



THE RELATIVE EFFECTIVENESS OF POVERTY REDUCTION STRATEGIES IN NICARAGUA

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Over the past two hundred years, Nicaragua has experienced colonialism, invasion and widespread destruction, primarily at the hands of the United States Government and client regimes.¹ From the 1855 invasion and imposed rule of American filibuster William Walker, to the US-sponsored illegal Contra War of the Reagan era, the country's citizenry have long understood that the most consequential policy decisions have not come from Managua but from Washington. With the Somoza dictatorship deposed by popular rebellion in 1979, and memories of the ensuing American intervention fading with the US-backed National Opposition Union (UNO) victory in 1990, one might assume that Washington's nefarious involvement within the Central American state would be drawing to a

¹ In 1912 the US marines invaded and occupied the country for 20 years until the nation was named as a U.S protectorate in 1933. 1936 saw the controlling U.S. government place the notorious Anastasio Somoza and his dictatorial regime in power. The junta would govern for 43 tortuous years of U.S. support and financing until it was overthrown in 1979. Nuclear-armed bombers were even deployed to Nicaragua in conjunction with the CIA sponsored coup in Guatemala in 1954 according to a Blechman and Kaplan study on 19 instances of strategic nuclear placement by the US government, further underscoring the overwhelming US military presence in the country throughout the century.

close.² However, many Nicaraguan intellectuals and economists insist that the past decade has not seen a decline in Washington's intervention, but a mere alteration. While economic maneuvering has replaced military intervention as the primary instrument of influence, the United States, by means of the Washington Consensus, has retained a virtually omnipotent role in the country's political and economic decision-making process.³

After emerging from the thirteen-year Contra War, which claimed over fifty thousand lives and thirty-five percent of the nation's budget throughout the eighties, Nicaragua found itself tightly ensnared in an economic catastrophe.⁴ Inflation had reached triple digit levels per month and the national currency, the Cordoba, had been devalued by an astonishing one hundred percent. Drastic improvements in the areas of literacy and infant mortality reduction, which had been the cornerstones of the Sandinista-led revolution, had begun to erode and the country reluctantly assumed massive international debt.⁵ In order for the regime in Managua to sustain its governance while simultaneously fulfilling debt repayment obligations, the influence of international lending agencies such as the International Monetary Fund (IMF), World Bank and

² Atlee-Loudon, Jennifer. Red thread. Epica. 2001.

³ In addition to the US role in IFI policy making (17% control) Governor Jeb Bush of Florida placed a full page ad in the nation's largest newspaper, *La Prensa*, one day prior to the 2002 elections claiming that FSLN (Sandinista) candidate Daniel Ortega could be linked to terrorists and reiterated the US stance on those who deal with terrorism. The way this gesture was perceived in Nicaragua is obvious and according to many Nicaraguans the ad had a distinct effect on a very close election.

⁴ Sheppard, Nathaniel. Superpower back off from third world series: Communism: A World of Change. Fifth in Series. Chicago Tribune. pg. 1. July 27, 1987.

⁵ Due to 70% increases in adult literacy and a 35% decrease in infant deaths by 1982, the Sandinista government was awarded the highest commendations from the U.N. and World Health Organization, respectively, in the areas of literacy improvement and infant-mortality reduction.

Inter-American Development Bank (IDB) was drastically increased. To facilitate debt service Nicaragua consented to Structural Adjustment Programs (SAPs formerly called Enhanced Structural Adjustment Facilities) prescribed by the International Financial Institutions (IFIs). These SAPs demand substantially reduced social spending in exchange for continued low interest loans. Ironically, if the United States had agreed to pay Nicaragua the seventeen billion dollars in damages awarded by International Court of Justice in 1986 for unlawful use of force during the Contra War, the debt crisis would have been effectively diffused (current debt equals 6.5 billion). Instead, Nicaragua became completely dependent on the lending institutions, all of which are dominated by US veto power. While Managua's successive involvement with multilateral lenders helped alleviate certain macro-economic woes, reductions in education, health care and other social expenditures has led to slowly declining living standards for the country's population.

Today Nicaragua stands as either the poorest or second poorest country in the hemisphere depending on the source. 85% of the population lives on less than 2 dollars a day and 70% lives on less than \$1. Debt repayment accounts for 54% of the annual budget and the country's per capita debt ranks among the highest in the world. Although official numbers indicate that unemployment is "only" 20% with 70% underemployment, independent researchers such as the Nicaraguan Center for Human Rights estimate unemployment at 60% and underemployment at nearly 90%. The country's most lucrative jobs are found in the urban Free Trade Zones where workers assemble jeans or similar textiles for approximately \$2 dollars per 12 hours shift. Remuneration of teachers, policemen, and other public sector jobs is substantively less.

The education and health care systems are considerably worse today than they were twelve years ago, largely due to the IMF and World Bank restrictions on social spending. In 1990 primary education was free for the country's youth, while today 25% of school age children do not attend because they

cannot afford the required tuition.⁶ A 1999 UNICEF report found that 24% of children under six now suffer from maldevelopment due to chronic malnutrition, and clinics often go without medicine or electricity because of limited budgets and rising electricity costs resulting from IMF-mandated privatization of the electrical company.⁷

Many blame this economic calamity on the US-led, Contra War and the harsh Structural Adjustment Policies that require money to be diverted from education and health care and funneled to programs geared towards attracting foreign investment. The United States government and IFI's disagree. They place blame on the faulty economic policies of the Sandinistas and the widespread corruption under previous president Arnaldo Aleman. They are quick to add that their own policies, while possibly painful, are the best available solution for sustainable development in Nicaragua.

In the past two years I have traveled twice to Nicaragua and have spent substantial amounts of time with many different organizations within Nicaragua as well as with representatives from the IDB, IMF, World Bank, US Embassy and Senate Foreign Relations Committee in Washington D.C.. The articulated policies of the Washington-based institutions are all centered on the Structural Adjustment Plans and Highly Indebted Poor Country initiatives of the three aforementioned IFI's. Essentially, the Nicaraguan Government cannot generate enough revenue to address its amalgam of financial needs and is summarily dependent on loans from the IMF, World Bank and IDB. Without these loans, the government would not be able to afford even the most basic services, such as paying teacher salaries or maintaining public buildings. Since it is these institutions that are largely responsible for funding the Nicaraguan budget, they feel justified in dictating what the

⁶ Canner, Elizabeth. Eames, Ashley Deadly Embrace: Nicaragua, The World Bank, and the IMF. Video produced by Elizabeth Canner and Ashley Eames. Directed by Elizabeth Canner. 1999.

⁷ NACLA Report on the Americas. Vol xxxiii, No.2 Sept/Oct 1999

loan money must be used for, and have created Structural Adjustment requirements that must be met in order for loans to continue. This is done to ensure that their money is not wasted on programs their economists do not embrace, and to make certain that the government will not default on their loans. The Highly Indebted Poor Country initiative (HIPC) is the financial community's solution to the problem of unsustainable debt in the 41 most indebted nations of the world. Recently, Nicaragua achieved preliminary HIPC status. This means that after twelve consecutive months of compliance with a supplemental set of spending and privatization requirements, Nicaragua will be eligible to have up to 70% of the debt accrued between 1990 and 1998 reduced. While this reduction of debt is a much-needed measure, even if all eligible debt is eliminated (which is not likely), the remaining sum will still be unsustainable, and the increased social spending restrictions that accompany HIPC will still leave debt repayment far and away the country's largest expenditure.

The problems expressed by the Nicaraguans are very similar to those of the growing community of skeptics within the first world. They feel that the people affected by these requirements are not properly consulted during the formulation of the requirements. The policies are criticized as one-size-fits-all prescriptions formed without proper understanding and investigation of the specific circumstances of the developing countries concerned. They are further assailed for overemphasizing certain macro-economic indicators such as growth and inflation, while neglecting the social welfare of the country's citizenry. For these reasons, perhaps my most important meetings were spent with Robert K. Renhack, chief economist for Central America at the IMF, Charles Richter, Principal IDB Economist for Nicaragua and Peter Solis, head of IDB Social Development policy in Nicaragua.

These meetings began in similar fashion with the all officials explicitly stating that the IFI's primary objective in Nicaragua, as well as in the rest of the developing world, is poverty reduction. Their strategies were described as a three-

pronged effort at this goal. One, to increase Nicaragua's competitiveness within the global economy and to attract foreign investment; two, to establish good governance and rid the government of corruption; and three, to increase the productivity of the poor and eliminate their dependence on government social programs.

Attracting Foreign Investment

The framework for this thrust of development policy can be split into two distinct categories. First, to increase exports and shift means of production from unproductive industries to sectors that are better equipped to compete on a global scale. Second, to address the financial predicament of the country (external/internal debt) by creating a favorable climate for foreign investment. In Nicaragua, the task of shifting to profitable industry is a tall order, due to the unique make-up of the country's population. With 70% of the population identifying themselves as farmers, it would be preferable if agriculture were a profitable industry; this however is not the case. Due to US (and other first world) subsidization of domestic agro-business (roughly 25% of US agro-business income comes from the government), prices for US corn and beans are substantially lower than prices for the same products grown in Nicaragua. In fact, most of the corn that is *bought* by Nicaraguans is US grown, simply because it is cheaper. IFI officials from all of the institutions consulted agree; US subsidization is extremely detrimental to both the people and economies of Central America. However, one contingency of IMF and World Bank loans is that developing countries cannot subsidize their own agriculture. It is the policy of the IMF that subsidization interferes with markets, and that such interferences are bad economic policy. This economic orthodoxy has recently been challenged, even within the financial sector, (it has long been opposed by elements of academia) with former Chief Economist of the World Bank and Nobel Laureate,

Joseph Stiglitz, among others, criticizing both this perceived truth, and the development policies of the International Monetary Fund in general. Other opponents also call attention to the historical fact that both US and European economic policies were extremely protectionist throughout their initial development and even until the middle of the twentieth century. Still, the policy remains and developing nations are forced to abstain from subsidization. With IFI money barred from use in domestic agriculture supports, farmers cannot counterpoise the assistance granted to first world agriculture and are crushed by the cheaper, largely American competition. In general, first world countries are not required to adhere to the IMF prognosis that subsidization is economically imprudent because these states do not receive loans from the IFIs. These countries are the major shareholders in the banks, and it is their governments that provide the funds, which are in turn loaned to the world's needy nations. With the US controlling 17% of the decision making power in the IMF and World Bank (85% agreement is necessary for any decision, leaving the US the only country with more than 15% of the vote and de facto veto power over all institution decisions), Washington is able to insist that poorer states adhere to policies that it regularly violates. This calls into question the true intentions of the IFI's major shareholders, whose economies have much to gain from the roles of artificially cheap products in the captive markets of the developing world. World Bank promotional ads in the *New York Times* and *Washington Post* seem to reinforce this assumption with statements claiming "The World Bank helps create new markets in developing countries and thus new opportunities for Americans to sell their goods", and, "It helps developing countries become tomorrow's markets".⁸

With over two-thirds of the population trained in the non-profitable field of agriculture, the transition that will help

⁸ Canner, Elizabeth. Eames, Ashley. *Deadly Embrace: Nicaragua, The World Bank, and the IMF*. Video produced by Elizabeth Canner and Ashley Eames. Directed by Elizabeth Canner. 1999.

Nicaragua utilize its only profitable resource, cheap labor, has been extremely painful to the rural poor. Farmers with all the land resources necessary to produce large quantities of food are forced to grow solely for subsistence purposes. This greatly reduces opportunities for employment, not only in the cultivation of such crops, but also in the distribution, marketing and other secondary industries that revolve around agriculture. Many jobs are lost and farmers are often forced to sell their land and move into the city, in search of factory jobs located within the countries ever expanding Free Trade Zones. This is how the transition to profitable exports is currently taking place in Nicaragua and how the second phase of raising competitiveness—attracting foreign investment—ties in. The most efficient way to attract foreign investment in Central America is to offer the most profitable environment for multinational corporations. The ever-increasing unemployment, which is due largely, even in the eyes of the IFIs, to US subsidization, creates the perfect market for cheap labor in Nicaragua. As mentioned earlier, cheap labor is quickly becoming Nicaragua's most abundant resource, at least from the viewpoint of the global market, and consequently its wages are now lowest in Central America and second lowest in the hemisphere, only slightly higher than Haiti's.⁹ Although urban flight was not intended or necessarily caused by IMF policy, in the view of Mr. Renhack, it is positive for the country's fragile economy because it creates a great incentive for foreign companies to relocate to Nicaragua, helping achieve one of the IFI's major steps towards the IMF version of poverty reduction. Opponents argue that if Nicaragua were allowed to spend loan money on subsidization of its own agriculture, as opposed to the construction of the infrastructure that attracts investment they could simultaneously address unemployment

⁹ Witness For Peace. WFP in our name: The Cycles of Economic and Military Violence in Latin America. Report 2002..<http://www.witnessforpeace.org>

while making strides towards bringing cheaper food to a country in which 40% of children under five are malnourished.¹⁰

In order to create the best environment for foreign business, Nicaragua, along with the rest of Central America, began constructing industrial parks in which companies are absolved from both property tax obligations and import/export tariffs. From an economic standpoint, this in itself is a subsidy. By not charging taxes that other domestic landowners are required to pay, the government is granting a subsidy to foreign investors, in the amount of taxes lost. When asked why the IMF would not support subsidization of agriculture but would support FTZs that are, in effect, direct subsidies, Mr. Renhack conceded that FTZs were indeed a type of subsidy and expressed the opinion that they were not sound economically and should someday be phased out. When pressed why this type of subsidy could be tolerated while agricultural subsidization could not, no answer was given. One can only assume this is because this type of subsidy helps achieve the goal of attracting foreign business, whereas agro-subsidies would hinder the country's ability to entice investment (because of lower unemployment and therefore higher wages). Indeed these companies are subsidized through lack of taxation and through their free use of the infrastructure created to attract them to the country. Not only does the government foot the bill for the structures that are instrumental to the day-to-day activities of these businesses, but they are also responsible for keeping up these roads, railroads, and canals which are primarily, if not solely, used by foreign companies, not ordinary Nicaraguans.

The argument of the IMF and other institutions is that there is no capital in Nicaragua. In order for the country to prosper, outside investment must be the top priority. Trickle down multipliers will eventually benefit all. Many Nicaraguans would contest that this method is defeating the stated goals of poverty reduction, and numerous statistics seem to support

¹⁰ Quoted from meeting with Nicaraguan Consumer Defense Network. Managua. July 23, 2002

this assertion. Although IFI policies have been in place for more than ten years, no progress has been made in the areas of poverty reduction. The poor are poorer today than they were ten years ago and the country's debt is constantly increasing. All of this despite improvements in what the banks deem as the most important indicators: growth and inflation reduction. Many Nicaraguans are baffled by the direction that their state is headed. In a country with so much farmland and so many farmers they feel there should never be hungry children, let alone 40% of the population under the age of five. When asked what we could do to help the situation of Nicaragua's poor, Mr. Renhack commented, "Visit Managua in twenty years and see the difference". Meanwhile, the people, mainly children, go hungry.

Ensuring Good Governance

The second, and least controversial point of the IFI's poverty reduction strategy is the belief that good governance must be achieved for the country to prosper. This is one point, at least in principle, on which the people of Nicaragua and the economists at the IFIs see eye to eye. What the critics do not accept is the way that this problem is being addressed. Since there is little that the IFIs can do to ensure ethical decision-making on the part of the country's leaders, the banks feel the most effective way to reduce corruption is to reduce the number of possible avenues for corruption. This is part of the reasoning used to formulate standard IFI policies, which call for the immediate privatization of state-owned industry. In theory, if there is no state-owned electric company for the officials to skim profits, some institutional theft will be curtailed. This rationale fits neatly within the IMF-sponsored ideology that private-run companies are always operated more efficiently than public entities. The sale of these companies will also result in a one-time chunk of money that can be used for, in large part, debt repayment.

There are several problems with both this policy and the way that it is implemented. Nobel Laureate Joseph Stiglitz argues strongly against this privatize-at-all-cost mentality that has become a cornerstone of development policy. In his recent book *Globalization and its Discontents*, he argues that if governmental corruption of state owned-industry is cited as a primary reason for privatization, one must realize that it will be the same corrupt government that will be responsible for the privatization process. With the potential income of future profit skimming at risk, the incentive for the government to sell the companies and facilities, well below market prices, in return for personal kickbacks is greatly increased and the citizens of the country (the theoretical owners of state-run companies) are literally sold short.

In addition to this factor, which contributes to unfair sale prices, the SAPs and HIPC initiatives that call for privatization are generally accompanied by a required sale date. This is the equivalent of announcing to local real estate agents that you have to sell your house by the weekend, through any means necessary, while still hoping to get a reasonable price for the property. In other words, developing countries are selling their assets at fire-sale prices. This is precisely what has happened with the electrical industry in Nicaragua. In 1998 Nicaragua was given a date by which its electrical company had to be privatized. This led to the described phenomenon. Prior to the auction the country's electrical grid was valued at nearly a billion dollars by independent analysts.¹¹ Control of the grid was eventually sold to the Spanish transnational Union Fenosa (after Fenosa edged out several American firms including Enron) for less than 150 million or 15% of its market value.¹² On top of this malfeasance, the government was required to spend loan money to fix up its facilities, prior to the transaction, so that electricity could easily be converted to

¹¹ *ibid.*

¹² Financial Times Information. Nicaragua Halts Sale of Hydroelectric Plants to Enron. May 4, 2002. http://web.lexis-nexis.com/universe/document?_m=4460e6da364d3ae53ed6e5d0a7889f3....

a profitable enterprise, therefore investing loan money to increase profitability yet selling the commodity before the modernizations could grant any return.

Former World Bank Chief Economist Stiglitz also faults the IMF's methods of privatization for being implemented too quickly, before necessary conditions are in place, the most important condition being a competitive market. Without competition, gains in technical efficiency will not always find their way to the pocket books of the citizens. This has certainly been the case in Nicaragua. Since privatization, electric rates have increased by as much as 30–40% per month in rural regions of the country, severely affecting the ability of the nation's poor majority to afford electricity.¹³ A provision mandating affordable utility rates in the Nicaraguan constitution makes it illegal for these increases to take place, but the SAPs supersede even the constitutional mandates, and the rate increases continue despite catastrophic costs to the poor.

This was perhaps most obvious in the small farming village of El Regadio, located near the Honduran border, where much of my first trip was spent. Four years ago, the citizens of El Regadio were able to muster over \$100,000 and 1200 man days to purchase and install electrical lines from the city of Estelli, through the mountains, to their town, a twenty-five minute car ride away. In exchange for this huge human and capital investment, they were granted rates that were affordable for a town predominated by subsistence farmers. This addition of electricity had an enormous effect on the capabilities of both the local school and health clinic. Classes could be held later, enabling high school-aged boys to help their fathers in the field during the day and attend class at night. As a result, attendance increased. The clinic could now use more accurate diagnostic devices that require electricity, vastly improving care. The privatization of electricity, and the rate hikes that followed, drastically marginalized these gains. Union Fenosa did not honor the

¹³ Quoted from meeting with Nicaraguan Consumer Defense Network, Managua, July 23, 2002

agreement between the village and the state-run company, and rates were raised to the standard levels. This put a severe financial strain on the community. The succeeding monthly increases worsened the situation from a strain to an unsustainable burden, and soon the electricity may be shut off. This would not only deprive the school and clinic of electricity, but would also wipe out the collective investment made at great sacrifice by the people of El Regadio. With the electrical company already privatized and the water system next on the auction block, many Nicaraguans are fearful of losing their constitutionally guaranteed, affordable utilities.

As a result of IMF-mandated budget reductions, several issues have arisen closely related to the Nicaragua's corruption problem. In the grand scheme of things, the IMF views funding for the Departments of Labor and the Environment as relatively low priorities. This has given rise to some unusual relationships. As the largest landowners in Nicaragua's free trade zones, Taiwanese corporations along with the Taiwanese government have substantial interests in the country's labor laws and labor enforcement. During my time in Nicaragua, some of the most enlightening meetings were spent with Nicaraguan lawyer Edgar Palacio from the Centro Nicaraguense de Derechos Humanos (Nicaraguan Center for Human Rights) or CENIDH.¹⁴ Mr. Palacio expressed first-hand knowledge of the Taiwanese role within the country's labor department. With little funding available for labor budgets, the Taiwanese government had agreed to help fund the ministry. They paid for air conditioning and renovations to the Ministry of Labor, and every year the ministry's employees receive a new pair of pants, at Christmas time, courtesy of the Taiwanese taxpayers. This has created an interesting dynamic. The country whose companies are the most frequent offenders of Nicaraguan Labor codes is simultaneously providing large sums of money for the

¹⁴ Mr. Palacio has been working on a number of high profile labor violation cases, including the case of the 53 employees of the American-owned Mil Colores Maquilladora, whose jobs were terminated when a number of employees formed a union.

department that is responsible for preventing these infractions. As one could deduce, the enforcement of Nicaragua's progressive constitutional labor laws (by Latin American standards) has been non-existent. In addition to the regular gifting of the ministry, a recent ruling in favor of a Taiwanese business was immediately followed by the purchase of several new computers for the department. The case in question involved a pregnant woman who was denied permission to leave her post to seek medical attention. After multiple requests, the woman was allowed to go to the bathroom, where she soon miscarried her child. After lengthy court proceedings the company was found not guilty of negligence and the Labor Department soon found itself with a technological upgrade. In addition to its involvement with the Labor Department, the government of Taiwan was largely responsible for the construction of an elaborate Presidential Palace during Arnaldo Aleman's time in office, connecting the interests of the Taiwanese economy to the highest levels of the Nation's governance.

While no one could accuse the SAPs of directly causing such corruption, it is reasonable to note that the lack of funding mandated by the Structural Adjustment Programs created the perfect environment for such abuses. By rendering social programs, vital to the welfare of the people, in desperate need of assistance, they are putting these institutions in a very compromising position. Although the IFIs insist that corruption is a major stumbling block to poverty reduction in Nicaragua, the actual results of their policies seem to facilitate corruption, only through alternative paths.

Increasing the Productivity of the Poor

The third prong of their poverty reduction strategy, increasing productivity of the poor, is very much related to the first point of increasing competitiveness and investment. The self-acknowledged way that the IMF measures growth and productiv-

ity is through the macro-economic indicator of a country's Gross Domestic Product, or GDP. For the poor to become productive in Nicaragua, they must begin to function within the global system of business and engage themselves in a greater number of monetary transactions. Under this definition of productivity, Nicaraguans whose primary occupation is to grow their own food to feed their family do not register at all, and are considered zeros on a productivity scale. However, the farmer who sells his land and moves to the city, where he cannot feed his family (average factory wages represent only one-third of the bread basket cost, or living wage in Nicaragua, as defined by the United Nations), is considered to be a productive citizen. This would seem to contradict one of the three official steps of poverty reduction. Since by all accounts, failing to satisfy the basic need for food is the most fundamental aspect of poverty, the task of making the poor more productive, at least by this definition, is in many cases working to increase poverty, not reduce it.

Along with the problem of the productive-poor population's inability to support a family through their factory jobs, come many other detrimental side effects. The life of a factory worker is extremely precarious, with companies routinely packing up shop and moving to a new location or country where they will be able to generate higher profits. Job security is generally not a problem for the "unproductive" rural farmers who, even in the event of a drought, can always count on their land for enough food to feed themselves. Their fields will not pick up and leave for Honduras. The lack of job security and livable wages are hard on adults and even harder on the children. If the adults of a household are unable to generate enough income to feed their families, children must become supplemental wage earners. This has increasingly been the case in Nicaragua, as child labor has risen 400% since 1993.¹⁶ This common consequence of declining wages has a

¹⁶ Nicaragua at a Glance: Profile of the deadly embrace of debt. Shame in our Name. National Day of Action. Witness For Peace.

direct effect on school attendance and indirectly hampers long-term poverty reduction. The streets of Managua are littered with children selling anything they can, and if they have nothing to sell, many resort to selling tap water to thirsty drivers (people with cars are the only ones with money), or to climbing up to the windows of stopped cars to simply beg for money. The traffic lights in Managua double as flea markets as vendors (primarily children) clamor to make a sale to the owners of any vehicle stopped at a signal. Many children, and sadly many parents, have now learned that certain types of glue will function both to suppress appetites and reduce inhibitions, enabling children to be less apprehensive about approaching strangers for handouts and less famished upon failure. Failing to entice donations is far from uncommon for a child beggar; very few Nicaraguans have spare money to give. The incidence of this form of substance abuse has become increasingly widespread and the effect on public health is considerable.

The filthy urban environment of Managua can also be cited as a health risk associated with the transition from the farm or *campo*. With no money available for sanitation services or even public garbage canisters, the streets are littered with any and all types of refuse. The air is filled with the smell of dust and gasoline and the country's two giant lakes, Lake Nicaragua and Lake Managua, are the final destination for the bulk of the country's sewage. With sewage treatment resting near the bottom of the government's priorities, the cheapest solution is to pump Managua's waste directly into the large bodies of water untreated. Enforcement of environmental laws receives a similar level of neglect and local factories are practically free to dump their unwanted by-products into the waterways as well. Even in the rare event that an environmental violation is pursued, the company in question need not panic. There is a maximum, one-time fine of \$800 for this type of violation. Needless to say, this amount does not counterbalance the savings generated through this method of low cost trash disposal. Altogether, these environmental factors only add to a depreciating quality of life that Nicaraguans discover upon

their relocation from the pristine countryside to the squalid city. Overall, the life of the “productive urban poor” is substantially worse than that of the “unproductive rural poor”.

In fairness to the institutions, some funds are now slated to go to independent organizations that are sponsoring micro-loan programs in rural areas. These loans will allow the farmers who are lucky enough to receive them to sell livestock for profit. A micro loan, for example, could arise when a family’s pig has a litter and one of the female’s piglets is given to a neighbor. When the “loaned” pig has a litter of its own, the original owner will receive two of the piglets. These micro-loans have long existed within village communities, largely because they are the only type of loans available to small farmers. Since the SAPs called for a drastic reduction of credit provided by Nicaraguan banks during the early nineties, it has been all but impossible for campesinos to receive monetary loans. This subject became extremely poignant after spending several weeks in rural regions of the country. Any farmer knows that loans are a necessary part of doing business and without them one is doomed to subsistence. Before every planting season, loans are needed to purchase the next year’s seeds, fertilizers and equipment. With nothing to offer as security, poor farmers must either use their farm as collateral and risk losing their livelihood in the event of a drought or other unforeseeable disaster, or work with the available resources and farm for subsistence purposes. Droughts in Nicaragua are not uncommon, and when we arrived the farmers were celebrating the onset of the rainy season after nearly seven months without precipitation. Most farmers are not willing to take the risk and are forced to choose the route of subsistence. Those who are willing to risk their property have not had much luck, and many farmers have been forced to the city upon confiscation, soon to become a member of the glamorous “productive poor” class and a greater contributor to GDP. Without access to credit, farmers are rendered incapable of taking full advantage of what is generally their only resource, their land.

In regard to increasing productivity, we heard representatives speak about putting an emphasis on education and health care. To be frank, these statements were entirely unconvincing. The focus on education in Nicaragua has involved the channeling of education funds away from secondary schooling in favor of primary education, and advising the government that such spending must be decreased as a percentage of the budget. The rationale for this is that expenditures centered on primary schooling will better provide for the entire population at the primary level, as opposed to a select few at the college level. This may be a valid point but what is lost in the argument is that overall education spending is still being reduced. As a result of shrinking education funds, the Sandinista improvements in literacy have started to reverse. In 1990 illiteracy was at a respectable 18%, ten years later this number had climbed to 34% as a result of the mandated cuts of the nineties.¹⁷ Similar to the situation involving electrical rate hikes, Nicaragua's constitution stipulates that 6% of the budget must always be allotted for secondary education. Due largely to the reduced social spending mandates, the number has now dipped well below this figure. The physical image of "6%" is one of the most common sights in Nicaragua, with the number and percentage symbol spray-painted everywhere within the cities and on the shirts of numerous angered citizens. This issue epitomizes the sense of helplessness among many Nicaraguans. The realization that the foundation of their constitution can be violated as a result of policies that have been formulated abroad and thrust upon them without so much as a consultation is a source of angst and frustration. Regarding health concerns, the banks do grant money to independent non-governmental organizations that work in areas such as the "latrification" of the rural areas and distributing food to needy communities. Many clinics, however,

¹⁷ WFP in our name: The Cycles of Economic and Military Violence in Latin America. P. 10. Witness For Peace Report 2002..<http://www.witnessforpeace.org>

go without medicine or electricity as a result of SAP directed cuts in health care spending. Deaths due to preventable illness have also significantly increased since the early nineties.¹⁸

The Future?

At this time, the future does not look bright for Nicaraguans. The proposed Central American Free Trade Agreement (CAFTA), Free Trade Area of the Americas (FTAA) and development program Plan Puebla Panama will extend the controversial NAFTA agreement to the tip of South America and create an even better environment for the growth of Free Trade Zones. It will be easier for cheap imports to flood the market and wipe out the little local industry that still exists. The diabolical Chapter 11 of NAFTA, which allows transnational companies to sue governments if publicly enacted environmental protections diminish profits, may be included in CAFTA and the FTAA. Thanks to newly granted Trade Promotion Authority, the US Congress will be helpless to change this, (few dare vote against the agreements in their entirety), keeping Nicaragua's dismal environmental standards right where they are. The infrastructure and ports that are to be constructed on the Atlantic Coast of Central America will endanger large amounts of Nicaragua's rainforest and thousands of indigenous people will be displaced. If the job losses and injurious effects that NAFTA has delivered in Mexico are projected on Nicaragua, the country's rapidly increasing poverty rates will only be accelerated. Even this has its limits, however, as many Nicaraguans do not have far to fall before they reach the ultimate level of poverty: starvation.¹⁹

While the indicators that the IFIs use to judge productiv-

¹⁸ Goodwin Jr., Paul Nicaragua: Country Report. Global Studies: Latin America..p.44 1998

¹⁹ The recent global coffee crisis has already led to starvation in certain regions heavily dependent on this crop

ity and prosperity are giving positive readings, the health, education, and wages of the country's people are decreasing. Although the foreign companies that are attracted to Nicaragua are prospering, the people and government are not. Something is dreadfully wrong with this picture. If the application of economic theories practiced by the IFIs were genuinely scientific, they would have long since realized that it is time for a new hypothesis in their poverty reduction experiment, because the existing set is failing terribly. Perhaps the true question is: Are the strategies really failing, or are the rest of us failing to see the big picture? Either the methods being used to achieve stated goals are faulty, or it's just the name of the goal that's faulty, and the methods are working just fine. It is hard to believe that such intelligent, highly educated people could devise such flawed programs and not only devise them but continue them, amidst concrete statistical evidence of their failure. If the title of this paper had been, "The Effects of IMF Policy on the Profitability of Transnational Corporations in Nicaragua" and the name of the policies were "Profitability Promotion Strategies in Nicaragua" as opposed to "Poverty Reduction Strategies", I would be hard pressed to find flaws in the program. This raises the question of the precise motivations of these institutions. Is it really in the best interest of the major shareholders and their officials to reduce the poverty of developing nations, when they could craft policies that enhance their own economies, open up new markets for their products and please their constituency back home? Is it really in the interest of high-level economists, who will soon be leaving their post at an IFI to return to a higher-paying job at a private company, to develop poor countries if it means that the financial community might be less likely to receive timely returns on their loans? Is it really in the best interest of an IFI employee who sees the destruction that these policies create to speak up if it will cost him or her their job? In light of the continuing failure of Nicaragua's Poverty Reduction Strategy and the corporate profits gained through the exploitation of the country's labor force, these motivations are difficult to af-

firm. Todd Richards a Senior Advisor to the U.S Executive Director at the World Bank, perhaps best reinforces such skepticism: “I don’t know much about Nicaragua, my opinions are formed here, from reading World Bank Literature. You were there, you know more than I do. Tell me what you saw.”