Challenging Poverty, Vulnerability and Social Exclusion in Nicaragua: Some Considerations for Poverty Reduction Strategies[1]

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Abstract: This article considers the policy context within which a Poverty Reduction Strategy is being prepared in Nicaragua as part of the conditions for entry onto the HIPC initiative. It then goes onto consider some recent official evidence on the magnitude, distribution and change in the depth of poverty in Nicaragua over the period 1993 to 1998. Section three considers macroeconomic approaches to growth, aid and poverty reduction, and some obstacles which these approaches have begun to identify, but have largely been unable to surmount. It further considers some local and regional development approaches. Sections four and five look at some other important considerations for poverty reduction strategies in the context of vulnerability, social exclusion and social capital. Section six considers the extent to which these wider poverty issues are considered in the present I-PRSP (interim poverty reduction strategy paper) of the government. The article concludes with a discussion of the increasingly important role attributed to civil society organisations in strengthening and pushing institutional and policy changes necessary for more local participatory and workable poverty reduction and development strategies, which for many years before these initiatives has been the basis for their work.

Abstracto: El Desafío de la Pobreza, Vulnerabilidad y Exclusión Social en Nicaragua: Algunas Consideraciones para Estratégias para la Reducción de la Pobreza*; El articulo considera el contexto político en el cual se elabora una Estrategia para la reducción de la Pobreza, como parte de las condiciones para ingresar a la iniciativa HIPC. Se presentan algunas evidencias oficiales sobre la magnitud, distribución y cambio en la profundidad de la pobreza en Nicaragua entre 1993 y 1998. Sección tres: se presentan enfoques macro-económicos en términos de crecimiento, ayuda, reducción de la pobreza y algunos obstáculos que los enfoques han identificado y no han podido aclararse. Se examinan algunos enfoques sobre desarrollo local y regional. En las secciónes cuatro y cinco, se presentan algunas consideraciones importantes para la ERRP en contexto de vulnerabilidad, exclusión social y capital social. Sección seis, se analiza el marco en que estos factores se debieran considerar en la Estrategia para la reducción de la pobreza interino del gobierno. Se valora el rol importante de las organizaciones de sociedad civil en el fortalecimiento, impulsando cambios en políticas institucionales necesarias para incrementar la participación local y funcional en la reducción de la pobreza y estrategias de desarrollo, lo que desde hace muchos años, las organizaciones han venido impulsando como base de su trabajo.*

Key Words; Nicaragua, Poverty, Vulnerability, Social Capital, Social Exclusion, Gender, HIPC Initiative, External Debt, World Bank, Poverty Reduction Strategies, Government, Civil Society.

1. Introduction: Poverty Reduction Strategies and the HIPC Initiative

Nicaragua is at present generally regarded to be the second poorest country in the hemisphere after Haiti. While for some the economic collapse in the 1980s, associated with the Sandinista Revolution, US blockade and Contra War, is at the base of these high poverty levels (Gobierno de Nicaragua, 2000a), others also consider that the neo-liberal policies to promote economic growth implemented in the 1980s and 1990s have had an important role to play. The impact of these Structural Adjustment Policies (SAP's) (see Dijkstra, 1996 for some impacts of SAP's in Nicaragua), imposed in many poor countries by the World Bank and International Monetary Fund (IMF) along with 'globalisation' processes (Sassen, 1991), rather than bringing the promised economic returns, in many cases have increased people's poverty, vulnerability and social exclusion. As a result, there has been a recent resurgence of interest in poverty and poverty reduction strategies, at least at the international level.

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At the same time there has been continued concern around the high levels of indebtedness of a number of poor countries. In 1999 the Extended Structural Adjustment Facility (ESAF) was replaced by the Poverty Reduction and Growth Facility (PRGF). The G7 summit in Berlin in 1999 saw changes in the Highly Indebted Poor Country (HIPC) initiative II making debt relief conditional on the creation of a National Poverty Reduction framework. In Central America, Honduras and Nicaragua have been involved in these initiatives (McIlwaine, 2001; Debt Relief International, 2000) along with Bolivia in South America (Loaiza, 2001). Nicaragua prepared an interim poverty reduction strategy proposal (PRSP) in accordance with World Bank guidelines in August of 2000 as part of preparations for entry onto the HIPC initiative.

During the interim period, before full entry into the HIPC, a number of conditions are to be met, to be monitored and evaluated to the satisfaction of the World Bank and other Multi-lateral agencies behind the initiatives. Among these is the elaboration of a PRSP with the full participation of Civil Society, and its satisfactory implementation for at least 1 year. In addition, the use of budgetary savings resulting from interim relief under the HIPC initiative must be used for poverty related public expenditures and tracked and reported in the PRSP process. Other conditions include the maintenance of a stable macroeconomic framework; implementation of reforms to promote human capital development and social protection; implementation of government strengthening measures; implementation of the remaining actions needed to introduce a satisfactory pension system of funded, private sector-management, and individual accounts; and divestment of ENITEL[2] and all electricity generating units of ENEL[3] (IDA-IMF 2000).

At present the World Bank official view is that they envisage a floating full entry point onto the HIPC after one full year of operation of the final agreed PRSP (World Bank, 2001). Full entry is expected in 2002 and this will allow Nicaragua to benefit from the maximum reduction of the debt burden under the scheme of nearly US $ 3,267 million (72.2%) on debt outstanding[4]. The initiative would be applied over the next 23 years ending in October 2023. Nicaragua can obtain interim benefits from entering the process during this interim period which amount to up to one third of this maximum total until full floating point conditions are met. For the current year 2001 Nicaragua will receive interim benefits of US$ 4.6 million, although this is slightly less than US$ 5.66 million originally envisaged in the above document (World Bank, 2001).

The official view of the Nicaraguan governments interim poverty reduction proposal is that it goes beyond that envisaged by the World Bank and the IMF (IDA-IMF, 2000). However, while the central policy commitment of poverty reduction is an important one, the similarity between the SAPs-ESAF policies and PRSPs is striking. It raises questions of the abilities of the neo-liberal World Bank policy regime within which PRSPs are being prepared to achieve real reductions in poverty and the real commitment to poverty reduction of the present PRSP rhetoric. For many commentators it represents “old wine in new bags” (CCER, 2000c; Verheul and Cooper, 2001).

While the debates continue as to what extent economic growth can reduce poverty, in Nicaragua the government suggests there is "evidence that broad-based growth reduces poverty. Between 1993-1998, detailed surveys show that rural poverty was significantly reduced by a strong agricultural recovery" (Gobierno de Nicaragua, 2000a). However, as the IMF also notes “in spite

[2] *Empresa Nicaraguense de Telecomunicaciones – Nicaraguan Telecommunications Company.*

[3] *Empresa Nicaraguense de Electricidad – Nicaraguan Electricity Company.*

[4] *The nominal stock value of debt in Nicaragua is estimated at US $ 6.4 billion, after full application of traditional debt-relief mechanisms, the estimated end of 1999 net present value (NPV) of debt is US $ 4.5 billion (IDA-IMF 2000) which places the NPV debt to export ratio at an unsustainable 540% level (the target ratio is 150%).*

of the measured gains made in reducing poverty during 1993-1998, qualitative analysis show that the poor associate the 1990s with a decline in their well-being" (IDA-IMF, 2000). The document continues by asking "what can explain this finding?" An explanation of this contradictory finding and its possible implications for the PRSP presented by the Nicaraguan Government will be the focus of this article.

First, official data is used to demonstrate that despite these so called 'measured gains' in poverty reduction, even using the government's own data, the popular perception of a worsening of the situation is not wrong. Second, the article considers the real ability to reduce poverty of macro economic policies whose main aim is the promotion of economic growth, focussing on recent World Bank studies that highlight the importance of 'institutional quality' also in poverty reduction. After considering some infrastructure and regional development approaches, the article highlights the diverging views around issues of institutional quality, introducing the ideas of social exclusion and social capital as useful in this context. It then considers the government's poverty reduction strategy and what a move from a narrow economic growth based focus on 'poverty' to a more holistic 'well-being' framework would mean for PRSP's. It concludes by considering the important role of civil society organisations and some prospects for the future.

2. Poverty in Nicaragua: Magnitude, Distribution and Change 1993-1998

Generally when measuring poverty world wide the World Bank has used reference lines of $1 and $2 per day in terms of 1993 Purchasing Power Parity (PPP). It has been estimated that in 1998 1.2 billion people world-wide have consumption levels of less than $1 per day (World Bank, 2000). In Central America it is estimated that more than 50% of households live in poverty and Nicaragua is shown to be the poorest country in Latin America with 44% living on less than US $ 1 per day and 75% living on less than US $ 2 per day (Oxfam, 1998).

In Central America poverty line indicators have been used in a number of countries - that is, the amount of annual consumption per head necessary to buy a minimum number of calories and other articles including housing, clothing and transport – which in Nicaragua for 1998 was US$ 402.05 (see Annex 1). The poverty gap is then defined as the percentage at which annual average household consumption per capita is below the established poverty line. Despite criticisms of these 'income-poverty' approaches and the development of alternative approaches and indicators (see Chambers, 1995; Wratten 1995) this section considers recent evidence on poverty change in Nicaragua according to these official metrics.

2.1 Distribution of Poverty

Nationally the total number of people living below the poverty line increased by 25,697 from 2,190,787 in 1993 to 2,225,401 in 1998, which represents 51% of the population (see Table 1). The number of people living in extreme poverty in 1998 is estimated to be 904,372 representing 40.6 % of all poor and 20.9% of the population.

These official figures suggest that numbers of people living in poverty have not declined and some 8 departments had increases in the number of people below the poverty line (9 had decreases). The largest increases are in the departments of León (53,038), RAAS (45,492), Chinandega (43,370) and Granada (30,990). While the largest decreases were in the departments of Managua (-68,024), Carazo (-24,756), Matagalpa (-22,992) and Chontales (-19,105).

However, these overall figures of magnitude hide a great deal of change in the distribution of poverty and deterioration in the depth of poverty in Nicaragua over the period. The data show that estimations of the proportion of the population below the poverty line vary widely between the 17 departments of Nicaragua. In terms of magnitude (See Table 1 columns B and E) Matagalpa has the largest absolute number of poor (259,586) and extreme poor (121,853) which represents 12% and 13% of these respective totals (column D and F). Other departments with high magnitudes are in descending order, Managua (10%), Chinandega (9%), León, RAAS, Jinotega (8%) and the RAAN (6%). The lower absolute numbers of poor are found in Rio San Juan (49,882), Carazo (73,001) and Granada (79,062).

The largest proportions of extreme poor are found in Matagalpa (13% of the total), Jinotega (11%), and the RAAS and RAAN (9%) and Chinandega (8%), León (7%) with lower proportions in Rio San Juan, Carazo and Granada (3%).

However, as a proportion of the departmental populations (column C) Madriz has 75% of its population living below the poverty line, followed by Jinotega (73%), Nueva Segovia and the RAAN with 72% and Rio San Juan with 71% despite in some cases the relatively low absolute numbers.

The last four columns of Table 1 use some of the available government statistics on poverty at the municipal level to calculate the amounts (in US$) of resources needed by department to elevate the poor from below the poverty line and the extreme poverty line to the respective lines (columns I and K). Generally they can be considered as a theoretical minimum of resources needed in each department to allow the population to access a basic minimum standard of living. The estimates combine both the magnitude and depth of poverty indicators into a single monetary amount and are not necessarily pro rata proportions of the number of poor or extreme poor in each department as they depend also on the depth of poverty, ie. how far below the poverty and extreme poverty lines the poor fall, in each municipality comprising the departmental totals (which are discussed below). They suggest the total resources which the local economies would need to generate and put at the disposal of the poor and extreme poor or which the national economy as a whole needs to redistribute to these groups each year, until such time that the local economy is capable of generating and delivering these resources.

Nationally this suggests approximately US $ 233 million is the minimum amount needed to allow those in situations of poverty or extreme poverty to reach the poverty line. This represents about 25% of GDP in Nicaragua in 1999. Given the current income distribution in the country and projected growth rates it raises questions concerning the real ability of macro policies to generate and redistribute this amount on a sustainable basis

The results indicate that in terms of the poverty line estimates the department with the greatest proportional need (column J) in terms of these total minimum amounts of resources is Matagalpa (14% of the total), Jinotega (11%), RAAS (10%), RAAN (9%), Chinandega (8%) and León (7%). While those which would command the lowest levels of resources are in Carazo (2%), Managua, Rio San Juan, Granada and Rivas (3%).

In terms of minimum resources needed by the extreme poor group to reach the extreme poverty line of approximately US $ 200 the total needed nationally is approximately US $ 19.3 million. Due to the numbers and depth of extreme poverty in some departments over 50% of this is needed in just 4 departments (column L), RAAN (20%), Matagalpa (14%), Jinotega (14%) and the RAAS (10%). What is interesting from this analysis is that the RAAN has 9% of the proportion of extreme poor but due to the depth of poverty within this group in this department it needs to access 20% of the total minimum resources needed by the extreme poor nationally.

2.2 Extreme Poverty and the Changing Depth of Poverty 1993-1998

Using official calculations of the poverty gap it is possible to compare changing levels or depths of poverty over time. However, there are a number of technical difficulties to be overcome in such a comparison due to changing geographical units (in terms of the number of municipalities) and levels at which the baselines are being calculated (see Annex 1). Thus there is much disagreement on the interpretation and validity of these indicators and the nature of the changing amount and depth of poverty that exists within the country.

It is also important to note that while the earlier poverty map of Nicaragua (see Map 1) based on 1993 data showed only the *poverty* gap, the map of 1998 showed only the *extreme* poverty gap (See Map 2). This makes comparison over time difficult due to the differing operational methodologies (Comparisons at this level have been undertaken by the CCER and are available on their web site, CCER, 2000a). It also suggests a change in focus for the government from poverty to extreme poverty and changes in how extreme poverty is defined, with important consequences.

The 1993 map of poverty is based on the depth of the poverty gap – the percentage at which average consumption per capita is below the poverty line - categorised into three bands, less than 7% below the poverty line indicates medium and low poverty, 7-21% indicates high poverty and greater than 21% indicates extreme poverty. The poverty gap varies between 59% and 1% at the municipality level. The concentrations of poverty defined under this measure are mainly in the northern central region of Las Segovias (Madriz, Nueva Segovia and Estelí departments) and in Matagalpa. The municpality of Mozonte had the highest poverty gap of 59%, followed by San Pedro de Lovago (48%), Achaupa (43%), Rancho Grande (42%) La Trinidad (41%) and Totogalpa (37%). The smaller poverty gap areas are Corinto, León, Bluefields (1%), Chichigalpa, Telica, Granada, Diria, Diriomo, Nandaime and Kukra Hill (2%) and San Rafael del Sur, Managua, Rivas and El Rama (3%).

The 1998 map of extreme poverty indicates concentrations of extreme poor in the Atlantic region although the categories are somewhat different. The extreme poverty gap variable varies between 48% in Prinzalpoka to 0.06% in Managua. This indicator is banded into four categories Severe Poverty (48-12%), High Poverty (12-9.2%), Medium Poverty (9.2-7%) and Low Poverty (7-0.6%). General distribution shows much of the extreme poverty depth to be concentrated in the municipal areas of the RAAN with lowest levels of extreme poverty depth in the municipal areas of the Pacific region with the exception of Chinandega (Map 2).

The government has not presented a map of the 1998 poverty gap data comparable to that of 1993 (Gobierno de Nicaragua, 2001). However, it is possible to produce a comparable map for 1998 based on the same categories as used in the 1993 calculations – that is less than 7% below the poverty line indicates medium and low poverty, 7-21% indicates high poverty and greater than 21% indicates extreme poverty. This map (See Map 3) shows that in 1998 the main areas with a high poverty gap are in Prinzapolka (65.5%), Waspan (56%), Santa Maria (42%), Macuelizo, San Jose de Cusmapa, San Nicolas, Desembocada de Rio Grande (40%). While those of the lowest are Managua (7%) , Ticuantepe (8%), Corinto, Tipitapa, Corn Island, San Rafael del Sur, Mateare (9%).

The application of the method of comparison above which uses the same categories as the poverty gap variable used in the 1993 analysis indicates that nearly the whole national territory of Nicaragua would be in the extreme poverty category of greater than 21%. There are only 37 municipalities out of a total of 151 with a poverty gap value of below 21% in the 1998 calculations in contrast to 1993 where there were 102 municipalities with a poverty gap indicator of less 21%.

The 1998-1993 poverty gap change indicator (see Map 4) shows large rises in the depth of poverty in Nicaragua in almost all of the national territory and in some cases up to 53% (Prinzapolka) with increases in the depth of poverty particularly in the Atlantic regions of the RAAN and RAAS of Waspan (43%), Desembocada de Rio Grande (36%), La Cruz de Rio Grande (34%), El Rama (32%) Cua-Bocay in Jinotega (32%), El Tortuguero (31%), Paiwas (30%), Puerto Cabazas (27%), Kukra Hill (26%). This figure varies between 53% and -22%. A positive figure indicates an increase in the depth of poverty, while a negative figure indicates a reduction in the depth of poverty. Overall the poor in 137 municipalities have experienced increases in the depth of their poverty. There are only 10 municipalities in the whole country in which the poor have experienced a reduction in the depth of the poverty within which they live. These are San Pedro de Lovago (-22%), Mozonte (-21%), La Trinidad (-16%), Achuapa (-13%), Rancho Grande (-5%), Terrabona, Jalapa (-2%), Corn Island, Somoto, Villa Sandino (-1%). In this respect some of these latter areas represent 'radical' regions in the sense that they are going against this general trend and are in need of further investigation, since some were previously among the poorest areas according to the 1993 poverty gap (Map 1).

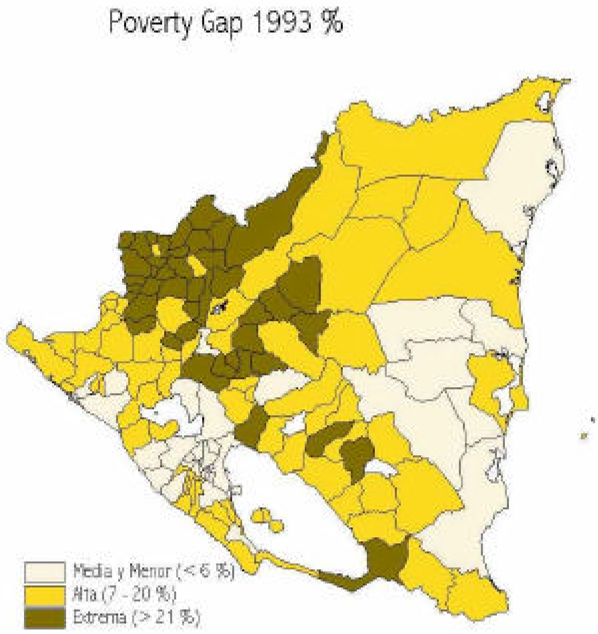
The key municipal policy areas, defined on a twelve factor composite poverty indicator analysis (CCER, 2001a) which rank high and consistently appear in the top 20 are; Cua-Bocay, El Rama, Nueva Guinea, Siuna, Waspán, El Tuma - La Dalia, El Viejo, Jinotega, Managua, Matagalpa, Matiguas, Paiwas, Wasala, Chinandega, Wiwili, Prinzapolka, Quilali, and San Ramón.

Despite the problems of comparison the figures broadly indicate that not only is the number of people in extreme poverty generally increasing in Nicaragua, but there have been severe increases in the depth of poverty in most of the country, especially in the RAAN and RAAS regions of the Atlantic coast. That this official data was collected by the government before Hurricane Mitch suggests even more cause for concern.

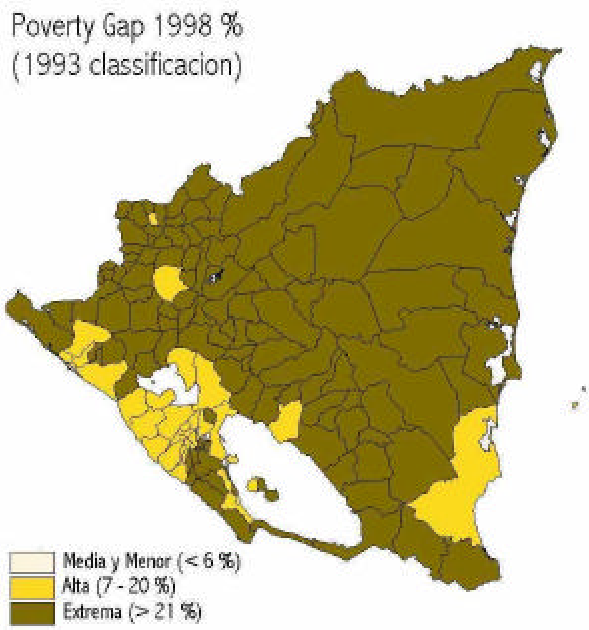
Table 1 Nicaragua: Poverty by Department 1998-1993

Department	A: Estimated total population 1995	B: Absolute number of poor 1998	C: Proportion of the population below the poverty line 1998	D: Proportion of the total poor in each department	E: Absolute number of extreme poor 1998	F: Proportion of the total extreme poor in each department	G: Absolute number of poor 1993	H: Change in number of poor 1998-1993	I: Total $US needed to elevate the poor to the poverty line	J: Proportion of the total resources needed in each department (poverty)	K: Total $US needed to elevate the extreme poor to the extreme poverty line	L: Proportion of the total resources needed in each department (extreme poverty)
Matagalpa	382342	259586	68	12	121853	13	282578	-22992	31909898	14	2648222	14
Managua	1088514	219578	20	10	39192	4	287601	-68024	6683522	3	84640	0
Chinandega	348557	200310	57	9	72925	8	156940	43370	18812490	8	976943	5
Jinotega	255883	187311	73	8	95278	11	183151	4159	25944260	11	2673661	14
Leon	336011	181914	54	8	63736	7	128876	53038	16110114	7	739174	4
RAAS	270323	177885	66	8	83110	9	132392	45492	22444126	10	2008027	10
RAAN	181372	131396	72	6	79175	9	138523	-7128	20961445	9	3819891	20
Masaya	240985	117033	49	5	34483	4	93623	23410	8148150	3	261291	1
Nueva Segovia	147862	105772	72	5	49406	5	118027	-12257	13726353	6	1137111	6
Esteli	173500	98288	57	4	40635	4	116245	-17957	9870665	4	681146	4
Boaco	136656	93175	68	4	44788	5	85544	7630	11504089	5	988599	5
Chontales	143465	89597	62	4	42254	5	99793	-19105	10242286	4	902049	5
Rivas	139746	81646	58	4	23222	3	78088	3557	7662446	3	273714	1
Madriz	107130	79965	75	4	39695	4	86446	-6481	10946459	5	985078	5
Granada	154501	79062	51	4	26204	3	48072	30990	6105519	3	258953	1
Carazo	148629	73001	49	3	23046	3	97757	-24756	5238727	2	183732	1
Rio San Juan	69804	49882	71	2	25370	3	57131	-7249	6604133	3	672999	3
Nacional	4325280	2225401	51	100	904372	100	2190787	25697	232914682	100	19295230	100

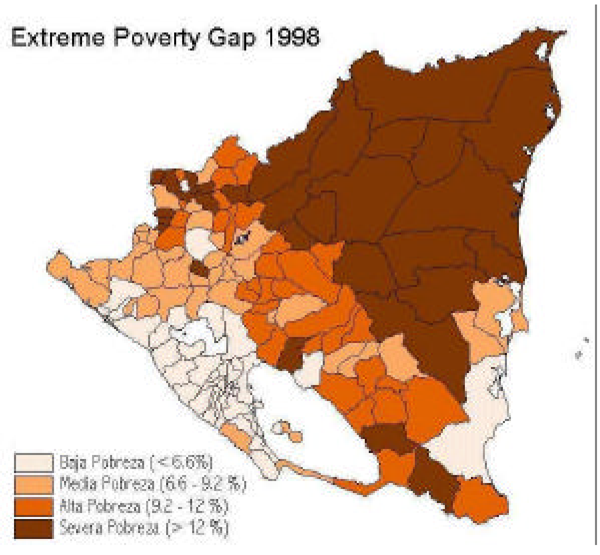
Map 1



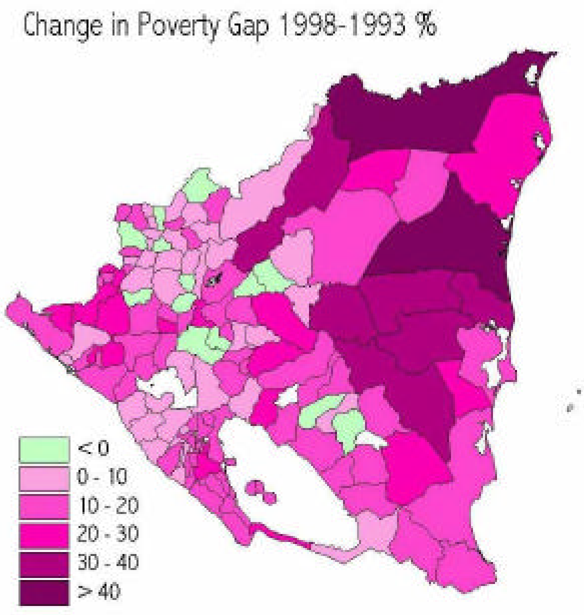
Map 3



Map 2



Map 4



3. Economic Approaches and Poverty Reduction Strategies

The IMF and the World Bank suggest PRSPs should rest on 4 central pillars; labour intensive economic growth, investment in human capital, social safety nets for the most vulnerable, and good governance and transparency. While it is the World Bank and the IMF who at the end of day decide if a PRSP is acceptable or not, a further key element stressed officially is that of 'national ownership' of a PRSP (Wood 2000a). The idea of 'national' ownership, or even 'governmental' ownership for many, however, is largely rhetoric. The fact that the IMF, despite its supposed new focus on poverty reduction, has not changed its basic policies suggests little leeway for those who do actually want to propose a new policy framework (Wood 2000b). The role of civil society in the PRSP process is also not clear. On the one hand a government is free to decide to what level it invites civil society participation. On the other hand, the World Bank and IMF documents suggest they envisage civil society will be consulted on the PRSP rather than contemplating a participatory process (Wood 2000a).

The relationship between PRSPs and the HIPC suggests a further barrier for civil society participation in the process. Commentators have noted that a desire to enter as quickly as possible into the HIPC could mean that countries hurriedly produce PRSPs in order to speed up the process, leaving little time for real participation (CAFOD 2000). While for some the solution is to de-link the two initiatives, the solution put forward has been to permit governments to present for approval 'interim' PRSPs. Entry into the HIPC will then be approved after one years 'successful' application of the interim proposal (as measured by the World Bank and the IMF). As has been noted, this actually allows a government to produce an Interim PRSP that lays out the contents and calendar for the PRSP, including information about how civil society will participate in the process in the future, with little or no prior consultation with civil organisations. Once agreed by the Bank and the IMF all a government has to do is carry out the actions planned – that is, the main contents are agreed before consultation or participation of civil society (Wood 2000a).

The PRSP process may also be seen to limit the 'participation' of other donor agencies, since the idea is that in the future they will finance parts of the PRSP rather than designing and implementing their own projects. Some organisations have already challenged the World Bank on this point, seeing the PRSP as merely a means of centralising more power in the hands of the Bank (Bretton Woods Update 2000). How donors will react in the face of a PRSP they cannot agree to, is yet to be seen. Moreover, given the confusion that exists over just who really 'owns' a PRSP, each of the key actors will have the chance to deny their responsibility, especially when things go wrong. This is particularly important since many also suggest that PRSPs, given their macroeconomic basis, will not achieve the aim of reducing poverty (Bretton Woods Update 2000).

3.1 Macro Economic Approaches to Poverty Reduction

Macroeconomic approaches to poverty reduction rest on the assumption that economic growth impacts on poverty. Stimulating economic growth through changes in macroeconomic policy was first prescribed by the IMF and World Bank through structural adjustment policies. However, there is no region of the world that has succeeded through adopting the policies which the World Bank or IMF promote or impose on borrowing countries (indeed, they are reluctant to claim credit for gains in China, which violate many their prescriptions). In Latin America while generally GDP per capita grew by 75% from 1960-1980, from 1980-1998 it has only risen by 6%. These enormous differences represent a loss by hundreds of millions of people of any chance of improving their living standards. Moreover, not only the poor but the majority of the labour force have failed to share in the gains from the economic growth that did occur (Weisbrot et al. 2000). Despite economic growth in the 1990s in Nicaragua the number of poor has not been reduced and the depth of their poverty has increased, in many cases substantially.

Among the main assumptions at the base of the PRSP and HIPC initiative for Nicaragua is that the Nicaraguan economy will grow at an average annual rate of about 5.5% during 2000-2008, slowing down slightly after this date and stabilising in the long term at around 5% (IMF and World Bank analysis cited in IDA-IMF 2000). While production in Nicaragua has actually grown at an annual rate of 5.1% during the period 1996-2000, due to population growth, GDP per capita has grown at a rate of 2.3%. In this scenario for real GDP per head to double from US$ 490 will take 30 years and Nicaragua would continue being 'poor' until 2030.

However, an important issue for the effectiveness of the government's poverty reduction strategy are the deteriorating terms of trade associated with rising oil prices and declining commodity prices, in particular those of coffee and sugar. While the HIPC may be able to cushion some of these effects, in 1999 these factors resulted in an equivalent loss of 15% of output. It is recognised that a further substantial deterioration in the terms of trade could undermine the Nicaragua's ability to implement its poverty reduction strategy in the years ahead. A fact which has been noted by the World Bank and the IMF.

Moreover, if present patterns of wealth distribution in Nicaragua are not altered it is questionable if, even with real economic growth, poverty can be reduced for the majority. Inequalities in income distribution are recognised as a major barrier to poverty reduction. Income distribution in Nicaragua has actually been moving more in the direction of inequality due to the policies of SAPs/ESAF, with high Gini coefficients. The EMNV 1998 indicates, for example, that 80% of Nicaraguan households receive only 32.5% of total income (Avendaño, 2001).

Economic growth does not automatically result in a reduction in poverty (see Hanmer et al 2000 for discussion), nor given the existing global production systems is it necessarily sustainable. It is also important to note that nor does economic growth occur everywhere nor at the same time. It tends to be spatially concentrated in certain places and centres, such as cities, the unequal distribution of economic prosperity among people and within a countries geographical boundaries gives rise to many urban, regional and local economic development problems. These are rarely addressed in macro-economic approaches, since they often ignore the important spatial dimension at the base of economic relations existing within the social and geographical space.

3.2 Regional and Local Development - The Role of Infrastructures in Economic Development

The provision of public assets and the levels and quality of service they provide, can influence levels of local regional economic development, and the potential for development, since lack of basic levels of provision present limitational developmental constraints. Theoretically transport infrastructure investment, for example, is a necessary component in influencing regional development, but not sufficient on its own. It needs to be considered along with other infrastructure types such as education and other public resources as part of measures aimed at influencing private and public resource endowments, which can also influence levels of regional economic development.

From a public goods perspective, regional economic development is a function of private production factors, such as capital and labour, combined within a firm or economic institutional entity, and also public capital and other resources in the form of infrastructures within an area, but outside these private entities. Private organisations and households are dependent on infrastructure, the better the infrastructure the higher the productivity of these private factors – neglect leading to lower private factor productivity. Regional economic problems are often associated with the lack or inadequacy of infrastructure provision in remote or underdeveloped regions and countries.

Many governments choose to place a lot of emphasis on transport infrastructure policies in development strategies, including the Nicaraguan governments reconstruction plans post Mitch (Gobierno de Nicaragua, 1998). Moreover, as economic development planning is a risky business there is a natural tendency for policy makers to favour ventures such as transport infrastructure investment which cannot be proved wrong at the pre-project stage, and whose failure is unlikely to become obvious in the future.

In regional development terms the effects of transport infrastructure are diffuse, they take a long time to make themselves felt, are by no means automatic and need to be considered in the context of co-ordinated local and regional development plans (Linneker, 1997). It can also have the outcome of increasing divergence or spatial polarisation between rich and poor regions, central and peripheral areas, due to the ability of more efficient producers to target and penetrate more distant markets at lower cost with serious consequences for local producers in some regions who may actually benefit from their relative market isolation.

Development potential of a region is dependent partly on its public resource endowments of infrastructure, along with other regional factors such as location, agglomeration, settlement structure and industrial structure. While the location of a place is by definition ‘totally immobile’ in relation to the main centres of economic activity, accessibility can be modified over time with large and costly investments in transport infrastructure. The cost of modifying an area’s industrial structure, from for example an agriculturally dominated region into an industrial or service economy, is also high. The sectoral industrial structure and its relations with production and income generation, mean it is both a source of potential and also a result of regional economic development processes.

Transportation network infrastructure, along with communications, together with other public utilities, are characterised by high degrees of immobility, indivisibility, non-substitutability and polyvalence compared to softer types of social and community infrastructure, such as education, health and other public services.

However, private resource production factor inputs of capital and labour are also needed to exploit the regional economic development potential of an area, and these also have an effect on this potential. They in contrast are not necessarily long term limitational constraints they are mobile production factors and can be imported and exported from an area according to market price. Biehl (1991) develops a theoretical regional model in which labour cost and productivity are an increasing function of regional infrastructure endowments. Regions with a favourable labour cost to productivity ratio will tend to attract more mobile factors of production (labour and capital) at the expense of regions with an unfavourable ratio. The model captures the combination of private factors of production with public infrastructure, with over-utilisation of infrastructure in regions with a favourable labour cost to productivity ratio and under-utilisation in regions with an unfavourable ratio.

Although essential components of development, the privatisation of public utilities and private provision of essential public services is a feature of much of the HIPC conditions. In Nicaragua not only is basic provision lacking in many areas but there is also a question of the ability of the private sector to provide what are essentially public goods and assets, without enforceable private sector regulation. In many cases private provision often leads to further exclusion due to price increases and may lessen the likelihood of any provision being undertaken at all in some places, particularly rural areas.

While *actual* levels of regional economic development can be determined by private mobile factors of production, such as capital and labour, the *potential* regional economic development is determined more by public infrastructural components and their limitational constraints. Actual levels of regional income, employment and economic development will always be lower than their regional potential if these private factors of production are lacking in a region, given the levels of other potential determining resources above.

Regions with an under-utilisation of productive capacity often lack adequate endowments of private capital and labour. In such circumstances labour resources can be improved by education and training infrastructure and new private investors may need to be encouraged. In addition the theory suggests that in certain circumstances policies may be needed to attract these mobile factors from other regions. Short to medium term strategies may include policies subsidising private capital and qualified labour, while longer term strategies often require the improvement of public resources. It is suggested that as long as potential productivity is low due to low public resource endowment, subsidies to private factors of production is not sufficient for longer term improvement in regions with under-utilisation of infrastructure. In regions with over-utilisation of their potential there is an excess of private resources relative to public resources, due to processes of cumulative causation, and developmental levels may be beyond the optimal, leading to rising external and social costs of pollution, stress and congestion.

Agglomeration and settlement structure reflect the spatial concentration of population and market potential, of producers and consumers in an area, as well as cost influences on development potential. While there are economies of scale and cost advantages associated with urban agglomeration, increasing concentrations of population and economic activity beyond certain supportable levels lead to other externalities and vulnerabilities. These can include agglomeration diseconomies in terms of rising energy and congestion costs, stress, environmental pollution, health problems and declines in well-being, which at times question the sustainability of certain city structures and their urban and regional systems (Frost, Linneker and Spence, 1996 and 1997).

The four categories of public resources; infrastructure, location, agglomeration - settlement pattern and sectoral industrial structure, are not all open to the same degrees of government policy influence. Infrastructure investment can be directly influenced by government, sectoral industrial structure is open to some influence through investment and labour subsidies to attract private capital and labour to less developed areas. Agglomeration and location resources cannot be easily influenced it is argued.

The central assumption of external economies of agglomeration presents a problem in terms of explaining the spatial relations of cities to each other (Krugman, 1995). For Krugman, two competing centripetal and centrifugal forces in the organisation of economic activity over space are at work. Centripetal forces, such as good access to markets and suppliers represent the backward and forward linkages which tend to pull economic activity together into central agglomerations (divergence). Centrifugal forces leading to dispersion of economic activity are set up by a firms desire to move away from competitors and serve an immobile dispersed agricultural market hinterland (convergence). These processes are thought to lie behind the specialisation and concentration of certain types of productive activities in certain locations, and so called 'globalisation' effects (Sassan, 1991; Krugman and Venables, 1995). In addition, they are thought to have an influence on some of the socio- economic and spatial costs and benefits of regional integration processes (Linneker, 1997).

While the Krugman approach recognises that regional development is an historical path dependent process characterised by inertia and 'lockin', the importance of local institutional and socio-cultural structures in facilitating and constraining economic development are ignored. That is, Krugman's analysis tends to ignore technological externalities and non-tradable externalities such as networks and the socio-institutional embeddedness which the new industrial geography emphasises as fundamental to the initial emergence, trajectory and adaptability of regional and local industrial and development areas. These factors may also have a strong conditioning influences on regional development effects from different types of investments and integration processes, and are largely ignored by the above approaches (Martin and Sunley, 1996).

3.3 Other Macro Policy Implications

In terms of other factors that may effect economic growth in the development context, some recent World Bank research is of importance. Economic research models designed to inform the efficiency of aid allocations in reducing poverty have recently been further developed by Paul Collier and David Dollar (World Bank, 1998; Beynon, 1999). The latest model in this series is applied to over 100 developing countries, of which 42 received aid, and covers the period 1974 – 1997.

The models first establish elasticities (estimations of relationships of responsiveness) between growth in GDP per head and a set of initial conditions, in addition a policy index is included (measured by the World Banks CPIA rating), an aid index, and an interactive index which combines aid and policy. Second, relationships between growth in incomes and the impact on poverty reduction in each country are estimated, and the third stage optimises aid allocations between countries to maximise the number of people potentially lifted out of poverty. The main findings suggest that aid alone has no effect on economic growth (this index is insignificant in the model). While the policy term has a significant effect, the aid-policy term is also significant. This is interpreted to mean that aid works, but only in a good policy environment. In this context it is estimated that it would cost about US $ 3,000 to lift one extra person permanently out of poverty. That better targeting and a reallocation of existing global aid allocations could produce the same poverty reducing benefits as a tripling of current aid budgets.

Other authors however, suggest that the data also indicates that while policy matters, poverty matters more, in terms of a larger impact based on the reallocation of aid on poverty criteria rather than policy criteria (Beynon, 1999). Based on various scenarios and limitations the results of the study can be interpreted to suggest that the overall impact of aid to be reasonably good in all but the worst policy environments (Beynon, 1999). For example, for a country with an average policy score (3.3 out of a possible 6) and average aid receipts (2% of GDP), an extra 1% of GDP in aid would increase growth annually by 0.47% (equivalent to a rate of return of about 40%). Even in relatively poor policy countries (score of 2.6) an extra 1% of GDP in aid would increase growth by 0.34%. There is a policy threshold below which aid is ineffective, but is low especially for very poor countries. It is thus worrying that the World Bank use the model to suggest that 'donors should be more willing to cut back financing to countries with persistently low-quality public sectors' (World Bank 1998).

Criticisms of both the model and its implications have come from various sectors (see ELDIS, 2001 for debates). One such re-analysis of the World Bank model has been undertaken by DFID (Beynon, 1999). A macro level application of the World Bank model to the funding allocation of a bilateral agency such as DFID would suggest a shift in resources away from Latin America, Central America and Central and Eastern Europe in favour of Asia. However, the model also suggests under-funding by DFID of some countries of around £100 million. Nicaragua comes out as the most seriously under-funded country, along with Cote d'Ivoire, Congo, some central Asian states of the former Soviet Union, Cameroon and Mauritania (in diminishing order of significance), and suggests over-funding in Uganda, Ghana, Malawi, Lesotho and Tanazania. Over and above the models flaws, DFID have suggested other reasons to differ from supposedly 'more efficient' allocations, such as historical links to specific geographical areas where they are thought to have a comparative advantage, and the potential for policy influence which is shown to be a key element in these models (Beynon, 1999).

As statements like 'poor countries with good policies should get more aid than ones with mediocre policies' (World Bank, 1998), suggest in the future available World Bank funds at least may be directed towards those countries that are more efficient in transforming the aid received into a reduction in poverty based on the policy criteria. The policy criteria is that of 'solid economic administration' which is defined in terms of the economic policies of the country (indicators of inflation, budget surplus, commercial openness) and 'institutional quality' (rule of law, quality of public administration and degree of corruption). This implies that good governance (or in World Bank speak, 'institutional quality') are also fundamental elements in discussions of poverty reduction.

The work of Fox (1997) in Mexico demonstrates, however, that Word Bank rhetoric recognising the need for a focus on good governance has remained largely rhetoric. He cites the Chiapas rebellion as underscoring the limited effectiveness of increased anti-poverty spending in the absence of pro-accountability changes in governance.

In the Nicaraguan context despite the fact that 85% of the population perceive government ministers, political leaders and members of the National Assembly to be corrupt (IEN quoted in CCER, 2000a; 40) it has been suggested that there have been 'steps toward good governance'. The IDA-IMF (2000) analysis cites as examples of these improvements; the implementation of a number of new laws, improvements in control and transparency of government finances, and the fining and removal from office of several senior officials. It goes on to suggest that the implementation of an action plan for the 'restructuring' and 'strengthening' of the *Controlarias* office will bolster its role in promoting good governance. Issues of good governance then are inherent in World Bank policies for aid, economic growth and poverty reduction and a requirement for all national PRSPs. There is, however, a lack of agreement on what exactly is meant by the term good governance, and how it is measured.

4. The Role of Institutions in Poverty Reduction: Social Capital and Social Exclusion

Much of the recent analysis on the role of different types of institutions in poverty reduction has been contained within debates relating to social capital and social exclusion. Much of this research suggests that differences between developmental success and failure is partly a function of incentives facing people. In some countries the structure of incentives systems steers people primarily to producing new wealth, while in others countries it is easier to gain wealth by diverting it from others. Social capital is thought to determine the relative payoffs of production and predation. Where social and legal mechanisms are weak or absent within a country the private returns to predation are thought to increase while the private returns to production are thought fall (Knack, 1999).

4.1 Social Capital

Social capital is a feature of both 'government' and 'civil society' that facilitates collective action for the mutual benefit of a group, where 'groups' may be as small as households or as large as the nation (Knack, 1999; Olson, 1994, 1982, 1971). However, the role and importance of differing types of governmental and civil social capital and the interaction of civil social capital on the performance of government social capital remains to be understood. Collier (1998) has conceptualised elements such as civil liberties, rule of law and enforceability of contracts as key elements of 'governmental social capital'. Where 'governmental social capital' is defined as those institutions that influence people's ability to co-operate for mutual benefit, as compared to 'civil social capital'; the values, norms informal networks and associational memberships affecting the ability of individuals to work together to reach common goals.

Much of the analysis from the macro social capital literature suggests that better governance factors improve economic performance. While many such measures are imperfect most of this literature points to significant and positive relationships between good governance and economic growth and performance, with a strong indication that the former causes the later (Knack, 1999). Many of these studies develop country indicators to, for example, capture notions of 'institutional framework', and 'independence of judiciary' (Scully, 1988). It is important to note, however that other indicators used, such as civil unrest, frequencies of strikes, riots, and protest demonstrations, are also often positively associated with economic performance. Some authors such as Knack (1999) have interpreted this in the sense that civil unrest is a symptom of environments in which mechanisms for expressions of civil discontent with government performance are available and effective. Other authors have used surveys of entrepreneurs to develop indicators based on frequency of government change and policy surprises, protection from criminal actions, unpredictability of the judiciary, and frequency of irregular 'additional payments' necessary to operate a business (Brunetti, Kisunko and Weder, 1997). Civil liberties, political and social freedoms have also been utilised (Gastil, 1990) and indicators of economic rights, such as the enforceability of property rights and private contracts, and freedom from expropriation have also been seen as important in these analyses.

However, the distributional implications of improvements in governmental social capital can appear ambiguous. For example, secure property rights and effective contract enforcement may benefit the rich at the expense of the poor with contractual agreements being the product of unequal bargaining power, with rich landowners, creditors or capitalists enforcing contract provisions against poor borrowers, tenants, employees and consumers. This being said much of the evidence on the role and importance of social capital is that it reduces poverty rates and improves, or at a minimum does not worsen, income inequality. However, although a number of proxy indicators of social capital have been used in macro-level analyses of the effects of social capital on economic performance and poverty reduction, the fundamental sources of social capital are less well understood at macro and especially micro levels.

At a micro level social capital is most commonly seen to be an asset that people obtain through their participation in social networks and institutions that they can use or call upon in times of need. Like other forms of capital, social capital is productive in the sense that it is possible to use it to obtain benefits that would not be possible in its absence. In general it is recognised that social capital is a by-product of other activities and social processes. However, agencies such as the World Bank and UNDP have been embracing this concept and have expressed a desire to 'invest' in social capital. This implies to them giving support to existing and emergent organisations and different expressions of social capital (Fox, 1997) which is in line with those who look to measure social capital through consideration of the density and nature of network connections and contacts between individuals in a community.

What may be termed 'civil social capital' is thought to influence economic performance through micro-economic and macro-political channels. At the micro level social ties and inter-personal trust can reduce transactions cost, enforce contracts, and facilitate credit at the level of the individual investor. From household and village - level studies it has been suggested that social capital in the form of trust and social ties can play an important role in alleviating poverty. It has been argued that the poor have more to gain from membership and participation in groups that provide mutual aid, health or education services than the rich who can often afford to purchase these services. (Grootaert, 1998). Also institutions or cultural traditions which broaden citizen participation are expected to have progressive effects, extending to poor people the kind of political influence and access that the rich tend to have in all societies.

At the macro level, social cohesion and civic engagement is thought to strengthen democratic governance (Almond and Verba, 1963), improve the efficiency and honesty of public administration (Putman, 1993), and improve the quality of economic policies (Easterly and Levine, 1997).

However, simple definitions do not always recognise that social relations can in reality be based in unequal existing social structures and relationships of clientalism (Beall 1997).

There also exist notions of perverse social capital which although they produce benefits for their group members (eg. violent gangs) they can produce negative results for other groups of people (Rubio, 1997; Moser and McIlwaine, 2001). A focus on social capital is also made more complex given the diverse opinions that exist around whether it should be viewed as an individual resource (Portes and Lindolt 1996) or as the property of groups, communities or even nations, as proposed by Putnam (1993). While it is the work of Putnam that was the impulse to more recent debates on social capital, perhaps more persuasive is the former idea. As social capital is a resource available through social networks, the fact that one individual or group obtains resources may result in losses for another individual or group. Building social capital then for some, can imply increasing social exclusion of others (see Harriss and Renzio 1997 for debates).

4.2 Social Exclusion

Initially a European concept social exclusion was developed as a response to a group of problems associated with long term unemployment, unskilled workers and immigrants (IILS, 1996). As an analytical concept it may be used to enrich anti-poverty policy discussion in that it allows poverty issues to be dealt with in a more integrated way. It enables analysis of material and non-material aspects of social disadvantage, focuses attention on the variety of processes through which people fall into poverty and possible ways of escaping it. The approach encompasses both distributional aspects of disadvantage such as variations in income, wealth and consumption, as well as relational aspects most notably patterns of occupational and social participation and rights. As such the analysis of causes of social exclusion complement other more economic approaches.

While different definitions of the concept of social exclusion exist it generally refers to a process of social disintegration in the sense of a progressive rupture of the relationships between the individual and the state. Thus its applicability outside the European context where state-individual relationships have been formalised and it is largely clear from what people are being excluded, and what this exclusion implies in terms of their well-being, has often been debated.

Studies in other countries (IILS, 1996) suggest the complexity of applying the concept elsewhere, finding, for example in India, that it is not exclusion from society that affects poverty, but rather inclusion in a society based on strict hierarchical structures. Evidence from Thailand also demonstrates the need to take care with assuming that the direction of the relationship is know – demonstrating declining levels of poverty at the same time that social exclusion appears to have increased.

This being said certain common characteristics were identified from these studies, namely that:

- Social exclusion within countries and at the individual level is involuntary.
  While individual attributes are important these are socially constructed.
- The institutions which act to include and exclude are both formal and informal.
  Associational life and pervasive values in civil society intertwine with the working of markets and states (scope and configuration of citizenship rights) to reinforce, or counteract, social exclusion.
- Institutions are important in processes of social exclusion as they structure the relationship between the macro and the micro.
- Social exclusion within countries cannot be explained without reference to international relationships.

4.3 Policy Implications of a Social Exclusion and Social Capital Approach

The policy implications of much of this analysis focus on the functioning of institutions, which enable and constrain participation in social and economic life so as to minimise their exclusionary biases. For some these institutional concerns are thought to be equivalent in value and effect, in fighting poverty, as measures to ensure material security.

In practical terms the approach requires the rethinking of anti-poverty strategies in broader terms. It is suggested that the most important institutions for breaking social exclusion and extreme deprivation demand policies in the areas of;

- The structure of basic markets such as land, labour and credit;
- Citizenship rights such as the realisation of civil rights (liberty of the person, freedom of speech and association, right to own property and conclude contracts, the right to justice).

It also has important implications for the role of civil society, with the suggestion being that there is a need to:

- Encourage voluntary associations and the development of social capital, which could involve equipping community organisations with modern tools.
- Diversify and enlarge the scope of strategic alliances between different expressions of civil society and NGOs, especially bodies which can change the balance of power in favour of the poor mainly by reinforcing the capacity to influence the formation and implementation of state policies.

The implication is that strong Civil Society co-ordinations can redress relations with governments and other institutions and can help to break exclusion in the areas of basic land, labour and credit markets, through which people secure an income; the judicial system, including systems of law enforcement; the education system which builds human capital and also socialises individuals and citizens; the media; and most fundamentally, the participatory and communicative structures, including new forms of social partnership through which a shared sense of the public good is created and debated (IILS, 1996).

However, evidence from another body of literature highlights a fundamental problem in the scenario. Social relations between the government and civil society can at times be conflictive resulting in what is described by Foley and Edwards (1996:142) as the 'paradox of civil society'. Here the positive democratic effects on governability of civil societies role as a pressure group are contrasted against a potentially conflictive situation that can arise when a strong politically independent civil society puts forward excessive demands on the government which ultimately may not be consistent with democracy and governability (see Bradshaw, Linneker and Zúniga 2001 for further discussion). This may help to explain the present government's repressive stance on NGOs and civil society. Which on one level may be seen to be somewhat surprising given the importance attributed to civil social capital and the civil society organisations which embody that capital in reducing levels of poverty, vulnerability, and social exclusion, by changing power relations within the state in favour of the poor and other marginalised groups.

5. Vulnerability and Poverty Reduction Strategies

The Poverty Reduction strategy currently being presented by the Government of Nicaragua works from a narrow and strict conceptualisation of poverty as does the World Bank and IMF (for further debates on the conceptualisation of poverty see Allen and Thomas 2000; Maxell 1999; McIlwaine, 2001). The focus on poverty is in itself interesting given that the concept of vulnerability, developed within the World Bank itself, is based on the idea that a better understanding of how poor people react in front of economic crisis can better assist interventions designed to reduce poverty so that they complement and reinforce the people's own creative solutions rather than hinder them or reduce their effectiveness (see Moser, 1996).

Vulnerability in this context, or rather reducing vulnerability, depends on five key elements: labour, human capital, family relations, productive assets and social capital. The PRSP of the Nicaraguan government has as central the first two of these five key elements, the third is inherent in the 'cross-cutting' gender focus of the document, while the latter two are not explicitly discussed. Inclusion in the document, however, may be seen to be as problematic as exclusion in this context.

5.1 Labour Intensive Economic Growth Vs Sustainable Livelihoods

In terms of the labour force the central focus of poverty reduction strategies is labour intensive economic growth. This may be seen in the Nicaraguan case to roughly translate into development of the tourist industry, the Free Trade Zones or *maquilas* and investment in coffee production, often by Multinational Corporations. All would in theory produce more opportunities for paid employment. However, aside from the debates around their capacity to achieve sustainable economic growth given the present global production system, the impact of paid employment in these sectors on poverty is questionable. What is not recognised in the PRSP, and with such an approach in general, is that the majority of households in countries such as Nicaragua depend on multiple income generating activities and sources of food and resources. This reality suggests the need, as suggested by Chambers in the 1990s, to shift the focus from employment to 'livelihoods'. This in turn would demand a better understanding of a wide range of issues related to how people use available resources to survive and what hinders this survival. Including issues such as the use of common property resources, local markets, prices and unequal terms of trade within countries (Chambers, 1995). Examination of the existent structural obstacles would then inform policies that promote sustainable livelihood systems.

5.2 Investment in Human Capacity to Increase Productivity Vs Strengthening Capabilities

The inclusion in the Nicaraguan PRSP of human capital can be analysed in the same form. A reading of the document would suggest that investment in human capital via the provision of health and education services, is proposed for its supposed importance in improving the capacity and efficiency of the labour force (Verhuel and Cooper, 2001 on health issues and PRSPs generally). While this focus may well increase the material well being of the population in the long-term, it says little in terms of their basic personal human development. Nussbaum (1995), from a consideration of those elements that define a human being (such as cognitive capacity – the ability to think, perceive and imagine), developed the idea of 'basic human functional capabilities'. These are far ranging and extensive:

- Being able to live to the end of a human life of normal length, have good health, adequate nutrition and shelter, to move from place to place, opportunities to satisfy sexual desires and to decide over reproduction.
- Being able to avoid unnecessary and non-beneficial pain and as far as possible to have pleasurable experiences
- Being able to use the senses; being able to imagine, to think, and to reason in a way informed and cultivated by an adequate education system.
- Being able to have attachments to things and persons outside ourselves; to love those who love and care for us, to grieve in their absence.
- Being able to form a conception of the good and to engage in critical reflection about the planning of one's own life.
- Being able to live for and to others, to recognise and show concern for the well-being of others, empathy and compassion.
- Being able to live with concern for and in relation to animals, plants and the world of nature.
- Being able to laugh, to play, to enjoy recreational activities.

While it is not the suggestion of this article that all these elements should or could be included in a strategy that seeks to reduce poverty, it is important to understand the range of elements that may be seen to be important within wider definitions of that 'poverty'. A number of these elements also directly relate to educational and health policies and move discussion on from provision to content. It also opens up the debate as to what is the fundamental aim of reducing poverty. For example, to lack 'the capability to imagine, to think, and to reason', within a context of human development would suggest a 'poor' individual. In a context of economic growth and the poverty reduction strategy proposed the same lack may be seen to be a positive attribute in terms of generating income at both the micro and macro levels. Considered from the opposite direction, for those with these qualities that enrich human development becoming richer materially through work in a *maquila*, for example, would be not only frustrating and demeaning, but also unlikely given the employment criteria used.

5.3 Promoting Family Unity Vs Challenging Gendered Family Relations

Other elements within Nussbaum's work are important in terms of international agendas such as those around the environment, basic human rights and gender equality. Elements which, it is claimed are crosscutting within the PRSP. Perhaps the most obviously crosscutting theme contained in the document is that of gender, or more correctly, women. Women are included in the PRSP in their stereotypical role as mothers within a framework that sees not only the family as a central and key institution, but the need to change behaviour within this institution.

The inclusion of a gender perspective within the poverty discourse is an ongoing process. In recent years while there has been an increased interest in focussing on the role of women in the reduction of poverty, in general gender has been included as a variant on the poverty problem. That is women have been added into existing policies most usually for their capacity as efficient service providers rather than as people with rights, agendas and needs. In other scenarios women have been compartmentalised as a category apart from, and marginal to the mainstream. While the now famous idea of a 'feminisation of poverty' has been behind many of these new initiatives, its original meaning (see Jackson 1996) has been abused. Many read it as meaning that the majority of the poor are women, not, as in the original idea that poverty is a gendered experience. Moreover, the diversity of that experience, not just poverty as being experienced differently by men and women, but that differences exist between women depending on their position within the life-course, has also been overshadowed by an equation of poverty with female headship.

While it is true that female-headed households tend to arise in situations of poverty and continue to remain poor, female-headed households do not represent the majority of poor households, nor are they necessarily the 'poorest of the poor' given the 'secondary poverty' within which women with male partners live. Although total household incomes may be less in female than male-headed units, since women earn on average less than men and there is no 'supplementary' female wage to rely on, the resources available for basic household consumption are often equivalent (see Bradshaw, 1995 on Honduras; Chant, 1985 on Mexico). These studies show that while female heads tend to contribute all their earnings to ensuring the basic needs of their households, male heads tend to withhold income for personal consumption such as gambling and drinking. Thus while men on average earn more than women, they may withhold up to 50% of these earnings from the household's 'common-pot'. It is also interesting to note that child earners within female-headed households are also more likely to contribute a higher proportion of their earnings to the household than those in male-headed units. Finally, that the wage gained by wives and partners of male heads supplements male earnings may be seen to be a myth, since often it is taken by the male head as an opportunity to reduce further his contribution in line with this income.

This is not to say that female-headed households do not warrant consideration in poverty reduction policies. What is important is that the specific problems faced by female heads and those faced by female partners are dealt with. For example while for female heads a problem is the limited asset base (eg number of available income generators), women in male-headed units face limited access to, and control of, the larger potential household asset base (eg they have little control over deciding how the income generated is used). While the former would suggest a focus on promoting income-generating opportunities for women, the latter suggests a need to consider fundamental issues of unequal power relations and decision making within households. While rather simplistic it is possible to think of women's poverty as stemming from three key elements:

- Women have fewer possibilities to translate work into earnings. This is due, not only to their responsibility for reproductive work, but also the conceptualisation of their productive activities as 'helping' men and/or made invisible and de-valued as an extension of reproductive work and located in the informal sector (see Scott 1986 for discussion and Renzi and Agurto 1996 for evidence from Nicaragua).

- When women have an income they find it more difficult to transform that income into the capacity to make decisions or choices over how it is used. Socially constructed perceptions of value and contribution to the household, social norms, and levels of esteem and autonomy all influence the capacity to have a voice in decision making processes at all levels (see Sen 1987, 1990; Agarwal 1997 for household models and Bradshaw et. al. 2000 for evidence from Nicaragua)

- When women make decisions, they often ‘choose’ to improve general household well being rather than to improve their own situation. This may be seen to stem not only from women’s ‘traditional’ responsibility for child rearing, but also the construction of the feminine identity as ‘altruistic’ (see Dwyer and Bruce 1988; Folbre 1994 for evidence and discussion).

Policies that aim to reduce poverty, not the gender inequalities at the basis of that poverty, may be seen as unlikely to succeed in improving even the economic position of women.

5.4 Productive Assets

The final elements of the concept of vulnerability as used by the World Bank are productive assets and social capital. Neither are discussed explicitly in the PRSP proposed by the Nicaraguan Government. Since social capital has been discussed extensively above, here the discussion will focus on productive assets.

Productive assets, put simply, are those resources available to a household or individuals that have the potential to generate an income. Housing is one such potentially productive asset in this context, since ownership of a house suggests the capacity to rent space to others, for example, in order to earn income. While this may seem an unconvincing example, given the nature of housing of those in poverty, evidence from World Bank sponsored research shows that it is an important resource in times of economic crisis (Moser, 1996). Land, both urban and rural is also an important productive asset. Here then the inclusion of a focus on productive assets in the PRSP would imply engagement with land ownership issues, since it is not only access to assets such as land, that is important, in this context but control over these assets. Central in individual and household strategies to reduce vulnerability and/or poverty is the capacity to use potentially productive assets.

The work of Sen (1984) is interesting in this context. Sen’s original ground breaking work focussed on famine and, contrary to usual explanations at the time that explained famine in relation to crop failure, suggested that starvation was a product of a failure of entitlements to available foods not a lack of food *per se*. His later work built on these ideas of endowments (or what could be described as the bundle of potentially productive assets an individual has) and entitlements (the ability to command resources such as food that this bundle brings via various market, social and moral relations).

Sen’s work demands a shift away from considering ensuring that people have a good, such as rice, as a fundamental policy aim. For Sen the importance of having a good is that it influences the capacity for a person to function; rice provides an individual with the capacity to live without calorie deficiency. In turn, a person’s capacity to function determines what they can and cannot do, can and cannot be; the idea of positive freedoms.

Sen’s work in this context focuses firmly on the concept of wellbeing – as measured by the positive freedoms a person has - as opposed to ‘poverty’ in terms of having or not having a material good. An example may help to clarify the issue. Two people are dying of hunger. Both do not have sufficient food to meet their calorie requirements, they are suffering from malnutrition. Both may be said to be in the same situation. However, with the additional information that while one is starving since they are in a famine situation and the other is starving since they are on hunger strike, the fundamental difference between the two becomes clear. While their material or physical situation is the same (they both suffer from malnutrition), their level of wellbeing is different; while one has no option but to starve, the other may choose not to starve.[5] The fundamental difference for Sen is that one has the capability to make choices to have or be something, the other does not. Sen then sees peoples access to goods as important in the sense of the (potential) capability this implies for positive freedoms – the capability to do or be something, to choose.

Capabilities and rights to choose, decide, and take control of ones own life is not discussed in the PRSP and is not seen as a priority of the Nicaraguan Government nor the World Bank. However, how rights and freedoms are developed and defended in societies through existing political and governmental institutional structures is increasingly a concern. How governments consult with their civil society institutions and organisations is a learning process in itself and has been the source of conflict and disagreement in Nicaragua, especially regarding the PRSP.

6. The Nicaraguan Governments Poverty Reduction Strategy

In January of 2000 the government presented to CONPES (National Economic and Social Planning Council) an initial draft document that would form the basis of the PRSP for Nicaragua. The member organisations of CONPES, including expressions of civil society, submitted a series of recommendations to improve the document. The Interim PRSP was presented in July of that year for approval by the IMF and World Bank. Civil society had not seen the final document, which was produced in English only, and were not aware of how or to what extent their recommendations had been included. Since this time a limited government consultation process on the now approved Interim PRSP has been undertaken (Eurodad, 2001). Thus national 'ownership' of the PRSP can be contested given the limited civil participation in its production. This lack of broad based civil participation and consultation has led to other civil society expressions undertaking their own consultation processes, alongside research on poverty related issues and the setting up of independent evaluation systems (CCER, 2001b and 2001c).

The Nicaraguan government's PRSP may also be seen to be problematic for a number of other reasons. Not least since poverty as mapped by the government does not only not reflect the reality for the majority of Nicaraguans given the conceptual weakness in definitions used that ignore well-being elements central to the poor's own experience of improvement. In addition, it does not present a true picture of changes in consumption poverty over time and space, due to the fact the government have used different definitions of poverty and extreme poverty over time. As the government suggests that better targeting of resources will come from a 'more intense use' of the poverty map, discrepancies in measuring poverty may have important consequences.

While labour – intensive, broad based economic growth is stated to be the single most important pillar of the PRSP, the ability to achieve the 5% annual growth in real GDP proposed is questionable given the dependence on international trade markets, and population growth rates. Even if achieved, its impact on poverty will depend largely on the so called 'trickle down' effect since consideration of (re)distribution mechanisms is largely absent. There is no conclusive evidence to suggest that economic growth, even accompanied by investment in human capital and improved safety nets, automatically translates into poverty reduction.

[5] *This is an understanding of the situation within the explanation presented by Sen. The authors' accept that, in political, if not material resource constraints, both, in their own way, may be seen to suffer from a lack of choice or positive freedoms.*

For many a poverty reduction strategy that does not tackle the root causes of poverty cannot hope to change the situation. Providing safety nets for the poor and most vulnerable people in society, while alleviating the effects, does not resolve the structural inequalities and unequal power relations that cause that vulnerability. Moreover, the focus on rationalising and better targetting of existing programmes via identification of the 'real' poor will not necesarrily even improve social security provision.

While most would agree that investment in human capital is an integral component of improving well being and human development, the PRSP places as central its role in enhancing the productivity of the poor. Careful monitoring of the projects proposed is thus necessary to ensure that the measures do not result in a reduction in the possibilities for real human development occurring. Other proposals may well also limit access to, and quality of basic services as a by-product of the suggested privatisation.

More generally, the lack of discussion of Social equity (a cross-cutting theme in the document) is justified by the government with the claim that, 'Virtually all' of the PRSP will 'encourage increased social equity'. Taking the example of gender equity to explore this claim further, women are explicitly mentioned within the document in two forms, either as service providers or as victims (of disasters, spouse abuse or mental disorders). Measures to correct women's behaviour are also implicit within the general focus on the importance of 'improving the poor's behaviour' and the behaviour of poor households whose 'perverse' reactions to assistance programmes, it is sugested, have led to their failure in the past.

More generally, it is important to note that the document at times links issues in a way that suggests an underlying moral agenda, for example, ideas around population control and family planning are linked with 'strengthening the basic social fabric' while the National Goal to improve access to reproductive services aims to reduce the unsatisfied demand for family planning among 'women with partners' only. Similarly, reducing domestic violence is presented in relation to the importance of the 'unity of families' and concerns around 'family disintegration' rather than as a basic human right of all people to live a life free from violence.

Building social capital and reducing social exclusion are largely absent from the PRSP. Despite that fact that even the World Bank itself has highlighted the importance of 'institutional quality', the governance focus of the Nicaraguan PRSP is on putting in place new legislation, rather than the mechanisms by which this will be operationalised. While governmental social capital in the Nicaraguan context may be seen to be of the perverse form, no measures to redress this are included. The PRSP does not seek to alter the predatory nature of government, and its inability to resolve demands and to develop a framework of productive incentives for others to generate and share in wealth creation activities. Nor are measures to strengthen civil social capital outlined in the strategy. The increasingly important role of civil organisations, both as a source of civil social capital, and as a means to improve governmental social capital and reduce social exclusion is largely ignored. The PRSP goes little way in encouraging the participation of civil organisations in the process. If events to date are a judge, their role will be kept to a minimum with obvious consequences for the success of the strategy and wider sustainable human development in the longer term.

7. Conclusions

Despite macro-economic growth in the 1990s in Nicaragua under neo-liberal policy regimes, this has not been translated into reductions in poverty. The analysis of official poverty metrics presented here suggests the number of poor has not been reduced and the depth of their poverty has substantially increased over this period. This has also been accompanied by increasing inequality in access to resources, along with increases in people's vulnerability and social exclusion. While initiatives at international level have led to the development of national PRSP proposals, within the same neo-liberal policy regimes under the new HIPC-II initiative, this again questions the ability of the policies proposed to surmount the enormity of the problems faced, particularly in Nicaragua.

Despite the present poverty reduction rhetoric, what is important here is the further elaboration of longer term sustainable human development systems which reduce poverty, inequality, vulnerability and social exclusion, not simply meeting targets and conditions of national and international governmental organisations in order to obtain debt relief *per se*. While civil society organisations have an important role in to play in poverty reducing development, how benefits obtained under the HIPC conditions are transferred into benefits for the poor, which allow them to escape their poverty over the longer term, is a major concern regarding the present strategy, and largely remains to be seen.

8. Annex I

The 1993 poverty gap is the percentage at which annual average household consumption per capita is below the *poverty line* of US$ 428.94. While the1998 poverty gap is defined as the percentage at which annual average household consumption per capita is below the poverty line of US$ 402.05 per year. The extreme poverty line for 1998 is estimated at US$ 212.22 this is even lower than the general poverty line since it basically covers minimum calorific intake. There has been a decrease in the US$ amount of the poverty line over the period which may reflect exchange rate and inflation rate changes over the period.

The creation of new municipalities over the period also makes comparison difficult. For the purposes of this analysis the data for the new municipalities were reallocated back to the ones used for the first map so that similar categories and methods used in the 1993 based map were applied to the 1998 data. The four new municipalities created over the period are included in the municipalities from which they were created. Wiwili de Abajo in the Department of Nueva Segovia is presented within the municipality of Wiwili, El Crucero and Ciudad Sandino are reallocated to Managua. The municipality of El Ayote is reallocated to El Rama. The indicators derived are given below and mapped in figures 1 to 4.

- The 1993 poverty gap is the percentage at which household consumption is below the *poverty line* of US$ 428.94. The poverty line is the amount of annual consumption per head necessary to buy a minimum number of calories and other articles including housing, clothing and transport.
- The 1998 poverty gap is the percentage at which average household consumption is below the poverty line of US$ 402.05, The poverty line is the amount of annual consumption per head necessary to buy a minimum number of calories and other articles including housing, clothing and transport.
- The percentage change in the poverty gap 1998-1993 is the differences between the 1998 poverty gap (*Brecha de Pobreza)* and the1993 poverty gap. It is a measure of the change in the depth of poverty over time, a positive change indicates there has been an increase in the poverty gap over the period, while a negative percentage change indicates a reduction in the poverty gap.
- The 1998 extreme poverty gap is the percentage at which annual average household consumption per capita is below the *extreme poverty line* of US$ 212.22. Households are classified as extremely poor if their annual per capita consumption is below the extreme

poverty line defined as US$ 212.22. The extreme poverty line is the amount of annual consumption per head necessary to buy a minimum number of calories.

Map 1: Poverty Gap 1993 $PG_{j,t-1} = 1 / n \sum_n (Z - Y) / Z$

Map 2: Extreme Poverty Gap 1998 $EPG_{j,t} = 1 / n \sum_n (X - Y) / X$

Map 3: Poverty Gap 1998 $PG_{j,t} = 1 / n \sum_n (Z - Y) / Z$

Map 4: Change in the Poverty Gap 1998 - 1993

$$\delta\ PG = \left(1 / n \sum_n \left((Z - Y) / Z\right)\right)_t - \left(1 / n \sum_n \left((Z - Y) / Z\right)\right)_{t-1}$$

where:

X	=	extreme poverty line
Z	=	poverty line
Y	=	household income per capita per year
n	=	number of households in the area
j	=	indexes municipality area
t	=	1998
t-1	=	1993

The 1998 poverty figures are from Annex II of the Nicaraguan governments PRSP (Gobierno de Nicaragua (2000) Estategia de reducción de la Pobreza del Gobierno de Nicaragua, Reforzada de Reducción de la Pobreza, Managua, Nicaragua, Septiembre, 2000) and are based on data from the EMNV 1998 (Encuesta de Medición del Nivel de Vida, 1998, part of the MECOVI program elaborated by INEC - Instituto Nacional de Estadísticas y Censo) and the Population Census of 1995 undertaken by the same government department. The 1993 poverty figures are from the FISE (Fondo de Inversión Social de Emergencia) map, based on the EMNV 1993 (Encuesta de Medición del Nivel de Vida, 1993) and the Population Census of 1995, using a methodology from the consultancy firm RTI.

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