withdrawal. The Netherlands has been an active and vocal donor in the health and SRHR sector in Nicaragua for a long time. The Dutch embassy was advocating the implementation of a sector approach in the early 2000s. After the health basket fund FONSALUD was established, the Netherlands was among the most important donors and became lead donor in 2008. In the policy dialogue, the embassy was a critical and outspoken actor regarding SRHR and lobbied against the penalisation of therapeutic abortion. Moreover, the Netherlands strategically supported various programmes and organisations in the field of SRHR. One of this chapter's main conclusions is that ending FONSALUD actively contributed to the underfunding of health systems in the poorest parts of the country.

6.2 Development of the sector

SRHR

In 2006, just before the elections, parliament approved, with the support of the FSLN, a law that penalises therapeutic abortion. Before that point, women whose lives were in danger were allowed to have an abortion. Now all forms of abortion have been made illegal. Both the woman undergoing the abortion and the doctor performing it can be prosecuted. Observers have attributed the law to the fact that political parties want to ensure and maintain the support of the Catholic and Evangelical churches (Human Rights Watch, 2007).

| 38 |

Sexual and Reproductive Health and Rights have been under pressure in Nicaragua, especially since the adoption of the law. Domestic violence and sexual violence are tangible problems, especially in poor areas. In 2012, Nicaragua adopted the *Integral Law Against Violence Against Women (Law 779)*, recognising the rights of women to have a violence-free existence. The (small) number of resources allocated to the implementation of this law have been a matter of debate. Moreover, Ortega signed a decree to implement Law 779, causing setbacks for women's rights. The decree limited the concept of *femicide* (the killing of women because they are women) to cases of interpersonal relationships among couples. This provoked national protest and criticism by women's organisations in Nicaragua.

Basic health care

In 2007, a comprehensive set of health services became freely available in Nicaragua. This was a redistributive measure as the poor benefited proportionally more. Free health services reduced the average household expenditure on health by 22% between 2005 and 2009.¹³ During this period, government expenditure on health, in turn, increased substantially.¹⁴ In 2009, the Ministry of Health estimated that the direct coverage of personal care and

¹³ Data from a Finnish evaluation, based on preliminary data from the INIDE living standards measurement survey (LSMS).

¹⁴ Calculated from MHCP budget data, IMF exchange rates and World Development Indicators population estimates.

medical services was about 70% of the entire Nicaraguan population. In the most deprived regions of the country access to public health services remained poor.¹⁵ The most important challenges in improving access to health care were:

- poor health infrastructure and medical equipment;
- limited amount of trained health personnel in poor regions;
- rising cost of health services and limited budgets; and
- poor local systems for the planning, organisation and implementation of health care.

In response, the Ortega administration formulated its *National Health Policy*, which aimed to increase access to health among the most disadvantaged groups. The Ministry of Health identified priority regions in which it aimed to improve access to health and health outcomes, such as mother and child mortality.¹⁶ Among the measures taken in these regions, the Ortega administration continued to construct and facilitate maternity waiting homes. In the absence of other professional obstetrical services, these homes provide women with the possibility of giving birth in an institutional setting. The number of maternity houses and beneficiaries grew substantially from 2008 onward. In 2011, about 22% of all deliveries in the poorest six departments took place in a maternity home.¹⁷ Despite additional investments in poor areas and the increased number of maternity homes, Nicaragua's maternal mortality rate only declined slowly at the national level and remains among the highest in Latin America.

	2008	2009	2010	2011	2012	2013	2014	2015
Maternal mortality rate (per 100,000 births)	167	171	166	153	164	159	154	150
Neonatal mortality rate (per 1,000 births)	13	12	12	11	11	11	10	10
Life expectancy (years)	73	73	74	74	74	75	75	
Maternity homes	66	78	89	94	100	147		
Births in maternity homes (x 1,000)	14	15	17	22	25	32		

Sources: WHO, Ministry of Health and the World Bank.

6.3 The role of the Netherlands in the sector

The Dutch embassy in Nicaragua was active in the health sector for a long time and had been advocating the implementation of a sector approach since the early 2000s. The Ministry of Health intended to coordinate initiatives from different development actors in the health sector and, in 2005, a basket fund (FONSALUD) for health was established.

¹⁵ In Nicaragua, the SILAIS (local health-care systems) are the 17 main administrative health units corresponding to the country's 17 departments and autonomous regions.

¹⁶ Residents from these areas represented about 39% of the Nicaraguan population.

¹⁷ Due to high demand, some of the maternity waiting homes are understaffed, underequipped or overpopulated.

All donor contributions were disbursed to the Central Bank of Nicaragua but were earmarked for the Ministry of Health. The objective of sector support was to increase access to good quality health care and reduce (regional) inequality of health services. Figure 6.1 presents the various activities partially financed by the basket.

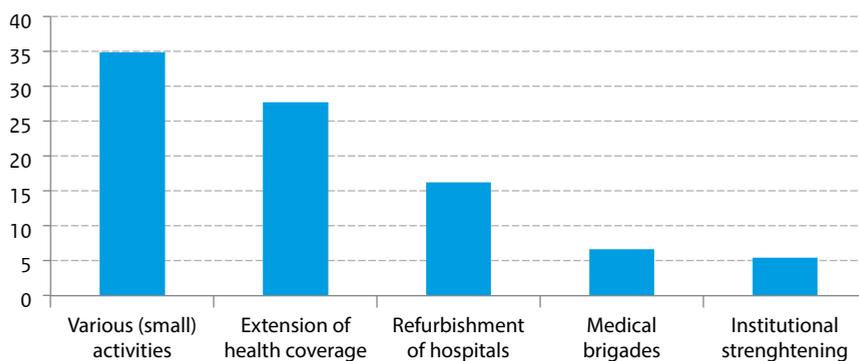
	2007	2008	2009	2010	2011	2012	2013	2014	2015
MoH expenditure (USD million)	211	236	252	245	261	297	315	377	211
o/w FONSALUD (USD million)	21	21	15	14	10	5	1	2	21
FONSALUD as % of MoH expenditure	9.9	8.8	5.8	5.6	3.8	1.8	0.4	0.5	9.9
MoH expenditure in % of central government expenditure	15.6	14.6	15.2	14.2	13.6	14.0	14.0	15.0	14.2
MoH expenditure in % of GDP	2.8	2.8	3.0	2.8	2.7	2.8	2.9	3.2	3.1

Source: The authors' own calculations, based on data from the Ministry of Finance

Note: Central government expenditure

Half of the donors were engaged in direct support to the Ministry of Health. Both in financial and non-financial terms, the Netherlands and Sweden were the most important donors for the Nicaraguan Ministry of Health, actively engaging other donors to join. After the departure of Sweden in 2008, the Netherlands became the lead donor. It coordinated communication among participants in FONSALUD and eventually set up a technical secretariat, located at the EKN. Other donors were Finland, Spain, Austria and UNFPA.

Figure 6.1 Distribution of FONSALUD 2007-2014 (in USD million)



Source: Nicaragua Ministry of Finance, annual reports. Adapted by IOB.

The largest part of FONSALUD's means was used as a liquid fund to cover various acute local needs that affected the proper functioning of health systems (PCS, 2013). In various activities, therefore, discretionary funds from FONSALUD helped the ministry to overcome existing financing gaps and contributed to the implementation of the government's health interventions.

Moreover, about a third of FONSALUD's funds were used to extend coverage of primary care and hospital services to remote areas between 2007 and 2014. The funds were used for both ongoing expenses (contracting nurses and doctors) and investments (in health equipment and infrastructure) in the 76 prioritised municipalities. With these additional funds, the ministry immediately set out to improve the primary and basic health-care conditions for the poorest parts of the Nicaraguan population and to reduce infant and maternal mortality. The rest of the funds were spread out across medical brigades, the refurbishment of hospitals and institutional strengthening.¹⁸

The EKN was a critical and outspoken actor regarding SRHR and lobbied against the penalisation of therapeutic abortion. Immediately after the law was adopted, the EKN arranged a meeting with the Nicaraguan Minister of Health and the other FONSALUD donors, in which it was agreed that the ministry would protect medical staff involved in abortions on women with serious complications. The Dutch embassy continuously pleaded for a revision of the law in the dialogue with President Ortega. The possibility of having an effective policy dialogue on SRHR with the FSLN government was bleak, however.

| 41 |

The EKN also financially supported a programme from the Pan American Health Organization (PAHO). The intention was to strengthen the capacity of the Ministry of Health, and indeed, the Dutch contribution was earmarked for institutional strengthening. Together with Sweden, furthermore, the Netherlands largely financed UNICEF's Nicaraguan country programme, which aimed to ensure universal health services, focusing on 15 prioritised municipalities. The Netherlands also strategically supported several SRHR organisations and programmes (see table 6.3).

Name	Counterpart	2008	2009	2010	2011	2012	2013
FONSALUD	MoH	4.0	3.8	5.3	2.8		
Country programme	UNICEF	1.5	1.6	2.9	1.4	2.0	
VOZ JOVEN	UNFPA	1.6	1.4	1.7	1.2	0.3	
SRHR for vulnerable groups	PSI/PASMO		1.4	1.2	1.2	1.3	0.7
Institutional strengthening	WHO/PAHO		0.8	1.0	1.0	0.2	
Strengthening of SRHR	Ipas			0.5	0.5	0.3	0.4

Source: Netherlands Ministry of Foreign Affairs.

¹⁸ Medical brigades also aim to increase access to health services; they consist of volunteers that visit remote areas of the country to offer health services to the population, under supervision of qualified health personnel.

Ipas is an organisation with specific knowledge and expertise in the area of post-abortion care. The Netherlands' support to *Ipas* not only aimed to improve the quality of post-abortion care but also to increase the Nicaraguan population's awareness and knowledge of women's rights and abortion. This support was also political, as *Ipas* was part of a group of NGOs aiming to decriminalise therapeutic abortion. Moreover, the Netherlands supported PSI/PASMO, a consortium of NGOs directly targeting the most vulnerable groups in Nicaraguan society regarding sexually transmitted diseases, such as homosexuals, sex workers and children.

The Netherlands also financed the UNFPA project VOZ JOVEN (Youth Voice). The project was carried out in association with 43 municipalities and the two autonomous regional governments. VOZ JOVEN reached about 8,200 educators and estimates are that about 100,000 adolescents have benefited. The final beneficiaries strongly supported the project (FCG, 2013). The creation of physical spaces that encouraged the participation and training of youth and adolescents, run by the Municipal Councils of Adolescents and Youth (CAMAJs), was one of the main achievements of VOZ JOVEN, even though CAMAJs were not necessarily very cost efficient. This was an important step in the institutionalisation of SRHR rights for adolescents. There is credible qualitative evidence that VOZ JOVEN helped to empower and increase the capacities of teenagers, adolescents and women, both through participation in CAMAJs and through spill-over effects (Martinez et al., 2013; UNFPA, 2012; FCG, 2013).

| 42 |

Overall, IOB concluded that Dutch support in Nicaragua improved the treatment and knowledge of HIV/AIDS, and increased the use of contraceptives and decreased the number of teen pregnancies (IOB, 2013). Generally, Dutch assistance to civil society organisations has improved SRHR in Nicaragua and decreased mortality rates.

6.4 The phasing-out process

In late 2010, the Netherlands signed an MoU outlining its intention to continue supporting FONSALUD with USD 5.3 million annually until 2015. After the exit was announced, it became clear that the MoU would not be respected. There was no bilateral signed contract yet, and thus there were no legal commitments. The Ministry of Health and other donors, however, expected the Netherlands to fulfil its intention as outlined in the MoU. The decision to not follow up on the MoU was not discussed with the Ministry of Health or with other donors, nor did it respect the guidelines from headquarters ('respecting existing obligations and political commitments'). In the exit strategy, the embassy requested an additional USD 2.8 million for FONSALUD in 2011, on top of the already disbursed USD 2.8 million, but this was not approved by headquarters.

Given the reality of multiple like-minded donor departures in a relatively short time span, it was almost impossible to find new donors for FONSALUD. The only substantial donor remaining in FONSALUD was Finland and newly joined Luxembourg. Their financial contributions were too small to fill the financial gap of the multi-donor departure. While Finland appeared a suitable candidate to take over the lead in the sector, the country

announced that it would end support to Nicaragua in 2012. Therefore, there was no lead donor in the health sector anymore, and Luxemburg was the only bilateral donor left in FONSALUD. This premature ending of FONSALUD was not foreseen by the Ministry of Health.

An official letter announcing the Dutch decision to end support to Nicaragua was sent to the other counterparts in the sector. Generally, the supported organisations valued the Dutch communication and flexibility. Support to PSI/PASMO, for example, was neutrally extended by a year in order to safeguard consolidation of the project. However, since there were no alternative donors, maintaining the same level of donor support to these NGOs was not possible. The same applied to VOZ JOVEN because the other main donor (Finland) also ended its support.

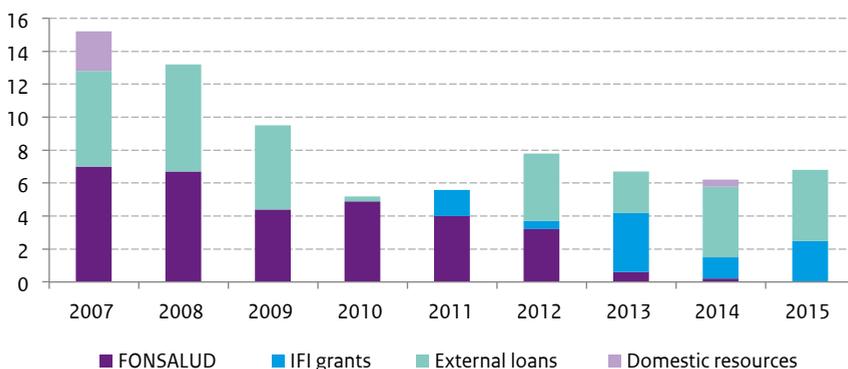
6.5 The impact of Dutch withdrawal

Public sector

Finland’s evaluation of FONSALUD already outlined that the finalisation of the basket fund negatively affected financial management capacity in deprived and remote areas, and therefore possibly counteracted progress made combating regional health inequality (FCG, 2013). This evaluation confirms these findings. First, FONSALUD provided the Ministry of Health with discretionary funds that were used to fill financial gaps in the budget. Given that there is an ongoing budget deficit at the Ministry of Health, continued basket funding to the MoH would have positively contributed to the implementation of health programmes. Furthermore, the government was unable to take over funding of all of FONSALUD’s programmes. While funds to the medical brigades were taken over by the government, this is not true for the funds used to extend health coverage to prioritised regions. Other important donors were the Inter-American Development Bank and the World Bank. These donors did not increase their allocations during the phasing out period, however, or after the ending of FONSALUD.

| 43 |

Figure 6.2 Extension of health coverage, by source (in USD million)

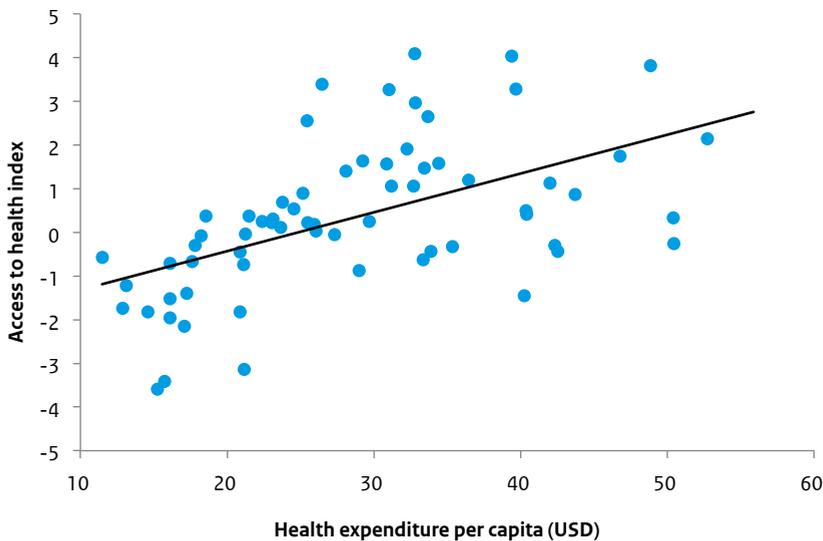


Source: Ministry of Finance.

The finalisation of FONSALUD has contributed to ongoing inequality in the allocation of health resources; in the counterfactual situation of continued FONSALUD contributions, additional discretionary spending would have been available to the prioritised areas. After the ending of FONSALUD, the ministry’s expenditure per capita in the prioritised areas grew proportionally compared to the rest of the country and differences remain enormous. Two of the poorest SILAIS, the autonomous regions RAAS and RAAN, spent about USD 21 per capita on health in 2013, while Managua spent roughly USD 66 per capita.

We constructed an index measuring the access to health in the different SILAIS for the period 2007-2013 and found a positive correlation between the (per capita) health expenditure at the SILAIS level and the population’s access to health services (see figure 6.3).¹⁹

Figure 6.3 Correlation of health expenditure and access to health in Nicaragua (2007-2013)



Source: Based on data from Ministry of Finance and Ministry of Health. Adapted by IOB.

Increasing health expenditure to the poorest parts of the country is likely to have increased health access. While access to health increased in all 17 SILAIS in Nicaragua between 2007 and 2013, the poorest SILAIS continue with significantly worse scores than the richer parts of the country. There is scientific consensus that extending primary rural primary care services to large segments of the population is an effective instrument for improving health status; health outcomes depend on the access to and quality of primary care health services (Kruk et al., 2010; Bhutta et al., 2010; Kruk et al., 2010; Willey et al., 2013). Services provided by the Nicaraguan Ministry of Health are generally valued positively by the Nicaraguan

¹⁹ This index includes the number of hospital releases per capita, the number of surgeries per capita, the percentage of early prenatal care, the percentage of fourth prenatal appointments, the number of laboratory examinations per capita and the percentage of caesarean sections.

population (FIDEG, 2013). Indeed, we found a negative correlation between the access to health services in Nicaragua and two health and SRHR outcomes: the maternal and neonatal mortality rates (see annex II). Increased access to health is associated with low(er) mother and child mortality.

The health systems in the poorest parts of the country remain severely underfunded. The ending of FONSALUD contributed actively to the underfunding of health systems in the poorest parts of the country. Both mother and child mortality worsened in the ‘prioritised areas’ between 2010 and 2013. On top, our analysis suggests that the inequality between the prioritised areas and the rest of the country increased after 2009. In 2013, the chances of maternal death were about four times higher in the prioritised areas than in the rest of the country.²⁰ Country-wide reductions in mortality rates thus appear to obscure stagnating health outcomes in Nicaragua’s poorest regions.

Non-governmental support

The departure of progressive donors such as the Netherlands and Sweden left a void in the political discussion with the Nicaraguan government and support to the more critical civil society and women’s rights organisations dwindled. Other donors could not take over this role. For PSI/PASMO, the ending of Dutch support led to the imminent closure of one of the supported organisations. *lpas* was also forced to continue its work with fewer resources. The organisation depended on Dutch support; between 2010 and 2013, the Netherlands accounted for 48% of *lpas*’ executed budget. The government, however, was forced to use *lpas*’ services on post-abortion care, because it was the only expert organisation around. After the departure of the Netherlands, *lpas* only continued to operate in five SILAIS, while it previously operated all over the country. The organisation remains engaged in lobbying and advocacy work, working with universities and communities, but at a much lower level.

| 45 |

The Netherlands accounted for more than half of VOZ JOVEN’s budget, so the departure of the Netherlands and Finland severely reduced the available funds and technical assistance.²¹ UNFPA continued the project in collaboration with the Nicaraguan government. The government, however, prefers a more centralised approach and decided not to continue working through the CAMAJs. The closure of the CAMAJs has undone the positive effects in terms of empowerment and the communication capacities of teenagers. Furthermore, the coverage of the project decreased substantially, especially in the remote (and prioritised) areas.

²⁰ As already noted in IOB (2010a: 111), the Ministry of Health’s figures are substantially lower than those estimated by the WHO. The difference is that the WHO estimates the mortality rate based on census data, while the Ministry of Health only uses actually reported cases.

²¹ Data provided by UNFPA.

6.6 Conclusions

This chapter investigated the effects of the withdrawal of donor funds from the health sector in Nicaragua. Funds from the basket provided the Ministry of Health with discretionary funds that were used to fill financial gaps in the budget. Given the ongoing budget deficit, continued basket funding to the Mohr would have positively contributed to the implementation of the ministry's programmes. The government was unable to take over funding of all of FONSALUD's programmes, especially regarding the extension of health services to poor and high-priority parts of the country. This chapter revealed that the withdrawal of FONSALUD donors contributed to the underfunding of health systems in the country's neediest parts. Despite progress in health indicators at the national level, mother and child mortality worsened in these 'prioritised areas' between 2010 and 2013. The end of support to the sector did not undermine the policy dialogue since there was no 'true' effective dialogue on SRHR topics. However, the ending of support and the closure of the embassy did affect certain civil society organisations operating in this field, both financially and politically. Other donors have not taken over this role.

7

Summary and conclusions

This report assessed the impact of the ending of Dutch development cooperation in Nicaragua. It examined the impact of the reduction in aid and the closing of the embassy at two levels. At the macro level, it analysed the effects on total government finances and on the policy dialogue; at the micro level, it examined the effects that the closing of specific programmes and projects had on affiliated organisations. This study also focused on the ending of general budget support and support to the education and health sectors, including support for SRHR.

The year 2006 can undoubtedly be regarded as an important one in the context of this analysis. That was the year Nicaragua became a middle-income country and Daniel Ortega of the FSLN was elected president. Both facts played a role in the decision to end support to Nicaragua; not only for the Netherlands, but for many other western donors. The new government operated in a more authoritarian way and did not accept criticism by donors on its political stance. The oil arrangements with Venezuela allowed Nicaragua to take this more critical stance towards traditional donors. As a result, the relations between many traditional donors and the government gradually deteriorated. Despite the fact that this government prioritised poverty reduction and inequality, donors lost their enthusiasm for supporting it. Budget support was the first victim, but many donors also began to consider ending their support altogether.

| 48 |

A first conclusion is that there was no donor coordination in the exit decisions of the eight traditional European donors during the period 2007-2013. Even though there was a certain level of donor coordination during the period of donor support, there was no donor coordination when it came to ending development cooperation. Like all other donors, the Netherlands unilaterally ended development cooperation without consulting other donors or the Nicaraguan government prior to the fact. As a result, it was almost impossible for other parties to take over activities previously financed by the Netherlands.

With regard to the impact of the end of budget support, its reduction in 2008 was unexpected and affected macro-economic stability. It led to a slightly higher deficit and to the lower repayment of costly domestic debts. Both trends continued in 2009, and the deficit in particular continued to increase, but this was also due to the global economic crisis. Macro-economic stability was restored in later years. However, the ending of budget support and the reduction of grants to the government generally meant that the amortisation of costly domestic debts and/or government expenditure were lower than they would have been otherwise. The analysis of the health and education sectors (see below) highlights some effects of lower government expenditure. The end of budget support also meant the end of an intensive policy dialogue. However, this dialogue had mainly focused on issues of governance, which had not been particularly effective. By ending budget support altogether, however, donors missed the opportunity to support *and* influence the government's efforts to reduce poverty.

The ending of Dutch development cooperation to Nicaragua affected the traditional social sectors – health and education. The priority of the Ortega administration was and continues

to be helping the neediest groups of Nicaraguan society. The ending of basket funding to the social sectors, however, had the opposite effect. Because the basket funding mechanisms were for the most part untied, the respective ministries strategically used the funds to fill financial gaps and address severe needs, especially in the most deprived areas. The resulting gap in discretionary resources was not immediately filled. As a result, the poorest wgroups in Nicaragua were the primary victims of the ending of Dutch support.

From 2007 onward, the Ministry of Education increased expenditure on teacher salaries. The multi-donor fund PROASE helped the Ministry of Education to fill the subsequent financing gaps in other spending areas. The premature and partially unforeseen ending of the multi-donor fund left the ministry with a financial void that took a few years to fill. These financial gaps resulted in lower school enrolment rates, as a result of decreases in school meals. The quality of education was also affected by a substantial drop in investment in schooling infrastructure.

In the health sector, the premature ending of FONSALUD was not anticipated by the Ministry of Health, and the Nicaraguan government initially failed to allocate additional resources to fill the financial gap. Fewer funds were available to extend the coverage of health services to the most deprived regions, contributing to high and persistent inequality in access to health services. As a result, the Nicaraguan population in the poorest departments of the country suffered disproportionately from the ending of Dutch support in terms of health outcomes, as measured by maternal and neonatal mortality.

The departure of the Netherlands as an engaged donor in the area of SRHR also increased inequality in terms of health and SRHR services throughout the country. Reduced financial means led to the scaling down of activities and limited the coverage of VOZ JOVEN and *Ipas* in the poorer departments. Given the major challenges in the SRHR sector in Nicaragua, the departure of progressive donors has weakened the position of women's and youth's rights organisations financially, technically and politically.

References

- Alderman, H. and Bundy, D. (2011). School feeding programs and development: are we framing the question correctly? *The World Bank Research Observer*, 1kro05.
- Bhutta, Z., Lassi, Z. and Mansoor, N. (2010). *Systematic Review on Human Resources for Health Interventions to Improve Maternal Health Outcomes: Evidence from Developing Countries*. 3ie.
- Byron, G., Vaughan, L. and Duhalde, J. (2009). *Informe Final: PROASE – Programa de Apoyo Al Sector Educativo*. CIDA.
- Central Bank of Nicaragua (2014). *Informe Annual de la Cooperación 2014*. Managua.
- CIET (2014). *Building the community voice in planning, Percepción de corrupción de servicios públicos, Nicaragua 2014*. 6ª Auditoría Social. Managua.
- Dijkstra, G. and Evans, T. (2003). *Results of debt relief in Nicaragua: Case study for the IOB evaluation of Dutch debt relief*. The Hague: IOB Working Document.
- Dijkstra, G. (2013). Governance or Poverty Reduction? Assessing Budget Support in Nicaragua. *Journal of Development Studies*, 49(1), 110-124.
- Everingham, M. (1998). Neoliberalism in a new democracy: elite politics and state reform in Nicaragua. *The Journal of Developing Areas*, 237-264.
- FCG (2013). *Evaluation of FONSALUD and institutional plans of the Ministry of Health of Nicaragua*.
- FIDEG (2013). *Informe de resultados 2012. Encuesta de hogares para medir la pobreza en Nicaragua*. Managua.
- FIDEG (2014). *Informe de resultados 2013. Encuesta de hogares para medir la pobreza en Nicaragua*. Managua.
- FIDEG (2014b). *Dinámicas de la Pobreza en Nicaragua 2009-2013*. Managua.
- García Prado, A. and Cortez, R. (2012). Maternity waiting homes and institutional birth in Nicaragua: policy options and strategic implications. *The International journal of health planning and management*, 27(2), 150-166.
- Guimarães, J. P. and Avendaño, N. (2011). The Great Experiment: Testing the PRSP Approach in Nicaragua, 2000-2007. *European Journal of Development Research*, 23(2), 319-336.
- Human Rights Watch (2007). Over Their dead bodies. Denial of Access to Emergency Obstetric Care and Therapeutic Abortion in Nicaragua. *Human Rights Watch*, 19(2b).
- INIDE (2008). *2008 Anuario Estadístico*. Managua.
- IOB (2010a). *Evaluatie van de Nederlandse hulp aan Nicaragua 2005-2008*. IOB Evaluatie, nr. 328. Den Haag.
- IOB (2010b). *Evaluation of General Budget Support to Nicaragua, 2005-2008*. IOB Evaluation no. 329. The Hague.
- IOB (2011). *Education matters: Policy review of the Dutch contribution to basic education 1999-2009*. IOB Evaluation no. 353. The Hague.
- IOB (2012). *Turning a right into practice: Impact evaluation of the Ixchen Centre for Women cervical cancer programme in Nicaragua (2005-2009)*. IOB Evaluation no. 371. The Hague.
- IOB (2013). *Op zoek naar nieuwe verhoudingen: Evaluatie van het Nederlandse buitenlandbeleid in Latijns Amerika*. IOB Evaluatie, nr. 382. Den Haag.
- Jomaa, L. H., McDonnell, E. and Probart, C. (2011). School feeding programs in developing countries: impacts on children's health and educational outcomes. *Nutrition reviews*, 69(2), 83-98.

- Kazianga, H., de Walque, D. and Alderman, H. (2014). School feeding programs, intrahousehold allocation and the nutrition of siblings: Evidence from a randomized trial in rural Burkina Faso. *Journal of Development Economics*, 106, 15-34.
- Kester, P. (2009). *Informe evaluativo (2007-2008) Programa Productivo Alimentario (PPA) Hambre Cero*. Managua, Nicaragua: EKN.
- Kruk, M. E., Porignon, D., Rockers, P. C. and Van Lerberghe, W. (2010). The contribution of primary care to health and health systems in low-and middle-income countries: a critical review of major primary care initiatives. *Social science & medicine*, 70(6), 904-911.
- Martínez, J., Jaén, M. and Jiménez, J. (2013) *Aprendizajes de una experiencia a partir de las Casas Municipales de Adolescentes y Jóvenes Una ruta hacia la autonomía para la vida*. UNFPA
- McEwan, P. J. (2013). The impact of Chile's school feeding program on education outcomes. *Economics of Education Review*, 32, 122-139.
- Ministerio de Educación (2014) *Reporte de implementación hasta 2013 del PEE 2011-2015 y del anexo al plan estratégico de educación 2011-2015*. Managua.
- Ministerio de Hacienda y Crédito Público (2007). *Informe de Liquidación del Presupuesto General de la Republica 2007*. Managua.
- Ministerio de Hacienda y Crédito Público (2008). *Informe de Liquidación del Presupuesto General de la Republica 2008*. Managua.
- Ministerio de Hacienda y Crédito Público (2009). *Informe de Liquidación del Presupuesto General de la Republica 2009*. Managua.
- Ministerio de Hacienda y Crédito Público (2010). *Informe de Liquidación del Presupuesto General de la Republica 2010*. Managua.
- Ministerio de Hacienda y Crédito Público (2011). *Informe de Liquidación del Presupuesto General de la Republica 2011*. Managua.
- Ministerio de Hacienda y Crédito Público (2012). *Informe de Liquidación del Presupuesto General de la Republica 2012*. Managua.
- Ministerio de Hacienda y Crédito Público (2013). *Informe de Liquidación del Presupuesto General de la Republica 2013*. Managua.
- Ministerio de Hacienda y Crédito Público (2014). *Informe de Liquidación del Presupuesto General de la Republica 2014*. Managua.
- Ministerio de Salud (2011). *Informe de Gestión en Salud 2011*. Managua.
- Ministerio de Salud (2012). *Informe de Gestión en Salud 2012*. Managua.
- Ministerio de Salud (2013). *Informe de Gestión en Salud 2013*. Managua.
- Neervoort, F., von Rosenstiel, I., Bongers, K., Demetriades, M., Shacola, M. and Wolffers, I. (2013). Effect of a school feeding programme on nutritional status and anaemia in an urban slum: a preliminary evaluation in Kenya. *Journal of tropical pediatrics*, 59(3), 165-174.
- Petrosino, A., Morgan, C., Fronius, T., Tanner-Smith, E., and Boruch, R. (2012). Interventions in developing nations for improving primary and secondary school enrollment of children: A systematic review. *Campbell Systematic Reviews*, 8(19).
- Rosales A, Zapata J, and Cardoza J. (2009.) *Estado de los derechos humanos de salud en la Costa Caribe Nicaraguense*. Bluefield: Bluefield Indian & Caribbean University (BICU), ODHAI and OPS.
- Singh, A., Park, A. and Dercon, S. (2014). School meals as a safety net: an evaluation of the Midday Meal scheme in India. *Economic Development and Cultural Change*, 62(2), 275-306.
- Slob, A. and Jerve, A. M. (2008). *Managing aid exit and transformation: Lessons from Botswana, Eritrea, India, Malawi and South Africa*. Synthesis Report, Joint donor evaluation.

References

- The World Bank Group (2012). Nicaragua - The World Bank Country Survey 2012.
- UNFPA (2012). *Informe Final. Evaluación final del Séptimo Programa de País UNFPA-Nicaragua 2008-2012.*
- Walshe Roussel, L. (2013). The changing donor landscape in Nicaragua: rising competition enhances ownership and fosters cooperation. *Journal of International Development*, 25(6), 802-818.
- Willey, B., Smith Paintain, L., Mangham-Jefferies, L., Car, J. and Armstrong Schellenberg, J. (2013). *Effectiveness of interventions to strengthen national health service delivery on coverage, access, quality and equity in the use of health services in low and lower middle income countries.* London: EPPI – University of London.

Annexes

Annex I Literature overview school meal programmes

In recent years, food for education (FFE) schemes have gained popularity as a policy instrument in developing countries. In 2008, the World Food Programme ran school meal programmes in 68 developing countries. There are two modes of delivery within FFE frameworks. To start, school meal programmes (SMPs) provide snacks or meals to school children on site. Take home rations (THRs), on the other hand, are provided to school children for consumption at home. Both schemes can be made conditional on enrolment and attendance. Generally, school meal programmes share three main objectives. In the first place, these schemes provide an incentive for parents to enrol and keep their children in school by reducing the opportunity costs. Second, the programmes may decrease malnourishment and improve the health and nutritional status of school-aged children. Third, the children's better health and nutritional status may improve cognitive functions and increase academic performance due to increased attention and concentration.

A systematic review by Jomaa et al. (2011) summarised a total of 15 empirical studies, both randomised and non-randomised trials, estimating the impact of school meal programmes. Across the spectrum, the studies revealed a consistent pattern of higher school enrolment and attendance rates among children in food for education schemes compared to those in control groups. School meal programmes also help to reduce dropout rates in developing countries. And in terms of health outcomes, studies from Peru, Colombia and South Africa revealed that school meal programmes have a positive effect on children's dietary and micronutrient status. Moreover, some of the studies found that school meals had a positive effect on children's growth and anthropometric indices, while others only revealed non-significant effects. Regarding actual learning outcomes, the evidence is only cautiously positive, with significant and positive results for math outcomes, while the evidence on reading and spelling is inconclusive. Another systematic review by Petrosino et al. (2012) calculated the average random effect of school meal interventions from five empirical studies and also concluded that there is a statistical significant effect of such interventions on school enrolment and attendance rates in developing countries.

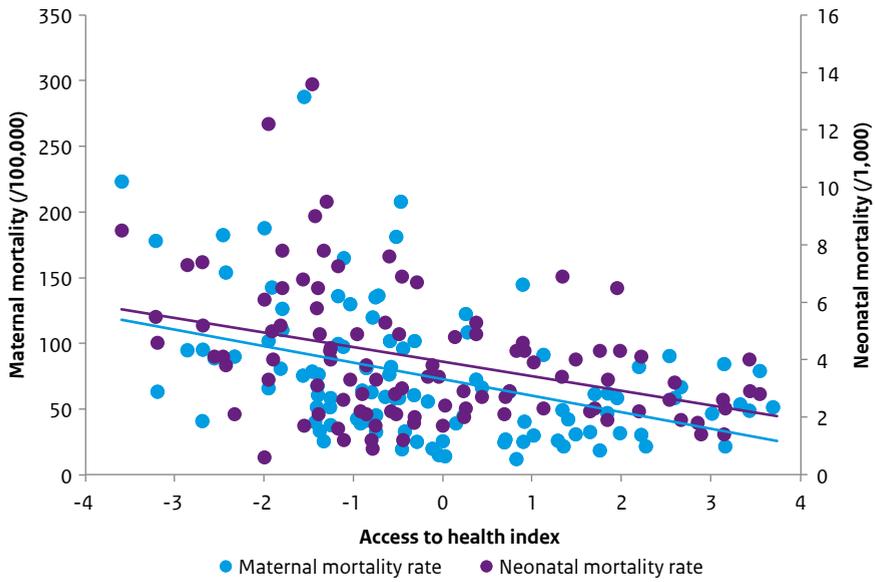
More recent studies not integrated in the above-mentioned systematic reviews largely confirm the findings presented in the two systematic reviews. To start with, Singh et al. (2014) provide additional statistical evidence for the positive effect of school meal programmes, in the form of midday meals, on the nutritional status of primary school children in Andhra Pradesh, India. They also provide some evidence for their thesis that FFE schemes can compensate for shocks such as droughts. Similarly, Neervoort et al. (2013) find that children participating in SMPs were less stunted and undernourished than those in the control group.

Kazianga et al. (2014) estimated the effects for school meal programmes and take home rations in Burkina Faso. In line with Jomaa et al. (2011), they demonstrate a positive impact for both in-school provided meals and THRs on new enrolment rates. Furthermore, this study demonstrates spill-over effects of THRs in terms of the nutritional status of younger siblings of beneficiaries. The study failed, however, to demonstrate tangible education outcomes as a result of food for education schemes.

Using a regression discontinuity design, McEwan (2013) failed to find any effects of Chile's school meal programme. It is, however, plausible that this is due to Chile's high enrolment rates and low child malnutrition. In that respect, the notion of Alderman and Bundy (2011: 13) is important to consider: they argue that FFE schemes may not be the best educational investment (i.e. cost-effective in terms of outcome per monetary unit), but it may well be an important element in achieving an effective education system. School meal programmes are quite likely to be more effective in countries with poor school enrolment rates and poor health and educational outcomes.

Annex II Access to health vs. Health outcomes

Figure II.1 Correlation between access to health and health outcomes (2007-2013)



Annex III List of interviewees

Reina Buijs	Former CdP, former EKN Managua
Hans Wessels	Former head of cooperation, former EKN Managua
María Jesus Largaespada	Former health expert, former EKN Managua
Chris de Nie	Netherlands Ministry of Foreign Affairs, former DSO
Mauricio Gómez	Netherlands Honorary Consul Nicaragua
Esmeralda Morales	Central Bank of Nicaragua
Francis Rodríguez	Ministry of Foreign Affairs
Norman Rodríguez	Dirección General de Crédito, Ministry of Finance
Scarlet Ortiz Guadamuz	Development cooperation analyst, Ministry of Health
Sergio Guerrero Solórzano	Director of finance, Ministry of Health
Manuel Rocha Sergio Mayorga	National Police Nicaragua
Jesus del Barrio	European Union, Head of Cooperation
Jorge Bastino	European Union
Sandra Peña	European Union
Blanca Yañez Minondo	AECID
Ysabel Blanco	CIDA, Head of Cooperation
Freddy Ruiz	COSUDE
Thierry Lippert	Embassy of Luxembourg in Managua
Han Marcel Kok	Previously at Embassy of Luxembourg in Managua
Nadia Prado	Previously at Embassy of Finland
Raul Barrios	World Bank
Mariecke van der Glas	ICCO
Dineke van den Oudenalder	HIVOS
Dra. Guadalupe Canales	Executive director of PSI/PASMO
Anonymous	IPAS
David Rosco Markus Behrend	UNFPA

Published by:

Ministry of Foreign Affairs of the Netherlands
Policy and Operations Evaluation Department (IOB)
P.O. Box 20061 | 2500 EB The Hague | The Netherlands

www.government.nl/foreign-policy-evaluations
www.iob-evaluatie.nl/en
www.twitter.com/IOBevaluatie
www.oecd.org/derec

Photo chapter 1: Women from various women's rights organisations on International Women's Day (Nicaragua, 2015). Photo: Esteban Felix (AP Photo).

| 58 |

Photo chapter 2: President of Nicaragua Daniel Ortega celebrates his inauguration with Venezuelan President Hugo Chávez and Bolivian President Evo Morales. Photo: Tomas Stargardter (Polaris / Hollandse Hoogte).

Photo chapter 3: March organized by the Strategic Group for the Decriminalization of Therapeutic Abortion on the fifth anniversary of the law penalising therapeutic abortion (Managua, 2011). Photo: IPAS.

Photo chapter 4: A beggar approaches an SUV at a road intersection in Managua. A billboard above the road urges voters to back Daniel Ortega in the upcoming presidential elections (Managua, 2006). Photo: Dermot Tatlow (Panos Pictures).

Photo chapter 5: Nicaraguan school children lined up, waiting for school lunch (El Guineo, 2013). Photo: Julissa Aguilar (WFP).

Photo chapter 6: Pregnant teen girl checked in a free medical post (Managua, 2012). Photo: Piet den Blanken (Rights Managed)

Layout: Xerox/OBT | The Hague

© Ministry of Foreign Affairs of the Netherlands | July 2016

Published by:

Ministry of Foreign Affairs of the Netherlands
Policy and Operations Evaluation Department (IOB)
P.O. Box 20061 | 2500 EB The Hague | The Netherlands

www.government.nl/foreign-policy-evaluations
www.iob-evaluatie.nl/en
www.twitter.com/IOBevaluatie
www.oecd.org/derec

© Ministry of Foreign Affairs of the Netherlands | July 2016

16BUZ94958|E