Background Note on Nicaragua

Nicaragua has undergone structural changes for more than two decades. In the early-1990s, massive inflows of foreign aid paved the way for the country to implement economic stabilisation policies, followed by a number of economic reforms. By the late-1990s, the public finances were healthier, inflation was curbed, and international trade gained dynamism.

In the late-1990s and into the new millennium, Nicaragua, with assistance from International Financial Institutions (IFIs), put in place a number of programmes and strategies intended to reduce the country's stubbornly high levels of poverty. In early-2000s, Nicaragua adopted the MDGs and integrated them with its poverty reduction strategies and development plans. Since then, there has been apparent progress in social areas and poverty reduction. Some targets such as the reduction of extreme poverty or that of reducing the percentage of the population without access to safe drinking water, for example, have already been met. Net enrolment has increased significantly while under-five child mortality has rapidly been reduced. Important MDG gaps remain, nonetheless. For example, a large number of children still do not complete primary school on time, coverage of basic sanitation services is worryingly low, and meeting the target for maternal mortality remains is proving quite challenging.

The hope is that the level and effectiveness of public spending can be raised to close the remaining MDG gaps and face other development challenges, including reducing income inequality. The possibilities to achieve this in practice will depend on the speed and the sustainability with which the economy grows and the access to financing. Existing efforts to step up massive public infrastructure projects, including in renewable energy, can be important drivers of rapid and sustained economic growth. Nicaragua is bound to find access to donor support and concessional foreign borrowing to finance these development efforts. Nonetheless, domestic resource mobilization for financing development needs to be pursued as a twin strategy as soon as the country achieves more rapid and sustained economic growth.