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Master's Degree in International Development Policy

**Assessment on the Implementation of the
International Principle for Aid Effectiveness in
the Agriculture and Rural Development Sector:**

Comparative case study of Nicaragua between the
government regimes of 2002-2006 and 2007-2011

February, 2014

Program in International Development Policy

Graduate School of International Studies

Seoul National University

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**Assessment on the Implementation of the
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A thesis presented

by

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A dissertation submitted in partial fulfillment
of the requirements for the degree of Master
of International Development Policy

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Comparative case study of Nicaragua between the government regimes of 2002-2006 and 2007-2011**

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ABSTRACT

This paper assesses how the different forms of political regimes affected the implementation of the common principles for aid effectiveness, ownership, alignment and harmonization in the agriculture and rural development sector of Nicaragua, through a comparative case study between 2002 and 2011. The term “effectiveness” in this study relates to the extent to which the aforementioned principles were translated into operational practice by these two regimes. The research findings have shown that due to the different regimes, the operational practices differ as consequence of the importance and focus that each regime devotes to the agriculture and rural development sector, showing that the major changes are in the key partners of the government due to the different focus towards the sector. The research, therefore, concludes that in the case of Nicaragua, the involvement of the Government in the agriculture and rural development sectors is more effective for the implementation of international principles for aid effectiveness.

Key words: Aid effectiveness, Socialist regime, Neoliberalist regime, Ownership, Alignment, Harmonization.

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I. Introduction

Internationally-agreed development targets, such as the Millennium Development Goals (MDGs), have been created to help as guidelines for developing countries to set short- and medium-term national priorities as the foundation for building partnerships for external support, and to maximize the poverty reduction impact of Official Development Assistance (ODA). Additionally, a set of principles for aid effectiveness have been agreed upon, which assist donors and developing countries to increase the impact of aid, growth, building capacity and accelerate the achievements of the MDGs. Five principles were encompassed in the Paris Declaration on Aid Effectiveness, however the process for reaching to these five principles started in 2002 with the Monterrey Consensus on Financing for Development and Rome Declaration on Harmonization. Sharing among them are three common principles: ownership, alignment and harmonization.

International organizations such as the United Nations, The World Bank, the Inter-American Development Bank, and the International Monetary Fund have observed the severity of poverty, have encouraged countries to continue on the fight to reduce it, and have committed to accomplish the Millennium Development Goals, which are a guiding light for the international cooperation

for development, particularly to halve the proportion of hungry and extremely poor people by 2015.

Among all the Latin American countries, Nicaragua is the second poorest country after Haiti and the poorest country in Central America, having high unemployment and high levels of poverty. From a population of six million inhabitants, 42 percent live below the poverty line and 15 percent live in extreme poverty. Poverty levels are the highest in rural areas, particularly the North Atlantic Autonomous Region, where most of the indigenous communities are found, and where 37 percent of the population is living in extreme poverty.

Nicaragua has a long history of regime changes that one way or another has made it hard to reduce poverty. First, there were three centuries of Spanish colonial rule. Secondly, there was a century of despotic presidencies, three decades of the Somoza family dictatorship, and the Sandinista Revolution in 1979 whom sought to create an egalitarian society by redistributing land, political power, and economic resources to Nicaragua's vast majority of impoverished citizens. In the 1990s, Nicaragua went to elections again, resulting in change of regimes that lasted for 16 years, from 1990 to 2006, where again the Sandinistas were brought to power by a democratic process.

On the other hand, Nicaragua is a country that has received the biggest amount of ODA from most of the Latin American Countries, especially during the decade of 1990s. According to the OECD, between 1995 and 2005 \$7.6 billion USD of ODA was committed to the county, and between 2005 and 2011 there was \$3.15 billion USD.

As a result, this paper carries out a qualitative case-study of two different government regimes within one country: the neoliberal administration of Enrique Bolaños (2002-2006) and the socialist administration of Daniel Ortega (2007-2011). Yin (1994), explains that case studies are useful when we are trying to find an answer to “how” or “why” with so-called process question, and it is argued that a case study is “a strategy which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (Saunders, 2011). Therefore, using qualitative data obtained from both primary and secondary sources, this paper answers how two different government regimes in Nicaragua have affected the implementation of the common international principles of aid effectiveness towards the Agriculture and Rural Sector between 2002-2006 and 2007-2011.

To answer this question, the three shared principles for aid effectiveness, in Monterrey (2002), Rome (2003) and Paris (2005), were selected. The other two principles, managing for results and mutual accountability, were excluded from the analysis since they began being applicable in 2005, long after the first regime analyzed started. The agriculture and rural development sector was chosen not only because this sector is where the highest concentration on poverty is located and because agriculture is part of their livelihoods, but also because one of the primary reasons for receiving ODA is to reduce poverty. In addition, the term “effectiveness” in this study relates to the extent to which the existing principles were translated into operational practice by the two regimes.

II. Rural Development and the Official Development Assistance

Rural development flourished in the 1970s and 1980s, in part under the leadership of the World Bank and the USAID, following the approach of what has been referred to as “Integrated Rural Development”. This approach mobilized the public sector to deliver services to the rural poor, trying to integrate the many public services required for poverty reduction through the role of an implementation agency. However, that approach was made dysfunctional by a decline in the role of the state and in the size of public budgets following structural adjustments. Therefore the approach led to a drift in attacking rural poverty toward welfare transfers instead of income generation and social development (Janvry & Sadoulet, 2003).

The authors continue saying that in the 1990s a new approach was formulated, turning the previous approach upside down. It is a process as opposed to a blueprint, characterized by pragmatic adaptation to local conditions, yet resting on several fundamental principles that contrast it to the “integrated” approach, most particularly in emphasizing decentralization, participation and collective action, and devotion of managerial functions to communities, termed as “Integral Rural Development”.

In the past two decades there has been an increasing emphasis on rural development programs and projects, and recognition that development of rural areas is just as important as building up of urban, industrial complexes. Development must have two legs: urban industrialization and rural improvement. Rural development strategies usually take the form of programs which implement projects in a specific rural area. Such programs form the basis of most government and non-government efforts to assist rural areas. External aid is also usually channelled into such programs in the rural areas (Oakley &Garforth, 1993).

Poverty reduction has been a challenge for many international organizations and financial institutions like the United Nations, The World Bank, the Inter-American Development Bank, and the International Monetary Fund. These Institutions have been trying to face poverty and have encouraged countries to continue on the fight to reducing it. In 2000 the Millennium Development Goals were created as a guiding light for international cooperation for development, particularly the target to halve the proportion of hungry and extremely poor people by 2015.

The starting point to achieve this target must be the recognition that poverty is predominantly rural. In most poor countries, agriculture is the largest employer, job creator and export earner. Historically, reforms in this critical sector have been the foundation for overall economic development and poverty reduction (Båge, 2004). Support to agriculture is well recognized as essential for poverty reduction and for securing people's right to food. Agriculture is also recognized as an engine of pro-poor growth (OECD, 2006; World Bank, 2007). Moreover, secure access to natural resources is at the core of poor rural people's entitlements as citizens, as rights over resources are often linked to membership in social organizations, recognition of collective identities, and access to services (Prato & Longo, 2012: 51-78).

According to OECD-DAC (2006), "Agriculture connects economic growth and the rural poor," but "its importance goes beyond incomes as it reduces poverty by lowering and stabilizing food prices; improving employment for poor rural people; increasing demand for consumer goods and services, and stimulating growth in the nonfarm economy". Secure access to natural resources and their sustainable management is, in turn, key for agriculture-based livelihoods. Today, this is particularly important as climate change and growing competition over scarce resources (notably land and water) affect the natural resource base for

agriculture and for rural poverty reduction (Brunori, et al., 2008). Moreover, secure access to natural resources is at the core of poor rural people's entitlements as citizens, as rights over resources are often linked to membership in social organizations, recognition of collective identities, and access to services (Prato& Longo, 2012:51-78).

The 2008 World Development Report "Agriculture for Development" highlights that agricultural development is fundamental to the global fight against poverty; particularly in agriculture-based economies. Investing in agricultural development for productive rural areas substantially increases economic growth, and is two to three times more effective in providing income to the poorest third of the population than investing in any other sector. Moreover, agriculture and rural development (ARD) has tremendous potential to help correct gender imbalances, promote environmental stewardship, and, naturally, improve food security (Global Donor Platform, 2009). Furthermore, extensive literature shows that investments made by developing countries not only in agriculture, but also in rural infrastructure, health, and education, are both pro-growth and pro-poor. Yet, there has been an inefficient and systemic bias against agriculture and the rural economy in the allocation of developmental resources (Bezemer et. al, 2008).

Sustainable development requires functioning institutions that utilize available resources effectively and deliver on expected impacts for the targeted beneficiaries. To better aid and improve development effectiveness, policy reforms and more resources are required from both national budgets and external assistance (Sgrø&Nærstad, 2009).

Snidal (1985) gives two explanations on how institutional variations occur by different regimes to provide solutions. The first explanation for the institutional variation lies in the possibility that different regime forms may provide different solutions to the same problem; that is, given any particular problem of collective action, a solution might be achieved in any number of different ways and be reflected in correspondingly different institutional development. The second explanation for variation is that different regimes present different solutions to fundamentally different problems. Different histories and contexts of particular international issues may facilitate certain types of solutions in some issues and other solutions in other issues.

Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, particularly in those countries with the least capacity to attract private direct investment. ODA can help a

country to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while human capital, productive and export capacities are enhanced. ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth. ODA is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development, and to enhance food security (Monterrey Consensus, 2002).

The 2008 World Development Report “Agriculture for Development” looks at agricultural development as fundamental to the global fight against poverty, particularly so in agriculture-based economies. Investing in agricultural development for productive rural areas substantially increases economic growth, and is two to three times more effective in providing income to the poorest third of the population than investment in any other sector. What’s more, agriculture and rural development (ARD) has tremendous potential to help correct gender imbalances, promote environmental stewardship and, naturally, improve food security (Global Donor Platform, 2009).

Other studies have shown that agriculture offers important perspectives on the application of the partnership commitments, both as a sector with the potential

to have a major effect on poverty alleviation and as a sector receiving aid. However, addressing the Partnership Commitments on of the Paris Declaration on the agricultural and rural development sector has not been an easy quest. According to previous studies the principles of alignment and harmonization have so far proved insufficient to address coordination failure in agriculture. There needs to be a reconfiguration of sector management which allows for coordination of policy actions and investments (Cabral, 2008).

III. Nicaragua's Politic and Economic Development:

Brief History

In order to further understand the current situation in Nicaragua, this section will be divided in three parts. The first one will be the Revolution Period from 1979 to 1990. The second part will be the period of the establishment of the Neoliberalism from 1990-2006, which was highly influenced by the Bretton Wood Institutions which explains the developmental model used by the country. Then finally concluding with Socialist regime, a period characterized by a so called 'national rebirth' where the people are first on the agenda.

A. The Revolution Period 1979-1990

The year of 1979 marked the end of 43 years of dictatorship by the Somoza family. After two years of insurrections and internal turmoil, President Somoza resigned and fled the country on July 17th 1979. On July 19th the FSLN army took control of the country's capital, effectively ending the Sandinista revolution (Library of Congress, 1994).

The immediate goal of the new government was the reconstruction of the national economy. The new government inherited a country in ruins, with a

stagnant economy and a debt of about \$1.6 billion USD. Food and fuel supplies were exhausted and international relief organizations were trying to deal with disease caused by lack of medical supplies. The second goal of the new government was to change the old government's pattern of repression and brutality toward the general populace. Two years after the FSLN government came into power, Amnesty International and other human rights groups found the human rights situation in Nicaragua greatly improved. The third major goal of the country's new leaders was the establishment of new political institutions to consolidate the revolution (Ibid, 1994).

The FSLN was committed to radically transforming the rural social structure and social relations to benefit the peasantry as was explicitly outlined in 1969 with the publication of the Historical Program of the FSLN. The document called for an immediate and massive 'land to the tiller' program of redistribution, the elimination of latifundia, an agricultural development plan to diversify and intensify peasant production, improved access of peasant producers to credit, technical assistance and markets, compensation for 'patriotic landowners' affected by the agrarian reform, the organization of peasant producers in cooperatives, the abolition of informal debt, and the creation of improved

employment opportunities for the rural population to overcome the problem of seasonal unemployment (Utting, 1988).

In 1981 the new government enacted the Agrarian Reform Law, beginning with the nationalization of all rural properties owned by the Somoza family or people associated with the Somozas, at a total of 2,000 farms representing more than 20 percent of Nicaragua's arable land. These farms became state property under the new Ministry of Agrarian Reform. Large agro export farms not owned by the Somozas generally were not affected by the agrarian reform. Financial institutions, including bankruptcy from the massive capital flight during the war, were also nationalized (Library of Congress, 1994).

The Agrarian Reform Law was divided into 5 parts: (i) justifications, (ii) those that will have their land expropriated, (iii) those who will receive land, (iv) implementation procedures, and (v) organisms. The Reform gave preference to (i) poor peasants, tenant farmers and cooperatives who are already working the land when this law is published; (ii) peasants with insufficient land, especially those who organize in cooperatives; (iii) individual producers, especially extended families (here preference was given to families of heroes and martyrs

and to those who fought in the war of liberation); and (iv) Agrarian Reform enterprises (ENVIO, 1981).

In mid 1984, the Board of Reconstruction (created in 1979), approved a new Electoral Law, and called to national elections for the 4th of November of that same year. The FSLN won 67 percent of the votes, the presidency, and sixty-one of the ninety-six seats in the new National Assembly. Daniel Ortega began his six-year presidential term on January 10, 1985 (Library of Congress 1994).

In May 1985 President Reagan's administration ordered a total embargo of United States trade with Nicaragua, accusing the Sandinista regime of threatening United States security in the region. The FSLN government responded by suspending civil liberties. The media and the Roman Catholic Church were accused of destabilizing the political system of the country. Meantime, violent opposition to the FSLN government was led by a paramilitary group known as the Counter Revolutionaries (Contras). In June 1986, the United States Congress voted to approve aid to the Contras by appropriating US\$100 million in military and non-military assistance. The Sandinista government was forced to divert more and more of its economic

resources from economic development to defend against the Contras (ENVIO, 1989).

By mid-1988, international institutions demanded that the Sandinistas launch a drastic economic adjustment program as a pre-condition for resuming aid. A new economic program was launched; however it imposed further hardship on the Nicaraguan people. Government agencies were reorganized, leaving many Nicaraguans unemployed. The Sandinista army also went through a reduction in force. To complicate matters, in October 1988 the country was hit by Hurricane Joan, leaving 432 people dead, 230 thousand homeless, and damages estimated at \$1 billion USD. In addition, a severe drought, during 1989, posed significant concerns on the agricultural production for 1990.

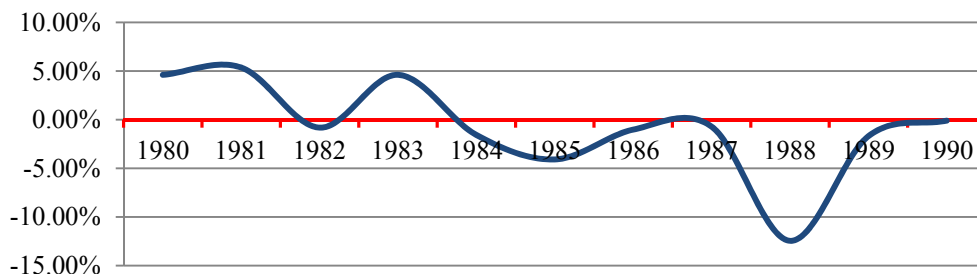
At the end of 1989 the country entered absolute bankruptcy, partly due to the loss of economic support from the economically strapped USSR. As the economic and political pressure accumulated, the Sandinistas decided to move up the date for general elections for the fall of 1990 in order to convince the United States Congress to end all aid to the Contras and to attract potential economic support from Europe and the United States. To the surprise of the Sandinistas, they lost the elections to the opposition.

B. Neoliberalism Period 1990-2006

In 1990, Violeta Barrios de Chamorro was elected President of the Republic, in an ushering era of true peace and national reconciliation. Under her administration the country underwent a triple transition, from war to peace, from totalitarianism to democracy, and from a centralized economy to a free market economy. The government began rebuilding the country, sparking the population's hope that a better life could be constructed after decades of despair. People who abandoned the country during the 80s began to return, many of which engaged in productive activities in order to bring development to the country (Corbo, 1999).

The civil war from 1980 to 1990 devastated Nicaragua's economy; per capita income fell to 33.5 percent below the 1980 level. Gross domestic product (GDP) decreased by two thirds (Figure 2), and export volume fell to one half of pre-1980 levels. External debt increased tenfold, soaring to \$11 billion USD, more than six times the country's GDP (IFAD,2012).

Figure 1: Nicaragua Economic Growth (GDP %) 1980-1990



*Source, World Bank

The fact that the new government regime presented neoliberal characteristics availed by the Washington Consensus, attracted the attention of the Bretton Woods Institutions (WB and the IMF), making it easier for these to put in practice its developmental model in the country. Nevertheless, the fact that this model was more focused towards the reduction of poverty through economic growth put aside the need to create social policies. Arana (1997) stated that “There was hardly any integration between economic and social policy... the country was undergoing a period of adjustment, but macroeconomic policy was not thought out with a logic that would broaden access and income opportunities to the large poor majority of Nicaraguans”.

The IMF and the WB’s first Stand-by Arrangement Agreement with Nicaragua was put into practice in 1991, and it was followed by two more Enhanced Structural Adjustment Facilities (ESAF) in 1994 and 1998. Table 1 shows that

these ESAF basically focused on reducing the size of the Government and the privatization of State owned enterprises, as well as an increase on tax collection and fees among others.

Table 1: Key Elements of IMF Adjustment Programs in Nicaragua

Date	Agreement	Amount	Key policies
9/91	Stand-by Arrangement	US\$58.4 million	<ul style="list-style-type: none"> * Interest-rate deregulation * Unification of legal reserve requirements * Privatization * Restriction of domestic credit * Reduction in government spending and deficit * Increase Central Bank reserves
6/94	ESAF	US\$173 million	<ul style="list-style-type: none"> * Cuts in government spending * Cuts in public-sector employment * Improvements in tax collection * Restriction of credit * Resolution of property-rights issues * Privatization * Reduction of state-owned bank operating costs * Improvement in loan recoveries * Labor-market flexibility
3/98	ESAF	US\$136 million	<ul style="list-style-type: none"> * Cuts in government spending * Increases in taxes and fees * Cuts in public-sector employment * Restriction of credit * Elimination of targeted credit * Closing of BANADES (National Development Bank) * Privatization of state-owned enterprises * Improvement of quality of social spending

Sources: Adolfo Jose; Acevedo Vogl, *Nicaragua y el FMI: el pozo sin fondo del ajuste*, Latino Editores and CRIES, 1993; *IMF Survey*, 25 July 1994, p. 244-5; 1998 Letter of Intent http://www.developmentgap.org/americas/Nicaragua/The_IMF_and_Financial_Sector_Reform_in_Nicaragua.htm

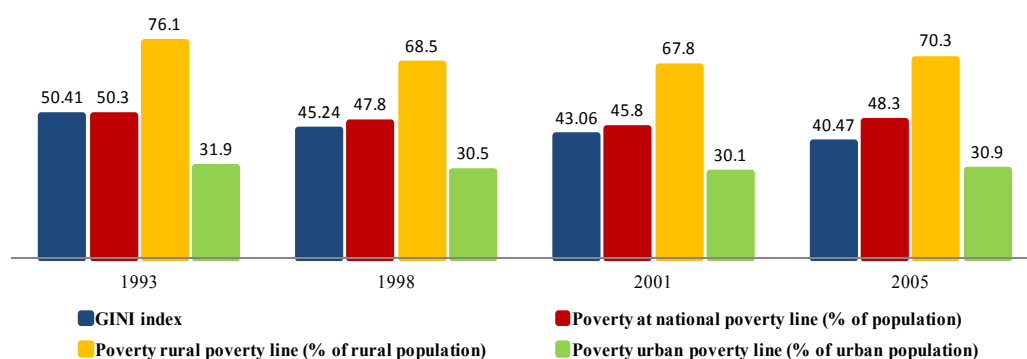
In 1999, the ESAF was replaced by the Poverty Reduction Strategy Papers (PRSP) and the Poverty Reduction Growth Facility (PRGF). The first one was introduced as participatory, country-led mechanisms to more sharply focus on countries' poverty reduction efforts by changing the way countries economic plans were formulated. The changes included policies that are more clearly focused on growth and poverty reduction, a full integration between the poverty reduction and macroeconomic elements of the program, and greater degrees of participation by civil society and national ownership- which in turn would lead to more consistent policy implementation. The second one, was introduced as the key instrument to support the PRSP in the sense that the International Community would become more narrowly focused on core areas of expertise, but at the same time become more consistent with a broad approach to poverty reduction with enhanced country ownership (IMF& WB, 2004).With the introduction of these mechanisms is when countries' ownership started to play a role. It is now encouraging governments to lead the development process of their own countries, according to their own needs.

In October 2000, Nicaragua presented to the IMF the Interim Poverty Reduction Strategy Paper (I-PRSP), which also helped the country to be considered for the HIPC program. In 2001 the revised version of the I-PRSP was formulated into a

SGPRS for the period 2001-2005. The SGPRS was based on 4 pillars: (i) broad-based economic growth and structural reform; (ii) investment in humancapital of the poor, mostly in rural areas; (iii) protection to vulnerable groups; and (iv) good governance and institutional development (World Bank, 2001).

By the end of this decade it is possible to say that the efforts made to reduce poverty were working. From 1993 to 2001, there was a 4.5% significant reduction of population living in poverty, from 50.3% to 45.8% respectively. The highest reduction was in the rural areas, it went from 76.1% to 67.8%, an 8.3% reduction. Between 2001 and 2005 poverty at the national poverty line increased, the biggest increase being in the rural areas, but overall showed a reduction on the GINI index (Figure 3).

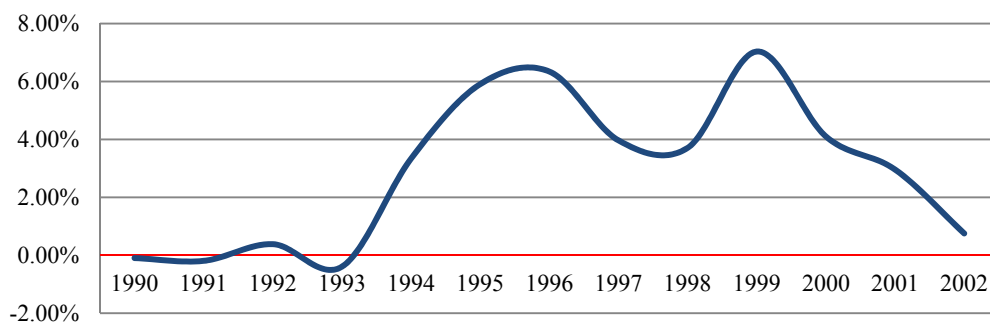
Figure 2: Poverty Evolution and Gini Index



*Source: World Bank

The developmental model succeeded in stabilizing the currency, reducing inflation to minimal proportions, and stimulating the economy -as evidenced by the economic growth from 1990 to 2002 (Figure 3).

Figure 3: Nicaragua Economic Growth (GDP %) 1990-2002



*Source: World Bank

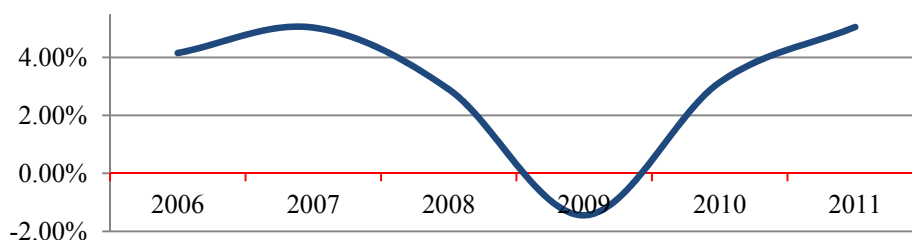
C. Socialism Period 2006-2011

In 2006 Daniel Ortega from the FSLN Party won the presidential election for the period 2007-2011. The new government, Government of Unity and National Reconstruction (GRUN), focused on social sectors. Key social policy reforms were implemented in the health and education sectors, providing free and universal access to these resources. The new policy towards the education sector made it possible, according to the UNESCO, to reduce the illiteracy rate from 22% to less than 6%. Nevertheless the country still faces many education challenges beyond literacy, such as improving performance in standardized

examinations and improving the quality of education in specific fields such as math and science.

Nicaragua's macroeconomic situation deteriorated by the end of 2008 and the beginning of 2009 (Figure 4), partly due to the international financial crisis and the increase in oil prices. High fuel prices in Nicaragua affected all of the sectors of the economy. Also the macro economy of the country was affected by the political situation and the feeling of instability caused by alleged irregularities in the municipal elections of 2008. In addition, the private sector was doubtful about the policies that the GRUN wanted to implement, alluding at the previous macroeconomic destabilization that occurred under the Ortega's and the FSLN regime of the 80s. Many foreign investors decided to wait to see how things were going to change under the new Ortega administration.

Figure 4: Nicaragua Economic Growth (GDP %) 2006-2011



Source: World Bank

Despite Nicaragua's poor macroeconomic situation, there was an improvement in several social indicators between 2005 and 2009.

IV. Assessing the Implementation of the International Principles for Aid Effectiveness

The neoliberal regime of Enrique Bolaños (2002-2006) and the socialist regime of Daniel Ortega (2007-2011) had different models of development and poverty reduction. In addition, each of these regimes differed in the application of common principles for aid-effectiveness presented in the Monterrey Consensus on Financing for Development (2002), the Rome Declaration on Harmonization (2003) and the Paris Declaration on Aid-Effectiveness (2005). The principles on aid-effectiveness common to all three documents are: (i) ownership; (ii) alignment; and (iii) harmonization.

This chapter will assess how the neoliberal regime of Enrique Bolaños (2002-2006) and the socialist regime of Daniel Ortega (2007-2011) each implemented the before-mentioned principles, particularly as they relate to the agriculture and rural sector.

A. Ownership

In 2002, the government presented to the Inter-American Development Bank (IDB) the Loan Proposal for the “Rural Production Revitalization Program

(2003-2007).” The proposal placed the Program under the Institute of Rural Development (IDR), a decentralized government agency with its own corporate identity and capital, but which still was under the Guidelines of the MAGFOR. However, this placement resulted in minimizing the government’s capacity to resolve the problems affecting the rural sector, since there was not one special institution in charge of the coordination and the articulation of the different programs -as a result of the neoliberal reforms implemented through the decade of the 90s. Therefore a Program Coordination Unit (PCU) was created under the IDR to administrate and execute the Program, with the inclusion of the Civil society organizations (NGOs), private entities (associations, cooperatives), and providers of consulting services, goods and related services, and construction works who participated in the program’s execution (IDB, 2002).

The result was that the PCU undermined the ownership of the government towards the Program. In the Proposal Document (2002) it is stated that “the PCU will have administrative and financial autonomy, under the IDR’s executive board.” The PCU was composed of a small group of high-level, highly experienced Nicaraguan professionals, to fulfil the needs of the Program. The director of the PCU was an individual authorized to sign contracts made using program resources. The establishment of the PCU and the hiring of its

coordination, in accordance with the terms previously agreed upon by the executing agency and the Bank were special conditions precedent to the first disbursement (IDB, 2002). Hence this gives no space for the government's participation in the project.

Encouraged by the Rome Declaration, in late 2004, and further strengthened by the Paris Declaration, the PRSP was revised and was renamed as 'Operative' National Development Plan (PND-O) for the period 2005-2009. The PND-O (2004) focused on the productive sectors and economic growth, and offered a framework for sectoral and institutional plans. Thus it is more systematically linked to the sectoral plans which were beginning to be designed, and to development plans of Departments and Municipalities (OECD, 2010). Foreign Investment was seen as a key to establish the clusters, most of which were likely to be located in high potential areas of the country. Concerning rural development, the PND-O (2004) emphasized the importance of developing agricultural value chains, the access to credits and clear property rights.

The PND-O created the space for the implementation of sector-wide approaches, and it laid the ground for the MAGFOR's Productive Development Proposal of 2003 to evolve into the Rural Productive Sector Program of 2005

(PRORURAL). The PRORURAL became the first national strategy for the agriculture and rural development sector, and would become the initial point for the country to lead the development process of this sector, thereby complying with the first of the International Principle on Aid Effectiveness: ownership.

To further strengthen the country's ownership in the Sector, the PRORURAL had three functions: (i) to encompass the country's strategy for rural development; (ii) to work as a mechanism of coordination between the public institutions that are part of the agriculture and rural development (SPAR); and (iii) to coordinate the allocation of the funds provided by the Government as well as by the international cooperation, this being part of the alignment (Global Donor Platform for Rural Development, 2007).

The PRORURAL became the sectoral program that encompassed all that is related to agriculture, livestock, forestry, aquaculture and non-farm activities, seeking to contribute to the reduction of rural poverty by increasing the production of goods and services of the rural productive sector. The reduction of poverty was intended to be reached through improving competitiveness and environmental sustainability, as well as by incentivizing the participation of

internal and external markets in order to generate rural employment (MAGFOR, 2005).

In the political framework the PRORURAL contemplated 7 instruments of intervention in the sector, as part of the sustainable rural development strategy: (i) framework of incentives, (ii) investments in roads and infrastructure; (iii) policy of credit and financial services; (iv) direct transfers to households; (v) actions through the cluster approach, (vi) provision of agricultural services; and (vii) competitive funds. However, according to a study made by the Global Donor Platform for Rural Development (2007), it was said that the PRORURAL was more focused on the agriculture and did not take into account other rural activities sufficiently. It is also said that it leaned too much towards export production and supply chains of high potential, and thus favored medium and large-sale producers and failed to respond adequately to the situation faced by small-scale farmers, poor households, and areas of low potential (Global Donor Platform, 2007).

Progress was being achieved in terms of increasing ownership of the developmental process; the national institutions that were part of the PRORURAL didn't have enough capacity to make a good implementation of

the Program. This was mainly due to fiscal restrictions faced in previous years, which caused the weakening of some of these institutions. The most affected were the MAGFOR and the INAFOR, and to a lesser extent the INTA and the IDR. Faced with financial troubles, the execution capacity of these institutions and of the government were reduced. Furthermore, the decision making was in the hands of the private sector rather than in the government structures.

In 2006, the GRUN, focused on the social sector. Therefore the new policies to be implemented were focused towards enhancing social development in areas that were neglected by the previous regime in order to improve social cohesion and poverty reduction through a direct intervention. This was unlike the previous regime that focused on the idea that growth comes first and that poverty reduction is attained by 'trickle down' effects and by the poor migrating to the cluster nodes to find jobs (Cabral, 2008).

In that sense, in 2008 the GRUN launched its economic and poverty reduction strategy, included within a new national development plan. This new plan was named National Human Development Plan (NHDP) 2008-2012, and was based on the idea that there should be more intervention of the state in order to correct markets imperfection. In theory, such intervention occurred by utilizing an

appropriate regulatory framework, and aimed to avoid the socially-undesirable outcome in terms of inequality. Nonetheless, as a result of the international financial crisis the PNDH was revised and shortened for the period 2009-2011, in order to be able to achieve the goals and make resource allocation more effective. The new government started a process of centralization of resources that made possible the allocation of resources towards the most important areas.

Also, the PRORURAL 2005-2009 was ratified but it was later renamed PRORURAL-Inclusive, whose implementation would start on the period 2010-2014. The new objective of the program is to contribute to the equitable human development and the accumulation of wealth of the rural households using natural resources in a more sustainable way. The afro-descendants and indigenous communities are also now part of the program in order to make possible their integration into society (Global Donor Platform, 2007).

Within the PRORURAL-Inclusive (2010-2014) its framework includes a policy and a strategy for the rural development in a multi-sectoral character. The program targets rural development through market and public interventions aimed at the various stakeholders of rural areas. The program also defines the instances of sectoral coordination and divides it into three instances: (i) public

sector, (ii) private sector, and (iii) international cooperation. The coordination of the public sector is now under the Sectoral Cabinet that works as a permanent forum of consultation and analysis, and is in charge of the coordination and specific actions of the programs and projects (PRORURAL, 2009). In addition, three more programs are included within the PRORURAL-Inclusive: the National Program for Rural Agro-industry (PNAIR), the National Forestry Program (PNF) and the National Food Program (PNA).

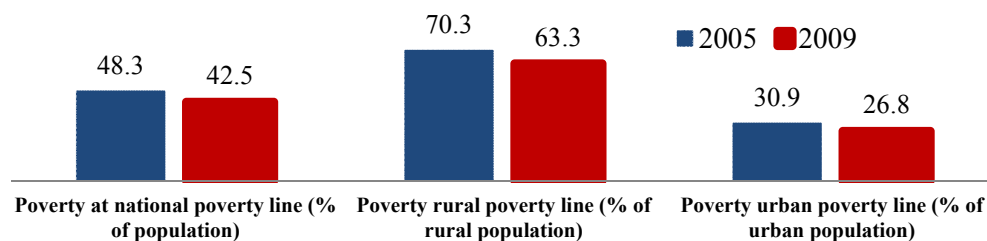
In order to strengthen the influence of the PRORURAL, the government rearranged and organized the public institutions participating in the PRORURAL so that the coordinator of the program is now the MAGFOR, while all other participating institutions are aligned to it. Consequently, the IDR is no longer going to be a decentralized body subordinated to the Presidency; instead the IDR is now subordinated to the MAGFOR (and no longer decentralized). This reorganization enhanced the GRUN's ownership of the developmental process.

The main differences in terms of ownership relies on the fact that during the first regime, the political instability and the fiscal problems reduced the government capacities and placed decision making in the hands of the private

sector. In addition, the decentralization and the lack of coordination of the participating institutions weakened the process of ownership of the government. For that matter, the ownership principle was not fully implemented during the first regime. With the second regime, the ownership principle was applied when the government started the centralization process, taking the lead of the implementation of the PRORURAL, by assigning specific actions to each of the institutions that participate in the program. In addition, the target was changed towards tackling poverty in rural areas, instead of focusing on the markets and large and middle scale producers.

It is important to show that poverty was reduced within 2005 and 2009 (Figure 5). However, it is also important to note that it is not being said that this reduction was due to ODA's impact on poverty reduction, or the related policies implemented for that matter.

Figure 5: Poverty Reduction from 2005 to 2009



Source: World Bank Data

B. Alignment and Harmonization

In general terms, under the government of Bolaños, Nicaragua started the process of implementing the agenda on ownership, alignment, and harmonization in October 2003, by signing the “Declaration of Managua”. As a result the government established a mechanism for donor co-ordination with sector forums called “mesas” (roundtables), and in 2004 the Global Donor Forum in 2004 (OECD, 2006). This is where the Nicaraguan Government and donors expressed that “shared principles and expectations for improved donor coordination”. This mechanism was seen as an opportunity of dialogue between governmental institutions, international financial institutions, cooperation agencies and civil society organizations to increase the alignment and harmonization of ODA according to the national priorities (OECD, 2006).

However according to the “Survey on Harmonization and Alignment” by the OECD, one bilateral donor reported that: “... the multitude of roundtables provides a forum for sectoral discussions, but the organizational structure, interactions among roundtables and relations between roundtables and sub-roundtables remain undefined and confusing” (OECD, 2006). This is mainly due to the lack of a defined government strategy that would put on the table the government priorities that would make possible the coordination.

The implementation of the PRORURAL, made possible the revision of the existing portfolio of projects for the agricultural and forestry with a view of aligning them more closely to the program, and to establish criteria to approve new projects in the sector. However in a self-evaluation of the agenda, carried out in 2006, it was agreed that progress on harmonization and alignment were in its early stages, and that any progress was more a result of efforts made at the technical levels of the government institutions that were part of the Program rather than having a more senior backing. Consequently, the self-evaluation concluded that: (i) while there was a certain degree of general knowledge about the action plan and the Code amongst those involved in PRORURAL, more information was needed; and (ii) that a systematic tracking of progress on the Action Plan was needed to keep people up to date. The forums created for policy dialogues were seen as lacking strategic focus -above all the roundtable and the National Production Council, and that there should be a more active participation of stakeholders, particularly the private sector, in strategic decisions (Global Donor Platform, 2007).

The neoliberals showed interest in the agricultural and rural development sector, particularly in considering the Rome Declaration as well as the Paris

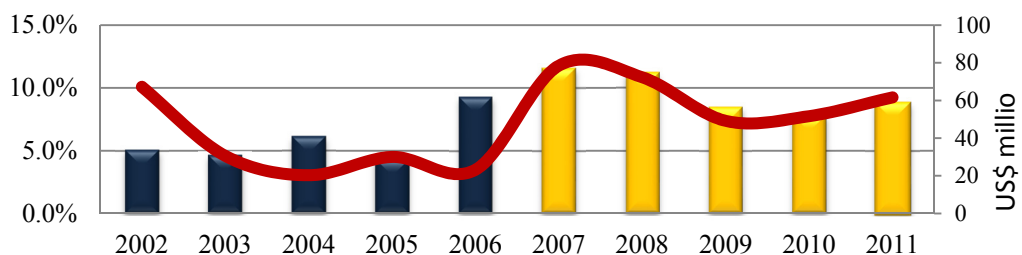
Declaration encouraged the implementation on PBAs or SWAPs to help the process of partnerships donor-government. Therefore a national strategy (PRORURAL) for the sector was launched in 2005.

This Program was created with the intention of providing international cooperation a framework that would facilitate their action (MAGFOR, 2005). Nevertheless, the Program lacked a specific guideline that would facilitate the donors to commit with the Program. As a matter of fact, the term ‘international cooperation’ is only mentioned once in the MAGFOR document of the PRORURAL.

However the government started the process of alignment of the international cooperation to the Programs with the preparation of the Code of Conduct, and a Memorandum of Understanding for the donor’s contribution to the Common Fund. Eleven donors subscribed to the Code of Conduct and two donors formed the Common Fund. The Sectoral round table was created by the government to maintain a dialogue with the donors, and included three work-groups to facilitate the process of implementation of the PRORURAL.

As it can be reflected in Figure 7 once the two mechanisms mentioned above were signed in 2006, there was increment on the total disbursements of ODA to the Agro-forestry Sector. The downfall in 2009 and subsequent increase in 2010 and 2011 could be related to the fact the PRORURAL 2005-2009 was in the process of culmination and the PRORURAL-Inclusive entered into force.

Figure 6: Donor's Total Disbursements to the Agro-forestry Sector and its Share from total ODA to Nicaragua US\$ million dollars



*OECD Data

In 2007, the new government continued the implementation of the roundtables “Round Table for the Productive Rural Development”, to keep a continuous dialogue with the donors. Participants in the round tables included: Government Institutions that worked on the sector, donors who cooperated in the sector, and other actors such as NGO’s and private sector. By 2009 the number of donors participating in the Program was elevated to 16, five of which participated through the Common Fund.

The dialogue covers the strengthening of national leadership, through the sectoral plan for PRORURAL-Inclusive and three additional initiatives; as well as the alignment of resources to priorities identified in these instruments, the simplification of mechanisms, shared responsibility and the results-oriented management (MAGFOR, 2011).

In the informative document presented by the GRUN, in cooperation with the Spanish Agency of Technical Cooperation (AECID) and the Swedish Cooperation in Central America (2011), has managed to have an open and sincere dialogue with the donors. With the leadership of the government around the PRORURAL-Inclusive, an effective participation of associations and organizations of producers had direct contact with the territories to have a strategic agenda to give continuity to the issues and problems with a systematic dialogue.

Aside the Roundtable with the donors, since 2007 the government is also implementing a sectoral dialogue between the local agriculture producers and the government. This dialogue started with 21 representations in 2007; increasing to 160 by 2011. Representations include producers and processors guilds, cooperatives and producer associations, as well as the public institutions

of Government that make up the Cabinet of production (MAGFOR, 2011). There are challenges left for the Nicaraguangovernment and this paper gives practical implications to strengthen the work of the thematic groups, to increase the effectiveness of the participation of the private sector, and to make greater use of sectoral planning systems and sectoral dialogue cooperation.

V. Conclusion

The implementation of the common international principles for aid effectiveness, towards the agriculture and rural development sector of Nicaragua, is showed to be affected by the type of regime in power. Throughout the paper, it is being proven that for a better application of principles and for better developmental results, the government's participation in the process of coordination and implementation is needed to connect all the parts. Also, it has been showed that each regime has carefully chosen the strategic key partners for the implementation of the strategy, according to the characteristics of each regime.

The neoliberal regime implemented its policies towards the agricultural and rural development focusing on the development of agricultural value chains, access to credits, and clearing property rights, with an emphasis on large and medium-scale producers. The development of agriculture and rural development was in the hands of the private sector.

The socialist regime, on the other hand, was focused on strengthening the intervention of the state to control market failures, centralizing the decision making process and making policies to directly reduce poverty, which in turn

strengthened the government institutions responsible for working on the sector. Even though this regime opted for using the same rural program the main objective of changing to the achievement of equitable human development and the accumulation of wealth of rural households using natural resources in a more sustainable way, was intervening through the small-scale producers and poor households.

In terms of the ownership, which goes beyond the creation of a long term program for the sector by the government, there is also the capacity of the government to implement, execute, and administrate it. Nevertheless the neoliberal regime lacked the capacity to control the adequate implementation of the plan as a result of the policies recommended by the Bretton Woods Institutions in previous years. Since these Institutions' poverty reduction strategy was focused on seeking economic growth through empowering the private sector and reducing the role of the state by minimizing its capacity, the development plan towards the agricultural and rural development sector was focused on the improvement of agricultural value chains, access to credits, and clearing property rights, with an emphasis on large and medium-scale producers. Hence the program, even though created by the government, was largely executed and administered by the Donors in partnership with the CSO's and the

private sector. Giving these points ownership by the government was not an exercised effect due to the low leadership over the development program. Therefore the ownership for the development of the sector was in great part influenced by the private sector, rather than the government itself due to the fiscal restrictions that weakened the government's capacities.

The socialist regime, was also influenced by the Bretton Woods Institutions, however this regime chose to go back to the expansion of the state in order to have more influence in the developmental process of the country. Contrary to what was presented in the paragraph above, this regime took the lead and started the administration, coordination and execution of the program. For this reason, the development of the country became country-driven, rather than donor driven as it was in the previous case. Consequently the implementation of the ownership principle was better implemented during this regime.

In regards to the alignment principle, the program presented had disorganization in the institutionality of the government there was not a government coordination unit or institution that would lead the alignment possible, out of four government institutions working with the sector one had autonomy and the other three had a reduced budget. As a consequence, the internal actors (private

sector, NGO's) were using the strategy as guidelines- duplicating efforts and working directly towards the strategy without coordination between them. Under those circumstances the practices for alignment by the government lacked of capacity to make the donors fully support the strategy, to create better results, since the program failed to include how the donors were going to participate within it.

More over the socialist regime reorganized the institutions, creating one coordination unit in charge of bringing together the actors, and designing special tasks to reduce the duplication and work in the same line of thought. With the modification of the Plan the participation and activities of the donors were clarified giving a space for the donors to work on according to their expertise; thus the alignment became clearer.

Finally, on the case of the harmonization principle, the neoliberal regime started successfully the process of harmonization to the point that it was introduced a Code of Conduct for donors in order to harmonize donor actions. It was successfully signed by eleven donors (bilateral and multilateral). Also, the Common Fund was created with the participation of two donors. These actions formalized the partnership between the Government and the donors, for the

technical and financial support to the program and to the multiannual budget plan. Moreover, the mechanisms for donor coordination were included, but this one resulted in failure due to lack of leadership of the government.

As it can be seen, when the Socialists came to power, the practices for harmonization had already been implemented, and the creation of funding mechanisms were there as well as the sector working groups reflected by the round tables, and a budget plan for the execution of the program. For that matter, the Socialists would, rather than change already existing practices, decided to strengthen them by creating more participation from the government in the sector round tables to coordinate the donors and produce a better dialogue. During this period, the number of donors participating increased from 11 to 16 and the donors' participation in the Common Fund increased from 2 to 5.

In the final analysis, it can be concluded that the different practices, for the implementation of the principles in the agriculture and rural development sector, by the two different administrations were influenced by the type of regime that characterized them. Showing that a neoliberal regime conformed by a reduced government, does not allow it to have control of the development of the sector. It didn't create effective practices for a good implementation of the principles,

unlike the socialist regime that the increased involvement of the government and permitted the creation of these mechanisms for the implementation of this principles towards the sector due to the increased leadership. In the long run the ownership of the government should be supported by all the actors in order to have a successful application of the other principles.

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VII. Appendix

A. Monterrey Consensus on Financing for Development

In March 2002, heads of State and Government gathered in Monterrey, Mexico to address the challenges of financing for development around the world, particularly in developing countries. With the purpose of eradicating poverty, achieving sustained economic growth and promoting sustainable development, we advance to a fully inclusive and equitable global economic system.

In the document it was agreed that each country has a primary responsibility for its own economic and social development and the role of national policies and development strategies cannot be overemphasized, but National development efforts need to be supported by an enabling international economic environment.

It is stated that for the Governments to mobilize and manage public resources an effective, efficient, and transparent way, an accountable system is essential. In order to secure fiscal sustainability, equitable and efficient tax systems and administration, and improvements in public spending that do not crowd out productive private investment, it is recognized for creating medium-term fiscal frameworks that can contribute to it.

Investments in basic economic and social infrastructure, social services and social protection, including education, health, nutrition, shelter and social security programs, which take special care of children and the elderly are gender sensitive and fully inclusive of the rural sector and all disadvantaged communities, are vital for enabling people, especially people living in poverty, to better adapt to and benefit from changing economic conditions and opportunities.

Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while human capital, productive and export capacities are enhanced. ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth. ODA is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development, and to enhance food security.

The effective partnerships among donors and recipients, is based on the recognition of national leadership and ownership of development plans and, within that framework, sound policies and good governance at all levels are

necessary to ensure ODA effectiveness. A major priority is to build those development partnerships, particularly in support of the neediest, and to maximize the poverty reduction impact of ODA. The goals, targets and commitments of the Millennium Declaration and other internationally agreed development targets can help countries to set short and medium-term national priorities as the foundation for building partnerships for external support.

B. Rome Declaration on Harmonization

The Rome Declaration on Harmonization was endorsed in February of 2003 by the outcome of the Ministers, Heads of Aid Agencies and other Senior Officials representing 28 aid recipient countries and more than 40 multilateral and bilateral development institutions. They reaffirmed the commitment to eradicate poverty, achieve sustained economic growth, and promote sustainable development as they advance to an inclusive and equitable global economic system. The donors' deliberations are an important international effort to harmonize the operational policies, procedures, and practices of their institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs).

In the Declaration donors and partners committed to the following activities to enhance harmonization:

- ✓ Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonization efforts are adapted to the country context.
- ✓ Reviewing and identifying ways to amend, as appropriate, our individual institutions' and countries' policies, procedures, and practices to facilitate harmonization. In addition, we will work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonize documentation.
- ✓ Implementing progressively – building on experiences so far and the messages from the regional workshops – the good practice standards or principles in development assistance delivery and management, taking into account specific country circumstances. We will disseminate the good practices to our managers and staff at headquarters and in country offices and to other in-country development partners.

- ✓ Intensifying donor efforts to work through delegated cooperation at the country level and increasing the flexibility of country-based staff to manage country programs and projects more effectively and efficiently.

- ✓ Developing, at all levels within our organizations, incentives that foster management and staff recognition of the benefits of harmonization in the interest of increased aid effectiveness.

- ✓ Providing support for country analytic work in ways that will strengthen governments' ability to assume a greater leadership role and take ownership of development results. In particular, we will work with partner governments to forge stronger partnerships and will collaborate to improve the policy relevance, quality, delivery, and efficiency of country analytic work.

- ✓ Expanding or mainstreaming country-led efforts (whether begun in particular sectors, thematic areas, or individual projects) to streamline donor procedures and practices, including enhancing demand-driven technical cooperation. The list of countries presently involved includes

Ethiopia, Jamaica, Vietnam, Bangladesh, Bolivia, Cambodia, Honduras, Kenya, Kyrgyz Republic, Morocco, Niger, Nicaragua, Pacific Islands, Philippines, Senegal, and Zambia.

- ✓ Providing budget, sector, or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place. Good practice principles or standards – including alignment with national budget cycles and national poverty reduction strategy reviews – should be used in delivering such assistance.

- ✓ Promoting harmonized approaches in global and regional programs.

C. Paris Declaration on Aid Effectiveness

In March 2005, ministers of developed and developing countries responsible for promoting development and heads of multilateral and bilateral development institutions, met to commit to take far-reaching and monitor-able actions to reform the ways aid is delivered and managed, in order to have better results before the UN five-year review of the Millennium Declaration and the Millennium Development Goals (MDGs). Based on the ideal that the principles

will increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs.

The commitments made in Rome (2003) to harmonize and align aid delivery are reaffirmed, encouraging donors and partner countries to make aid-effectiveness a high priority. Therefore, with this declaration they commit to accelerate progress in implementation, especially in the following areas:

- ✓ Strengthening partner countries' national development strategies and associated operational frameworks (*e.g.*, planning, budget, and performance assessment frameworks).
- ✓ Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- ✓ Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.

- ✓ Eliminating duplication of efforts and rationalizing donor activities to make them as cost-effective as possible.

- ✓ Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.

- ✓ Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

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