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Nicaragua: Without structural changes there´ll be no sustainable reduction of rural poverty

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Abstracts

Using National Official Statistics Perez analyze Nicaragua's rural sector structural blockades and the State strategies to overcome poverty and extreme poverty in the Country. Based on demography, land tenure and food markets governance, He identifies that key factors for changing Nicaragua's poverty levels are missing in National Policies and there is a tendency to increase inequality in rural areas with no urban capacity for absorb rural migrants. Perez proposal is to focus public investment in Agriculture which is sector with higher labor occupation and a key source of exports and GDP.

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Nicaragua: Without structural changes there'll be no sustainable reduction of rural poverty

Nicaragua proudly claims its identity as an agricultural country and boasts its exports of coffee, cheese and beans. But if we observe the public policies of the different governments, including the current one, we discover that agriculture has been one of the most sidelined sectors since 1990. Over the last two decades many of our policies have accepted as an indubitable truth that countries "developed" by abandoning agriculture and making an economic transition toward industry and services. They don't believe the rural sector is the motor that's going to develop our economy.

That indubitable truth is debatable

Data from reports by both the Central Bank of Nicaragua and the National Institute for Development Information (INIDE—formerly the Nicaraguan Institute of Statistics, or INE), however, feed the conviction of civil society institutions and networks that banking on this transition hasn't worked. The statistics indicate that Nicaragua has bogged down in both its economic transition and its rural-urban demographic transition. And regrettably both realities are off the rural sector public policy agenda.

According to another "indisputable truth" assumed by many, our rural population is dropping because it's migrating to the cities, but population census data indicate the opposite. There was a ten-year gap between the last two INIDE censuses (1995 and 2005), which makes the data very reliable, and the results tell us that in relative terms the rural population only dropped from 45.6% of the total to 44.1%, which isn't a significant change over 10 years. And in absolute numbers, the rural population was 1.97 million in 1995 and 2.27 million in 2005, which means a 14% increase in the same 10-year period.

We need to combine this reality with the important changes in Nicaragua's population pyramid. The country is entering into the period of opportunity known as the "demographic dividend" that Civil Coordinator economist Adolfo Acevedo has been insisting on so much. Until very recently, Nicaragua's population pyramid had a very broad base of young children and ever fewer older people toward the peak. Now our pyramid is changing to one more like other developing countries: the birth rate has dropped, so there's a smaller population of children at the base, and what's growing is the working-age population. According to INIDE, by the 2005 census there were fewer children under 5 years old than in the 5-9 age group, which in turn had fewer than the 10-14 age group. It is precisely this last group that's known as the demographic dividend because they're now reaching the income-generating age, and, at least in theory, more people of that age per family reduces the dependency relationship (the number of minors depending on people of working age). But they're also increasing the economically active population in general, given that life expectancy is also increasing so those already in the labor market aren't rotating out at as early an age.

The challenge of jobs and education

In the longer run, this demographic shift will create a problem like the Baby Boomers in the United States, where a huge number of people are retiring, while fewer people are in the labor system generating social security or pension funds. But in this transition period, Nicaragua's challenge is to provide enough employment for those reaching working age. Using census data, an average of 130,310 young people came of working age (15 and up) every year between 2005 and 2010, and the annual average will be 129,000 in the 2011-2015 period. That means that in five years—one government term—the State must be able to generate some 650,000 new jobs just to cover the demand of our youth, 330,000 of whom are from rural areas.

We must also contrast these data with Nicaragua's education statistics. According to the 2005 census, only 7% of the population is going on to university. This means that the vast majority of young high school graduates must immediately get a job, which they don't manage to do. We also know that far less of the rural population continues on to get a higher education (barely 1.1%), or even goes to high school (only 13%), with even fewer graduating.

It should be recalled that the rural education system is based on multi-grade primary schools up to fourth grade. After that boys and girls have to travel long distances to complete the last two primary grades, and then have to move to a population nucleus to find a secondary school. Because of this dismal educational situation, 65,000 rural youths need to find a job each year. They represent our demographic dividend, but the major beneficiary will very probably be Costa Rica given how many of our young people migrate there each year to find temporary work. Nicaragua's first major structural challenge, then, is to take advantage of our demographic dividend by providing those youths with academic and technical training to get a decent job. And that challenge is even more pressing in the rural sector.

Are maquilas an answer?

The government of Enrique Bolaños posited that maquilas—plants that assemble imported raw materials and re-export the assembled goods—would resolve the challenge of providing massive employment. His team calculated that with CAFTA, the free trade agreement the Central American countries negotiated with the United States in 2004 and put in force since 2006, maquilas would arrive en masse and everyone would find work.

But those optimistic calculations didn't pan out. According to the projections, the maquilas in Nicaragua should be producing US$2.28 million in gross exports by now and their infrastructure should have increased four-fold since 2006. The calculations were wrong. In 2010 they only exported US$1.23 million worth and the infrastructure only doubled. Gambling on resolving the employment problem with the maquilas, the government put all its eggs in one basket, and stopped attending other sectors. That basket is currently failing to generate enough employment even to cover one year of the demographic dividend: in 2010, those sweatshops generated only 89,927 direct jobs.

The agricultural sector is underrated

Because I favor the rural approach for Nicaragua, the development path via maquilas seems to me much less valuable than the development path via the countryside. But don't get me wrong; it's not only about some feeling of empathy with the rural world. The Central Bank figures back this conviction. Even by 2010, agriculture as a primary sector occupied 32.2% of all employment, ensuring some 834,200 jobs in the country. And if one considers that 70% of our industrial sector is agroindustry (meat, sugar and dairy products), one can conclude that between 35% and 38% of our country's jobs depends on agricultural production.

This figure needs to be a cornerstone of discussions about job-generating sectors. And here's another: 61% of our exports come from the agricultural sector: 35% of them primary exports and 26% agroindustrial products. Yet despite the numerical evidence, there are still public officials who deny that the agricultural sector could be the motor force of Nicaragua's development.

If the country's main problem is unemployment, as all polls demonstrate, our public policies should favor a lead sector that generates jobs and self-employment. We already know that the manufacturing sector, the maquila sector, isn't doing this. We also know that the service sector isn't doing it either, even though Central Bank statistics suggest it provides the most jobs (52%) because over half of them (53%) are defined as underemployment. What does that mean? It means that in reality 13.7% of those workers are only partially employed, some of them having only worked a week in the past three months. And even the other 32.5% who are fully employed earn very little. The rampant underemployment in the cities explains why people aren't coming from the countryside. Many figure that they'd be even poorer in the city, where everything must be bought and sold, than they are in their rural communities.

Even the trade policy complicates the sector

To demonstrate that our agriculture is the champion in any context, we also must bear in mind that Nicaragua's trade policy since 1991 has severely complicated the rural sector's existence, yet even 19 years after some of these state decisions, no one can deny the important weight of the agricultural sector. In 1991 the government decided that Nicaragua should totally free up its economy, which basically meant dropping our "defenses," our import tariffs. This decision produced a radical change. For example, the average nominal tariff protection for the agricultural products we were importing from the United States in 1991 was 67.9%. In 2003, even before CAFTA was signed, that tariff barrier had dropped to 6.2%. That's why, when many people were debating whether we should enter CAFTA or not, worried about how dangerous it would be to drop our defenses, others of us said, "Hold on! We already dropped them a long time ago, and in exchange for nothing! Now it's about getting them to open up!"

At least CAFTA and the Association Agreement with the European Union (AA) triggered some controversy. Many other free trade agreements have snuck in under cover of night, seriously affecting our rural sector without a word from anyone. Who remembers the now 10-year-old free trade agreement with Mexico, which made all food products we import from there duty free? How can our people compete with that? It's no easy task if we consider that our diet is very similar to that of Mexicans so they also produce what we do.

Today our agricultural producers, already under siege from so many other problems, are also burdened with having to compete with all the food products we import from Mexico. And if that weren't enough, we also have trade agreements with Chile, Taiwan, Canada, Panama, the Dominican Republic… all of which affect us one way or another. The one with Mexico is the most worrying, however, because its conditions are already signed, in effect and leaving our agricultural sector at a great disadvantage.

Free trade agreements are signed to be developed over 15 years. That being the case, how are we preparing our farmers for when we'll supposedly be in equal conditions, according to these agreements, with zero import duty barriers? How much did the government prepare Nicaraguan farmers for the free trade agreement with Mexico? How much has been invested in preparing them for any of the already approved agreements? And in the case of CAFTA, how much is being invested in the complementary agenda? Knowing that there are groups in the rural sector that will be vulnerable to the changes free trade will generate, what are we doing to strengthen them? Considering that when CAFTA was signed, Nicaragua was expected to turn into a huge maquila, which clearly isn't happening, how are we preparing our productive rural sector for these changes?

Attracting and protecting foreign investment

Free trade agreements always have a chapter that refers to attracting and protecting foreign investment. Based on those privileges, foreign investors have been taking over the service sector in Nicaragua. Tourism, telecommunications and other services are now in the hands of foreign investors.

Attracting foreign investment also affects our national markets through the arrival of these companies, even transnational corporations, in our economy. The Palí and La Unión supermarket chains have already been bought up by the powerful US-based Walmart giant. And that implies changes and requirements for the agricultural products sold there. Only producers who have the resources to deal with these changes and meet these requirements can break into those two commercialization channels; those who can't will quickly be excluded. And as those chains gain increasing weight in the urban distribution of foodstuffs, displacing local neighborhood outlets, the market for those excluded producers will shrink even further.

We have a cartel economy, not a market economy

Nor is domestic commercial policy, which fosters internal markets for goods and services, very friendly to our agricultural sector. However much we may hear that there's a "market" economy in Nicaragua, it's not really true because the Nicaraguan economy doesn't fulfill the basic require¬ments of this model, which is to have competitive markets. What we have is a cartel economy, though that word sounds bad to today's ears because it's almost exclusively linked to the illicit drug trade. In fact, the word began to be used very frequently starting in the seventies, when the Organization of Petroleum Exporting Countries (OPEC) began to set oil prices based on what its member countries wanted to earn rather than on their production costs.

In economics, a cartel is an economic group that defines a product's prices. An interesting work by Mario de Franco, who headed up the agricultural ministry in the first years of the Alemán administration, calculates the power that some economic groups have in sectors of our economy. He shows that only two companies control 85.6% of all sugar exports, which means that any sugar producer has to go through them. In the case of coffee, an extremely important product in our economy, three companies control 88.5% of exports. Another three control 63.7% of dairy exports and four control 89.1% of beef exports. The market for basic grains (beans and maize) is more competitive, because so far no one has managed to control it.

Let's look at beef

I'll use the case of beef to help us better understand what it means for a cartel to control market prices. In 2009-2010 Nicaragua experienced a depression in national cattle and beef prices; which we were told was due to the international crisis. While there was indeed a small dip that year (from $3.32/kg in 2008 to $3.23/kg in 2009), prices were actually much higher than in 2007 ($3.02/kg). Nicaragua even exported more in 2009, and at a good price, enjoying a volume increase of 15% (71,310 tons) and a 9.5% increase in value over 2008. Despite all this, beef was never cheaper in the national market but the producers for that market experienced a serious crisis that affected their financial relations; they fell into arrears and had to sell their animals to the highest bidder, of course at very low prices.

So what really happened? Although we have no way to prove it, everything indicates that there was an agreement among the four companies that control the beef market to lower domestic cattle prices. They feared that what happened to those who control the iron market—they bought dear and had to sell cheap—would happen to them. To protect themselves, they decided to let the loss fall on the national cattle raisers. The catch was that because there was no major drop in international beef prices in the end, or a rise in domestic cattle prices, what they created was a greater profit margin for the ones who control this activity—themselves.

Overall trends indicate that the prices of all foods will remain high. One thing international cooperation has done very well in Nicaragua is ensure that almost all coffee-producing cooperatives have instant information on international coffee prices, allowing them to negotiate in better conditions. The situation among cattle raisers is different: they aren't as well organized and depend on industrial processing that isn't in their hands. As long as there's no union and the beef businessmen aren't obliged to negotiate in other conditions, the raisers won't be able to get a larger slice of the final prices to the consumer, because no businessperson is going to renounce his profit rates out of the goodness of his heart.

The structural problems monopolies cause

Cartel economies generate very serious structural problems. In Nicaragua, monopolies and oligopolies are legal. And we know that they are one of the worst problems for market economies. Similar effects can also be seen in the case of the rice monopoly. There was a noticeably rapid growth in both international rice prices and consumer rice prices in 2007 through 2010, while the price paid to Nicaragua's national rice producers remained stable, with only a very slight increase. Who ended up with the difference? It's simple: one company in Nicaragua controls not only 70% of the rice we import but also 70% of the rice produced and distributed nationally. That permits this single company to define the domestic prices paid to our growers.

When Central America's agricultural promotion strategy was being debated, we discussed the effects of the cartel economy with a high-level official of the Ministry of Development, Industry and Commerce (MIFIC). She said that "we can't touch that; we'd get into a huge problem." She insisted that the reason they can't touch it is that Nicaragua's is a market economy, not a planned economy, but I responded that "one can read in any economics book that the State must intervene in monopoly situations to ensure that prices fluctuate with the market." With that she cut off the conversation, saying, "It's a very complicated topic."

The fact is that it's a structural problem our farmers face every day. It's at the center of the forgotten agenda, the one that isn't discussed openly, because these topics are "very complicated."

I believe the current government is clear about the problem the monopolies represent and knows something has to be done to intervene with regard to prices. In 2008, when food prices shot up, the State put posts stocked by ENABAS, the State's basic food storage and distribution center, in the barrios to sell red beans and other basic staples at prices equivalent to 60% of the market price. It was an important reduction, but the State doesn't have the storage capacity to maintain a stable flow of foods in these posts. But it's learning, and rapidly. In 2011, seeing oil prices shoot up—which in turn always triggers a serious rise in food prices—it quickly acted to control the export of red beans to El Salvador, Costa Rica and Honduras in order to ensure that enough beans stay in the country to maintain stable prices. If export were permitted, the prices would rise even more. Nonetheless, that was a temporary measure and doesn't respond to the demands of the rural sector's structural problems.

We've seen that despite all these constraints faced by the agricultural sector, it's the principal provider of both exports and jobs. In addition, statistics tell us that the industrial sector hasn't functioned as expected and that the most important part of the service sector is in foreign hands, while most jobs in that sector are part-time or rank as under-employment. Given this evidence, we have to consider that some policies, however "complicated" they may be, need to be decided on and implemented to allow the agricultural sector to grow at a pace that at least guarantees rural employment.

Inequality in land access

Another structural problem revealed by the INIDE data, which is both a serious limitation to development of the agricultural sector and part of the forgotten public policy agenda for this sector, is the inequality in land access. Nicaragua has one of the highest levels in this respect, which is very serious, because we firmly believe that if we don't change the land tenure structure there will be no sustainable reduction of rural poverty. We've conducted many surveys and they all indicate that there's a direct relationship between the amount of land people have to produce on and the income available to them.

According to the 2001 agricultural census, 75% of farmers are smallholders who only have access to 20% of the land being exploited. Another 10% are large landowners who control 40%, while the 15% with the remaining 40% of the land are medium-sized owners. But there's a forgotten statistic in these numbers: the landless. How many are there? The government knows but never reveals this statistic.

We've asked INIDE directly, but they haven't given us an answer. Even without exact figures, however, we can have a go at calculating it: the 2001 agrarian census shows 200,000 farming families in the country, while the population census tells us there are 431,500 rural households. Shouldn't the landless families be fairly close to the difference between those two figures? INIDE's official position is that it's not a valid calculation, but we still believe the number of landless rural households is around 200,000-215,000, because it's quite close to the 45-50% of the rural population without land that we've found in our district sweep surveys.

According to the 2001 census, the land tenure structure by that year had already gone back very close to what it was during the Somoza times, in 1971. We're expecting the data from the agricultural census being taken this year to show even greater land concentration in even fewer hands. Even before that census we had already began to speak of an "agrarian counter-reform." But public policy isn't taking this reality into account either; it's another central point on that forgotten agenda.

So what does all this add up to? A large number of young people who need jobs and only have agriculture to absorb them, and at the same time a high concentration of agricultural land, with 25% of the property owners controlling 80% of it. To paint an even grimmer picture, we're "eating up" the biological reserve areas. Anyone who travels to the Bosawás reserve, the largest in Central America, can see that its entire buffer zone is already converted into pasture land. In the sixties, we naively believed we could continue cutting down forests and creating agricultural lands all the way to the Caribbean, but now we know we can't. These are not only structural issues that seriously affect agriculture, but also thorny ones public policymakers don't want to touch.

Is another agrarian reform the answer?

The land issue is an enormous unresolved structural challenge. We're talking about no fewer than a million people who live in rural areas and have no land to produce on. What are we doing to enable them to produce, have jobs, grow their own food? There's still no answer.

I know people develop serious allergies to any mention of agrarian reform. One of the main arguments that trigger them is that a number of squatters who received land have sold it, creating a business in land.

I believe some lessons from the agrarian reform of the eighties and the counter-reform of the nineties are worth examining. In the years of the greatest agrarian counter-reform (1994-1996) we could see that the communities that hung on to the lands they had received were those that had water to grow grains, while the households that ended up with cattle land, which requires a certain capital investment, ended up selling it because they couldn't make that investment. That tells us that access to land is important, but not enough. Whether or not people sell the land depends a lot on its crop-producing quality and on access to technological and financial services for exploiting it. We in Nitlapán have identified a type of household we call "poor peasant with land." These are people with 35 hectares, but only around 1.4 of them are suitable for growing grains. Since they also have no access to financial services adapted to their condition, their economy and their life is limited to surviving on what those 1.4 hectares produce. Because they can't invest in livestock themselves, they rent the rest for cattle or leave it fallow. In short, despite having a decent chunk of land, these families maintain a subsistence economy.

An interesting diversification process has been taking place in La Dalia, department of Matagalpa, where people are dedicating part of their plot to basic grains and part to coffee, but the coffee's in such a bad state that a major investment would have to be made to resuscitate it. Some will therefore surely sell the coffee land for lack of investment money and hold on to the basic grain land. These are the complexities that grow out of the agricultural reform of the eighties.

Some people actually make a living from the land business, and I'm not talking about realtors. There are people who get land one way or another in one place, then sell it to go somewhere else and repeat the process. This also happens because there's no clear registry of land beneficiaries. I personally know former military officers who were given lands in Timal and are now demanding land elsewhere. How's that possible? The only explanation is that there's no basic registry of agrarian reform beneficiaries over the years or apparently even of retiring military personnel given land after the war.

How can we improve financing to the rural sector?

Since 2006 we've been proposing a progressive tax on land tenure, which opens up a series of policy options. We can't keep using the model of 7 hectares of pasture to feed a cow or young bull. If farmers had to pay more for the land it would oblige them to use it efficiently or sell it. Obviously the target group for this measure would be the 10% of large land owners. Such a measure would open interesting windows of opportunity; for example areas that are forested and/or left fallow for natural forest regeneration could be exonerated from the tax calculation. There would be many advantages to such a measure, but it would require the government to act against that 10% of large landowners, which is dicey because they are one of the country's economic and political power groups.

To ensure greater agricultural development, financing would also have to be ensured for production. Since the early nineties, the Nicaraguan banking sector has basically given priority to consumer credits. It was in response to that policy that micro-financing institutions (MFIs) sprang up to make credit available to the agricultural sector, which the banks considered "risky and with no real collateral." By 2008, the MFIs had a credit portfolio totaling some US$246 million, 52% of which was placed in agricultural production. By comparison, Banco Produzcamos, which the government created to provide financing to the rural sector, opened its doors last year with a US$50 million portfolio. That means that the MFIs were already circulating a portfolio 2.5 times greater than the state development bank. Everyone welcomed the creation of Banco Produzcamos, because there's plenty of space in the sector and a lot of need for financing, but this bank is new, is applying serious restrictions on the credit it's providing to avoid arrears and is only placing small amounts.

Another recent government solution to rural financing is the ALBA CARUNA state credit and savings cooperative, fed with Venezuelan cooperation funds. According to information from the umbrella Micro-financiers Association of Nicaragua (ASOMIF), this cooperation has the córdoba equivalent of some $392 million to place this year, although it's hard to get exact figures on how much it's placing, in what form, in which areas and with what recovery levels, because the government isn't providing that information.

For years CARUNA was a tiny non-governmental MFI (microfinance institution) with very limited capacity and growth that was a member of ASOMIF. Then suddenly, with this government, it has had a massive injection of money from Venezuelan aid. But given its institutional history, it has to be very difficult for it to place that enormous amount of money, which is more than the highest amount ASOMIF's 19 institutional members have ever had for their 350,400 clients. ALBA CARUNA is currently financing cooperatives as a second-tier institution, which I imagine is the most efficient way it has, because the coops place, monitor and recover the funds with their own members using their own mechanisms, which both saves CARUNA operating costs and allows it to expand its coverage. The question is whether it will be able to efficiently place such a huge amount of money, which is 7.8 times bigger than Banco Produzcamos' current portfolio.

The Non-Payment Movement

In this structural context of limited financing for the rural sector, a huge storm cloud began gathering in 2008 that is still hanging over the entire rural economy: it was quickly dubbed the Non-Payment Movement, but later started calling itself Producers of the North. There's no clarity about how many farmers and ranchers are associated with this movement, although it claims to represent more than 13,758 clients of 67 MFIs and regulated banks with a total debt of US$25 million. Even after nearly three years, its problem hasn't yet been resolved and, independent of one's sympathy with it or lack thereof, the movement has generated a very grave crisis for the rural sector and the country as a whole.

The government responded so ambiguously to the emergence of this movement that it was open to many interpretations, one of which was that the government actually supported it. The movement's initial proposal was a restructuring of their debts with 10 years to pay and an annual interest rate of 8%. As a form of pressure, members of the movement took over installations of some MFIs, damaging and even burning some down. Following that the National Assembly passed a moratorium law to resolve the problem, but it did little good since only 7.3% of the 5,000 clients covered by it actually abided by the law's restructuring conditions.

The ongoing effects of the Non-Payment Movement have been very negative. Some MFIs reached arrears rates of over 20%, which had never before happened in their previous 10 years of existence. As a result, many moved their credits into consumption, abandoning rural production altogether; by last year the overall agricultural portfolio had shrunk 35.8% below its 2008 levels. Based on this situation, the IDB lowered Nicaragua's business climate rating from 6th to 13th place and its investment climate rating from 13th to 34th place. As a result, the total MFI credit portfolio had dropped from US$246 million to US$176 million by the close of last year, a $70 million loss, severely affecting the micro-financing system as a whole. And that isn't all. One of the most serious problems that the MFIs—and thus borrowers—are facing right now is that the money they receive from solidarity financiers in Europe to capitalize their operations are not only arriving in smaller amounts but also at higher interest rates because of the greater risks involved in getting a return on their investments. To that is added the higher cost of placement due to the continued possibility of both damage to their installations and failure to pay, which meant that MFIs have to work with interest rates of 16% and screen potential clients even more carefully. It's a situation in which the innocent are paying much more than the guilty.

How is the Non-Payment Movement responding to the chain of events it unleashed? After demanding a restructuring that it then refused to accept, it has changed its position. Hitching its wagon to Daniel Ortega's electoral star, it's now demanding that the State buy its debt from the financial sector, pledging in return to pay it in a decade and to vote for him in November. If that happens, the financial sector will recover its capital, but a negative precedent will be set and similar groups with similar demands and pressures could well appear again in the next municipal or national elections. In addition, if their behavior so far is any indication, there's no assurance that in 10 years they'll honor their debt with Nicaragua's taxpayers.

The government's priority is food security

Given all these problems, the governing party has set reduction of food insecurity as its priority for fighting poverty and extreme poverty for this period and surely the next one if it wins the elections. To fulfill this goal it has decided to bank on programs that help people improve their food intake, whether by producing grains or receiving food subsidies.

The government has dedicated its main efforts to improving the nutrition of the rural sector. To that end it has announced that its main intervention in the agricultural sector this year will be seed distribution. The goal is to provide some 53,928 quintals of bean, maize and sorghum seeds to 91,600 growers, guaranteeing the production of roughly 64,610 hectares of grains.

The government has made a major investment in Nicaragua's Institute of Agricultural Technology (INTA) to guarantee seeds that produce in times of drought, taking the effects of climate change into account. They aren't genetically modified seeds, but rather hybrids; so far as we know, INTA isn't working with transgenics. The government also plans to distribute food to some 56,000 people considered especially vulnerable (pregnant women and undernourished children) and to attend to another 42,500 people through the food-for-work modality.

The Zero Hunger Program

The government also plans to give out the Zero Hunger program's "productive bond" to another 33,300 women this year. This would put it close to its initial target of covering 75,000 families with that bond, enabling them to raise their nutrition level in animal and vegetable protein.

The debate is still open about whether the Zero Hunger program will allow beneficiary families to eventually climb out of poverty. In the short run, the bond recipients are capitalized because they receive animals and seeds. The open question in the longer run is whether what they receive through the program will produce a structural change. The government is gambling that it will and has thus charged the Rural Development Institute (IDR) with the mission of organizing 10,000 beneficiary families into cooperatives. The idea is that this would help them begin to improve their income, inserting themselves into agroindustrial chains that add value to the production of basic grains, milk, beef and cacao generated by the bond.

The Zero Hunger package is given only to women and only to families with a minimum of 0.7 hectares of land). This again raises the question about what programs there are for the thousands of landless families. If the answer is that the food-for-work program is aimed at them, the State will have to multiply that intervention, because as currently planned it would barely cover 10% of them.

A positive change for the IDR

The IDR (Rural Development Institute) is undergoing an important structural change. Since its creation its role has been to administer all government rural projects; it was known as the administrator of the presidential project portfolio. Now the government has entrusted it with a more specific function: to direct and execute the agroindustrial development policy in the rural sector. This is a very positive change, providing it with a specific function and a clear public policy goal for the sector.

It will be quite a challenge for the IDR to transform subsistence growers into farmers integrated into agro¬industrial chains, mainly given the dispersed distribution of the Zero Hunger bonds. So far it's only a very risky hypothesis that the IDR will be able to establish agroindustries with the bond beneficiaries; it'll be a while before we can tell if it worked. We have a lot of reservations, because the beneficiaries' current land tenure means their production volumes will continue to be small, and if the financing remains limited it won't be possible to obtain a productive dynamic in the short run that would justify an investment in agroindustry.

The Ministry of Agriculture now has all Zero Hunger beneficiaries "on line" and is using this information to respond to the demand for transparency. What we don't know is whether there has been a constant monitoring system appraising how these beneficiaries have made use of the bond. Monitoring is always a question of resources. During the Bolaños government the Ministry of Agriculture was reduced to a minimal expression because it was converted into a policy think tank, which didn't require many people. In 2007, with the change of government, the ministry was asked not only to both think about but also to implement policies—an enormous package all over the country. That obviously represented a transcendental change, which is why the first two years involved many adjustments and headaches.

Taking this transition into account, it's our under¬standing that the government is going to develop the monitoring of Zero Hunger results starting this year, charging the IDR with adding value to the bond's products. A lot will depend on how big a budget the ministry, the IDR and INTA will be assigned to do all this. In 2009, when budgetary cuts had to be made, the ministry lost close to $9.5 million, and the IDR budget was cut by nearly $1.3 million, while the new development bank's $50 million didn't come into play that year. Last year the IDR lost another $5.3 million. The fact that the rural sector has always been in the front line of budget cuts gives an idea of its public policy priority.

The structural problems have to be attacked
Guaranteeing the poorest people better nutrition is unquestionably a positive objective. But if the government limits itself to that intervention level, it will only be attacking the symptoms, not the illness itself. If it doesn't resolve the structural problems, the machinery that produces poverty and inequality in the countryside will continue to operate.

The Ministry of Agriculture is still a key institution, which is why some 10 years ago the need was identified to organize both the institution and its policies territorially. The current government has begun to create departmental production cabinets, which is an important step, but that decision must be accompanied by human and material resources and a budget that allows the departmental delegates to negotiate effectively with local stakeholders. There has to be a break with the centralist and top-down view that everything must be in Managua; transferring only functions to the department, unaccompanied by resources, is mere deconcentration, whereas Nicaragua needs genuine decentralization.

How will we know if we're on the right track?
How can we know if we're moving toward the dreamed-of goal of rural development? I propose looking at two key indicators: rural wages and the proportion of the consumer price that stays with the national producer.

Rural wages.
While rural wages depend on the area of the country, they currently average around 30-40 córdobas a day (between $1.50 and $2), although in places with more rural jobs workers earn up to $2.25.

Sociologist Eduardo Baumeister, an experienced analyst of Nicaragua's rural sector, has estimated that while a rural worker can average $2.50 a day in Nicaragua, that same worker doing the same work in Costa Rica pulls $7, even after social security deductions. Because Costa Rica's rural labor force is smaller, farm owners are obliged to offer better wages to get people to work for them. When analyzing the migratory flows from Nicaragua to Costa Rica, one discovers that nearly 40% of all Nicaraguan workers on Costa Rican plantations come from urban areas. That suggests that if there were decent rural wages in Nicaragua, those same workers would stay here and decide to work in agriculture, reversing domestic migration and slowing the emigration to Costa Rica.

Consumer prices to the producer.
What advantages have been provided by opening Venezuela's market to Nicaraguan products? For one, it certainly helped Nicaragua resist the US financial crisis better and with fewer problems. In fact, exports to the United States have also been dropping because El Salvador, which together with Honduras and Costa Rica is an important priority for our food exports, is demanding a lot of food from us. But the fact that we're exporting to Venezuela at what was announced as a "fair price" doesn't mean our rural farmers or rural workers are earning more.

Venezuela is paying a better price for what we export to it. According to Ministry of Agriculture reports, Venezuela paid US$4.075/kg for beef in 2010 and this year is expected to pay US$4.45. But that doesn't necessarily mean the "fair price" gets all the way to the national cattle raiser, much less the ranch hand. Wherever possible, the four owners of the exporting slaughterhouses that monopolize the activity pocket those extra 40 or 50 cents.

These big companies will only be forced to pay better prices and better wages when they have to look for workers in a setting of greater employment, when no one will work for them unless they're paid well. And also when our rulers start to hinder cartels and the price games they foment.

The key indictors I proposed for knowing whether there's a real commitment to rural development also applies to trade with Venezuela. If the producers increase their share of the consumer price and rural wages grow, it will mean that the rural sector and the country as a whole are in a dynamic of inclusive development. If both indicators remain low, stagnant, the benefits are clearly being siphoned off by the economic groups that concentrate the wealth in our country.

According to the 2010 Central Bank report, real agricultural wages—calculated in constant 1994 córdobas—fell 5.6% in 2009, from 912.30 córdobas to 861.40. This is alarming because it's lower than the average agricultural wage in both 2007 (926 córdobas) and 2006 (960 córdobas), and implies that there's no tendency toward structural change with this government. That will continue to be the case as long as the rural agenda and its key factors for transforming such a central sector of our economy remain forgotten.

Working Paper

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