



SWISS COOPERATION STRATEGY FOR CENTRAL AMERICA 2007–2012



Schweizerische Eidgenossenschaft
Confédération suisse
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Agencia Suiza para el Desarrollo
y la Cooperación COSUDE

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The Swiss Agency for Development and Cooperation (SDC) and the Swiss State Secretariat for Economic Affairs (SECO) have jointly developed the present Cooperation Strategy as a renewed commitment to supporting the efforts at reducing poverty in the Central American Region. This strategy has been prepared in line with the priorities identified by the countries, and has benefited from the experience and inputs of our different partners in the field.

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AGROPYME	Programa para el Fomento de Competitividad Agroempresarial
AGUASAN	Programa Agua y Saneamiento en Nicaragua
CAFTA	Central American Free Trade Agreement
FISE	Fondo de Inversión Social de Emergencia
HIPC	Heavily Indebted Poor Countries Initiative
IDB	International Development Bank
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MSME	Micro, Small and Medium Enterprise Development
NGO	Non-governmental Organization
NPO	National Program Officer
NRU	Natural Resources Division (SDC)
PASE	Sistema de Coordinación y Participación para la Implementación Participativa de la ERCERP
PASOLAC	Programa para la Agricultura Sostenible en Laderas de América Central
PCM	Project Cycle Management
PRAC	Programa Regional para América Central
PRGF	Poverty Reduction and Growth Facility
PRORURAL	Productive Rural Development SWAP (Nicaragua)
PRS	Poverty Reduction Strategies
RELATA	Red Latinoamericana de Tracción Animal y Tecnologías Apropriadas
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SINAPRED	Sistema Nacional para la Prevención, Mitigación y Atención de Desastres
SWAP	Sector Wide Approach
TA	Technical Assistance
UNDP	United Nation Development Program
WB	World Bank

Executive Summary

Nicaragua and Honduras are by far the poorest countries in Central America, roughly half of the people live in poverty. Despite some economic growth and political stability, the overall poverty numbers have gone down very little in the last decade. Several structural problems are responsible for this: The strong influence of interest groups, the limited possibility for poor people to participate in political processes, and weak government institutions. Recurrent natural disasters, accelerated depletion of natural resources and, especially in Honduras, a very high incidence of violence add to the list of long-term problems.

There have also been positive changes, however. More than 15 years of successful democratic successions and continued efforts towards decentralization and local governance have created a stable political climate. In the Central American region, economic integration is advancing rapidly. And massive aid and debt relief as well as rapidly growing remittances from migrants have helped improve some social indicators.

In order to get on a path of increased poverty reduction, Honduras and Nicaragua face difficult questions: How to achieve a higher, more inclusive and sustainable economic growth? How to strengthen and depoliticize institutions? How to step up social investments in quality and quantity? How to improve competitiveness, the business environment and critical infrastructure, such as energy? How to reduce external dependencies and deepen regional integration? How to improve country ownership and take a stronger lead in the policy making for poverty reduction?

Swiss Cooperation wants to support the answering of these questions, based on a 25 year trajectory in Central America which accumulated an important capital of experience and partnerships. During the last period (1999 - 2006), official Swiss cooperation totalled over 200 Mio CHF. During the same period, Swiss cooperation with the public sector deepened as a result of growing confidence in governments, and gradually concentrated on Nicaragua and Honduras in order to increase poverty focus, respond to favourable aid policies and optimize limited resources.

The main objective of Swiss Cooperation in Central America is to contribute to poverty reduction and to promote an equitable development. It will concentrate during the next six years on three thematic priorities.

- 1. The development of micro, small and medium enterprises (MSME):** MSME play a key role in job and income generation. Swiss cooperation in this area relies on market mechanisms, is concerned about sustainability and has a clear equity focus.
- 2. Governance and public finance:** The intention is to strengthen transparency, accountability and result-orientation in public finance management by means of technical assistance and general budget support (only Nicaragua).
- 3. Infrastructure and local basic services:** The aim is firstly to increase sustainable rural coverage of water and sanitation services, and secondly to respond to the high risk of natural disasters with a program of Disaster Risk Reduction.

These activities share the cross-cutting themes of good governance and of gender equality. Switzerland actively looks for opportunities to support jointly with other donors programmatic government initiatives. The volume of the current annual budget of 31 Million CHF is expected to remain stable over the next years with a gradual increase of the cooperation with Honduras.

The Cooperation Strategy for Central America has a regional focus which has to be thematically congruent with the country programs in Nicaragua and Honduras. Experiences and results of regional cooperation shall benefit primarily those two countries.

This strategy has been elaborated jointly by the Swiss Development Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO), in a participatory process that involved an important number of long-standing central American and Swiss partners, in order to ensure the strategy to be supported by all institutions and partners involved.

To follow up continuously on the results achieved, a monitoring system encompasses the overall program and looks at both implementation progress and development effects. The success of Swiss Cooperation in the next years however depends not only on an effective implementation of the cooperation strategy, but also on the further evolution in the political and governance context. Only if international cooperation is able to support a situation where governments and societies of Honduras and Nicaragua jointly address the above outlined challenges, will there be substantial change in the lives of poor people.



1. Evolution of the context and development policy

This chapter focuses on longer-term trends and underlying structural factors relevant to Nicaragua and Honduras, which are the two priority countries under this strategy, and to the Central America region, including aspects such as regional public goods and integration.

The Central America region comprises Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Despite cultural diversity, social and economic discrepancies, the countries have in common their close ties with the USA (trade, migration) and the challenge to remain viable as small countries in a globalized world. They increasingly share a process towards regional integration, coordinated or joint trade and cooperation arrangements with USA, EU and other countries.

The Central American countries differ significantly in terms of **poverty** and development. Costa Rica's per capita income of USD 4000 is twice the one of Guatemala or El Salvador, and four to five times higher compared to Honduras and Nicaragua. While income inequality is generally high, the latter two countries are by far the poorest in the region, with poverty rates of 51% and 45 %, respectively. Despite structural reforms, progress with regard to macroeconomic stability and slightly improved economic growth of 3.3-4% per annum (or < 2% per capita), progress in poverty reduction over the last decade has been minimal (0.5% per year in Nicaragua, 0.34% in Honduras). Poverty remains largely rural in both countries. Gender and ethnic/regional poverty discrepancies persist. Poverty is exacerbated by inequalities in terms of income (Gini for Nicaragua 54.1%, Honduras 56.8), access to resources and services. Faster progress in poverty reduction would require stronger and at the same time broader-based economic growth. It would also require more poverty-oriented public expenditures and a more efficient and just tax system.

Massive aid and debt relief helped improving some **social indicators** and elevating slightly the overall ranking of both Nicaragua and Honduras in the Human Development Index. However, progress is insufficient with regard to access to

water and maternal health in both countries, and with regard to literacy in Nicaragua and HIV/AIDS in Honduras. Projections show, that half of the country specific PRS targets related to the MDGs will not be met without a significant increase in social spending generated by higher tax income and aid, and without more solidarity within society, better targeting and quality of social spending.

Nicaragua and Honduras are relatively young democracies, influenced by strong interest groups and with limited possibility for poor people to participate in political processes. In Nicaragua, the ideologically and historically defined political polarization on one hand and the simultaneously converging interests of party elites and their Caudillos on the other hand, characterize politics and explain the power-sharing arrangements, the **politization** of institutions and the dwindling confidence of people in the political system. A point in case is the justice system and the compromised rule of law and property rights. It remains to be seen how the two emerging parties, controlling together 30% of the congress, will shape the future political landscape. In Honduras, the de facto two party system provides some overall political stability but little choice to the people because political processes are more driven by party leaders and their supporting interests groups than by real programmatic differences. Moreover, every change of governments entails a large turnover in the public sector and drains already limited capacity. Politization of institutions, staff turnover and weak checks and balances explain the weakness of central and local government institutions.

The national economies are quite liberalized and characterized by limited diversification and significant trade deficits, growing as a result of oil dependency in the energy sector. In both countries, **remittances** from migrants (>25% of GDP in Honduras) and aid dependency (15% of GDP in Nicaragua) are important. The new **trade agreement** with the USA (CAFTA) and the recently initiated process towards a comprehensive cooperation agreement with the EU (including trade, aid, policy dialogue) offer certainly new development opportunities but also risks due to



the overall low competitiveness of both economies and because of large internal differences in competitiveness between sectors. Without special efforts, informal urban sectors and small-scale traditional agriculture will loose, while more dynamic sectors will gain from open markets. The Central American **economic integration** is advancing rapidly, driven by free trade agreements, increased intra-regional trade and investment and simplified border controls. In contrast, political integration is lagging behind in parts because of large social and developmental discrepancies between countries.

Other factors affecting development are the recurrent **natural disasters** and the accelerated depletion of natural resources. **Violence** related to social exclusion, drugs and migration and in particular the emerging problem of youth gangs are becoming a huge and growing problem in Guatemala, El Salvador and Honduras, whereas Nicaragua remains the safest country in the region.

Both Nicaragua and Honduras benefited from HIPC debt relief and developed in that context **poverty reduction strategies**. Nicaragua subsequently worked out a second generation PRS, called National Development Plan, broader in scope and with a stronger focus on economic development. Honduras made special efforts to institutionalize the strategy for example through legislation. In both cases, PRS are changing as a result of political or electoral processes. Their scope, ownership and instrumentalization are evolving. In both cases the PRS are recognized by donors to a variable degree as the orienting framework for aid. Simultaneously, Nicaragua in particular for being a pilot country with respect to the implementation of the Paris declaration and also Honduras strengthened mechanisms for aid coordination and promoted, regularly monitored

harmonization and alignment action plans. All this is very much work in progress.

In general terms, the evolution of the context points to the following main challenges for the region and for Nicaragua and Honduras in particular:

1. Achieve a higher, more inclusive and sustainable economic growth;
2. Strengthen and depolitize institutions; step up both quantity and quality of social investments;
3. Improve overall competitiveness and orient economic policy towards job creation and towards ensuring a level playing field for small enterprises and small farmers;
4. Reduce external dependencies (aid, oil, remittances) and vulnerabilities (natural disasters, ecology);
5. Deepen Integration (politically and social) and regional cooperation;
6. Deepen country ownership for the PRS process and sustain efforts in aid harmonization and alignment.

Swiss Cooperation has a 25 year trajectory in Central America, and accumulated an important capital of experience and partnerships, creating goodwill not only in-country but also in multilateral fora. Living-up to the global MDG commitments by investing in poor countries were such track record of Swiss Cooperation exists makes sense from a development effectiveness perspective. Deepening the partnership with Nicaragua and Honduras, and indirectly with the whole region, because of the increased regional integration dynamics, lies in the long-term interest of Swiss foreign policy, although in the short-term, other interests with regard to trade, migration or security may appear of minor importance of Switzerland.

2. Taking stock of previous cooperation programs

2.1. Program Development

Cooperation between Switzerland and Central America began 1978 in Honduras, 1979 in Nicaragua and 1982 in El Salvador. The regional approach initiated in 1993. Investments of SDC and SECO together totaled over 200 Million SFr during the last cooperation strategy, the regional program for Central America (PRAC) 2000-2006. The five current PRAC priority sectors and main changes during the implementation period are:

- Water and Sanitation: traditional sector with focus on rural areas, adopting an increasingly decentralized approach and addressing sector reform issues;
- Agricultural development: reduced in volume and shifting from a pure production approach towards value chain and market orientation;
- Micro-, Small and Medium Enterprise (MSME) Development: youngest sector, gaining in importance and embracing microfinance, enterprise development services and vocational training and skills development.
- Macro-support, trade and investment promotion: included initially the SECO financed programs envisaged under a separate PRAC sector. Subsequently many initiatives were inte-

grated into the MSME sector and complemented by general budget support and related technical assistance in Nicaragua.

- Disaster Prevention: a vast reconstruction program subsequent to Hurricane Mitch has been gradually developed into a disaster prevention and preparedness program.

Main developments in terms of approach and geographic focus include:

- Cooperation with public sector institutions deepened and expanded as a result of growing confidence in governments (e.g. corruption control in Nicaragua), because of their efforts in developing PRS and other conditions that facilitate alignment and aim at greater aid effectiveness. Prospects for deepening of alignment-based cooperation will depend on the further evolution in the political and governance context.
- Bilateral operations gradually concentrated on Nicaragua and Honduras in order to deepen the poverty focus, because of more favorable aid policies and framework conditions (i.e. PRS, Harmonization and Alignment), and to optimize limited financial and human resources of Swiss Cooperation.



2.2. Results and Experiences of Swiss Cooperation Strategy 1999-2005

The main recommendations of the independent PRAC evaluation (2005), and results of the self-analysis of experiences and of consultations by means of focus groups with governments, donors, civil society and NGO include:

Relevance: The five priority sectors with their altogether 14 themes are relevant and coherent with the respective national PRS. However, with the given financial and human resources the program is too broad and warrants a stronger thematic focus to enhance effectiveness.

Effectiveness: The overall balance with regard to effects of PRAC implementation is positive with concrete results at the policy level (e.g. national water and sanitation strategy; MSME promotion policy; environmentally sustainable agricultural technology policy; public finance and budget policy), demonstrated adoption of methods and models at the implementation level (e.g. disaster prevention, agricultural technology transfer), success in capacity development and concrete, measurable development effects (e.g. food security and income improvements resulting from the adoption of 300'000 post harvest silos; access to safe drinking water for 45'000 families in rural Nicaragua). However, the lack of a systematic monitoring system at PRAC level did not allow outcome and impact measurement above the project level. The only exception is the meta-impact study in the agricultural sector showing an economic benefit to farmers of 4 Francs for every Franc invested.

Target Population: The chosen targeting based on development potentials ("poor people with potential") proved to be relevant but requires a sharper definition of what is meant by "potential" specific for each theme or sector. This means for example in the area of micro-finance to target the "next poorer" client group that currently lacks access to financial services. In the area of water and sanitation the definition of the target group would focus on the degree of social organization as a "potential" with emphasis on the poorest.

Positioning and Visibility: The Swiss Cooperation is appreciated by partners for its quality, the

capacity to innovate and the pro-active involvement in harmonization and alignment processes. As a medium-size donor, Switzerland managed to shape the development of programmatic in Nicaragua (general budget support, rural development SWAP), but not yet in Honduras because of the small financial volume and limited human resource capacity.

Up-Scaling: The integration of bilateral project and pilot experiences into broader national programs was too often only addressed at a late stage, as part of the phasing-out process. Consequently, the strategy for up-scaling and alliance-building will have to be defined in the project design phase. Partners expect that Swiss Cooperation engages, building on pilot experiences, also in the implementation and financing of broader sector programs.

Harmonization and Alignment: The fragmentation of aid and resulting inefficiencies, in parts as a consequence of the large aid volume and number of donors, coupled with capacity constraints on government side demonstrate the importance of harmonization and alignment, and hence justify the proactive engagement of Swiss Cooperation. Experiences showed that transactions costs tended to further increase at initial stages. Progress would be predicated by strengthened government capacity, clearer definition of roles (state vs. private sector; central vs. local governments), broadened country ownership and addressing hindering factors on the donor side, such as uneven real commitment, limited specialization and division of labor among agencies.

Geographic Concept: The decision to focus on Nicaragua and Honduras proved to be correct and allowed stronger engagement in policy dialogue and concentration of instruments. The cooperation strategy for Central America should further strengthen the country context analysis and the country program focus. The record of results of regional interventions is mixed. Explanations relate in some cases to capacity limitations of regional partners and the lacking or weak synergies with national program components. However, in other cases regional interventions or program components contributed to efficient knowledge sharing and to the solution of regional problems.



3. Strategic Orientation

3.1. Objectives

Swiss Cooperation contributes to poverty reduction and promotes an equitable and sustainable development

Poverty is understood as a multidimensional phenomena. Consequently, the objective to reduce poverty means at the same time to generate opportunities for the poor, to promote their empowerment and to reduce their vulnerability, particularly with respect to the frequently occurring natural disasters in Central America. The main orientations to deepen the poverty focus are:

- Alignment with national poverty reduction strategies and development plans as well as with the involved key institutions, whereby supporting their capacity development is emphasized.
- Concentration of bilateral cooperation on the poorest countries in the region (i.e. Nicaragua and Honduras).
- Support of poverty-oriented policy development, including the corresponding fiscal and public expenditure policy as well as economic policies that stimulate growth and are pro poor.
- Focus on development potentials and aim at sustainable development outcomes, particularly as there are relevant to MSMEs and poorer populations, mainly in rural areas.

3.2. Thematic Priorities

The thematic priorities are in line with those of the national poverty reduction strategies and development plans. Additional criteria for their selection are: experiences, partnerships and comparative advantages based on the cooperation to-date; potential for new development partnerships, division of labor between and complementarities with other donors, and added value of the Swiss cooperation. The main guiding principle was to increase effectiveness through further concentration, resulting in a reduction from five to three thematic priorities and from fifteen to eight sub-themes, respectively.

3.2.1. Thematic Priority "MSME Development"

MSME play a key role in job and income generation. Swiss cooperation intends to contribute to further income and employment generation, thus

addressing income poverty and contributing to MDG 1 and to some extent also to MDG 8 (global partnership for example with regard to market access and trade). The approach relies on market mechanisms, is concerned about sustainability and has a clear equity focus with regard to framework conditions (business climate, trade policies), access to services (micro-finance and investment promotion), knowledge and markets, as well as to skills acquisition. The extreme poor will not be reached directly, but deliberate efforts must be made to extend services to poorer groups currently without access but with sufficient potential to use them for furthering their economic well-being. The target population includes entrepreneurs and employees of MSMEs and farmers, and youth with limited financial resources to acquire skills needed to compete in the job market, both in rural or peri-urban zones. The approach promotes capacity development and empowerment of the target population, organizational strengthening of service providers, promoting collaboration among actors involved in value chains, and strengthening capacities to influence equitable policies. Special emphasis is placed on value chains of agricultural origin because of (i) wide-spread poverty in rural areas (ii) good existing market potentials, and (iii) Swiss cooperation experiences in rural development.

3.2.2. Thematic priority "governance and public finance"

Swiss cooperation intends to strengthen governance at both local and central government levels. This includes strengthening transparency, accountability and results-orientation in public finance management by means of technical assistance and general budget support (only in Nicaragua). Interventions are expected to strengthen macroeconomic stability, to contribute to broad based growth, to improve public service delivery and thus allow progress with regard to social indicators related to MDGs 2 to 6, and ultimately also poverty reduction (MDG 1). Strengthening national PRS processes is fundamental since they orient both public spending and international cooperation. Swiss support must be flexible, respond to country initiatives, done jointly with other development partners, and strengthen government capacity, for exam-



ple in results-based planning and budgeting, and in PRS monitoring. This approach is accompanied by strengthening participation of civil society and of the private sector. In general, a multi stakeholder approach is promoted, by working with central and local governments, civil society organizations and by strengthening inclusive dialogue mechanism.

3.2.3. Thematic priority “infrastructure and local basic services”

The focus is on rural areas because of broader poverty incidence and lower coverage of water and sanitation services, compared to urban areas. The strategy is to promote a decentralized approach working with municipalities, local enterprises and user groups, and to engage concomitantly in sector reforms. Special attention is placed on developing capacities for the economically viable management of water systems, including by means of public-private partnerships, at local and national levels. Such partnerships may also be considered in the electricity sector, promoting renewable energy sources that offer win-win opportunities for local development and at the same time environmental benefits. Moreover, emphasis is put on social organization and governance, and tariff policies that balance economics and equitable access. Protecting water resources is a key concern. The thematic priority relates directly to MDG 7 (water, environment) and indirectly also to other MDGs (e.g. health). Disaster Risk Reduction focuses on local capacity

building for risk management, on national level coordination and policy, and on incorporating prevention in development planning and in infrastructure investments in particular. Programs target rural and semi-urban populations while ensuring inclusive access and using selection criteria related to the potential organizational and management capacity. Risk levels and vulnerability determine the targeting in disaster prevention.

3.3. Regional Concept - Country Priorities

The Cooperation Strategy for Central America has a regional focus and concentrates country-level interventions on the two poorest countries in the region (i.e. Nicaragua and Honduras). The strategy links the country focus with a regional program component that is thematically coherent with national interventions and that facilitates knowledge sharing among countries. The regional concept is defined in the following way:

- a) A regional program component that:
 - Contributes to the solution of supra-national problems
 - Contributes to the strengthening of regional institutions
 - Facilitates access to regional markets and investment opportunities.

Regional program support has to be thematically congruent with the country programs in Nicaragua and/or Honduras. Experiences and results of regional cooperation shall benefit primarily those two countries.



- b) A regional **Program-Management** characterized by:
- Regional knowledge sharing (networking, regional learning)
 - Organization of the Cooperation Office Team primarily by thematic responsibilities.

The regional Concept applies to the overall cooperation program. However, other criteria apply in the case of emergency relief and reconstruction related to natural disaster.

Country level interventions will concentrate on Nicaragua and Honduras. Currently, the Nicaragua program is thematically broader and much larger in financial terms. The Honduras program will be gradually expanded and shall include sector program support (SWAP) in two thematic priorities, a stronger engagement in private sector development (MSME development), and a stronger, albeit only selective involvement in general policy dialogue and donor coordination (G-16). In short, partial balancing of country priorities in favour of Honduras is envisaged, without reductions in the Nicaragua program. However, scope and speed for program expansion in Honduras will depend on total resources availability.

3.4. Cross-cutting Themes

The following two cross-cutting themes shall be systematically incorporated in all planning, implementation and monitoring processes and reinforced with specific activities, financial resources and human capacities:

1. Governance: Particular emphasis is put on transparency and accountability in the public sector management and in public services delivery. Strengthening stakeholder and more inclusive citizen participation are emphasized, including at the local level, since municipalities and locally operating institutions are expected to assume a larger role in public services delivery and in providing favorable conditions for economic development as a result of the decentralization process.

2. Gender: In order to promote equal opportunities and access to resources and services for both woman and men and in order to reduce existing gender discrepancies, woman shall benefit especially from development interventions.



Cooperation Strategy 2007-2012

Development of Micro, Small and Medium Enterprises (MSME)	Governance and Public Finance	Infrastructure and local public basic Services
<p>Objective: Swiss Cooperation contributes to the sustainable development of MSME and thereby to income and employment generation, through improved market access emphasizing local, regional and international chains of value addition, mainly of agricultural origin.</p>	<p>Objective: Swiss Cooperation contributes to good governance, particularly with respect public finance management, effectiveness of public spending, transparency and accountability, citizen participation, public control and social audit.</p>	<p>Objective: Swiss Cooperation enables poorer populations sustainable access to basic public services of good quality.</p>
<p>Financial Services - Advise, Capacity building of Microfinance-Institutions (SDC) - Investment Promotion. Investment funds (SECO)</p> <p>Business Development Services: - Management, Technology. Incl. agricultural Technology (SDC) - Quality, Environmental and Social Standards, Export facilitation (SECO)</p> <p>Demand-oriented vocational training, Skills Development (SDC)</p> <p>Business Climate, Trade Policy Level playing field for MSME; facilitate participation of MSME in trade and economic policy development; Trade Policy formulation and implementation (SECO)</p>	<p>Budget Policy and its relation to national planning - general budget support - TA in results-oriented budgeting and medium-term expenditure planning - Policy dialogue at Macro Level (SECO)</p> <p>Poverty-oriented Policy Development - national development planning, Disaster prevention - Support to PRS process PRS Monitoring, Consultations, Participation (SDC / SECO)</p>	<p>Water and Sanitation Infrastructure investment, local management, tariffs, health, sustainable water resources management (SDC)</p> <p>Public Private Partnerships in water & sanitation and/or in energy sector. Renewable energy locally operated systems (SECO)</p> <p>Disaster Risk Reduction Capacity Development for integrated disaster risk management at local and national levels (SDC)</p>

4. Cooperation Partnerships, Strategic Principles and Modalities

Conditions to enhance development effectiveness are favourable in Nicaragua and Honduras, because of the evolving PRS processes, alignment and harmonization action plans as well as the established donor coordination and dialogue mechanisms. Both governments are interested in better harmonization and alignment because of the unsatisfactory overall effectiveness of aid, its fragmentation and because its only partial coherence with national priorities. As a medium-size donor, Swiss Cooperation can add value to the

joint effort of development partners by virtue of the following strengths: knowledge capital resulting from long-term engagement with quality partner system; cooperation motivated by values and fully untied; recognized flexibility and capacity to innovate; pro-active involvement and selective leadership in new cooperation modalities (budget support, SWAP). Thematic (T) and process (P)-related strategic principles for Swiss Cooperation in the framework of national cooperation systems are:

1. Ownership, Alignment and Harmonization (P): *Swiss Cooperation participates pro-actively and in a partnership mode when country ownership is sufficient, when better effectiveness is foreseeable, where own experiences and sufficient competencies exist and even if engagement comes at the cost of initially increased transaction costs for the cooperation office.*

2. Capacity Development (P): *The state institutions are strengthened in a way that fosters ownership, sustainability and accountability, taking into account in particular the respective roles of public and private sector actors as well as of central and local governments. Capacity development of both private sector associations and civil society are done in a complementary manner.*

3. Empowerment (T): *Poor segments of the population are enabled to make better use of their own potential to improve economic well-being, to defend their interests and to claim their rights in terms of access to public services and participation in public affairs.*

4. Environmental compatibility (T): *All development interventions aim at sustainability and do at least cause no harm to the environment. In addition and within the priority themes, special efforts are supported to achieve positive environmental outcomes.*

5. Prevention (T): *Risks related to natural disasters and vulnerability are assessed in the context of bilateral development interventions and are discussed with partners in the case of broader national programs. Measures are identified and taken particularly in locally defined projects (infrastructure, municipal development).*

6. Micro-Meso-Macro(P): *The cooperation strategy pretends to be active at all intervention levels and aims at strengthening linkages between them. Interventions at the micro level contemplate from the very beginning strategies for scaling-up. In general, the policy level receives special emphasis. Implementation experiences from policy-relevant SDC and SECO program components are identified and integrated into the cooperation office's policy work.*

The application of principles number 1), 2), and 6), considered together, implies in financial terms an increased use of programmatic instruments (more un-earmarked or earmarked sector budget support; maintain general budget support), and joint financing, and concomitantly a reduction of bilateral projects. The choice of instrument depends on the intended purpose and development effectiveness considerations. The aim is to achieve good synergies and complementarities between different instruments.

This Cooperation strategy includes all sources of official Swiss assistance to Nicaragua, Honduras and to programs at the regional level. It includes development and humanitarian aid of SDC as well as economic cooperation of SECO. Achievements in internal harmonization will be consolidated and deepened by means of the following: Joint medium-term implementation plans of the strategy for Nicaragua and Honduras,

joint annual plans, unified program management at the field level, coordination at headquarters.

The main trends with regard to the partnership system of Swiss Cooperation include:

- increased cooperation with national public sector partners
- better targeted cooperation with civil society and private sector organizations aiming at strengthening their voice in public affairs
- increased cooperation with bilateral development partners, including joint financing
- closer collaboration with multilateral institutions in the context of jointly financed programs and with regard to policy analysis and instrument development
- for project execution mandates, reliance on local capacities while considering Swiss NGOs for advisory support or backstopping.

Mix of Instruments	Central America 2006	Nicaragua 2006	Honduras 2006	Remarks	Targeted Evolution 2007-2012
General Budget Support, related TA,	20%	34%	0%	Only in Nicaragua	➡
Sector Budget Support/SWAP	8%	11%	7%	New and evolving instrument; promoted by GoN and GoH	↘
Bilateral Projects	69%	50%	91%	Increasingly aligned with national strategies	↘
Joint Project-Financing (Baskets)	3%	5%	2%	Currently used primarily in governance programs	↘



5. Resources

Currently, the annual budget for Central America amounts to 31 Million Swiss Francs (average 2005/6, without NGO program contributions and without emergency humanitarian aid). It is expected to remain stable over the next years. The cooperation with Honduras will be increased from currently 3.5 to approx. 5.0 Million Swiss Francs per annum. The actual managerial human resources capacity at the cooperation

office includes: 1 country director, 3 deputy country directors (including one located in Honduras and one employed by the Humanitarian Aid Department), 4 national program officers (NPOs), 1 economic advisor, and locally recruited heads of finance and administration, respectively. The expanded cooperation with Honduras requires an additional NPO, located in Honduras.

FINANCIAL RESOURCES BY COUNTRIES
Indicative amounts in millions of switzerland francs

COUNTRY / REGIONAL	2006			2012		
	SDC	SECO	TOTAL	SDC	SECO	TOTAL
Nicaragua	10.8	8.0	18.8	10.6	11.5	22.1
Honduras	3.6	-	3.6	5.3		
El Salvador and Others	3.4	2.6	6.0	0	1.6	9.1
Regional	2.7	-	2.7	2.2		
TOTAL	20.5	10.6	31.1	18.1	13.1	31.2

FINANCIAL RESOURCES BY THEMATIC PRIORITY
Indicative amounts in millions of switzerland francs

THEMATIC PRIORITY	2006	%	2012	%
MSME Development	11.9	38	12.6	40
Governance and public finance	9.2	30	9.2	30
Infrastructure and basic public services	5.6	18	8.0	26
Other	4.4	14	1.4	4
TOTAL	31.1	100	31.2	100

6. Monitoring

The Monitoring system (see Annex 7) encompasses the overall program of SDC and SECO and looks at both implementation progress and development effects (outcomes). Its main features are:

- It is sufficiently simple and manageable, and allows assessing outcomes, developments in the context, quality of portfolio implementation and efficiency aspects by means of indicators and benchmarks.
- Outcome Monitoring refers to the overall objective, thematic priorities, cross-cutting themes and strategic principles.
- Use to the extent possible of national outcome and impact indicators, processes and information systems (e.g. Budget support reviews, PRS progress reports).
- It is linked to the annual program cycle and its "moments forts".



Nicaragua at a glance

9/15/06

POVERTY and SOCIAL

2005

	Nicaragua	Latin America & Carib.	Lower-middle-income
Population, mid-year (millions)	5.5	551	2,475
GNI per capita (Atlas method, US\$)	910	4,008	1,918
GNI (Atlas method, US\$ billions)	5.0	2,210	4,747

Average annual growth, 1999-05

	Nicaragua	Latin America & Carib.	Lower-middle-income
Population (%)	2.0	1.4	1.0
Labor force (%)	3.3	2.2	1.4

Most recent estimate (latest year available, 1999-05)

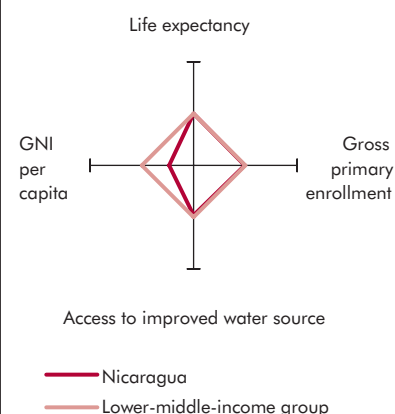
	Nicaragua	Latin America & Carib.	Lower-middle-income
Poverty (% of population below national poverty line)	..	..	..
Urban population(% of total population)	59	78	49
Life expectancy at birth (years)	70	72	70
Infant mortality (per 1,000 live births)	31	27	33
Child malnutrition(% of children under 5)	10	7	12
Access to an improved water source (% of population)	79	91	82
Literacy (% of population age 15+)	77	90	89
Gross primary enrollment (% of school-age population)	112	119	114
Male	113	121	115
Female	111	117	113

KEY ECONOMIC RATIOS and LONG-TERM TRENDS

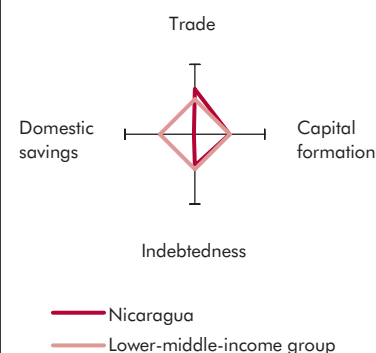
	1985	1995	2004	2005
GDP (US\$ billions)	2.7	3.2	4.5	4.9
Gross capital formation/GDP	23.1	22.0	28.8	..
Exports of goods and services/GDP	14.8	19.1	26.7	..
Gross domestic savings/GDP	16.1	6.4	1.0	..
Gross national savings/GDP	9.8	-0.9	10.4	..
Current account balance/GDP	-31.8	-22.6	-17.7	-19.4
Interest payments/GDP	1.0	2.4	0.9	..
Total debt/GDP	215.1	325.6	114.4	..
Total debt service/exports	18.5	38.8	6.1	..
Present value of debt/GDP	..	..	31.7	..
Present value of debt/exports	..	..	68.6	..

	1985-95	1995-05	2004	2005	2005-09
(average annual growth)					
GDP	-1.3	3.8	5.1	4.0	2.9
GDP per capita	-3.6	1.8	3.0	1.9	0.5
Exports of goods and services	5.7	8.8	15.8	..	..

Development diamond*



Economic ratios*

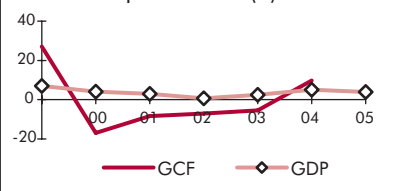


STRUCTURE of the ECONOMY

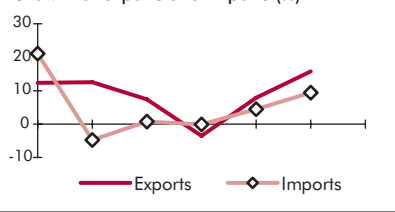
	1985	1995	2004	2005
(% of GDP)				
Agriculture	..	22.8	18.5	..
Industry	..	26.6	29.6	..
Manufacturing	..	18.2	19.4	..
Services	..	50.5	51.9	..
Household final consumption expenditure	48.2	82.9	88.5	..
General gov't final consumption expenditure	35.7	10.6	10.6	..
Imports of goods and services	21.8	34.7	54.5	..

	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	0.6	4.0	6.0	..
Industry	-2.3	4.4	7.7	..
Manufacturing	-3.1	4.5	6.6	..
Services	-2.8	4.3	4.7	..
Household final consumption expenditure	4.7	4.7	3.3	..
General gov't final consumption expenditure	-10.7	1.5	2.8	..
Gross capital formation	-5.2	2.1	9.8	..
Imports of goods and services	2.2	6.7	9.4	..

Growth of capital and GDP (%)



Growth of exports and imports (%)



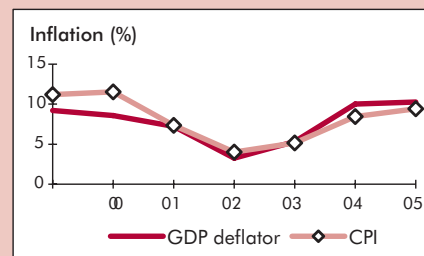
Note: 2005 data are preliminary estimates.

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

Nicaragua

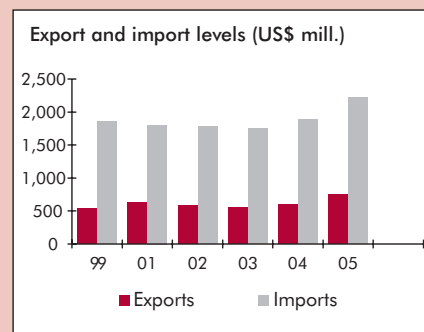
PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices (% change)				
Consumer prices	300.0	10.9	8.4	9.4
Implicit GDP deflator	167.2	13.4	10.0	10.3
Government finance (% of GDP, includes current grants)				
Current revenue	..	16.9	21.8	21.3
Current budget balance	..	3.5	8.2	2.7
Overall surplus/deficit	..	-3.1	-1.5	-2.5



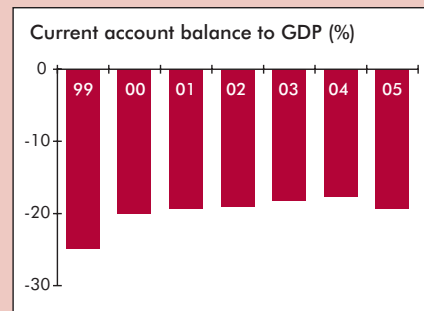
TRADE

	1985	1995	2004	2005
(US\$ millions)				
Total exports (fob)	305	466	756	..
Coffee	118	131	127	..
Shrimp and lobster	13	74	81	..
Manufactures	36	134	342	..
Total imports (cif)	892	975	2,212	..
Food	132	199	570	..
Fuel and energy	164	148	428	..
Capital goods	251	232	405	..
Export price index (2000=100)	83	119	..	..
Import price index (2000=100)	50	85	..	..
Terms of trade (2000=100)	167	139	..	..



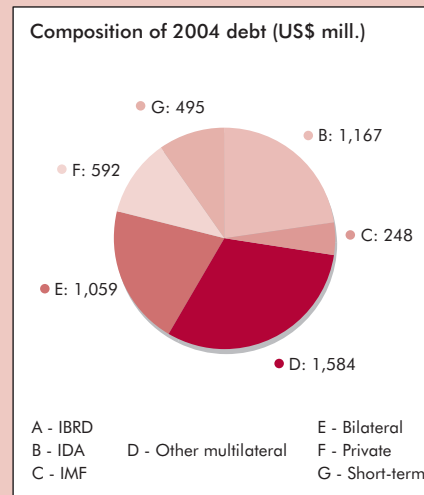
BALANCE of PAYMENTS

	1985	1995	2004	2005
(US\$ millions)				
Exports of goods and services	344	660	1,547	1,756
Imports of goods and services	924	1,149	2,768	3,261
Resource balance	-579	-489	-1,222	-1,505
Net income	-274	-372	-192	-178
Net current transfers	0	138	619	732
Current account balance	-853	-723	-795	-951
Financing items (net)	732	711	964	1,092
Changes in net reserves	121	12	-169	-141
Memo:				
Reserves including gold (US\$ millions)	..	151	668	782
Conversion rate (DEC, local/US\$)	8.60E-9	7.5	15.9	16.7



EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US\$ millions)				
Total debt outstanding and disbursed	5,772	10,390	5,145	..
IBRD	163	65	0	0
IDA	59	276	1,167	1,136
Total debt service	64	288	126	..
IBRD	0	21	0	0
IDA	0	3	6	18
Composition of net resource flows				
Official grants	47	410	1,129	..
Official creditors	680	169	270	..
Private creditors	13	-81	26	..
Foreign direct investment (net inflows)	0	89	250	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	0	93	116	..
Disbursements	0	18	126	63
Principal repayments	0	16	0	9
Net flows	0	3	126	54
Interest payments	0	8	6	9
Net transfers	0	-6	120	45



Honduras at a glance

9/15/06

POVERTY and SOCIAL

2005

	Honduras	Latin America & Carib.	Lower-middle-income
Population, mid-year (millions)	7.2	551	2,475
GNI per capita (Atlas method, US\$)	1,120	4,008	1,918
GNI (Atlas method, US\$ billions)	8.1	2,210	4,747

Average annual growth, 1999-05

	Honduras	Latin America & Carib.	Lower-middle-income
Population (%)	2.3	1.4	1.0
Labor force (%)	4.1	2.2	1.4

Most recent estimate (latest year available, 1999-05)

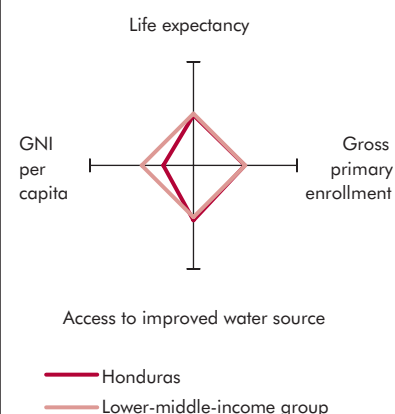
	Honduras	Latin America & Carib.	Lower-middle-income
Poverty (% of population below national poverty line)	48	..	..
Urban population(% of total population)	47	78	49
Life expectancy at birth (years)	68	72	70
Infant mortality (per 1,000 live births)	31	27	33
Child malnutrition(% of children under 5)	17	7	12
Access to an improved water source (% of population)	87	91	82
Literacy (% of population age 15+)	80	90	89
Gross primary enrollment (% of school-age population)	113	119	114
Male	113	121	115
Female	113	117	113

KEY ECONOMIC RATIOS and LONG-TERM TRENDS

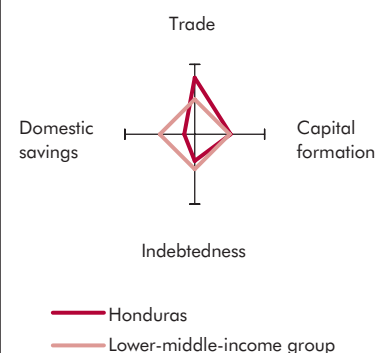
	1985	1995	2004	2005
GDP (US\$ billions)	3.6	3.9	7.5	8.3
Gross capital formation/GDP	17.3	31.6	30.4	29.9
Exports of goods and services/GDP	25.1	43.7	41.3	40.9
Gross domestic savings/GDP	12.6	27.2	11.6	9.4
Gross national savings/GDP	8.7	27.2	25.2	29.5
Current account balance/GDP	-9.5	-4.5	-5.4	-0.8
Interest payments/GDP	2.8	5.3	1.4	..
Total debt/GDP	75.0	122.5	84.9	..
Total debt service/exports	24.1	29.9	7.7	..
Present value of debt/GDP	..	..	33.7	..
Present value of debt/exports	..	..	58.1	..

	1985-95	1995-05	2004	2005	2005-09
(average annual growth)					
GDP	3.5	3.1	5.0	4.0	..
GDP per capita	0.5	0.6	2.7	1.8	..
Exports of goods and services	1.2	2.8	9.7	6.0	..

Development diamond*



Economic ratios*

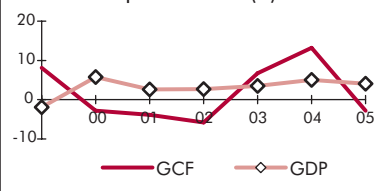


STRUCTURE of the ECONOMY

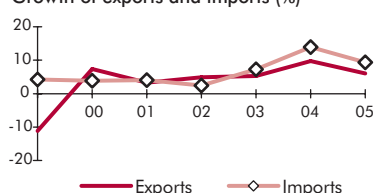
	1985	1995	2004	2005
(% of GDP)				
Agriculture	21.9	21.5	13.4	13.9
Industry	24.0	30.7	31.4	31.4
Manufacturing	14.5	17.8	20.4	20.1
Services	54.2	47.8	55.1	54.6
Household final consumption expenditure	74.4	63.5	75.2	76.9
General gov't final consumption expenditure	13.1	9.3	13.2	13.7
Imports of goods and services	29.9	48.1	60.1	61.4

	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	3.6	2.0	7.0	0.5
Industry	4.0	3.8	3.2	5.8
Manufacturing	3.6	4.3	4.1	5.1
Services	3.2	4.1	4.9	5.5
Household final consumption expenditure	2.9	4.2	4.7	7.9
General gov't final consumption expenditure	-1.3	7.6	3.4	9.3
Gross capital formation	11.7	1.5	13.2	-2.8
Imports of goods and services	3.8	5.0	14.0	9.3

Growth of capital and GDP (%)



Growth of exports and imports (%)



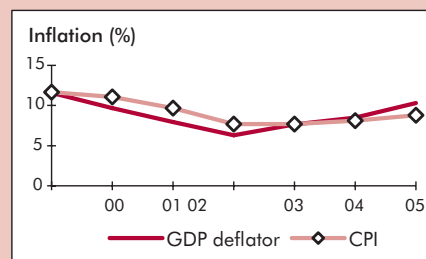
Note: 2005 data are preliminary estimates.

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

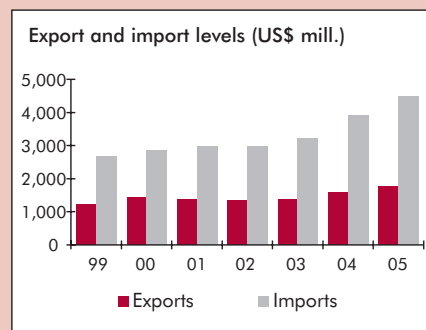
Honduras

PRICES and GOVERNMENT FINANCE

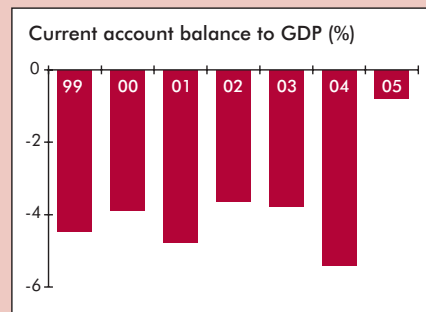
	1985	1995	2004	2005
Domestic prices (% change)				
Consumer prices	3.4	29.5	8.1	8.8
Implicit GDP deflator	5.2	24.9	8.5	10.3
Government finance (% of GDP, includes current grants)				
Current revenue	15.0	17.4	19.2	19.1
Current budget balance	-2.1	3.3	1.4	0.6
Overall surplus/deficit	-8.6	-2.4	-4.5	-4.4


TRADE

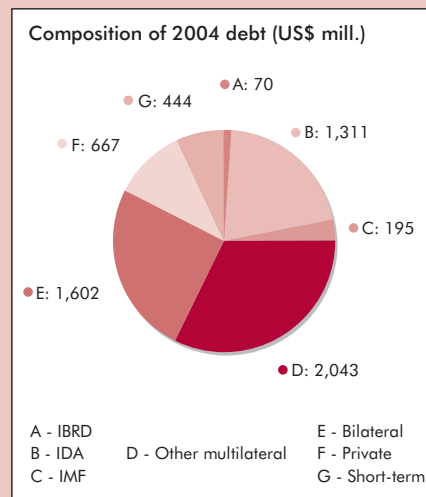
	1985	1995	2004	2005
(US\$ millions)				
Total exports (fob)	796	1,298	1,598	1,761
Bananas	274	214	208	253
Coffee	185	349	252	335
Manufactures	..	..	..	..
Total imports (cif)	976	1,643	3,917	4,484
Food	141	251	591	737
Fuel and energy	159	222	637	904
Capital goods	182	393	1,104	1,011
Export price index (2000=100)	88	108	..	..
Import price index (2000=100)	89	97	..	..
Terms of trade (2000=100)	98	111	..	..


BALANCE of PAYMENTS

	1985	1995	2004	2005
(US\$ millions)				
Exports of goods and services	909	1,735	3,058	3,372
Imports of goods and services	1,085	1,913	4,546	5,165
Resource balance	-175	-178	-1,489	-1,793
Net income	-190	-263	-304	-276
Net current transfers	..	..	1,389	2,002
Current account balance	-344	-177	-404	-67
Financing items (net)	327	293	908	439
Changes in net reserves	17	-116	-504	-372
Memo:				
Reserves including gold (US\$ millions)	111	270	1,980	2,339
Conversion rate (DEC, local/US\$)	2.0	9.6	18.4	19.0


EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US\$ millions)				
Total debt outstanding and disbursed	2,730	4,791	6,332	..
IBRD	369	443	70	0
IDA	81	386	1,311	1,353
Total debt service	228	607	333	..
IBRD	34	96	20	73
IDA	1	4	21	23
Composition of net resource flows				
Official grants	126	123	231	..
Official creditors	230	-9	221	..
Private creditors	36	25	161	..
Foreign direct investment (net inflows)	28	50	293	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	7	97	155	..
Disbursements	45	85	125	151
Principal repayments	13	60	27	82
Net flows	32	25	98	69
Interest payments	23	40	14	14
Net transfers	10	-16	84	56



Main conclusions and recommendations of the independent evaluation of the Cooperation Program (November 2005)

Introduction

This report is the result of an independent evaluation of the Regional Programme of Central America (1999 - 2005) of Swiss Development Aid (SDA). Objectives of the evaluation have been: To assess the relevance and the effectiveness of SDA (SDC, SECO) assistance, as well as to formulate conclusions and recommendations about the future Regional Programme, the processes of harmonization and alignment, and the regional vs. national orientation of actions. The evaluation was mainly focused on Nicaragua and Honduras and was carried out from 31st of May until 20th of June, 2005.

Context

The main important policy and social framework conditions during programme implementation have been: Persistence of poverty specially in rural areas of the region and affecting most vulnerable groups like women and youth; on-going crisis on traditional agricultural products (low prices), household income of the rural poor increasingly must be generated outside the agricultural sector (off farm labour) leading to an increased migration. Vulnerability on natural disasters of poor people in the rural areas still kept being a permanent threat in the region. The upcoming HIPC initiatives at the beginning of the 2000 lead to the elaboration and implementation of Poverty Reduction Strategies in Nicaragua and Honduras, to changes of the role of the state re-focusing to core functions and on-going decentralization efforts. The HIPC-process has been and still is asking for new forms of bi- and multilateral aid cooperation (harmonization and alignment).

Evolution and objectives of the programme

Evolutions of the socio-political context made it necessary to SDA to initiate changes and accordingly adjust actions of its Regional Programme. A shift away from only direct poverty alleviation towards a more multidimensional oriented approach was envisaged. Sector programmes and projects were started to be aligned to goals and objectives of the respective poverty reduction strategies / sector strategies of Nicaragua and Honduras. This led SDA to give more weight to cooperation at national level (70%) and less on the regional one (30%). Finally, after finishing direct humanitarian post Mitch work, SDC Humanitarian Aid moved from a "reconstruction" approach to a "prevention and integrated risk and disaster management" approach. So, SDA demonstrated good flexibility and willingness to adapt to a changing environment.

Objectives of the different sectors of the Regional Programme since 2003 were: Agriculture - Transformation of subsistence agriculture towards a market oriented and ecologically sustainable agriculture; Water and sanitation - Broad based and sustainable coverage of water and sanitation systems in rural areas; Promotion of enterprises - Improvement of competitiveness of urban, rural, formal, informal, micro and small scale enterprises; Prevention of disasters - promote a culture of prevention; Macroeconomic support - Promote sustainable economical growth and reduce poverty; Good governance - Promote democratic principles and actions between public and private stakeholders.

Relevance

In general, the Regional Programme is relevant in terms of its orientation, addressing problems, needs and considering capabilities of target groups, use of adequate instruments, forms and levels of interventions. The sectors attended are coherent with existing SDA guiding principles (DEZA Strategy 2010; SECO Strategy 2006) and address prioritized actions of the national PRS as well as other relevant national / sector development plans in Honduras and Nicaragua. Most of the projects intervene on all three the micro, meso (main focus!) and macro level, which guarantees that local needs are considered at policy level and vice versa. Actually, within the regional programme there are different aid modalities in use. There are programmes / projects where Swiss NGO, and also in the case of the SDC Humanitarian Prevention Programme, are implementing programmes (PASOLAC, AGROPYMES; ECOMERCADOS, Proempresa) without a national counterpart responsible for the whole programme. Despite being thematically aligned with national priorities, they still work as "single standing projects"

driven by the Swiss partner. This is contrary to projects for which the national partner is fully responsible (PASE project, general budget support) of the implementation. In the middle of these poles, SDC is still acting as project owner but working in close cooperation with a national counterpart (FISE - AGUASAN). So, the degree of real ownership and appropriation of projects by national institutions differs and, in some cases, is quite low. Development and use of instruments (mainly training, capacity building, technical assistance, politics dialogue, competitive funds, development of technologies, diagnosis and sector studies etc.), in general terms, are relevant as they match with identified demands and needs for capacity strengthening of the target groups and / or intermediate organizations. Most of developed techniques and introduced innovations are relatively easy to apply and to adopt by target groups. But, some technologies seemed to be not economically affordable by poor target groups ("silos" (POSTCOSECHA and tools generated by RELATA), water systems (AGUASAN) and had to be subsidized.

Effectiveness

The effectiveness of SDA was measured in terms of achieved intended results and created impacts as far as they have been stated in logical frameworks. The absence of a clear results framework at the programme and sector level - with objectives, baseline and indicators (site specific, time horizon, scope, quantity, quality) - and the non availability of a consistent impact monitoring system made it difficult to identify changes and impacts. Thus, project and programme execution seemed more activity and result related than impact oriented. Expected changes in the performance of target groups were not formulated with clear indicators in the project or programme planning frameworks. How precisely to assess the envisaged multidimensional aspects of poverty has not been addressed either. However, at the end of 2004, actions started to improve the horizontal and vertical logic of planning matrices and, specially regarding projects of the enterprise sector, to establish necessary baseline information and to formulate monitoring needs as well as indicators for future intended changes and expected impacts.

There have been major achievements of SDA at various levels of intervention in different sectors. At macro level a series of ruling policies or strategic papers have been elaborated and are being implemented nation wide such as the Technological Policy in the agricultural sector in Nicaragua, , Water sector strategy in Nicaragua and Honduras, the proposal of policy for microfinance and earning cooperative Policy, the Policy for the Medium and Small Enterprises promotion - with public-private policy dialogue- in Nicaragua and, the Citizen participation law in Nicaragua.. Activities in macroeconomic support (general budget support) led to strengthening policy dialogue between government and donors and improving donor coordination. Support to the elaboration and release of the National Operational Development Plan (PNDO-Nicaragua) provided the basis for the elaboration and approval of the Performance Assessment Matrix (PAM) to monitor the progress of the different indicators by the donors involved in the Joint Facility Agreement. Technical assistance provided by SDA for the development of the midterm expenditure framework is undergoing. It is considered being a crucial task for improving efficiency of public finances. At meso level, capacity of counterpart institutions in the agricultural sector, like Instituto Nacional de Tecnología (INTA) or water sector, Comisión Nacional de Acueductos y Alcantarrillado (CONAPAS) or FISE, has been or is in straight process of being strengthened. At micro level, management systems such as the Decentralized models of water and sanitation systems, the Integral risk and disaster management system (GIRD) and the Methodologies for agricultural extension (School for Fields Farmers and others) are fully validated/ developed and ready for nation wide scaling up. Institutions working in micro financing systems now are better capitalized and increase provision of their services and regional coverage.

Broad impacts created by SDA are more visible in the water and sanitation and the agricultural sector. Thus, the coverage of installed water systems increased continuously in all three countries of intervention (Nicaragua, Honduras, El Salvador) from 1999 to 2005. In Nicaragua, f.e., more than 100.000 persons in 683 villages got access and control over water resources during that time span. In the agricultural sector technology transfer of more than 250000 "silos" to target groups reduced significantly post harvest losses of small farmers and actually there are more than 26.000 ha of farms under sustainable soil management practices.

Conclusions and recommendations

In line with efforts initiated of mainstreaming the Regional Programme Portfolio SDC should seek and continue for the sector concentration and programme consolidation in those fields where there is high level of positive experiences and where SDC is to play a leadership role.

In the future the design of the Regional Programme should include sector objectives with verifiable impact indicators. It should be used as a tool to ensure that the single projects / programme contribute to the respective sector objective (performance matrix).

Due to the PRS-processes, in 2003 a decision was made to concentrate and prioritize interventions in Nicaragua and Honduras, minimizing by this way, the regional dimension of the Programme. Evaluators welcome the decision and recommend SDA to consider elaborating country programmes for each of the countries with a clear focus on specific needs and demands.

Poverty reduction is still mainstreamed throughout the majority of the regional SDA development programme; however this issue should be focused even more at country level (country programme!), thus identifying the expected outcomes (impacts) at short, medium and longterm of the Swiss interventions

The HIPC process, the elaboration and implementation of the PRS and the efforts made toward harmonization and alignment led Swiss cooperation to make valuable experiences and to gain leadership in these processes (budget support, "mesas"). It also showed how these processes are time and resources consuming (staff, budget) and that they will need additional resources to achieve the expected results. SDA should keep on going to align and harmonize its programmes and projects, to actively seek for national / sector broad based programmes and country ownership. However, national partner institutions will need active and technical support to achieve these purposes. It will need and last a certain amount of time to have the majority of programmes / projects under the umbrella of future SWAPs or other broad based sector programmes under full responsibility and ownership of the national institutions. One may recognize that all these processes are at a stage of "Hypothesis" and consequently, the success of the new modalities have to be tested!. Therefore, it is recommendable to rely on a balanced mix of instruments for cooperation, engaging in SWAPs or delegated cooperation, but maintain bilateral cooperation oriented toward knowledge generation with technical assistance and policy dialogue.

General budget support (Nicaragua) is a powerful instrument to promote and steer necessary policy reforms for economical growth. In particular it orients efforts toward critical issues and fields of interest (competitiveness, development of private sector, public finance management among others). The evaluators recommend to continue with the foreseen implementation and to put special attention to supporting technical assistance and to the performance monitoring.

The shift to a more market oriented agriculture is considered as a good and necessary response to changing socio political context and in line with national priorities in both countries Nicaragua (PNDO, PRORURAL, PRS) and Honduras (PRS). However, this transformation process lead to an overlapping of the agric sector with the small and medium enterprise sector. In both sectors the same instruments like Non Financial Services, Financial Services, agro-industries, on farm and off farm generation of employment, integration of value chains etc. are applied and play a significant role. Thus, it might be prudent to consider the unification of the two sectors to one programme in the future (Desarrollo rural ampliado con enfoque empresarial).

Actually SDA, through its two agencies SDC and SECO, is implementing different projects promoting small and medium scale enterprises with different approaches / instruments at different levels of interventions with different stakeholders, which, at least in theoretical aspects, cover a wide spectrum of needs and demands of the sector. In this sense there is great coherence, complementary as well as synergy between SDC and SECO approaches. Being SDA only one actor among many others and having only scarce information about effectiveness and real impacts created by all of them, it is recommended to improve the coordination and discussion with other donor agencies, to monitor and jointly evaluate experiences made so far, identify best practices, and scale them up with a common strategy ("Antenna strategy").

Moreover, SDA should continue to assist the government to develop the adequate legal and regulatory framework for the sector, which seems to be crucial for success. Thus, SDA should continue with policy dialogue but additionally consider providing direct advice services and technical support at macro level (ministry, central bank etc.) regarding the legal, regulatory and supervision framework for micro-finance and competitiveness.

The feasibility of the validated water and sanitation model and its participatory long term management and maintenance at communal level should be institutionalized and scaled up nation wide (delegated cooperation, SWAP). The on going re-engineering of national institutions within the water sector reform processes should be accompanied and supported as well. Integral management of water resources including the production of the resource water is becoming an important issue in the future and should be addressed accordingly.

Integrated Risk and Disaster Management (IRDM) has been promoted and linked to municipal and communal strategies and plans. According to the perception of the evaluators SDC should proceed with the implementation of the concept and spread it further in the three countries of intervention. However, there is some concern about the integration and the "ownership" of this programme at national level. Despite the weaknesses of institutions at national level with a specific mandate in disaster prevention and coordination, like SE-SINAPRED in Nicaragua, the programme should be at least co-directed by a national counterpart. If institutional weakness is a fact, then institutional capacity building and strengthening should be addressed by the programme. Otherwise it should be considered to integrate the programme in on-going decentralization measures or land-use planning initiatives of other institutions and agencies.

Characteristics of Poverty Reduction Strategies in Nicaragua

Poverty profile

- All Poor (national consumption-based poverty line) : 45.7 % (preliminary 2005); 45.8 % (2001); 50.3 % (1993)
- Extreme Poor: 14.8 % (preliminary 2005); 15.1 % (2001); 19.4 (1993)
- Rural poverty (2001) : total 67% - extreme 27%
- Urban poverty (2001): total 30% - extreme 6%
- Inequity (Gini Index): 54.1 (preliminary 2005); 55.1 (2001)
- Per Capita Growth (annual average 2001-2005) : 0.5%

Prospects to meet MDG related PRS targets by 2015:

- achievable: Extreme Poverty, Net Primary Enrolment, Infant Mortality, Child mortality, Sanitation
- achievement unlikely: Maternal Mortality, Access to reproductive health, chronic malnutrition, Access to Water, Illiteracy rate

PRS history: first PRS, called ERCERP developed 1999, endorsed by WB/IMF in 2000. Second generation strategy (called National Development Plan) with stronger focus on growth developed 2003-2004, used for Government planning since 2004, endorsed by WB/IMF in January 2006.

Current PRS Priorities:

1. Economic growth for poverty Reduction (strong emphasis on the development of clusters, export orientation, improving investment climate)
2. Development of Human Capital and Social Protection (includes national MDG targets)
3. Public Investment for the Productive Development
4. Governance and State Reforms (citizen participation, decentralization, judicial reform)
5. Macro-economic stability (adherence to IMF program)

PRS monitoring/implementation: virtual poverty fund (i.e. monitoring of poverty spending); citizen participation system with national council (CONPES), departmental and municipal development councils.

Characteristics of Poverty Reduction Strategies in Honduras

Poverty Profile

- All Poor (national consumption-based poverty line): 50.7% (2004), 52.5 (1998)
- Extreme Poor: 24% (2004), 25% (1998)
- Rural - Urban (2004): 74% of all Poor and 86 % of extreme Poor live in Rural Areas; Urban poverty raised 4% (1998-2004) and rural poverty declined 4% (1998-2004) as a result of migration.
- Inequity (Gini Index): 56.8 (2003)
- Per Capita Growth (annual average 1998-2005) : 0.3%

Situation regarding **MDG related PRS targets** (status in 2004):

Targets on track: water and sanitation

Targets off-track: Extreme Poverty, Net primary enrolment; infant mortality

Targets not determined or no national target: maternal mortality; HIV prevalence, gender disparity

PRS history: PRSP elaborated in 2001 and used during Maduro Government (2002-2005), revised PRS presented end 2006 by Zelaya Administration.

Current **PRS Priorities** (i.e. principles of revised PRS):

1. Equitable economic growth for employment generation
2. Good governance through state modernization and civic participation
3. Development of human capital (education, health, social protection)
4. Environmental protection and risk management

PRS monitoring/implementation: Poverty fund within Budget used for funding decentralized PRS expenditures. Technical unit in Presidency (UNAT) responsible for monitoring, supported by Consultative Advisory Body (CCER) .

Sources Nicaragua: Interim CAS 2005; PRSP 1/2006 (National Development Plan - version presented to WB)

Sources Honduras : Poverty Assessment 3/2006, PRS Progress Report 3/2005

Outline of the Cooperation Strategy for Central America 2007-2012

Objective: Swiss Cooperation contributes to poverty reduction and promotes an equitable and sustainable development.

Strategic Dimensions:

1. The Poverty Orientation is central and implies alignment with PRS, focus on poorest countries, emphasis on pro poor policies
2. All interventions incorporate Gender and Governance as mandatory cross-cutting themes
3. Strategic principles guide interventions in the framework of the national cooperation systems: ownership, harmonization, alignment; local capacity development; micro-meso-macro linkages.

Thematic Priorities: 1. Development of Micro, Small and Medium Enterprises (MSME)	2. Governance and Public Finance	3. Infrastructure and local public basic Services
Objective: Swiss Cooperation contributes to the sustainable development of MSME and thereby to income and employment generation, through improved market access emphasizing local, regional and international chains of value addition, mainly of agricultural origin.	Objective: Swiss Cooperation contributes to good governance, particularly with respect public finance management, effectiveness of public spending, transparency and accountability, citizen participation, public control and social audit.	Objective: Swiss Cooperation enables poorer populations sustainable access to basic public services of good quality.
<p>1a) Financial Services</p> <ul style="list-style-type: none"> - Advise, Capacity building of Microfinance-Institutions (SDC) - Investment Promotion. Investment funds (SECO) <p>1b) Business Development Services:</p> <ul style="list-style-type: none"> - Management, Technology Incl. agricultural Technology (SDC) - Quality, Environmental and Social Standards, Export facilitation (SECO) <p>1c) Demand-oriented vocational training, Skills Development (SDC)</p> <p>1d) Business Climate, Trade Policy Level playing field for MSME; participation of MSME in policy development; Trade Policy formulation and implementation (SECO)</p>	<p>2a) Budget Policy and its relation to national planning</p> <ul style="list-style-type: none"> - general budget support - TA in results-oriented budgeting and medium-term expenditure planning - Policy dialogue at Macro Level (SECO) <p>2b) Poverty-oriented Policy Development</p> <ul style="list-style-type: none"> - national development planning, Disaster prevention - Support to PRS process PRS Monitoring, Consultations, Participation (SDC / SECO) 	<p>3a) Water and Sanitation Infrastructure investment, local management, tariffs, health, sustainable water resources management (SDC)</p> <p>-->Public Private Partnerships in water & sanitation and/or in energy sector. Renewable energy, locally operated systems (SECO)</p> <p>3b) Disaster Risk Reduction Capacity Development for integrated disaster risk management at local and national levels (SDC)</p>
Target Population : MSME entrepreneurs and associations; farmer and associations	Central and local Governments, Civil Society, Dialogue Fora	Population in rural and peri-urban areas, municipalities
MDG-Relation: Contributes to MDG 1 poverty and MDG 8 global partnership	Contributes through poverty spending to MDGs 2-6 Social indicators	Contributes to MDG 7 Environment, water.

Geographic Intervention Model

Thematic Priority	Nicaragua	Honduras	Region C.A.
1. Development of Micro, Small and Medium Enterprises			
1a) Financial Services	X	X	X
1b) Business Development ServicesX	X	X	X
1c) Demand-oriented vocational training , Skills Development	X		
1d) Business Climate, Trade Policy	X	X	X
2. Governance and Public Finance			
2a) Budget Policy and its relation to national planning	X		
2b)Poverty-oriented Policy Development	X	X	X
3. Infrastructure and local public services			
3a) Water and Sanitation	X	X	X
3b) Disaster Risk Reduction	X	X	X

Basic characteristics of Target Population

Theme	Qualitative description	Socio-economic characteristics	Total Size*
Financial Services - Nicaragua, Honduras	Urban and rural MSMEs/Farmers with limited access to services but potential to generate income above subsistence level	Low income populations, with average income of 340\$ in Nicaragua and 390\$ in Honduras	400'000 in each country (of which 150'000 benefit by being clients of program supported institutions)
Business Development Services (for MSMEs and agricultural producers) - Nicaragua and Honduras	MSME (mostly informal) and agricultural producers with limited access to services but with potential to make economic use of services; employees of MSME	Mostly poor or moderately above poverty line; Majority rely only on family members or have less than 10 employees; MSME in services' sector predominantly run by woman	NIC: 95'000 MSME plus 160'000 agricultural producers (< 35 ha). HON: 240'000 MSME that employ 45% of total workforce, plus 230'000 agricultural producers (< 5ha)
Business Climate (for MSMEs) - Honduras, Nicaragua	MSME as above - emphasis on equitable conditions for MSME	MSME as above	MSME as above
Vocational Training - Nicaragua	Youth, 16-30 years old, un- or under-employed, completed basic education	Low-income, with limited access to formal education, rural and urban	660'000 youth from poor and extremely poor household, i.e. 1 Mio x 66% primary school completion rate; (direct beneficiaries 3'000)
Public Finance/ Governance - Nicaragua	Population classified as poor, i.e. 45% of total	Average annual income 400\$, predominantly rural	2,4 Million
Water & Sanitation - Nicaragua, Honduras	Rural and semi-urban populations without access to safe water and to sanitation	Mostly poor and extremely poor households, however with sufficient social capital allowing sustainable results	1'150'000 (NIC) y 930'000 (HON) rural inhabitants without water, 540'000 (NIC) y 1570'000 (HON) without sanitation; In NIC 150'000 urban inhabitations without water and sanitation (direct beneficiaries 70'000 in NIC)
Disaster Risk Reduction Nicaragua, Honduras	Population living in rural and semi-urban high risk zones. Main risks: inundations and landslides	Families living in poverty and extreme poverty, limited options to move to lower risk zones; focus on housing and social infrastructure (important: water & sanitation)	Nicaragua: 800'000 (150'000 living in program intervention locations and thus benefit indirectly); Honduras 1'500'000 (200'000 benefit indirectly)

Financial Resources

FROM SWISS AGENCY FOR DEVELOPMENT AND COOPERATION
TO CENTRAL AMERICA 2006-2012
INDICATIVE AMOUNTS IN MILLIONS OF SWITZERLAND FRANCS

FINANCIAL RESOURCES BY SOURCE				
SOURCE	2006	%	2012	%
SDC SUB TOTAL	20.5	66	18.1	58
• Bilateral Aid Department	17.8	57	16.8	54
• Natural Resource Unit (NRU)	1.2	4	0.0	-
• Humanitarian Aid	1.5	5	1.3	4
SECO SUB TOTAL	10.6	34	13.1	42
TOTAL	31.1	100	31.2	100

FINANCIAL RESOURCES BY COUNTRIES						
COUNTRY / REGIONAL	2006			2012		
	SDC	SECO	TOTAL	SDC	SECO	TOTAL
Nicaragua	10.8	8.0	18.8	10.6	11.5	22.1
Honduras	3.6	-	3.6	5.3		
El Salvador and Others	3.4	2.6	6.0	0	1.6	9.1
Regional	2.7	-	2.7	2.2		
TOTAL	20.5	10.6	31.1	18.1	13.1	31.2

FINANCIAL RESOURCES BY THEMATIC PRIORITY				
THEMATIC PRIORITY	2006	%	2012	%
MSME Development	11.9	38	12.6	40
Governance and public finance	9.2	30	9.2	30
Infrastructure and basic public services	5.6	18	8.0	26
Other	4.4	14	1.4	4
TOTAL	31.1	100	31.2	100

Cooperation Strategy Scenario with higher SDC resources envelope

This scenario assumes a total program size of 38 Mio SFR by 2012 and is consistent with the Synopsis discussed at the respective management committee meetings at SDC (COSTRA) and SECO (Polkom). It includes the components that were subsequently eliminated or reduced as a consequence of the reduction in the SDC E-Department resources envelope. The "2012 plus Scenario" allows the continued cooperation and expansion in two sub-themes and a larger increase of the Honduras program size.

Additional Sub-Theme Local Governance : plus 1.4 Mio SFR

Objectives:

- Strengthening local governments,
- capacity development in public service delivery
- promote citizen participation

Local governance aims primarily at building capacity of municipalities and state institutions present at the local level that are expected to assume a larger role in public service delivery as a result of the decentralization process (fiscal decentralization, central government transfers, de-concentration of social services). Emphasis is also put on facilitating social control and citizen participation.

A local Governance program is under implementation in Nicaragua since 2005 with a new approach, focusing on capacity building of local governments and of civil society. The program is implemented by the governmental institution responsible for municipal strengthening (INIFOM) and by local NGOs. The program operates in two departments of Nicaragua with an annual budget of 1.2 Mio SFR. Instead of phasing out the program by 2008 it will be continued and moderately expanded (annual budget by 2012 of 1.4 Mio SFR).

Additional Sub-Theme Energy - Electricity : plus 3.0 Mio SFR

Objectives:

- increase access to electricity in marginal areas in Nicaragua
- develop decentralized renewable production
- promote productive uses of energy

The mini-hydro energy program co-financed with UNDP, GEF and bilateral will not be phased out and will indeed be expanded to support the implementation of the government's rural electrification plan and include a regional component, as outlined in the proposal submitted for the NRU- competition. Renewable energy is an under-exploited potential in Nicaragua, offering win-win opportunities for local development and at the same time environmental benefits and emissions reductions relevant to the Climate Change Convention.

The strategy is to promote a decentralized approach supporting the development of locally operating electricity production and distribution systems, and to engage concomitantly in sector reforms. Special attention is placed on developing capacities for the economically viable management of electricity systems, including by means of public-private partnerships. Moreover, emphasis is put on social organization and governance, tariff policies that balance economics and equitable access, and on promoting productive uses. Protecting water resources is a key concern.

Program expansion in Honduras : plus 2.1 Mio SFR

The SDC financed cooperation with Honduras will gradually increase from 3.5 to 7.1 Mio SFR. Doubling the size of the program over 3 to 6 years is realistic because of well-established partnerships and past cooperation experiences. It is desirable since it will provide more sector policy leverage and bring the total financial volume closer to the critical mass of 10 Mio SFR, deemed appropriate for priority countries. Funding will support a more programmatic approach in rural MSME development and in the water and sanitation sector, based on on-going cooperation with its strong pilot character.

FINANCIAL RESOURCES BY COUNTRIES						
Indicative amounts in millions of switzerland francs						
COUNTRY / REGIONAL	2006			2012		
	SDC	SECO	TOTAL	SDC	SECO	TOTAL
Nicaragua	10.8	8.0	18.8	10.6	11.5	22.1
Honduras	3.6	-	3.6	5.3	1.6	9.1
El Salvador and Others	3.4	2.6	6.0	0		
Regional	2.7	-	2.7	2.2		
TOTAL	20.5	10.6	31.1	18.1	13.1	31.2

FINANCIAL RESOURCES BY THEMATIC PRIORITY				
Indicative amounts in millions of switzerland francs				
THEMATIC PRIORITY	2006	%	2012	%
MSME Development	11.9	38	12.6	40
Governance and public finance	9.2	30	9.2	30
Infrastructure and basic public services	5.6	18	8.0	26
Other	4.4	14	1.4	4
TOTAL	31.1	100	31.2	100

Outline of Monitoring Framework for the Cooperation Strategy

The monitoring of the cooperation strategy covers the following four dimensions:

1) country context Nicaragua and Honduras; 2) harmonization and alignment; 3) program performance and results; 4) performance of the Cooperation Office. Monitoring results are reported annually as part of the annual work plan (i.e. the annual up-dates of the medium-term implementation plan).

1. Country context

Fields of observation: short-medium term (1 year) tendencies in the political, governance, economic, social, citizen security, environment and humanitarian context in Nicaragua and Honduras, including a special emphasis on linkages with regional integration and collaboration.

Principle instrument: MERV (Monitoring of Development-related context changes).

Secondary sources: Economist Intelligence Unit, IFIs studies (e.g. institutional and governance review of WB), UN studies (e.g. MDG reporting, Human Development Reports) governance, studies of other donor agencies.

2. Harmonization and Alignment, Ownership

Fields of Observations:

- Strengthened country ownership through capacity development
- Progress in Alignment with country strategies, priorities, systems and procedures
- Progress in Harmonization among donors

Indicators (measures progress in Swiss cooperation program):

- 1) % of capacity development support provided through coordinated programs, consistent with country demand.
- 2) % of aid provided as program-based approaches (Budget support, SWAPs)
- 3) Number of parallel project implementation units
- 4) % of field missions that are joint
- 5) % of joint financing (Basket funding, co-financing)

Benchmarking: Swiss Cooperation scores in top 30% among all cooperation agencies in at least 3 of the 5 selected indicators.

Sources: Monitoring Paris Declaration, National Action Plans, complementary information gathered by cooperation office focused on AAA progress in the thematic priorities

3. Performance of the Swiss Cooperation Office

Fields of observation	Indicator
Efficiency - Administrative Costs	1) Cost of Cooperation office/total disbursement 2) Total overhead (CoOf, Project Overheads)/total disbursement
Efficiency	3) Total disbursement/number of operational staff in Cooperation office
Knowledge Management Efforts	4) number of publications; number of knowledge exchange events
Visibility (country level)	5) Number of articles in print media
Positioning in the cooperation system	6) Number of positions as lead and liaison donor
Coherence of strategy implementation	7) actual disbursement by thematic and country/region priorities versus targets
Operational Quality	8) % of retroactive project/program agreements
Operational Quality	9) Nb of phase credits extended versus total number of phase credits concluded

4. Program Performance and Results

Scope

- Monitoring looks at progress at country level (based on national indicators) in areas relevant to the Swiss cooperation program and aims at assessing the relevance, quality and where possible also the magnitude of the Swiss contribution in the respective area.
- It covers the overall objective, thematic priorities and cross-cutting themes of the Cooperation Strategy.

Sources

- For the National Indicators: Data produced by national institutions and reported by governments or multilateral institutions.
- For assessing the Contribution of Swiss Cooperation: Monitoring results reported by programs and projects, and observations made by CoOf (based on compilation, surveys, application of key questions etc.)

