

Swiss Cooperation Strategy for Central America 2013 - 2017



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

**Swiss Agency for Development
and Cooperation SDC**



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**Swiss Agency for Development
and Cooperation SDC**

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Editorial

This new SDC strategy for Central America reaffirms and renews Switzerland's commitment in the region and in particular in Nicaragua and Honduras. The Strategy responds to the needs of the partner countries and is in line with the principles of Swiss development policy as defined in the Parliamentary Bill on International Cooperation 2013-2016.

The Strategy was formulated in dialogue with our partners and ties in with over thirty years of cooperation with Central America. Inclusive economic development, reducing state fragility and promoting inclusive governance as well as reducing environmental vulnerability and addressing climate change are the three domains of our cooperation.

SDC seeks to meet the challenges of the evolving context by strengthening its commitment to the prevention of violence and to the promotion of human rights in Honduras. Human security is a precondition for sustainable development. Adaptation to climate change is vested with increasing importance in the SDC programme as Central America is being particularly hard hit. In this way, we are also making a contribution to natural-disaster risk reduction.

In essence, the three domains of our cooperation address one and the same challenge: How can the living conditions of the poor be sustainably improved, and what contribution can Switzerland make? We invite you to discover the answers in this new Strategy for Central America.



Martin Dahinden

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Glossary

CA-4	Central America-4
CABEI	Central American Bank for Economic Integration
CC	Climate Change
CATIE	Tropical Agriculture Research and Training Center
ICTA	International Center for Tropical Agriculture
DAC	Organization for Economic Cooperation and Development
DRR	Disaster Risk Reduction
EFTA	European Free Trade Association
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FIDEG	International Foundation for Global Economic Challenge
FOSDEH	Social Forum of External Debt and Development of Honduras
FSLN	Sandinista National Liberation Front
FUNIDES	Nicaraguan Foundation for Economic and Social Development
GDP	Gross Domestic Product
G 16	Donor Group in Honduras
HSD	Human Security Division
IDA	International Development Association
IDB	Interamerican Development Bank
IFIs	International Financial Institutions
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
MDGs	Millennium Development Goals
MERV	Context Monitoring of Development relevant Tendencies
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
ODA	Official Development Assistance
PPDP	Public Private Development Partnership
PRS	Poverty Reduction Strategies
SDC	Swiss Development Cooperation
SECO	Organization for Economic Cooperation and Development
SFR	Swiss Franc
SICA	Central American Integration System
UN	United Nations
UNDP	United Nations Development Program
USD	United State Dollar
WEF	World Economic Forum

Executive Summary

Swiss cooperation in Central America focuses on the two least developed countries of the region, Nicaragua and Honduras, within the framework of a regional approach. The approach takes into account the growing integration of the real economies, the still relatively weak regional institutions and the common challenges that require regional cooperation, such as trade, violence and organized crime or climate change.

Nicaragua and Honduras are by far the poorest countries in the Central America Region. Moderate economic growth and increased social spending helped reducing extreme poverty and inequality in Nicaragua. In contrast, poverty and inequality remained practically unchanged in Honduras since 2005. Both countries are relatively young democracies. In Nicaragua, the Sandinista party is back in power after having been in the opposition during 16 years. Since winning the 2006 elections, it gradually strengthened its positions in all powers of the state at central and municipal levels. The recent political development in Honduras was marked by the 2009 coup d'Etat, the subsequent national reconciliation and the regaining of international recognition. Inclusive governance, rule of law and building strong, non-politized institutions are key challenges in both countries. In Honduras, having the highest homicide rate globally, crime and violence, widespread impunity and corruption are signs of increased state fragility. In addition to the high levels of poverty and inequality, the tendencies regarding governance and state fragility, the increase of violence and deteriorating human security as well as the high environmental vulnerability exacerbated by the effects of climate change are the main context elements that mark the orientation of the new cooperation strategy.

Swiss cooperation started 1978 in Honduras and 1982 in Nicaragua. Since then both countries are priority countries. The last Swiss cooperation strategy 2007-2012, elaborated jointly by SDC and SECO, supported the poverty reduction strategies of Nicaragua and Honduras focusing on economic development, governance and public finance and basic infrastructure and services. Good results were achieved in terms of generating additional net income among micro and small enterprises, strengthening municipal governments and citizen participation and expanding access to water and sanitation, particularly in rural areas.

The strategy 2013-2017 addresses the three main dimensions of poverty. It contributes to: 1) generating opportunities for the poor through inclusive economic development and access to basic services; 2) empowering the poor through

more inclusive governance and better prevention and control of crime and violence; and 3) reducing vulnerabilities caused by climate change and disasters.

Under the overall goal of contributing to poverty reduction and to more equitable and sustainable development, taking into account the growing environmental vulnerability and the deteriorating human security, the Swiss cooperation strategy 2013-2017 focuses on three domains of intervention: 1) Inclusive **economic development** that generates employment and income in an inclusive manner, mainly by supporting selected, mostly rural value chains and by promoting local economic development; 2) Reducing **state fragility** and promoting **inclusive governance** mainly by enhancing security sector performance and human rights in Honduras, and by strengthening governance both in Nicaragua and Honduras, particularly at the local level as a means to meet peoples' needs and rights; and 3) Environmental vulnerability and **climate change**, mainly focusing on adaptation to climate change, including better management of water resources and disaster risk reduction, centered on the most vulnerable territories and populations. To ensure context sensitivity in policy dialogue and program implementation, the portfolio composition will shift towards more geographically defined and managed programs while maintaining some thematically defined bi-national or regional programs. All cooperation will integrate gender equality and governance principles such as transparency, results accountability and participation.

Swiss cooperation will continue working with different partners using a mix of modalities. It takes into account the reduced presence of traditional bilateral donors, the emergence of new donors and the strong role of multilaterals. It will use country systems where possible, particularly at the local level, enhance contributions at the expense of mandates or direct implementation, and strengthen collaboration with multilaterals. It will also seek opportunities for public private development partnerships and take a more strategic approach in supporting civil society, strengthening their analytical capacity and role of advocacy. Between 2013-2017, Swiss cooperation (i.e. SDC including Humanitarian Aid and some SECO support) will commit 200 Million Swiss Francs and disburse annually about 40 Million of which the bulk of funding goes to programs and projects in Nicaragua and Honduras. Up to 10% of funding will be used for supporting regional initiatives focused on cross-country learning, policy development and innovation.

1. Background and Context



The common challenge of the Central American region is to remain viable in a globalized world.

The region and its economic and political organization –the Central American Integration System (SICA)– comprise Panama, Costa Rica, Belize, Nicaragua, El Salvador, Honduras and Guatemala.

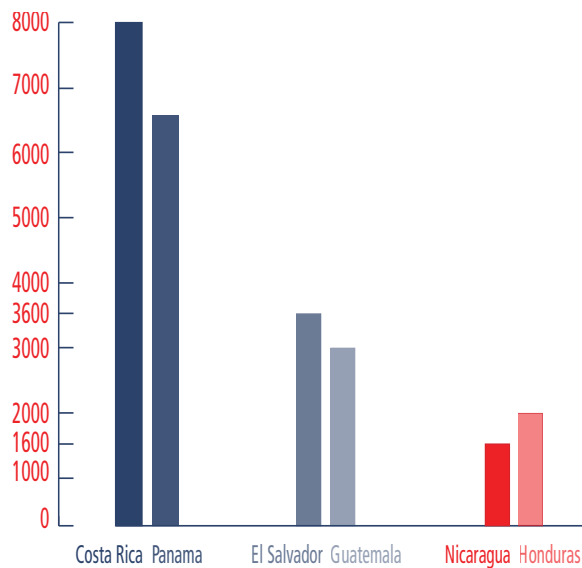
They cooperate in areas that require regional approaches such as combating organized crime, drug trafficking, tackling migration issues, addressing climate change, coordinating positions at the multilateral level and reducing their economic dependence from the US market by promoting intraregional trade and accessing new markets. The recently signed association treaty with the EU covering trade, cooperation and policy dialogue, as well as the trade agreements with the USA, Canada, Mexico and other trade partners provide an important impetus for cooperating and strengthening integration. However, the customs union among SICA member states is not yet operational and the Schengen-like agreement for the free movement of people covers only CA-4 countries (El Salvador, Guatemala, Honduras and Nicaragua). Differing economic and political interests, large discrepancies in development levels and border disputes between Costa Rica and Nicaragua, or between Honduras and Nicaragua and Guatemala complicate political integration. However, integration of the real economies in terms of investment, trade and regionally operating companies is more advanced than the building of regional institutions.

Both focus countries for Swiss Development Cooperation – Nicaragua and Honduras – are relatively young democracies. In Nicaragua, the revolutionary party (“Frente Sandinista de Liberación Nacional – FSLN”) that led the broad coalition overthrowing the Somoza dictatorship and then ruling the country during ten years of civil war until 1990, came back to power in 2007 through democratic elections. Since then, the FSLN with President Ortega solidified its power and won national and municipal elections with large margins in electoral processes with widely questioned by the opposition. Currently the ruling party has an ample majority in parliament and municipal governments and controls other branches of the state, such as the Supreme Court or the electoral council. Overall, the political climate is calm and relatively stable. Student and most trade unions are sympathetic to government and to the FSLN and the economic elite benefits from business friendly policies and arrangements. The government established close ties with Venezuela and Nicaragua became a loyal member of the leftist Alba alliance benefitting from Venezuela’s massive aid and trade program which helps finance programs important for poverty reduction and social stability. However, political opposition, media and civil society criticize the tendency toward authoritarian rule constraining the scope for democratic governance.

In Honduras, military rule ended in 1982 and gave way to a formal democracy with four year government cycles, no possibility of presidential re-election and with the peculiarity of public primary elections the year prior to the general elections. This means that attention is given to party politics and campaigning half the time affecting policy continuity and governance. Moreover, the lack of an effective civil service both at the central government and municipal levels results in a high staff turnover driven by political considerations and clientelism, draining the already weak institutional capacities. The coup d’Etat in 2009, when the Supreme Court ordered the removal of president Zelaya deeply divided the country and raised tensions and political conflictivity. Donors put aid on hold, many diplomatic relations were suspended or downgraded, leaving the country in political isolation.



Local Governance Program



The per capita income is around USD 8000 in Costa Rica and Panama, between USD 3000 and 3600 in El Salvador and Guatemala. Nicaragua and Honduras incomes is around USD 1600 and USD 2000, respectively.

The coup showed the incapability of the institutions to resolve a constitutional conflict and demonstrated the power of the small but very influential interest groups. The elected government of Porfirio Lobo (2010-2013) achieved the reintegration of Honduras in the international community and made significant progress in national reconciliation, culminating with the inscription of the resistance movements loyal to ex-president Zelaya as a formal party, changing the traditional two-party system to a more pluralistic democratic system.

Overall, both Nicaragua and Honduras face important governance challenges albeit of quite different natures. In both countries, politization of institutions (particularly justice and electoral systems) seriously affects institutional development. In Nicaragua, the main issues relate to questions of transparency and fairness of electoral processes and to democratic governance. Honduras has been moving towards a fragile state. Particularly the justice and security sectors lack authority and capacity to ensure rule of law, citizen security and basic human rights. Institutions are increasingly corrupt and infiltrated by organized crime. Impunity is almost absolute. With regard to security, the countries of the northern triangle (Guatemala, El Salvador and Honduras) suffer from much higher levels of violence linked to drug-trafficking, organized crime and related activities of youth gangs than Nicaragua. The situation has dramatically wors-

ened, particularly in Honduras, having reached 2011 the highest homicide rate globally (86 per 100'000 inhabitants). Besides crime related violence, social (mostly land and labor) and political conflicts create an unpredictable situation of conflictivity that the state of Honduras is incapable of resolving by peaceful, legal means. Overall costs related to crime and violence is rising and exceed, in the case of Honduras, 10% of GDP, affecting economic and social development prospects.

The Central American countries differ significantly in terms of their economic development. The per capita income is around USD 8000 in Costa Rica and Panama, between USD 3000 and 3600 in El Salvador and Guatemala. Nicaragua and Honduras are the only IDA-eligible countries in the region with per capita incomes of USD 1600 and USD 2000, respectively. Their average economic growth was less than 3% (per capita growth < 1%) over the last five years, in part because of the global financial crisis. Since 2010, growth picked up faster in Nicaragua (4.6%) than in Honduras (3.2%). Both economies are characterized by limited diversification, largely dependent on primary production (coffee, beef, banana, shrimp, some mining) and low value maquila industries. Large parts of the economy belong to the informal sector. Un- and underemployment are significant. Given the population pyramid with about 40% belonging to the category <14 years, job creation needs to accelerate. Areas of potential growth include tourism, non-traditional agro-products, higher value maquila and call centers, and adding more value locally in rural-based value chains. The large trade deficits are compensated by aid and by worker remittances. An important factor for the trade deficit is the fuel dependency for energy production. Foreign direct investment is growing in Nicaragua but stagnating in Honduras, explained in part by differences in security, minimum wage levels and incentive policies. However, there is still much room to improve the business climate (WEF ranking 114 for Nicaragua and 86 for Honduras) and enhance competitiveness especially for small enterprises.

The macro-economic situation in Nicaragua and Honduras has improved, with single digit inflation, declining fiscal deficits and better tax

collection representing currently 19% of GDP in Nicaragua and 15% in Honduras. However, particularly in Honduras the many tax exemptions and privileges make the tax system highly regressive. After the massive debt relief, public debts are manageable and leave sufficient space for public investment and poverty spending. However, the weak fiscal discipline and rapidly growing internal debt with its high interest rates in Honduras and the not fully understood implications of the Venezuelan credits to quasi public companies in Nicaragua may become future risks. The capacity of local governments to provide services has improved. Nicaragua has already reached the target of transferring 10% of central government revenue to municipalities and the Honduras decentralization policy is expected to achieve the same level soon.

Nicaragua and Honduras are by far the poorest countries in Central America. However, inequality and poverty is also widespread among the indigenous population in Guatemala and among disadvantaged population segments even in the higher-middle income countries like Panama and Costa Rica. Nicaragua reduced poverty significantly over the last years (extreme poverty 17% in 2005, 9 % in 2010) largely because of social safety net programs and better public spending. In contrast, Honduras made no progress over the last five years, partly because of its regressive taxation system and because of the limited redistributive effect of public spending. Poverty, and in particular extreme poverty, are still predominantly rural in both countries. However, urban poverty is on the rise in Honduras. Inequality declined somewhat in Nicaragua (Gini 0.46) whereas Honduras remains the most unequal country (Gini 0.58) in Latin America.

Progress towards reaching the MDGs is uneven. Honduras and Nicaragua are likely to reach the targets for access to primary education, gender equality in primary education, access to water and infant mortality. However, in contrast to Nicaragua and despite 30% higher social spending, Honduras will probably not reach the targets for extreme poverty and gender equality in higher education. The participation of woman in politics has increased in both countries. However, gender discrepancies persist particularly in Honduras with low female partici-

pation in labour markets and one of the highest gender wage gaps of the continent.

Central America is a region prone to natural disasters including hurricanes, floods, droughts and earthquakes. The high environmental vulnerability will be further exacerbated by the effects of climate change. Nicaragua and Honduras rank as number three and four in the global climate change risk index. This means more droughts, water shortage and crop failure in the drier, poorer regions. It also means a higher frequency and intensity of natural disasters (hurricanes, flooding, landslides). Poor people living in marginal rural areas and depending on agricultural production or living in precarious urban settlements will be affected disproportionately. The main challenge is adaptation to climate change. Goals of reducing environmental vulnerability are included in the national development plans in Nicaragua and Honduras. Specific climate change policies and plans exist, but implementation capacity, integration in public policies and budgets are still quite limited. Central America is not an important emitter of greenhouse gases, but Nicaragua and Honduras in particular have a great potential to reduce emissions related to inappropriate land management (deforestation, livestock, slash and burn practices) and to secure financing for the costly adaptation.



Local Governance Program



Small towns and Schools Program



Disaster Risk Reduction Program

2. Rationale for the Swiss Engagement and Donor Context



Swiss cooperation in Central America initiated 1978 in Honduras and 1982 in Nicaragua. Central America, with the two focus countries Nicaragua and Honduras, is a priority program in the Message 2013-2016 mainly because of widespread poverty.

The cooperation strategy 2013-2017 addresses the Swiss foreign policy objectives related to poverty and environment as well as those related to human rights and peace. Bilateral relations other than development cooperation are of minor importance, although the negotiation of a free trade agreement between Central America and EFTA indicates some interest in trade and direct investment.

The development cooperation context has changed quite significantly in Nicaragua and Honduras over the last years:

- The poverty reduction strategies that provided a framework for aligning cooperation to country efforts ceased to exist and were replaced by a multitude of national, sectoral and local plans creating a more complex framework to anchor aid programs.
- Many bilateral like-minded donors left (Nordic countries, Holland, Great Britain), mainly because of shifting geographic priorities to the poorest regions of the world. The main Bilaterals are USA, EU, Germany, Canada, Spain, Japan and Switzerland.
- New "donors" like Venezuela in Nicaragua, or Brazil and Taiwan in both Honduras and Nicaragua play a larger but quite different role. In Nicaragua, Venezuela's assistance is valued at about 500 million USD, which equals the total official ODA.
- The relative importance of multilateral institutions – in particular the World Bank, IDB and the Central American Bank (CABEI), but also the UN organizations – increased. About 2/3 of assistance comes from the multilaterals. The multilaterals set the tone, whereas the

coordination of the bilaterals leaves room for improvement.

- Aid dependency persists but has declined. Traditional aid to Nicaragua and Honduras amounts to USD 500 Million in Nicaragua and USD 750 Million in Honduras, representing 31% and 20% of the respective national budgets.
- Donor strategies continue aiming at poverty reduction, focusing on economics and MDGs. However, human security and climate change have become more important.
- Aid modalities changed and the general budget support provided by bilaterals in Nicaragua has been suspended.
- Donor coordination has weakened in Nicaragua, whereas the so-called G-16 in Honduras continues to be effective at both the political and operational levels.
- Civil society organizations receive less support as a result of the declining presence of Bilaterals.

Switzerland ranks in the middle field of the remaining bilateral donors and is big and competent enough to make a difference. However, alliance building and effective coordination became more challenging and the importance of dialog and cooperation with multilaterals increased because of their financial capacity and policy leverage.

After the closure of the embassy in Guatemala, the Central American region will be covered by the embassy in Costa Rica. Swiss presence includes SDC, a reduced SECO engagement and limited activities of the Human Security Division (HSD) in Guatemala. The role of Swiss NGOs is quite substantial both through their field presence, mainly in Nicaragua, Honduras and Guatemala, and because of their policy and lobbying work in Switzerland. There is scope to strengthen collaboration with the HSD in the fields of Human Rights and armed violence, as well as with SECO, for example in areas related to the free trade agreement.

3. Results and Experiences of Swiss Cooperation with Central America 2007-2012



The Swiss cooperation strategy aimed at poverty reduction and equitable and sustainable development.

The Swiss cooperation strategy was designed as a joint SDC-SECO strategy. Half way, SECO programs in economic development and public finance were reduced as a consequence of the parliamentary bill 2009-2012 that no longer included Nicaragua as a SECO priority country and because governance conditions in Nicaragua led to the discontinuation of the general budget support.

Switzerland managed to be a relevant development partner and to play an active role in donor coordination and policy dialogue, particularly in Nicaragua. Switzerland consolidated its reputation as a reliable and flexible partner, trusted for its focus on development results without hidden political agenda.

The total expenditure amounted to SFR 186 Mio, of which SFR 22 Mio came from SECO. The strategy built on the poverty reduction strategies (PRS) of Nicaragua and Honduras. The general approach to work at the local level aiming at concrete improvements in people's living conditions, strengthening institutional capacities and contributing to better public policies proved to be effective.



*Agricultural
Technology Market
Program*

Project evaluations and the recent qualitative self-assessment showed that the thematic priorities were relevant. The annual results reporting showed that results achieved were generally satisfactory in all three thematic areas of intervention, particularly at country levels. Although strategically important and relevant for facilitating regional knowledge management, results of programs with regional counterpart institutions were less satisfactory.

In the area of **economic development**, Switzerland contributed to income and employment generation of Micro, Small and Medium Enterprises (MSME) along value chains. Some 270'000 micro-finance clients and 85'000 MSME (more than 50% led by woman), mostly in rural areas, benefitted from Swiss supported programs, resulting in significant additional net income. Systematic market orientation, prioritizing rural value chains, strengthening the organization of producers and entrepreneurs and improving outreach through alliances with other donors proved to be particularly relevant. On the other hand, a certain dispersion of efforts, insufficient linkages between projects and an underexploited potential to work with larger private companies are among the aspects that need improvement.

In the area of **governance and public finance**, the objective to contribute to more effective, pro poor public spending, better accountability and civil society participation was largely met. Strengthened municipal capacities resulted in higher tax incomes (+35-40%), larger proportion of local budgets for investments (+17%), and increased investments in rural areas. Citizen participation in the budget cycle became more effective and 60% of the municipal budgets have a specific gender focus. At the national level, technical assistance and independent policy analysis produced relevant decision tools and better capacities for results-based public finance management. However, the objectives in public finance management could not be fully met because of the suspension of the general budget support.

Good results were achieved in the area of **infrastructure and basic services**. About 100'000 people gained access to safe drinking water and two thirds of the beneficiaries apply several hygiene practices (water disinfection, hand washing, latrines) improving life quality specifically for women and children. The focus on access, quality and sustainable water tariffs as well as community management and poverty targeting worked well. Sustainability of sanitation and hydro-energy investments remains challenging. Disaster Risk Reduction (DRR) has been incorporated in local planning and national DRR capacities were strengthened.

Key factors that affected program implementation and main experiences include:

- Financing a sector-wide program and IFI co-financing can be effective for up-scaling.
- Alignment became more complex. The PRS were replaced by national plans, sector policies and strategies of variable ownership.
- The donor landscape changed significantly, requiring building of new alliances and seeking ways for achieving complementarity and coordination.
- In the absence of an effective civil service, the high staff turnover in the local and national public sector challenges continuity and sustainability of results and bears risks of political staffing.
- Enhancing inclusiveness proved to be a difficult development challenge.
- Direct implementation increased, particularly in the areas of governance and basic services. It represented about 40% in 2012, causing high opportunity costs for the Cooperation office.

4. Implications for the Cooperation Strategy 2013-2017

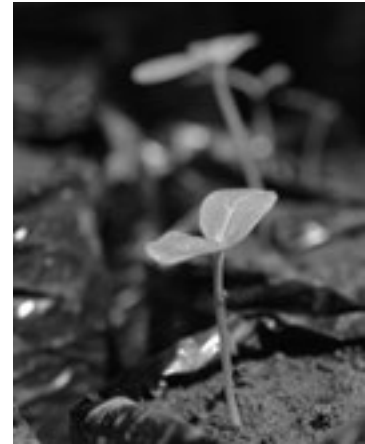


The focus of the Swiss program on poverty reduction, concentrating on the poorest countries Nicaragua and Honduras and targeting poor rural regions, remains pertinent.

At the same time, the tendencies in the context require new thematic orientations, particularly in order to respond to the deteriorating security situation and increased fragility, especially in Honduras, and to the erosion of institutional and democratic governance both in Nicaragua and Honduras, and to address the effects of climate change. Both are crucial to sustain development gains and relevant for poverty reduction, since the poor are disproportionately victimized by violence, disadvantaged and excluded when institutions are weak, and vulnerable to climate change and natural disasters.

Moreover, changes in the context, lessons learnt and results achieved require the following adaptations:

- Improve the thematic coherence and concentration by strengthening the articulation between interventions (e.g. skills development and violence prevention), clustering interventions in territories and combining them at the municipal level.
- Strengthen context analysis; apply conflict-sensitive approaches and political economy analysis because of the fragile context and complex governance.
- Use country relevant frameworks (policies, plans, strategies) in a flexible way to orient the Swiss contribution, and strengthen the demand-side for legitimate policies through a more strategic and selective support of civil society.
- Reduce the complexity and management intensity of the program by streamlining the portfolio, moving towards larger programs and reducing direct implementation.
- Adjust the regional approach in two complementary directions: a) better differentiate between country contexts and tailor interventions to the specific political and conflict situation; and b) focus on regional initiatives that provide opportunities for learning and scaling-up or for linking national with global policy levels (e.g. climate change).



Integrated Pest Management Program

5. Priorities and Objectives



The overall goal of the Swiss cooperation strategy is to contribute to poverty reduction and to more equitable and sustainable development taking into account the growing environmental vulnerability and human security.

The strategy addresses the three main dimensions of poverty. It contributes to: 1) generating opportunities for the poor through inclusive economic development and access to basic services; 2) empowering the poor through more inclusive governance; and 3) reducing vulnerabilities caused by climate change, natural disasters as well as by crime and violence.

Domains of Intervention

Domain 1: Inclusive Economic Development

Sustainable poverty reduction requires broader-based economic growth focusing on employment and income, particularly for the youth suffering from high un- and underemployment rates. The Swiss program will maintain a rural character because poverty is still higher in rural than in urban areas and because the economies of Nicaragua and Honduras are to a large extent based on natural resources with little value added.

A key concern is to reduce the number of topics in the portfolio. This will be achieved by focusing on selected value chains (mostly rural, but not necessarily agricultural) and on local economic development, paying particular attention to gender equity. These two complementary approaches will articulate specific areas of interventions like financial and business development services, business climate and skills development and thereby ensure greater thematic coherence. Moreover, innovations will be sought in two specific directions: 1) linking up and building development partnerships with private companies (mostly local medium-size firms); and 2) selecting initiatives relevant for green economic development.

Under the objective to enhance inclusive economic development focusing on employment and income, the following outcomes of the Swiss contributions are expected:

Outcome 1: Disadvantaged groups (e.g. women, youth) have improved their livelihood in a sustainable way, in particular in terms of additional net income.

Outcome 2: Framework conditions (public policies, business regulations, governance and institutional arrangements) are conducive for inclusive economic development.

Domain 2: Reducing State Fragility, Inclusive Governance

Switzerland is well recognized for its work in strengthening local governments and citizen participation, both in general aspects of public management and in the water and sanitation sector. Experiences with decentralized budget support are promising. Municipal government capacities have improved and their financial management is increasingly trustworthy, although with great variations. Overall, decentralization in both Honduras and Nicaragua is progressing. On this background, the Swiss program will move stepwise and in a differentiated way, taking into account capacities and risks, towards municipal budget support for local investments including water and sanitation and services related to the care economy. Technical assistance



Vocational Education and Training Program



*Local
Governance
Program*

for strengthening capacities and facilitating continued innovation and learning will be provided.

In Honduras, citizen insecurity became the principle development obstacle. The state risks sliding into a situation of fragility. In alliance with IFIs and UNDP, security sector reform, strengthening prevention in urban areas and promoting human rights will be supported. While participating through co-financing in the broad reform process, Switzerland will also develop its niche in local security, focusing on prevention, providing opportunities for youth at risk through skills development and in particular by strengthening the demand of civil society for effective reforms.

Swiss funded interventions have the objective to contribute to reduced state fragility and to more inclusive governance. The following outcomes of the Swiss contribution are expected:

Outcome 1: Reduced violence and crime rates in selected urban municipalities.

Outcome 2: Improved performance of the security sector (in particular the Police) resulting in a greater proportion of homicides and human rights violations investigated and resolved.

Outcome 3: State institutions are more responsive and effective as well as accountable in meeting peoples' needs for basic services and respecting their rights in an inclusive manner.

Domain 3: Environmental Vulnerability, Climate Change (CC)

Switzerland has supported agricultural development for many years, resulting in the adoption of sustainable soil and water management and other good agricultural practices. These farm level improvements are relevant for CC adaptation. However, adaptation strategies need to go beyond the farm level, address land use systems and work at the level of landscapes and watersheds. Switzerland will therefore adopt a territorial approach for CC adaptation that promotes changes of policies and practices in land use (e.g. agroforestry, silvopastoral systems), better water resources management and territorial planning in the vulnerable dry areas of Nicaragua and Honduras.

In addition to the direct effects on the ground in the selected territories, implementation experiences will help operationalizing national adaptation plans and allow Nicaragua and Honduras to capture and use well international CC financing. Switzerland will thus also support national capacity development and CC policy work. Moreover, selective support of SICA will aim at promoting cross-country learning, policy harmonization, and linking up with the global CC policy process. DRR will be part of the territorial adaptation strategies and of capacity development. DRR (including geologically related disasters) will also be integrated wherever relevant and feasible, particularly in local governance and economic development.

Under the objectives of reducing environmental vulnerabilities and strengthening the resilience of poor populations to the effects of climate changes and natural disasters, Swiss funded interventions will contribute to the following outcomes:

Outcome 1: People vulnerable to the effects of climate change have adapted their land use systems and improved the management of water resources.

Outcome 2: Public institutions and private sector organizations manage effectively resources that help vulnerable groups to reduce disaster risks and to adapt to the CC effects.

Cross – cutting Themes Gender and Governance

Gender equality will be addressed at the strategy level and in all interventions. This means applying gender analysis and using gender disaggregated data in context analysis, planning and budgeting, monitoring and results reporting. In addition, affirmative action will be supported in all three domains, for example by addressing intra-family violence which affects mainly women and girls, by promoting women's participation in value chains or by addressing the special vulnerabilities of female-headed households with regard to the effects of climate change. Likewise, governance will be addressed as a mandatory cross-cutting theme, with special emphasis on transparency in local public finance, inclusive citizen participation and accountability for results.

Regional Concept – Geographic Priorities

Country-level interventions focus on Nicaragua and Honduras. Interventions at the regional level are thematically and strategically linked to those at the country level. Applying the principle of subsidiarity, regional activities are expected to yield better or additional development results than national interventions alone. There are four purposes for working at the regional level: 1) addressing issues that are trans-boundary or that cannot be solved by one country alone (e.g. organized crime); 2) linking policy development to global policy processes (e.g. climate change); 3) promoting cross-country learning and innovation (water sector reforms); and 4) using the region as a unit of analysis (e.g. analyze regional markets and value chains). All together, due to the nature of the interventions (only software), the financial volume of regional supports is relatively small but strategically important. Partners include formal institutions of the Central American Integration System, regional research institutions, think tanks, civil society organizations and private sector associations.

The Central America strategy 2013-17 will comprise a mix of geographically defined programs (context sensitive interventions) and thematically defined bi-national or regional programs. Within countries, greater geographic concentration will be sought by clustering interventions in selected territories or sub-regions.



Small and Medium Rural Enterprises Program

6. Program Implementation



Financial Resources – Commitment Planning

Funding will come mainly from Regional Cooperation (SFR 191 Mio planned disbursements 2013-17), from Humanitarian Aid (SFR 12.5 Mio) and from SECO.

Commitments will be allocated as follows: 25% for economic development (domain 1), 35%-40% to governance (domain 2) and 25% to environmental vulnerability (domain 3), leaving 10-15% for other opportunities and office management. Annual disbursements will amount to SFR 35-40 Mio, of which up to 10 % will be used for regional interventions. The bulk of funding will go to Nicaragua and Honduras, whereby the share of Honduras will come close to the levels invested in Nicaragua by 2017.

Approaches, Modalities and Partnerships

The strategy will continue using a balanced mix of modalities and partners. However, for reasons of scaling-up, mitigating political risks, improving policy impact, building sustainable capacities and reducing management burden the following will be envisaged:

- Increase the currently low proportion of contributions to local governments and Civil Society organizations as a means to build sustainable capacities and strengthen country systems; use mandates mainly for specific technical assistance and thematic backstopping.
- Increase contributions to UN-institutions and specialized organizations with thematic mandates, capable of working at the regional level (e.g. CATIE, CIAT). Likewise, co-financing with IFIs will be increased as a means for scaling-up and because of their policy leverage.
- Decrease direct implementation from currently 40% of the total portfolio to a maximum of 20% and use these modalities mainly for new themes where hands-on experience and institutional learning via SDC networks is important.
- Use country systems where possible, particularly at the local level (e.g. financing municipal investment plans, using local procurement and finance systems).
- Maintain the principle to engage at micro, institutional and policy levels, but relate national policy work more

explicitly to regional and global levels (e.g. climate change).

- Proactively seek opportunities for PPDPs in all domains and preferably integrated in programs rather than design them as separate projects;
- Concentrate civil society support on capacity building for a) analysis and informed policy debate (think tanks, academic institutions), and b) advocacy and monitoring reform processes related to inclusive governance and fragility.

Given the new donor landscape with fewer bilaterals, stronger alliances will be sought with IDB, World Bank and selectively with UN organizations where there is congruence between their core mandate and Swiss priorities. Collaboration with the global programs of climate change and water will be strengthened via the respective networks and through direct collaboration with the Andean program. Collaboration with SECO would include bilateral interventions (economic development, public finance) and seek synergies with global projects with presence in Central America. Regarding violence prevention and human rights, knowledge sharing with the Human Security Division will be sought.

Human Resources – Structural Implications

The strategy requires new thematic competences in the areas of citizen security, human rights, conflict prevention and climate change. The presence will be strengthened in Honduras to ensure context-sensitive supervision of geographically defined programs and to ensure stronger engagement in policy dialogue and donor coordination. Moreover, security management, particularly in Honduras, will receive greater attention, for example by periodically reviewing and up-dating local security plans. The current thematic organization of staff will change to a more geographic distribution of responsibilities, particularly for those themes that are particularly context-specific and politically sensitive, such as security or governance. As a consequence, the capacity of the office in Honduras will be enhanced, whereas operational staffing in Nicaragua will remain constant despite important increases in financial volume. For efficiency reasons, Finances and Administration remains concentrated in the regional office in Managua. Likewise, the humanitarian aid will continue its presence in the Managua Office, maintaining its quick response capacity for crisis situations. Thematic competences will be managed in a way that facilitates regional and thematic knowledge management and participation in SDC networks.

7. Program Steering



Monitoring the cooperation strategy serves the dual purpose of: a) steering program development, ensuring continued relevance, effectiveness and efficiency; and b) accounting for results.

Monitoring is the responsibility of the Cooperation Office (Annex 3, Synopsis of monitoring system), which also involves partners in analyzing the development context and in assessing domain outcomes and outputs. Monitoring will be carried out at three levels:

- Context monitoring will be done using a MERV framework adapted to the respective context in Nicaragua and Honduras. The monitoring will include the annual assessment of key development indicators to track country progress. In addition, because of its fragility characteristics, more frequent monitoring is done in Honduras in cooperation with the Embassy and involving a range of stakeholder perspectives. The strategy assumes the base case scenario (Annex 4). Context monitoring allows for assessing risks and deviations from the base scenario and making strategy adjustments.
- Strategic program monitoring will be done based on the results framework (Annex 3) assessing both country progress in the respective domains as well as Swiss portfolio contributions. Annual reports will account for results and allow for self-evaluation and strategy adjustments. The results framework will be used as a living in-

strument. In particular, country level outcomes and indicators may evolve because they are influenced by the political cycle and based on dynamic national and sector reference documents.

- The effectiveness and efficiency of the cooperation system at the country level (aid effectiveness), the role of Switzerland and the performance of the Swiss cooperation office in steering the implementation of the cooperation strategy will be analyzed annually. Parameters related to management quality and to efficiency of portfolio management will be reported in audits and office management reports.

A mid-term review will be conducted to assess the effectiveness of the Swiss program and to define possible adjustments. Scope, timing and modalities will depend inter alia on context development.

Annexes

Swiss Cooperation Strategy 2013 - 2017 at a Glance

Synopsis of Swiss Cooperation Strategy for Central America 2013 - 2017

Overall Goal

Switzerland contributes to poverty reduction and to more equitable and sustainable development taking into account the growing environmental vulnerability and human security.

Domains of intervention

Inclusive Economic Development

Reducing State Fragility, Inclusive Governance

Environmental Vulnerability, Climate Change

Gender and Governance as cross-cutting themes

Domain goals

To enhance inclusive economic development focusing on employment and income

To contribute to reduced state fragility and more inclusive governance

To reduce the environmental vulnerability and to strengthen the resilience among poor populations to the effects of climate change and other natural hazards

Swiss contribution (Regional Cooperation and Humanitarian Aid)

Disadvantaged groups have improved their income through participation in value chain and local economic development in a sustainable manner.

Violence and crime in three selected large urban municipalities are reduced.

The performance of the police in investigating homicides and severe HR violations and referring them to the Public Prosecutor has improved.

People in situations of vulnerability have adapted their land, forest and water use practices to the effects of climate change in selected territories.

Micro and small enterprises have benefited from improved framework conditions for inclusive economic development.

State institutions are more responsive and effective in meeting peoples' needs for basic services.

Public and private actors have managed resources for disaster risk reduction and climate change adaptation in an effective manner.

Budget

CHF 48 million

CHF 76 million

CHF 48 million (RC) / CHF 12 million (HA)

Overall Goal

Switzerland contributes to poverty reduction and to more equitable and sustainable development taking into account the growing environmental vulnerability and human security.

Indicators

Poverty:

Nicaragua: between 2006 and 2011, poverty rates decreased from 48% to 41%.

Expectation: trend continues.

Honduras: between 2006 and 2010, poverty rates remained unchanged at 60%.

Expectation: decrease.

The national goals of Nicaragua and Honduras will be defined in the respective country development plans.

Gini coefficient:

Nicaragua: between 2006 and 2011 the Gini coefficient on consumption decreased from 0,4 to 0,34.

Expectation: trend continues.

Honduras: between 2006 and 2009 the Gini coefficient on income remained high at 0.57.

Expectation: decrease.

The national goals of Nicaragua and Honduras will be defined in the respective country development plans.

MDG 7: Ensure environmental sustainability

Progress towards MDG 7 as per National MDG and UN Human Development reports and according to post-MDG agenda.

Domain of intervention 1: Inclusive economic development

Domain goal: To enhance inclusive economic development focusing on employment and income.

(1) Swiss portfolio outcomes	(2) Swiss programme contribution	(3) Country development outcomes																								
<p>Outcome 1</p> <p>Disadvantaged groups have improved their income through participation in value chain and local economic development in a sustainable manner.</p> <p>Indicators: 1. Additional net annual income differentiated by gender and type of economic unit.</p> <p>Baselines 2012 (data from PYMER-URAL): in USD</p> <table border="1"> <thead> <tr> <th style="text-align: left;">Nicaragua</th> <th style="text-align: center;">Men</th> <th style="text-align: center;">Women</th> </tr> </thead> <tbody> <tr> <td>Producers</td> <td style="text-align: center;">1,059</td> <td style="text-align: center;">170</td> </tr> <tr> <td>Self employed</td> <td style="text-align: center;">1,124</td> <td style="text-align: center;">452</td> </tr> <tr> <td>Formal SME</td> <td style="text-align: center;">159</td> <td style="text-align: center;">1,163</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th style="text-align: left;">Honduras</th> <th style="text-align: center;">Men</th> <th style="text-align: center;">Women</th> </tr> </thead> <tbody> <tr> <td>Producers</td> <td style="text-align: center;">1,081</td> <td style="text-align: center;">72</td> </tr> <tr> <td>Self employed</td> <td style="text-align: center;">2,164</td> <td style="text-align: center;">1,849</td> </tr> <tr> <td>Formal SME</td> <td style="text-align: center;">4,783</td> <td style="text-align: center;">2,202</td> </tr> </tbody> </table> <p>Target value 2017: Not less than 3% annual increase in each category.</p> <p>2. Number of additional annual permanent jobs (expressed as full-time job equivalents), disaggregated by gender.</p> <p>Baselines 2012 (data from PYMER-URAL and PROMIPAC): Nic: 456 (men); 217 (women) Hon: 100 (men); 74 (women)</p> <p>Target value 2017: Not less than 3% annual increase.</p>	Nicaragua	Men	Women	Producers	1,059	170	Self employed	1,124	452	Formal SME	159	1,163	Honduras	Men	Women	Producers	1,081	72	Self employed	2,164	1,849	Formal SME	4,783	2,202	<p>Impact Hypothesis</p> <p>Strengthening value chains and local economic development with a pro-poor focus promotes the employability of disadvantaged groups and the creation of decent work.</p> <p>Risks, Assumptions</p> <p>The number of beneficiaries that can be reached depends to some degree on national, regional and global economic cycles.</p> <p>Additional income is used for saving, productive investments and satisfying basic needs.</p>	<p>Outcome 1</p> <p>Employment and income have increased as per strategies in Nicaragua and Honduras</p> <p>Indicators: 1. Increase in the minimum wage effectively being paid in the Agricultural and Livestock sector (Agro) and the Industrial Sector.</p> <p>Baselines: Nic 2011: USD 96 in Agro; USD 121 in Industry Hon 2012: USD 237 in Agro; USD 318 in Industry</p> <p>Target value 2017: Nic and Hon: at least compensating annual inflation.</p> <p>2. Percentage of increase in Economically Active Population (EAP) employed, total and by economic activity.</p> <p>Baselines: Nic 2011: EAP: 2.8 million ; 0.9 Mio in agriculture; Hon 2010: EAP: 3.4 million; 1,2 million in agriculture.</p> <p>Target value 2017 (proxy): Increase in EAP employed is at least equal to the number of additional youth per year reaching working age (18y)</p> <p>Nic (2012): 185,000 Hon (2012): 200,000</p>
Nicaragua	Men	Women																								
Producers	1,059	170																								
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Formal SME	4,783	2,202																								

Outcome 2	Impact Hypothesis	Outcome 2
<p>Micro and small enterprises have benefited from improved framework conditions for inclusive economic development.</p> <p>Indicator: Satisfaction rate (perception) of MSME in supported value chains and territories with regard to framework conditions (disaggregated by gender).</p> <p>Baseline: According to initial assessment 2013</p> <p>Target Value 2017: 50% of MSME</p>	<p>Strengthening partner organizations in selected value chains in policy work enables them to better engage in policy dialogue and improve framework conditions.</p> <p>Risks, Assumptions</p> <p>High degree of dependence on persons and favorable moments/opportunities.</p> <p>Adequate political conditions and room for participation in public policy making and advocacy work.</p>	<p>Sectoral and/or territorial public policies that promote inclusive economic development are designed and implemented.</p> <p>Indicators:</p> <ol style="list-style-type: none"> 1. Change in employment generated by SMEs. <p>Baselines: Nicaragua (2012): TBC Honduras (2012): TBC</p> <ol style="list-style-type: none"> 2. Competitiveness Indicator World Economic Forum (WEF) <p>Baselines: Nic (2012): 3.7 Hon (2012): 3.9</p> <p>Target value: Improved score each year</p> <ol style="list-style-type: none"> 3. WEF Gender Economic Participation and Opportunity <p>Baselines 2012: Nic: 0.615 Hon: 0.601</p> <p>Target value: Improved score each year</p>

(4) Lines of intervention (Swiss Programme)

Programmatic lines:

- Development of selected value chains (with high participation of the poor), promoting inclusion and local economic development.
- Promoting access to better technologies and strengthening of entrepreneurial capacities and working skills.
- Advocacy and policy dialogue with national and local authorities regarding framework conditions.
- Seizing opportunities for public private development partnerships.

(5) Resources, collaborations, (Swiss Programme)

Financial resources: CHF 48 million (Regional Cooperation).

Main partners: ministries of agriculture and industry, IADB, the World Bank, private sector (e.g. MSME and producer associations), and national as well as international NGOs.

Domain of intervention 2: Reducing state fragility, inclusive governance

Domain goal: To contribute to reduced state fragility and more inclusive governance.

(1) Swiss portfolio outcomes	(2) Swiss programme contribution	(3) Country development outcomes
<p>Outcome 1</p> <p>1.1 Violence and crime in three selected large urban municipalities are reduced.</p> <p>Indicator: Homicide rate for men and women in the municipalities.</p> <p>Baseline 2011: Avg. Homicide rate in the 3 selected municipalities : 136 homicides per 100'000 inhabitants</p> <p>Target value 2017: greater reduction than national average</p> <p>1.2 The performance of the police in investigating homicides and severe HR violations and referring them to the Public Prosecutor has improved.</p> <p>Indicator: Percentage of cases of homicides properly investigated and referred to public prosecutor</p> <p>Baseline 2011: 25% Target value 2017: 60%</p>	<p>Impact Hypothesis</p> <p>The strengthening and reforming of security institutions reduces the homicide and crime rates and the number of HR violations. This also helps promoting a culture of prevention and more peaceful coexistence.</p> <p>Reforms in the normative and legal framework (e.g. new law for the national police) and its effective implementation provide a good basis for better enforcement of the law.</p> <p>Risks, Assumptions</p> <p>Political will at the highest level remains intact.</p> <p>Strengthened capacities in civil society to monitor and influence security sector reform helps sustaining the reform momentum.</p>	<p>Outcome 1 (Honduras)</p> <p>The performance of the security system has improved regarding control and prevention of violence and crime.</p> <p>Indicators: 1. Homicide rate for every 100,000 inhabitants nationwide.</p> <p>Baseline 2011: 86 per 100,000.</p> <p>Target value 2017: 42 per 100,000, broken down by gender</p> <p>2. Percentage of crimes brought to court (number of crimes brought to court/total number of crimes reported and referred to the police for criminal investigation)</p> <p>Baseline 2011: 18,5% Target value 2017: 25%</p>
<p>Outcome 2</p> <p>State institutions are more responsive and effective in meeting peoples' needs for basic services.</p> <p>Indicators: 1. Increase of coverage of basic services prioritized by citizens (sex disaggregated) in selected municipalities, according to the municipal investment plan.</p> <p>Baseline 2013: According to initial assessment Target value 2017: Avg. yearly increase of 3-5%</p>	<p>Impact Hypothesis</p> <p>Strengthening investment management leads to improved response capacity regarding the population's needs.</p> <p>Citizens' participation in planning and implementation leads to more transparent and sustainable investments and service delivery.</p> <p>Assumptions</p> <p>Greater stability among municipal staff.</p>	<p>Outcome 2 (NIC and HON)</p> <p>State institutions improve the effectiveness in public spending to satisfy peoples' needs.</p> <p>Indicators: 1. Increase of Human Development Index (IDH)</p> <p>Baseline 2011: NIC 0.589 and HON 0.625</p> <p>Target value 2017: Average yearly increase of at least 0.8% NIC and 1,1% HON.</p>

2. Increase in access to water, sanitation and hygiene in 16 municipalities in Nicaragua and 29 municipalities in Honduras.

Baseline 2013: 0

Target value 2015: 110,000 additional persons by 2015

3. Increase in per capita investments in supported municipalities.

Baseline 2011: average of currently supported municipalities
NIC = USD28 and HON = USD43

Target value 2017: annual increase of 10%

4. Proportion of mayors' offices in supported municipalities with good public finance practices as certified by the auditing agency.

Baseline 2013: according to initial assessment

Target value 2017: 95% in both countries

The influence of organized crime on local governments does not further increase (Honduras).

Legitimacy of local governments in Nicaragua is maintained.

Tax decentralization and deconcentration of central government spending is further pursued.

2. Percentage of public investment managed at the municipal level (HON).

Baseline 2009: 3% HON

Target value 2017: 20% HON.

3. Percentage of spending on poverty reduction as share of GDP (NIC).

Baseline 2012: 12.6%

Target value 2017: TBD

(4) Lines of intervention (Swiss Programme)

Programmatic lines:

- Strengthen management capacity of municipal governments and community organizations as well as public finance management at the national level.
- Supporting municipal investments in basic services (incl. water and sanitation).
- Strengthen gender-balanced participation of citizens in local investment planning and service delivery.
- Advocacy and policy dialogue on regional and national levels focusing on decentralization (in particular fiscal decentralization) and on relevant sector policies (e.g. drinking water and sanitation, security).
- Security sector reform in Honduras.
- Promote respect for human rights.

(5) Resources, collaborations, (Swiss Programme)

Financial resources: CHF 76 million (Regional Cooperation), and SECO.

Main partners: national and international NGOs, UNDP, ministries of finance, sectorial institutions, mayor's offices, security institutions and human rights organizations.

Domain of intervention 3: Environmental vulnerability and climate change

Domain goal: To reduce the environmental vulnerability and to strengthen the resilience among poor populations to the effects of climate change and other natural hazards.

(1) Swiss portfolio outcomes

(2) Swiss programme contribution

(3) Country development outcomes

Outcome 1	Impact Hypothesis	Outcome 1
<p>People in situations of vulnerability have adapted their land, forest and water use practices to the effects of climate change in selected territories.</p> <p>Indicator: Application of effective strategies for the adaptation to climate change.</p> <p>Baseline: Initial assessment of effective strategies used in 2012 (sex disaggregated data).</p> <p>Target value 2017: 20% annual increase in the number of farms that adopted effective strategies (of this 20%, at least 20% adopted by women).</p>	<p>Effective strategies promoted by SDC are progressively incorporated into national and local plans and implemented.</p> <p>Synergies promoted by SDC facilitate the implementation of national and sectorial development plans.</p> <p>Risks, Assumptions</p> <p>Political will to improve strategies.</p> <p>Resources available to implement strategies.</p>	<p>Nicaragua and Honduras have formulated and applied climate change policies and strategies that take into account the needs of vulnerable groups.</p> <p>Indicators: 1. Application of sector strategies and budgeting.</p> <p>Baseline: Initial assessment in relevant sectors.</p> <p>Target value 2017: At least 3 strategies in each country.</p> <p>2. Municipalities that include in their budgets the adequate use and protection of eco-systems as well as other environmental considerations.</p> <p>Baseline: (Nic) Governmental resolution; (Hon) TBD</p> <p>Target value 2017: Nicaragua 112 municipalities; Honduras TBD</p>
Outcome 2	Impact Hypothesis	Outcome 2
<p>Public and private actors have managed resources for disaster risk reduction and climate change adaptation in an effective manner.</p> <p>Indicators: 1. Public infrastructure in selected municipalities is climate-smart and resistant to natural disasters.</p> <p>Baseline: Annual investment plans 2013 of selected municipalities (number of schools, health centres, roads, etc.)</p> <p>Target value: 20% annual increase.</p>	<p>Managing resources for disaster risk reduction and climate change adaptation in an effective manner provides inputs and sets examples to further develop regional, national and local strategies.</p> <p>Countries contribute to the implementation of regional strategies and make contributions via good practices on the issues of DRR and CC.</p>	<p>Regional, national and local systems to reduce disaster risks are strengthened and kept up to date.</p> <p>Indicators: 1. Municipalities with territorial management plans and active disaster prevention committees.</p> <p>Baseline: Nic: 60; Hond: 50</p> <p>Target value 2016: Nic 153 (=100%); Hon : TBD</p>

2. Awareness and preparedness of the population in selected territories with regard to climate change and the risks of a natural disaster.

Baseline: Results of initial survey; data differentiated by sex; rating according to the system applied in EU-financed projects.

Target value 2017: Improved preparedness (higher ratings).

Risks, Assumptions

Adequate capacities to manage resources in an efficient manner.

Disaster risk reduction and climate change are priority items in the annual budgeting process.

Industrialized countries (annex 1 countries) comply with international conventions and provide adequate financing for adaptation measures while receiving countries' present coherent proposals.

2. Programs and policies developed by national and regional DRR and CC networks.

Baseline and target value: initial assessment

(4) Lines of intervention (Swiss Programme)

- Research, validation and dissemination of good practices in agriculture, livestock and forestry.
- Develop and implement territorial adaptation strategies and programs in vulnerable areas.
- Integrated watershed management.
- Strengthening the capacities of public and private sector institutions at regional, national and local levels, particularly in participatory land use planning and DRR.
- Integration of CC and DRR in curricula of universities.
- Support capacity building of civil society and private sector actors with regard to territorial planning and CC policies.
- Support capacity development on regional and national levels to access international financing for CC adaptation.

(5) Resources, collaborations, (Swiss Programme)

Financial resources: CHF 48 million Regional Cooperation; CHF 12 million Humanitarian Aid.

Main partners: United Nations System (UNDP, FAO); governmental institutions (disaster prevention, agriculture, energy, natural resources); local governments; national and international NGOs; universities; development banks (WB, IADB); regional research and innovation centres; private sector.

Synopsis of Monitoring System

Introduction

The monitoring of the Cooperation Strategy serves two purposes:

1. Steering program implementation and development. The aim is to ensure continued relevance and optimal effectiveness of the program taking into account context changes, results obtained and lessons learnt.
2. Accounting for results and the effective use of funds mainly to headquarters, indirectly to the authorizing environment and ultimately to tax payers. Following the principle of mutual accountability, results accounting is also directed towards local partners.

The monitoring system comprises three levels and dimensions:

1. Country and regional context (Honduras, Nicaragua, Central America Region) focusing on trends and changes in those context dimensions that are particularly relevant for development.
2. Program monitoring based on the cooperation strategy results framework. The focus is on effectiveness, i.e. the Swiss Portfolio results (outcomes and outputs) and their contributions to the development of Nicaragua and Honduras (country development outcomes and outputs) .
3. Assessing and monitoring the performance of the in-country cooperation system (aid effectiveness principles), the respective role of Switzerland as well as the management of the Swiss cooperation office in steering the implementation of the cooperation strategy. The main focus is on efficiency.

1. Context

Main instrument: MERV (monitoring of development relevant changes)

The purpose of context monitoring is to assess context trends related to the political scenarios (annex 4) and to draw conclusions and define implications and adjustments regarding cooperation strategy implementation and program development.

The instrument and the process for its elaboration will be modified and adapted to the specific country situation in the following way:

- **Content:** The fields of observation include governance; political development and democratization; human rights, security and conflictivity; economics. The emphasis and depth of analysis will be adapted to country circumstances and will thus vary between Nicaragua and Honduras. The instrument will describe changes and trends and define some key watch points that should be observed in the near future and addressed in the subsequent MERV. In the case of Honduras, the instrument will be adapted when coordinated donor methods for context monitoring in fragile context become available, i.e. the fragility assessment currently piloted in the OECD-DAC (INCAF task team, new deal implementation)
- **Process:** a local analyst prepares a draft MERV report. The report, together with other sources such as the analytical work done by SDC supported local think tanks (ej. FIDEG and FUNIDES in Nicaragua, FOSDEH in Honduras) will be used as an input for discussions by the SDC country directors with key stakeholders representing different perspectives and competences (analysts, politicians, other donors, IFIs, civil society). The end product represents a well informed Swiss view. Context monitoring and the discussion with key stakeholders are done to the extent possible together with the Swiss ambassador(s), and also serves as a key ingredient for political reporting.
- **Frequency:** depends on country characteristics, i.e. more frequent in a context with fragility characteristics. It will be done at least once per year in Nicaragua in conjunction with the annual report, and 2-4 times per year in Honduras.

2. Strategic Program Monitoring – Swiss Portfolio Results

Main instruments: Results framework and Annual Report (according to internal SDC guidelines)

The monitoring looks at the strategic level, i.e. the level of the three domains of intervention of the cooperation strategy. The monitoring follows a contribution logic, meaning that it assesses the Swiss portfolio results and their contribution to the country outcomes of Nicaragua and Honduras. Based on the Swiss portfolio outcomes the result framework (Annex 2) describes, the contribution of the Swiss programme to the Country development outcomes. Both the Swiss and the country development outcomes are measured by indicators (incl. baselines and targets).

Strategic program monitoring and results reporting will be done based on the results framework. Annual reports will account for results and allow for self-evaluation and strategy adjustments. The results framework will be used as a living instrument. In particular, country level outcomes and indicators may evolve because they are influenced by the political cycle and based on dynamic national and sector reference documents. Strategic monitoring takes a portfolio approach (i.e. looks at all projects related to the respective domains of intervention). Hence it does not focus on the project level, nor does it primarily aggregate project results, although this will be done in some cases as well (e.g. jobs created under domain "economic development"). It is primarily based on results of key projects within each domain, considered to be "feeder" or "lighthouse" projects because of: a) their importance in terms of financial volume and replicability; b) their strategic relevance and/or their exemplary or innovative character for the development of the portfolio.

The precise definition of outcome indicators, the sources of information and data, methods for their calculation, indicators, baselines and targets, as well as the annual observed values over the period 2013-2017 are described and documented in technical work sheets (also called monitoring matrix). Sources of information include project reports (especially of "feeder" projects), end-of-phase reports, (external) project reviews and evaluations, field visits, secondary data like national and local statistics, studies, etc.

A mid-term review will be conducted. Scope, timing and modalities will depend inter alia on context development.

3. Performance of Country Office and of the In-country Cooperation System

Main Instruments: Office Management Report, Internal Control System, audits; assessment of harmonization, alignment and mutual accountability principles.

The efficient implementation of the Cooperation Strategy depends on a well-functioning Country Office. The functioning of the office is monitored by internal SDC instruments covering financial and administrative management, human resources, portfolio management, internal controls and compliance.

The functioning of the in-country cooperation system in terms of aid effectiveness (Paris-Accra-Busan), as well as the role and positioning of Switzerland will be analyzed annually in the context of the Annual Report focusing on qualitative aspects, i.e. with regard to their relevance for achieving development outcomes and impacts.

Scenarios for Nicaragua, Honduras and Central America

Base Scenario

The cooperation strategy will be based on this scenario considered to be the most likely as discussed and validated in focus group discussions with think tanks, the private sector and the civil society in Nicaragua and Honduras. The strategy will identify the most important possible deviations and define implications for program development and management.

In **Nicaragua**, the President has been reelected for the period 2012-16. Consolidation of his power and further strengthening the dominance of the ruling party (Frente Sandinista) in all state institutions at central and municipal levels is expected. Critical views voice concern about a gradual loss of institutionality, weakening of democratic governance and a general tendency towards authoritarian rule. With the continued strong support of Venezuela, the support of international financial institutions, continued prudent macro-economic management, and convergence of interests between the economic interest groups and the Government, the country will see relative stability. Moderate but steady economic growth, relatively high FDI, sufficient capacity and resources for social programs allow modest progress regarding MDGs and acceptable levels of people satisfaction. It is generally expected that the opposition will remain weak, the space for exercising political rights will be limited and levels of political conflictivity will be moderate.

Honduras will have elections in 2013. In the past, the change of government lead to a large staff turn-over resulting in a loss of institutional capacity and continuity. In general, a "muddle through" scenario is expected. The levels of corruption and impunity will not further increase, thanks to some success in security sector reforms. However, the influence of organized crime on state institutions and the control of economic and political interest groups remain strong, leaving little chance for much needed profound reforms. Levels of security, human rights violations, impunity and corruption will stay high. Honduras remains a "near fragile state" with high levels of conflictivity, sluggish investment and growth affected by the poor "country image" and high security costs, limited social progress and a generalized distrust of the people in state institutions.

With respect to the Region, integration of the real economy in terms of intra-regional trade and investment will proceed, whereas political integration and cooperation among SICA members or CA-4 members states will remain limited with some exceptions (e.g. climate change policy, combating cross-border organized crime, migration, energy, agricultural policy, DRR strategy). Regional institutions remain weak or insignificant (e.g. parliament, court). The free trade agreement with the USA in place and the signing of the broad EU trade, policy dialogue and cooperation agreement, Central American states will open-up more to those markets and cooperate in certain areas of trade policy. However, further integration or progress in implementing the custom union remain difficult because of divergent country interests and some political conflicts (e.g. Nicaragua, Costa Rica).

Main downward risks

Nicaragua

- Reduction or withdrawal of Venezuelan aid; hardening of the US position (i.e. withdrawal of waiver) including blocking concessional loans by IDB and IMF; external economic shocks (e.g. strong rise in fuel and food costs).
- Downsizing of social compensation programs – stagnation of social progress – people's dissatisfaction.
- Gradual loss of institutionality – restriction of civic and political rights – increase in conflictivity.

Honduras

- Resurgence of the political conflict because of electoral fraud pushing parts of the political opposition (allies of ex president Zelaya) towards political violence.
- Further politization of social conflicts, leading to a diffuse situation of multiple increasingly violent conflicts around land issues, labor disputes in education, mining concessions, etc.
- Further weakening of police and justice fueling a downward spiral of increased violence, state incapacity to resolve conflicts, impunity, corruption and a loss of ethical values in the society.



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