Transnational Governance through Inclusive Neoliberalism:

**The International Financial Institutions and the Poverty Reductions Strategy
Papers (PRSPs) of Nicaragua and Honduras**

by

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Abstract

The introduction of the Poverty Reduction Strategy Paper (PRSP) approach by the World Bank and the International Monetary Fund (IMF) in 1999 has been met with two opposed responses in academia. On the one hand, critics of the development establishment maintain that the PRSP approach does not represent a significant shift away from neoliberal policy practice, but rather amounts to an attempt to further deepen neoliberal hegemony. On the other hand, supporters of the International Financial Institutions (IFIs) argue that the PRSP approach signifies a fundamental rupture in development thinking and a progressive move away from policy conditionality towards country ownership and poverty reduction. The analysis in this dissertation provides an attempt to overcome this bifurcation in the literature. In line with IFI supporters, the dissertation acknowledges important procedural and substantive differences between previous structural adjustment policies (SAPs) and PRSPs. To capture these changes, the dissertation introduces and conceptually elaborates the notion of inclusive neoliberalism, and suggests that the IFI's development approach is increasingly characterized by attempts to improve upon the social results of neoliberal restructuring processes. Yet, in line with critical IFI observers, this turn towards more inclusively oriented policies is understood (from a neo-Gramscian theoretical perspective) to be part of an effort to (re-)establish the hegemony of neoliberal development policy in the periphery. The IFIs attempt to achieve this in the PRSP process by absorbing counter-hegemonic ideas and concepts, engaging civil society actors in developing countries during the policy formulation process, and providing (even though currently very limited) material incentives to the poor through conditional cash transfers. These claims are substantiated through an analysis of the Poverty Reduction Strategy Sourcebook, and an interrogation of the experiences of Honduras and Nicaragua with the PRSP process.

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List of Acronyms and Abbreviations

ASONOG	Association of Non-governmental Organizations of Honduras
BANADES	National Development Bank of Nicaragua
BCN	Central Bank of Nicaragua
CCER	Civil Coordinator for Emergency Reconstruction
CCT	Conditional Cash Transfer
CDF	Comprehensive Development Framework
CEPAL	Economic Commission for Latin America
CIDA	Canadian International Development Agency
COSEP	Superior Business Council
CONPES	National Economic and Social Planning Council
CSO	Civil Society Organization
DR-CAFTA	Dominican-Republic-Central American Free Trade Agreement
EPZ	Export Processing Zones
ESAF	Enhanced Structural Adjustment Facility
FDI	Foreign Direct Investment
FHIS	Honduran Social Investment Fund
FISE	Social Emergency Investment Fund
FONAC	National Forum for Convergence
FOPRIDEH	Federation of Private Development Organizations of Honduras
FOSDEH	Social Forum on Honduras' Foreign Debt
FSLN	Sandinista National Liberation Front
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IDB	Inter-American Development Bank
IFI	International Financial Institution
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
IO	International Organization
IPE	International Political Economy
IR	International Relations
ISI	Import Substitution Industrialization
JSA	Joint Assistance Strategy
MCN	Community Based Movement
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NGO	Non-Governmental Organization
NIC	Newly Industrializing Country
NIE	New Institutional Economics
PFP	Policy Framework Paper
PRAF	Family Assistance Program

PRGF	Poverty Reduction Growth Facility
PRCS	Poverty Reduction Support Credit
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Policy
SASC	Structural Adjustment Support Credit
SGPRS	Strengthened Growth and Poverty Reduction Strategy
SIDA	Swedish International Development Agency
SPN	Social Protection Network
SPRS	Strengthened Poverty Reduction Strategy
TNC	Transnational Corporation
TSA	Transnational Structure of Authority
UBN	Unsatisfied Basic Needs
UN	United Nations
US	United States
USAID	United States Agency for International Development
UNAT	Technical Support Unit to the President
UNO	Union of Nicaraguan Opposition
WTO	World Trade Organization

Chapter 1

Introduction

The presence, tasks, and activities of international organizations in the governing of the world political order have flourished significantly over the last decades and many new actors have entered the world political stage. With the end of the Cold War, new challenges, such as the vulnerability of the global ecosystem, the AIDS pandemic, and wide-spread poverty, have expanded the traditional focus of international relations scholars on 'high politics'. Heightened cross-boarder flows of people, goods, capital, and pollution, all part of a process in the literature referred to as neoliberal globalization, have translated into larger responsibilities and signified a greater role for transnational governance institutions in solving global problems. In the 1990s, significant global protests against neoliberal globalization have catapulted a number of transnational structures of authority (TSAs)¹ into the realm of public consciousness and engendered sustained discussions about their operations, making heretofore largely ignored institutions an integral part of daily news headlines in the developed world. This was also a period when arguably the most important TSAs, the World Bank and the International Monetary Fund (IMF), have come under an intense scrutiny from the international community and by civil society actors (Stone and Wright 2007).

While many citizens in the developed world might not be as familiar with the operations and the importance of TSAs in the world political order, citizens in the

¹ This dissertation will employ the term 'transnational structures of authority' to denote what has traditionally been called international organizations by international relations scholars. As the theoretical chapter will highlight, this term better captures the increasingly transnational nature of 'international institutions', by breaking with the methodological nationalism at the heart of most theories of international organizations.

developing world have long been experiencing the power and effects of policies promoted by TSAs, in particular through structural adjustment policies (SAPs), overseen by the World Bank and the IMF and first introduced in the aftermath of the debt crisis in 1982. SAPs primarily consist of market unleashing reforms, including trade liberalization, financial deregulation, currency devaluation, privatization of state companies, labor market flexibilization and fiscal austerity policies, and are linked to the crystallization of the Washington Consensus (as discussed in more detail in chapter 3). The power and omnipresence of TSAs have recently fuelled an interest in transnational governance by international political economy (IPE) scholars, and the (mal)functioning of TSAs has increasingly become subject to academic scrutiny (see *e.g.* Barnett and Finnemore 2004; Weaver 2003). This dissertation attempts to contribute to this flourishing literature by focusing on the recent transformations and transfigurations of development policy at the World Bank and the IMF, arguably the most powerful and influential institutions of the emerging transnational governance landscape.

In the mid-1990s, the World Bank and the IMF have entered a period of sustained institutional transformation that culminated in a substantial reorientation and re-articulation of development policy at both institutions (Pender 2001). That the IFIs are actively attempting to find ways to improve upon previous results and reinvent their lending practices are signs of the deep legitimacy crisis of both institutions and the neoliberal development model that they have so uncompromisingly promoted since the early 1980s. This legitimacy crisis has manifested itself in a number of developments, such as large protests at the annual meetings of both institutions and increasingly critical media coverage on the effects of IFI policies in the developing world (Gills 2000), but

also in the growing unwillingness of many developing country governments to continue to implement SAPs, evidenced by a significant decrease in the compliance rate with IFI conditionality in the 1990s (Khan and Sharma 2001).

During the height of the Washington Consensus, the IFIs proceeded with a great sense of certainty and intransigently promoted SAPs as part of the cutting and slashing period of first-generation neoliberal reforms. However, with the recent contestations of IFI operations, both in academia and in anti-IMF and World Bank demonstrations at annual gatherings in the late 1990s, SAPs have come under heavy criticism for a variety of reasons. Critics of structural adjustment argue that the 'standard' IMF/World Bank policy package has economically done more harm than good (Weisbrot *et al* 2000; Stiglitz 2002; Chossudovsky 1998), and that SAPs have further impoverished large parts of the poor in developing countries (*e.g.* Garuda 2000; SAPRIN 2003). Moreover, empirical evidence has been growing that indicates that SAPs have failed to achieve their own stated goal of reviving developing country economies, and prominent US economists have increasingly questioned whether the 'Washington Consensus' and its stabilization-based economic prescriptions provide appropriate development policies (Rodrik 1999; Krugman 1995; Stiglitz 1998a; Weisbrot *et al* 2001). As Graham Bird has recently commented: "There would be less debate about the future of the Fund and its role in developing countries and emerging economies if its programmes had been perceived as successful in the past. This is not the general perception, hence the debate" (Bird 2001: 839).

Apart from questioning the effectiveness of SAPs, criticism has also focused on the lack of 'country ownership' and the externally imposed nature of SAPs, highlighting

the fact that developing countries do not substantively participate in the formulation of their own structural adjustment measures. According to many observers, the World Bank and IMF did not allow for significant input from developing country governments in the past, and IFI policies were often imposed and enforced upon the developing world from above (Green 1998: 218). Moreover, civil society organizations (CSOs) and the local poor who in most cases are the most severely affected by structural adjustment have been largely excluded from crucial decision-making processes, as even the World Bank has recently noted (World Bank 2001: 12).

In response to these criticisms and in light of a severe legitimacy crisis, the IFIs have been involved in an attempt to redefine their approach to development and reorient their development policy away from the highly contested structural adjustment paradigm. The appointment of James Wolfensohn as World Bank president in 1995 and Joseph Stiglitz as chief economist in 1997 marked watershed events in the institutional restructuring of both organizations. Both Wolfensohn and Stiglitz vigorously advocated a 'new way of doing business' that eventually crystallized into a novel policy consensus, labeled by Stiglitz the Post-Washington Consensus in his ground-breaking speech to the United Nations in 1998 (Stiglitz 1998a; Wolfensohn 1999).

According to Stiglitz, the Post-Washington Consensus represents the realization that making markets work requires more than sound macroeconomic policies, liberalization and deregulation, the key pillars of the Washington Consensus. Well-functioning markets also depend upon sound financial regulation, robust institutions, competition policy, and policies to facilitate the transfer of technology, some fundamental issues neglected by the Washington Consensus (Stiglitz 1998a: 1). To this

effect, Stiglitz acknowledges the role of the state in appropriate regulation, social protection and welfare, and in the development process more broadly, and argues that “we should not see the state and the market as substitutes, [...] the government should see itself as a complement to markets, undertaking those actions that make markets fulfill their functions better” (Stiglitz 1998a: 25ff).

As part of this emerging consensus, the World Bank also introduced the idea of the Poverty Reduction Strategy Paper (PRSP) approach, arguably the most visible policy tool of the Post-Washington Consensus, allegedly replacing SAPs as the IFI’s new development policy paradigm. The PRSP approach is an ostensibly more participatory approach to development that was revealed at the G7 summit in September of 1999. The leaders of the industrialized world announced in Cologne that debt relief for developing countries via the Heavily Indebted Poor Country (HIPC) initiative will be made conditional upon the creation of national PRSPs, and that structural adjustment lending will be replaced by new financing tools. In response, the IMF’s Enhanced Structural Adjustment Facility (ESAF) was re-baptized as Poverty Reduction and Growth Facility (PRGF), while the Bank introduced the Poverty Reduction Support Credit (PRSC) as a novel financing tool, replacing Structural Adjustment Support Credits (SASC). At the same time, the G7 announced that countries that want to apply for debt relief or other forms of concessional finance must each develop their own PRSP, in which they put forward a poverty diagnosis and elaborate a comprehensive plan that determines how the funds saved through debt relief and other aid money will be spent on development initiatives that contribute to poverty reduction goals. Thus, PRSPs effectively replaced Policy Framework Papers (PFPs) as preconditions for concessional finance, such as the

PRGF and PRSC, and grant financing from both the Bank and the Fund (Tan 2007: 148). There are currently more than 60 developing countries that have already implemented or are currently in the process of developing a PRSP (World Bank 2008).

According to the Bank and the Fund, the primary goal of the PRSP process is, on the one hand, to overcome some of the problems of SAPs by strengthening national ownership of development programs and by broadening the participation of CSOs in the elaboration of development strategies (World Bank and IMF 1999). Fundamental to the conceptualization and design of PRSPs is the idea of 'country ownership' facilitated by wide consultation and participation of CSOs in the formulation and evaluation of individual country strategy papers (Bradshaw and Linneker 2002). This is a novelty since in the past borrowing governments have not generally been able to significantly shape frameworks for assistance from external creditors and donors. On the other hand, the IFIs claim that PRSPs will make development policy more poverty-sensitive, by contributing to rising levels of social investments in the area of human capital (World Bank and IMF 1999). The second key component of the PRSP approach is thus the emphasis on poverty reduction and the inclusion of the poor into capitalist market structures by way of consumption subsidies and better investments into their human capital.

Statement of Research Topic and Argument

The purpose of this dissertation is, in simplest terms, to make sense of the recent transformations of development policy at both the World Bank and the IMF, and to evaluate the extent to which the IFIs' rhetorical shifts, as part of the introduction of the Post-Washington Consensus, have translated into changes in their development policies.

This will be achieved by placing the new ideas and norms of the PRSP approach in a historical perspective. At the empirical level, the primary focus of the research is to determine the extent to which PRSPs differ in content from earlier SAPs, and to evaluate the extent to which critical CSOs contributed to the formulation of national PRSPs.² In order to evaluate the continuity and discontinuity in IFI policy, the dissertation will draw on the IFIs' *Sourcebook for Poverty Reduction Strategies* (Klugman 2002a and 2002b), and interrogate Nicaragua's and Honduras' experience with the PRSP process.

Key questions to be addressed are: to what extent do PRSPs represent discontinuity with the prescriptions given by the Bank and the Fund during the reign of structural adjustment policies? Are the macroeconomic policy prescriptions in the PRSP documents similar to those prescribed by the IFIs during the era of the Washington Consensus? Another central concern is the extent to which critical CSOs have been able to participate in or influence the formulation of their countries' PRSPs. Did the consultation process between CSOs and governmental officials during the development of poverty reduction strategies have an impact on the content of the strategies formulated by those governments? And, were counter-hegemonic CSO voices incorporated into PRSPs? In other words, this dissertation will interrogate the PRSP approach in order to identify the procedural and substantive similarities and differences between SAPs and PRSPs.

At the risk of simplification, the recent articulation of the Post-Washington Consensus and the introduction of the PRSP approach have been met with two opposed responses in academia. On the one hand, supporters of the IFIs posit that the Post-Washington Consensus represents a significant rupture in development thinking and a

² The term critical CSOs is used to refer to CSOs that are critical of the neoliberal policy stance of the IFIs.

progressive move away from policy conditionality towards country ownership and the acknowledgement of the importance of home-grown institutions and policies and civil society participation (*e.g.* Booth 2003; Driscoll and Evans 2005; Stiglitz 1998b; Thornton and Cox 2005; Seshamani 2005, Cling *et al* 2003). In this vein, Venkatesh Seshamani has recently suggested that the PRSP approach is ‘new wine in a new bottles’, representing a deepened conceptualization of poverty, and a more comprehensive, participatory and long-term development approach towards poverty reduction (Seshamani 2005: 5). Thornton and Cox have qualified the PRSP approach as “the most participatory policy exercise yet undertaken” (Thornton and Cox 2005: 25), and for Cling *et al* it “has great potential for strengthening democracy in countries where the people generally have very few means of making themselves heard” (Cling *et al* 2003: 2).

Along similar lines, David Booth has suggested that “both the large international financial institutions (IFIs) have introduced new lending instruments avowedly designed to support the implementation of PRSPs – a Poverty Reduction and Growth Facility (IMF) and a Poverty Reduction Support Credit (World Bank/IDA). These are not merely formal changes, or new labels for established activities. They reflect long-term shifts in the policy thinking of the IFIs, and the senior management of both the Fund and the Bank mean them to signal fundamental changes in the way those organizations do business” (Booth 2003: 132). While early enthusiasm has largely dissipated and shortcomings in the PRSP process have been widely acknowledged by supporters of the PRSP process (*e.g.* Booth 2005; Dijkstra 2005), and recently even by the IFIs themselves (especially World Bank and IMF 2005; IMF 2007), IFI supporters nevertheless maintain that the PRSP approach represents a step in the right direction, towards integrating previously

excluded voices into the policy-making process and reorienting IFI policies away from structural adjustment towards poverty reduction (Booth 2005).

On the other hand, critics of the development establishment argue that the Post-Washington Consensus and its attendant policy changes do not represent a significant departure from the neoliberal policies espoused by the IFIs during the era of structural adjustment (*e.g.* Cammack 2002 and 2004; Bond 2004; Soederberg 2004 and 2005; Fraser 2005). Rather, the IFIs' rhetorical shift is understood to be part of an effort to address the growing criticism of IFI policies, and to further tighten the grip of the IFIs over developing countries through novel forms of 'deep interventionism', without however substantially altering IFI lending practices and development policies. Susanne Soederberg has recently provided a succinct summary of this view: "From this perspective, then, the PRSPs are not about doing away with conditionality, but should be seen instead as direct responses to the above-mentioned 'threats to neoliberalism', which are, in turn, targeted at reconfiguring and deepening neoliberal domination over the growing number of the poor in the South" (Soederberg 2005: 339).

The analysis in this dissertation provides an attempt to overcome this bifurcation in the literature, by acknowledging important discontinuity in the IFIs' operations, on the one hand, while arguing that the emergence of the PRSP approach represents an attempt to (re-)establish neoliberal hegemony (understood in a Gramscian sense), on the other hand (see discussion below). In line with IFI supporters, the dissertation acknowledges some procedural and substantive differences between SAPs and PRSPs, and suggests that the move towards the PRSP approach has indeed produced significant changes in the nature of development policy and in the ways in which the IFIs operate in developing

countries. To capture these changes, I introduce and conceptually elaborate the notion of inclusive neoliberalism (see also Craig and Porter 2004 and 2006; Mahon and Macdonald, forthcoming). I suggest that we are currently witnessing a sustained metamorphosis of the neoliberal project, which is increasingly characterized by attempts to redress poverty and promote ‘social inclusion’, without however breaking with the macroeconomic prescriptions that characterized the Washington Consensus era. The renewed attention to social policy issues by the IFIs and the attendant re-institutionalization of the state remain firmly couched within a neoliberal macroeconomic framework. Thus, inclusive neoliberalism can best be understood as combining the IFI’s recent positive-liberal emphasis on poverty reduction, empowerment and participation with a staunchly neoliberal macroeconomic framework (Craig and Porter 2006: 12).

As part of this larger transformation of neoliberalism, the IFIs have also started to experiment with what I call ‘inclusive-neoliberal development policies’ (as elaborated on in chapter 3). While traditional neoliberal policies of global economic integration, privatization, liberalization and good governance remain privileged, these are joined to a range of (limited and targeted) human capital and social safety net provisions, designed to ensure the active participation of previously excluded populations in “the project of building a more inclusive world economy” (World Bank cited in Craig and Porter 2005: 227). In this new world of inclusive neoliberalism, everybody will be, indeed *must* be, included: the poor are invited to participate in poverty diagnostics, CSO representatives populate round tables at consultations on the content of PRSPs, the poor are included in the delivery of basic services through resources freed up by debt relief, and non-governmental organizations (NGOs) are invited to audit their governments and oversee

PRSP spending to enhance accountability.

Yet, in line with critical IFI observers, this turn towards more inclusively oriented policies is understood (from a neo-Gramscian theoretical perspective) to be part of an effort to (re-)establish the hegemony of neoliberal development policy in the periphery, by co-opting counter-hegemonic social forces into a neoliberal framework that has only been modified at the margins. The dissertation suggests that the introduction of the PRSP approach and the emergence of inclusive-neoliberal policy must be seen as a response to the failures and antinomies of previous neoliberal reform processes and the heightened opposition to and social struggles against neoliberal policies in the developing world. In particular, the failure of restructuring to achieve the social cohesion necessary for the reproduction of stable capitalist markets resulted in a rethinking process within the IFIs. This struggle-driven reorientation of IFI policy eventually led to the embracing of the PRSP approach, through which the IFIs attempt to re-build hegemony around their highly contested neoliberal policy prescriptions, which have recently lost their hegemonic status in most developing countries. By absorbing counter-hegemonic ideas into the mainstream policy dialogue, by attempting to engage civil society actors in developing countries during the policy formulation process, and by providing (even though currently very limited) material incentives to the poor through consumption subsidies, the IFIs hope to create a consensus around their interventions into developing countries and re-establish their legitimacy.

Thus, while empirically documenting the crystallization of an inclusive-neoliberal development model, theoretically, the dissertation is interested in the role of the IFIs in the PRSP process and the sources of IFI policy transformation. Conventional IPE

approaches have arguably provided little insight into behavioral changes of transnational governance institutions as the arsenal of analytical tools at the disposal of mainstream students of IPE are grossly inappropriate, as discussed in more depth in the following chapter. This dissertation will draw on neo-Gramscian theory to provide insights into the recent transformations at the IFIs and to make sense of the restructuring processes that reached the IFIs in the mid-1990s. Neo-Gramscian theory starts from the assumption that history is the outcome of on-going social struggles between antagonistic (class and increasingly other) social forces. For neo-Gramscians, the IFIs need to be analyzed as institutions that, in the context of a non-hegemonic neoliberal world development order (elaborated on in chapter 2), promote the interests of transnational social forces, in particular the emergent transnational capitalist class, in the attempt to produce a hegemonic transnational historic bloc (Robinson 2004; Sklair 1999; Gill 2000a).

International institutions play a key role in the production, reproduction and restoration of transnational hegemony, understood not as a social relation by means of force but of consent, achieved through political and ideological leadership and material compromises. TSAs legitimate rules, engage social forces in the developing world and serve to absorb counter-hegemonic ideas in their quest to produce neoliberal hegemony in times when neoliberalism has been increasingly contested and is best characterized as non-hegemonic in nature (Cox 1984). In this environment, TSAs are constantly challenged by counter-hegemonic social forces operating in their institutional environment. Thus, while acknowledging that IFI policies represent the special interests of transnational elites, neo-Gramscian theory nevertheless draws our attention to the historically contingent and incomplete nature of any form of hegemony and the on-going

resistance to IFI policies in the developing world.

However, the neo-Gramscian perspective admittedly has its own shortcomings and has increasingly been subject to sustained criticisms, focusing on the application of the concept of hegemony, used by Gramsci predominantly in a national context, to the transnational level (Kenny and Germain 1998), and the way in which the IFIs have been described by some neo-Gramscians as (relatively autonomous) instruments of the transnational capitalist class (Taylor 2005). The dissertation also reacts to these criticisms and provides a social relationist re-conceptualization of the IFIs in line with recent developments in historical materialist state theory (in particular Jessop 1990 and 2002; Hirsch 2002).

Research Strategy

This dissertation combines a number of research strategies, but predominantly draws on the following sources: first, an analysis of World Bank and IMF publications that document the shift from SAPs to PRSPs, and outline ‘best practices’ and provide ‘technical knowledge’ to countries involved in the preparation of national PRSPs, in particular the *Sourcebook for Poverty Reduction Strategies* (Klugman 2002 and 2002b);³ second, the dissertation analyzes official and alternative PRSP documents that emerged through the PRSP process in both Honduras and Nicaragua in order to compare and contrast the period of SAPs with PRSPs in each country (see further details below); and finally, semi-structured interviews were conducted with CSO, government and IFI representatives that were involved in the PRSP process in both Nicaragua and Honduras

(see appendix). However, the main purpose of these interviews was to gather background information and achieve access to various CSO and government documents on the PRSP process.

Nicaragua and Honduras were amongst the first to partake in the PRSP process and to elaborate their own nationally owned poverty reduction strategies. Nicaragua and Honduras do not serve as traditional case studies, however, as this would be incompatible with the social relationist ontology that represents the point of departure of the analysis (see following chapter), but rather will serve to illustrate the emergence of inclusive-neoliberal development policy in practice. Rather than searching for domestic factors that produce differences in PRSPs, the dissertation attempts to illustrate the homogeneity of policies emerging in the PRSP process, and starts at the transnational level and moves to the domestic level to document the crystallization of inclusive-neoliberal policy through two country examples. This is, of course, not to suggest that domestic institutional and cultural particularities have no impact on the PRSP process, or that PRSPs are totally homogeneous; but to investigate these particularities and the idiosyncratic domestic structural and agential dispositions that engender them lies outside of the scope of this dissertation.

Nicaragua and Honduras were selected for illustration purposes for various reasons. There are currently only six Latin American countries that have presented a full PRSP to the IFIs (World Bank 2008). Out of these, Honduras and Nicaragua are the most interesting due to a number of factors: first, they both share a similar history of implementing SAPs under heavy criticism from many local NGOs. However, while

³ While the *Sourcebook for Poverty Reduction Strategies* is edited by Jeni Klugman, it has been prepared mainly by Bank and Fund staff and functions as a guide to assist countries in the development and

Honduras began implementing SAPs in the mid-1980s, Nicaragua only adopted IFI-style SAPs in the early 1990s after the Sandinista government lost the 1990 election to a coalition of liberal forces. Second, given their strong and well-organized civil society, Nicaragua and Honduras offer useful examples to investigate the extent to which critical civil society actors influenced the PRSP design. In both countries, a vibrant civil society participated in the official PRSP process, while, at the same time, establishing an alternative consultation process and developing an alternative ‘civil society’ PRSP, parallel to the PRSPs articulated by both governments and endorsed by the IFIs.

In Nicaragua, in the aftermath of Hurricane Mitch in 1999, national level cooperation of civil society emerged in an attempt to coordinate emergency relief and the reconstruction of Nicaragua. During this reconstruction process, the Civil Coordinator for Emergency and Reconstruction (CCER) brought together 21 NGO networks, which represent the involvement of more than 350 local NGOs in Nicaragua, and established itself as a leading voice of the Nicaraguan NGO landscape. CCER also played a key role in the PRSP process as it organized an alternative consultation process on the PRSP and held workshops with the local poor. Rather than merely presenting the official government document for comment, participants were asked to construct their own vision about the situation in the communities and the priorities needed to resolve their most pressing problems (Bradshaw and Linneker 2002: 8).

At a final meeting, the initial results from the consultation process were brought together and the document, *La Nicaragua Que Queremos*, was published and forwarded to the Nicaraguan government and the IFIs so that the views expressed in it could be integrated into the official PRSP (CCER 2001a). At the same time, the Danish NGO *Ibis*

implementation of national PRSPs.

Dinamarca also organized local consultations on the PRSP, producing a local PRSP document for the region of *León Norte*. The existence of two alternative PRSPs will facilitate the task of comparing and contrasting the views of some critical civil society organizations with the official government strategy, and thus to evaluate the extent to which critical NGO views were taken into consideration in the PRSP process. Again, the focus will be on the extent to which CSOs in each country were able to influence the PRSP process, and not on what explains differences between both countries.

In Honduras, in a similar fashion to Nicaragua, the NGO coalition *Interforos*, organized a parallel consultation process. The findings of the consultation process were brought together at a National Dialogue Workshop, in which more than 200 NGOs participated. The recommendations articulated at this workshop differed significantly from the official PRSP document, resulting in demands from NGOs for the IFIs not to endorse the official PRSP document (Interforos 2000). Again, the alternative PRSP document provides a good entry point into the analysis of civil society participation in the PRSP process. Finally, the highly organized networks of CSOs in Nicaragua and Honduras make the collection of information on the PRSP process relatively straightforward.

In order to evaluate CSO involvement in the PRSP process, twenty semi-structured interviews were conducted in Honduras and Nicaragua during the Summer of 2005 (see appendix). A number of CSOs that have been participants during the PRSP consultation process in Nicaragua and Honduras were identified, but the investigation focused predominantly on those CSOs that took a leading role in the preparation of an alternative PRSP document and are representative of alternative political and economic

views. This narrow focus relates to the fact that I am particularly interested in the extent to which critical views not in line with the IFI's neoliberal policy suggestions were incorporated into both countries' PRSPs, and thus is reflective of the normative bias of neo-Gramscian theory. However, these normative predispositions and predilections will be discussed in more depth in the following chapter where the normative bias of neo-Gramscian theory will be exposed.

The interviews were conducted in the capital cities of Nicaragua and Honduras. The focus on capital cities is related to the fact that in both instances the head offices of the most important critical NGOs involved in the PRSP consultation process are located in the capital. The lack of funding to conduct more extensive field research represents another reason to concentrate on easily accessible areas, and mostly focus on official and alternative PRSP documents. Finally, some preparatory interviews with officials of the Canadian International Development Agency (CIDA) were conducted in May 2005.

Significance and Scope of the Study

This research is undertaken in the context of the highly controversial process of neoliberal globalization. The world development order of the early 21st century shows signs of renewed instances of resistance to the neoliberal development model. In this context, some civil society organizations in developing countries are important counter-hegemonic forces that question the neoliberal form of globalization and the neoliberal political and economic agenda of the World Bank and the IMF. It is therefore important to study the extent to which critical CSOs have impacted the formulation of PRSPs and to determine whether alternative policies to the standard SAPs formerly imposed onto

developing countries by the IMF and the World Bank found their way into the development strategies of Nicaragua and Honduras, or whether PRSPs are employed by transnational social forces in an attempt to restore neoliberal hegemony, co-opt civil society actors in the developing world, and silence the critics of structural adjustment.

Even though a number of non-academic reviews have been produced, surprisingly little attention has been paid by academia to the PRSP process. Especially in the Latin American context, few investigations have been conducted analyzing this new approach to development, how it differs from structural adjustment policies, and interrogated the extent to which critical CSOs are represented in the PRSP process (except Dijkstra 2005 and Cuesta 2007). Moreover, this research project sets out to drive forward neo-Gramscian theorizing, by providing empirical grounding for a neo-Gramscian understanding of the role of the IFIs in (re-)producing neoliberal hegemony in the context of economic globalization. In line with neo-Gramscian normative principles, this research finally hopes to contribute to challenging mainstream development discourse and practice so as to bring greater social justice to the world development order of the 21st century.

Summary of Following Chapters

The following chapter introduces and develops the theoretical framework through which the PRSP approach will be interrogated in the remainder of the study. It first discusses the various (unsatisfactory) ways in which mainstream theories of IPE have approached the IFIs, before introducing and somewhat rearticulating the neo-Gramscian theoretical framework employed to analyze policy transformations at the IFIs. Chapter 3 provides a glimpse into the history of the IFIs, delineating the recent changes in their development

approach. It documents the IFIs reactions to the manifold challenges to SAPs and the neoliberal paradigm more broadly, and outlines the most salient features of the PRSP development approach and delineates the emergence of what I call 'inclusive-neoliberal development policy'.

The subsequent two chapters empirically illustrate the claims made in previous chapters through documenting the experiences with the PRSP process of two Latin American countries. Chapter 4 interrogates the PRSP process in Nicaragua and compares and contrasts the PRSP with previous SAPs in order to demonstrate the discontinuity within continuity in Nicaragua's development policy and highlight the crystallization of somewhat contradictory inclusive-neoliberal development policies. Chapter 5 repeats this exercise, documenting Honduras' experience with the PRSP process and the emergence of inclusive-neoliberal policy through it. The final chapter concludes the dissertation by restating the main arguments, bringing together the most salient issues highlighted throughout the chapters, reflecting on the theoretically constructed argument and suggesting ways forward in reforming the current international aid architecture in order to realize poverty reduction results.

Chapter 2

Building Transnational Hegemony? Neo-Gramscian Theory and the IFIs

2.1 Introduction

It is commonplace to observe that human perception is limited. It is also true that our limited perception is not random but structured by *a priori* assumptions about the world. Most academics agree that the theoretical lens we choose limits our perception, and that all academic investigations start from a particular perspective. Individual perspectives are rooted in historical time and place and leave an undeniable imprint on the way in which we experience and perceive the world. Since we cannot choose to observe the world in a theoretically (*i.e.* normatively) unmediated fashion, it is imperative to lay open the theoretical (and political) perspective of every investigation, and to justify the theoretical point of departure. Accordingly, the central task of this chapter is to outline the theoretical understanding upon which my analysis of the World Bank and the IMF's PRSP approach is erected, to discuss and critique rival theoretical perspectives, and to justify why a neo-Gramscian framework has been selected in this investigation.

However, the chapter will begin with a brief excursion into the realm of meta-theoretical considerations which will serve to unearth and make explicit the epistemological and ontological underpinnings of the study. The subsequent discussion will focus on rival theoretical perspectives of international institutions in the form of neo-realism, neo-liberal institutionalism, and constructivism. This discussion will try to illustrate the numerous deficiencies and inadequacies of these mainstream approaches for understanding the IFIs. Secondly, in an effort to overcome some of the theoretical

shortcomings of mainstream approaches, some of Gramsci's ideas that are directly relevant to this study will be introduced. A particular emphasis will be placed on his understanding of hegemony and counter-hegemony, passive revolution, *transformismo*, and the role of 'organic elites', the state, and civil society in the production and maintenance of hegemony. In the third section, the discussion will turn to neo-Gramscian scholars who have provided (from the mainstream approaches) a fundamentally different understanding of international institutions and have developed a critical stream of IPE. Robert W. Cox's reinterpretation and reformulation of Gramscian concepts in IPE will provide the starting point from which to analyze the IFIs in today's increasingly globalized world.

Cox was the first scholar to apply Gramsci's understanding of hegemony and civil society to international institutions in the era of neoliberal globalization (Cox 1983; 1986 and 1987). In doing so, he pointed to the important role that international institutions, such as the IFIs, have played in the creation and maintenance of ideological hegemony at the global level. In accordance with Coxian ideas, the new development approach of the World Bank and the IMF will be situated within the broader context of neoliberal globalization and the restructuring of the capitalist world economy under an emerging transnational capitalism in the context of a non-hegemonic neoliberal world development order.

However, the subsequent two sections will note a number of theoretical weaknesses in the neo-Gramscian tradition, such as the unsophisticated theorization of state structures and public authority, a central problem for almost all IR and IPE schools. The lack of an adequate *instrumentarium* to theorize public authority represents a

fundamental problem for this study since the IFIs will be conceptualized as emerging transnational structures of authority. Therefore, an attempt will be made to develop a more sophisticated theoretical *instrumentarium* for understanding state structures and authority in section four, which will then allow us to re-describe the IFIs in social relationist terms as the material condensation of antagonistic transnational social forces.

Moreover, most neo-Gramscian approaches have focused in their analysis on the importance of the (often unobservable) structures that restrain human agency. However, while social structures can be an important starting point for understanding the social world, human agency nevertheless remains a precondition for the reproduction of social structures as structuration theory reminds us (Giddens 1984). In part five, human agency will be brought back into the neo-Gramscian framework as struggles against neoliberal restructuring by social forces on the ground in Nicaragua and Honduras are important factors in the emergence of the PRSP approach. Many neo-Gramscian scholars have overlooked the extent to which local and global actors and activists have influenced the IFI's agenda and overestimated the degree to which transnational capital has been tightly controlling the agenda of the IFIs, and thus do not provide a satisfactory account of institutional change. This oversight is arguably linked to the 'closed' manner in which the IFIs have been conceived as homogenous and monolithic instruments of an emerging transnational capitalist class, thus exorcising social struggles over policy direction from the purview of the IFIs (Taylor 2005).

Section six will elucidate in more depth the theoretical understanding of civil society that is adopted in this study. A Gramscian understanding can enrich the mainstream theorization of civil society, by emphasizing the dialectical and dialogical

relationship between civil society and the state, and hegemony and counter-hegemony. Finally, this section will outline how neo-Gramscian theory can help us understand the significance of the policy shift from structural adjustment to poverty reduction. Here I maintain that the PRSP approach must be understood as a reaction to the failures and antinomies of neoliberal restructuring processes which led to growing resistance to neoliberalization processes in the developing world. Moreover, the introduction of the PRSP approach represents an attempt to turn a non-hegemonic neoliberal into a hegemonic inclusive-neoliberal world development order, through the introduction of slightly modified inclusive-neoliberal development policies. However, an in-depth description of this emergent inclusive-neoliberal model of development will have to wait until the third chapter.

2.2 Epistemology, Ontology and Historical Structures

It is imperative to acknowledge that no theory can possibly (and indeed never should attempt to) claim a monopoly over knowledge. Theoretical pluralism is an important element of a healthy academic environment as different theories necessarily highlight different aspects of a multi-faceted and stratified social reality. It therefore has to be acknowledged that by choosing a neo-Gramscian framework important insights that could have been unearthed from a competing theoretical framework will be neglected.

Epistemologically, this study acknowledges the relativity, instrumentality, and historicity of human knowledge. With the post-positivist turn in the social sciences in the late 1980s, it has been widely accepted that all knowledge is theory- and concept-dependent rather than innocent, filtered through the values, presuppositions, and

ideologies that necessarily and unavoidably enter the process of investigation. This suggests that the observer's position in social space and historical time provide clear delimitations to the 'neutrality' of any research project, and that an epistemological stance that acknowledges the historically and socio-spatially circumscribed nature of knowledge production is warranted.

Moreover, theories and research (especially in the political realm) are often developed and employed so as to rationalize particular political behavior and support specific political projects. Theories and ideas can be 'weapons' that are employed in a strategic manner by social actors so as to legitimate particular policies and political projects (Bieler 2001: 97). The instrumentality of theories has been well captured by Robert Cox in his widely cited phrase: "Theory is always *for* somebody and *for* some purpose" (Cox 1986: 207). Neo-Gramscian theory is indeed no exception to this rule as it has a clear emancipatory interest and a strong normative bias. As Stephen Gill has noted, the neo-Gramscian approach places a heavy emphasis on the "ethical dimension to analysis, so that the questions of justice, legitimacy, and moral credibility, are integrated sociologically into the whole and to many of its key concepts" (Gill 1993: 24). A clear goal that informs much of the research, and undoubtedly influences the way in which the topic is approached and interrogated in this dissertation, is the promotion of greater social justice in the world development order, and the eradication of poverty in the developing world which, it is assumed, can only be achieved through global structural transformations.

Finally, a historicist epistemology is necessary given the constant motion of the objects of inquiry and the insight that history is an open process. Whereas most theories

of international political economy operate with fixed assumptions about the nature of world politics and humanity, a historicist epistemology acknowledges how changes in human agents and in historical structures constantly challenge us to rethink the ways we produce knowledge. Gramsci's notion that things "must be known genetically in the movement of their formation" captures well the epistemological starting point of this investigation (Gramsci 1971: 353). In short, epistemology needs to be historicized due to the spatio-temporal embeddedness and constant movement of social life.

Finally, thinking and theorizing constantly evolve as we come into contact with and experience the historical world. Writing artificially arrests the ongoing process of reflection and presents a necessarily selective and preliminary mental picture of reality. Theorization is predominantly shaped by two related processes: on the one hand, the 'objective' (*i.e.* intersubjective) movement of history, which constantly reconfigures the social forces that engender reality through their dialectical interaction (Cox 2002: 26). The movement of history influences the way we perceive the world and requires us to constantly redevelop our thoughts. On the other hand, it is solely our subjective perceptions that bring the 'objective' world into being and, in doing so, delimit the ways in which we develop a mental picture of this world with a view to acting upon and ultimately changing it.

Ontologically, this study draws on Robert Cox's notion of historical structures (Cox 1987: 4; and 2002: 78). This notion reflects the insight that each historical epoch is characterized by persistent social practices, which are the product of collective human activity. In line with the historicist epistemology advocated earlier, this study also adheres closely to Cox's suggestion that ontology should be historicized, and that a

critical conceptualization of ontology has to provide “a transitory snapshot of a world in perpetual motion” (Cox 2002: 78). Moreover, in contradistinction to how structuralists have used the term, Cox is careful to note that structures and agents are mutually constituted (Cox 1987: 4). Structures have an objective existence only insofar as human agents objectify them by virtue of their intersubjective agreement about the existence of such structures. Thus, this dissertation links up with philosophical positions which problematize and ultimately attempt to transcend the objectivity-subjectivity divide in the philosophy of social science (*e.g.* Bourdieu 1977). Without the existence of objects external to human discourse there could be no discourse about such objects. At the same time, objects are ‘brought into being’ through discursive formation based on intersubjective agreement, *i.e.* the objectification of subjectively held ideas about objects by subjects.

2.3 Mainstream Theoretical Understandings of International Institutions

As noted above, the main task in this chapter is to provide a theoretical discussion of the main promoters of the PRSP development approach, the World Bank and the IMF. Most of the evaluative literature on the PRSP process is produced by CSOs and multilateral development institutions, and is therefore largely atheoretical, painting a more empirical and descriptive picture of the PRSP process and often completely lacking a theoretical understanding of those international institutions that have heavily promoted the PRSP approach. Analogously, much of the academic literature on the PRSP process either completely disregards the IFIs as important agents in the PRSP process (*e.g.* Cuesta 2007), or fails to theoretically reflect upon the role of the IFIs in the PRSP process

(Booth 2003; Dijkstra 2005).

However, international institutions have long been one of the central concerns of students of IPE, and a vast body of literature on the role of international institutions in international politics has been produced since the end of the Second World War.⁴ This literature has been dominated by neo-realist, neo-liberal institutionalist, and constructivist interpretations of international institutions. The following sections will briefly rehearse the arguments of these mainstream approaches, providing ample criticisms and illustrating their numerous shortcomings in understanding international institutions, and outline how the predominant concern of mainstream approaches has been to theorize the relationship between the IFIs and the inter-state system.

Neo-realism and International Institutions

The neo-realist stream of IPE has unsurprisingly produced a rather small body of literature on international institutions. This can be explained by the fact that neo-realists assume that nation-states remain the main actors in the international system today, and that international organizations should not be conceptualized as autonomous actors, but rather as dependent variables, or epiphenomena, that have no life of their own (*e.g.* Mearsheimer 1994; Waltz 2000). For neo-realists, states, which have been the key organizing principles of the international system since the Treaty of Westphalia of 1648, remain the dominant power containers in the international system, holding the legitimate monopoly of coercion. For neo-realists, international institutions are strongly influenced by the most powerful states in the system, especially the US. Following this line of

⁴ The best overview essay is arguably Kratochwill and Ruggie's classic article in *International Organization* (Kratochwill and Ruggie 1986). For a more recent review article, see Barnett and Finnemore 1999.

argument, Robert Wade suggests that “[t]he Bank’s location in the heart of Washington DC [...] plus the fact that its staff read US newspapers and watch American TV, plus the fact that English is the only language of business, mean that American premises structure the very mindset with which most Bank staff approach development” (Wade 2002: 218). For neo-realists, then, international institutions, as an embodiment of international regimes, tend to be manipulated by powerful state actors engaged in conflictual relations to promote national interests. In line with this argument, the Bank and the Fund are perceived to represent predominantly US interests and tightly follow US guidelines.

The neo-realist analysis is not without historical basis and analytical purchase, especially when applied to the post-Second World War era, given that the Bank and the Fund emerged in the US-dominated Bretton Woods order. Since their inception, the policy directions of both institutions have been strongly influenced by the US state as various modes of exercising US executive power were written into the constitution of both institutions (Taylor n.d.: 81). For instance, the ‘one dollar one vote’ rule signifies that the US, up to this day, is the only country that has veto power over constitutional amendments within and generally exercises significant influence over both institutions. The influence exercised by the US is also evidenced by the disproportionate amount of IFI lending to key US allies during the Cold War era, especially Nicaragua, Indonesia, and Iran (Woods 2000: 146), and the vetoing of loans to countries that are perceived to either undermine US security goals or represent a competitive challenge to strategic US industries (Caufield 1996: 197-205).

At the same time, despite the ‘hard power’ enjoyed by the US administration, the IFIs have not simply been comprehensive tools of the US executive branch, as suggested

by neo-realism. Even during the height of the Cold War, IFI policies and interventions did, in many instances, not simply follow US dictates. In fact, decisions taken by the IFIs have over the years often sharply conflicted with and met stiff resistance from the US Treasury and other governmental bodies (Taylor n.d.: 82). Patricia Caufield, in her study of the relationship between the Bank and the US, lists a number of cases in which the Bank has openly defied US pressure and continually denied the requests of US representatives (Caufield 1996). Similarly, the work of Robert Wade demonstrates that the Bank followed through with the publication of a World Development Report (WDR 2000/01) that was bitterly opposed by the US Treasury, which would have preferred to see a report with a much more orthodox approach to the question of poverty reduction (Wade 2001b and 2002).

At the same time, neo-realists reject the notion that the transnationalization of production has fundamentally altered the character of the world political order, with significant effects on international institutions. To question this claim, neo-realists maintain that the international economy was more open in the pre-1914 period than in the period from the 1970s onwards. Secondly, they point out that Foreign Direct Investment (FDI) is not spread equally over the whole globe, but rather concentrated on the Triad of North America, Japan, and the European Union, with respect to both the originators and destinations of FDI (Waltz 1999: 694).⁵ For neo-realists, globalization is nothing more than the increase of cross-border flows of goods, services and capital. National states remain the core actors in the international system and have lost little of their power over the economy and international markets (Waltz 1999: 695). In this view, the globalization

⁵ Hirst and Thompson developed a similar argument from inside the Marxist camp (Hirst and Thompson 1996).

of the world economy has neither led to more cooperation in international politics, nor has it empowered international institutions or led to the emergence of significant transnational authority structures, one of the central claims of this dissertation *pace* neo-realism.

One of the key problems with the neo-realist approach to IPE is that it is unable to detect change in the world economy because of its *a priori* ontological commitments. Neo-realism's ahistoric insistence on states being the only important actors in the international system, what Neil Brenner has labeled 'methodological nationalism' – the notion that "all social relations are organized at a national scale or are undergoing processes of nationalization" (Brenner 2004: 28) – makes it impossible to account for structural changes in the international system beyond the state system. In fact, neo-realism is *a priori* unable to detect change because its analytical focus is predominantly concentrated on states. This is linked to the ahistorical conceptualization of ontology built into neo-realist theory, in which neo-realists ascribe a transhistorical essence to the important units that make up the social world. In neo-realism, states and power-driven statespersons, interacting in the insurmountable state of anarchy for their own security interests, are presumed to be the eternal interrelated components of world order (Cox 2002: 78). According to this perspective, the world is in a permanent state of being, never in flux or changing, and manifests the innate characteristics of an essentialized human nature. As developed later on in more detail, in this study a fundamentally different understanding of ontology will be applied: structures must be analyzed in their world historical context and motion. Consequently, factors that have been ignored and suppressed by neo-realist scholars can come to the surface.

However, in the context of analyzing IFI policies, neo-realists make a number of assumptions that are equally problematic. First, as elaborated above, neo-realists tend to reduce the IFIs to instruments of the most powerful states in the international system and thus deny any (relative and variable) autonomy from states (*e.g.* Waltz 2000; Mearsheimer 1994). This state-centrism of neo-realism renders impossible the observance of actors other than the state. Yet, as will be argued later, international institutions could also be understood in the context of globalization as transnational governance institutions providing a new social space, in which emerging transnational social forces articulate their views and attempt to develop a hegemonic transnational project. This speaks to the idea that governance is increasingly taking place at a number of scales, recently referred to by Bob Jessop as multi-scalar governance (Jessop 2005).

Moreover, the IFIs do not solely respond to the interests of powerful national governments and national capitalist fractions, as neo-realists and some Marxists claim (Mearsheimer 1994; Meiksins Wood 2003), but increasingly represent the interests of emerging transnational social forces and transnational capital (in general) (Cox 2002; Robinson 1997 and 2004; Sklair 1999). To capture this reality, theories of international institutions should transcend the methodological nationalism and grant a variable yet relative autonomy to transnational governance institutions. I will return to this notion later in the chapter when introducing the neo-Gramscian perspective.

Neo-liberal Institutionalism

Contrary to neo-realists, neo-liberal institutionalists acknowledge the deep structural changes in finance and production in the world economy that have materialized over the

last two decades, while also recognizing the appearance of new powerful actors, such as transnational corporations (TNCs) and international institutions. This led Susan Strange to argue that states no longer simply bargain with other states, but that they are increasingly involved in a 'triangular diplomacy', in which states must negotiate with TNCs and international institutions (Strange and Stopford 1991). Like neo-Gramscians, liberals have furthermore posited that the system of states is overlaid by a highly integrated, incompletely regulated, rapidly growing global and transnational economy (Keohane and Nye 1998: 83ff.).

However, the neo-liberal institutionalist point of view fails to adequately analyze why the process of globalization emerged in the early 1970s and provides no answer to the question of how we can account for structural changes in the world order. Furthermore, it does not adequately conceptualize the role that the emerging transnational capitalist class has played in the creation and dissemination of neoliberal ideology, outside and inside transnational governance institutions (*e.g.* Sklair 1997; Gill 1990). It also overlooks the fact that the mobility of capital has not only constrained the policy options of governments, but also has somewhat altered the balance of power between different social classes, and does so increasingly on a transnational scale (Gill 2000a).

In addition, neo-liberal institutionalism portrays a problematic understanding of international institutions rooted in neo-classical and institutional economics. From this perspective, international institutions are seen as instruments to coordinate behavior in situations when Pareto-optimal outcomes cannot be achieved through uncoordinated selfish behavior (Keohane 1984). International institutions help to foster cooperation by reducing uncertainties, overcoming information asymmetries, reinforcing credibility, and

limiting transaction costs (Keohane and Martin 2003: 80ff.). Consequently, neo-liberal institutionalists see the IFIs as tools for cooperation between the developed and the developing world, and the theoretical postulate of shared 'absolute gains' posits that cooperation leaves all sides better off. In this vein, the IFIs are understood as offering global public goods, such as technical expertise and inexpensive credit, as part of a mutually advantageous international cooperation regime. This is linked to the assumption that states will only cooperate when it is attractive for them to do so. Once regimes are established, questions of power largely disappear from the purview of the investigation, and it is assumed that international institutions operate in an impartial, rule-bound manner and that decision-making is based on technical considerations established in the mandate of the institution (Gilbert, Powell and Vines 2000).

However, these assumptions are highly problematic because they fail to recognize the deep (structural) power imbalances inherent to the world political order and its institutional expressions (Strange 1983). Power plays an important role in the creation of international institutions, and the more powerful actors in the world economy are in a position to significantly influence the structures of the international system in accordance with their interests. It also overlooks the fact that developing countries are highly dependent on the financial flows from the IFIs and would have to pay an unacceptably high price if they chose not to cooperate with international institutions. The alternative of non-cooperation simply does not exist for many developing countries.

Finally, neoliberal institutionalism starts from the assumption that the explanation of organizational behaviour must begin with the analysis of the individual actors, rather than the structure of society itself. This methodological individualism shared by both

neo-realist and institutionalist theories assumes that actors exist prior to social structures and can be understood apart from any social arrangement (Lee 1997: 146). This view has been increasingly criticized for its failure to account for the dialectical interplay of ideas, material interests, and institutions in the global political economy (Cox 1987). As constructivist and critical political economists have reminded us, there is always a dialectical and co-constitutive relationship between agents and structures (Gill 1993: 5); international institutions cannot be understood apart from the social structures in which they are embedded. Or, to put it differently, organizational identities and interests are not transhistorically given but socially and historically constructed (Finnemore and Barnett 1999); to suggest otherwise is to naturalize historically contingent and malleable institutional forms.

In addition, there are a number of dubious theoretical assumptions which are shared by both neo-realism and neoliberal institutionalism. The first inadequacy of both approaches is linked to the positivist theorization of international institutions, or the epistemological foundationalism at the heart of both theories. Positivism represents the belief that an objective and external reality exists independently from how we observe and understand that reality. From this perspective, it is furthermore assumed that we can derive value-neutral, positive knowledge from a theoretically unmediated (material) world which exists independently from processes of cognition. Consequently, positivism separates questions of 'what is' from 'what ought to be', distinguishing between empirical and normative enquiry. The goal of the social researcher is to generate testable hypotheses, which are believed to be universally valid across space and time. The task of the 'good scholar' is to explain reality while remaining objectively removed from it (Lee

1997: 147).

This epistemological understanding has come under fierce criticism over the last two decades. The ‘Third Debate’ in international relations in the late 1980s was the first sign that this epistemological consensus started to crumble under pressure from post-positivist critiques. The post-positivist turn in epistemology (and IPE) has made it increasingly clear that empirical statements are also normative statements, and that beliefs and values cannot be separated from empirical investigations. This separation would neglect what Habermas (1971) calls the ‘knowledge-constitutive interest’; the fact that perspectives (and interests) always enter into the process of knowledge creation. As Cox has famously put this reality, “[a]ll theories have a perspective. Perspectives derive from positions in time and space, specifically social and political time and space” (Cox 1986: 207). For post-positivists, the goal of the ‘good scholar’ is to recognize the role of values in a scientific investigation, to make all normatively based assumptions explicit, and to acknowledge one’s standpoint in society. The (epistemological) problem with mainstream theory is the denial of the existence of such a value bias in its theorization of world order. This leads to the creation of problem-solving theory, theory which is not and could not possibly be aware of its own status-quo bias but simply provides solutions to the problems identified within the terms of the particular perspective which was the point of departure of the analysis (Cox 1986: 208).

Second, the most important theoretical inadequacy of both neo-realism and neoliberal institutionalism in the context of this investigation is the way in which power is materially and individually conceptualized in the international economy. For both mainstream theories, power is seen in a one-dimensional way as a “preponderance of

material resources” of individual states (Keohane 1984: 32). Hegemony is equated with the predominance of particular states in decision-making within international institutions. As an extension of the state, power in international institutions is defined in material and individual terms. This is, again, partly linked to the positivist bias of mainstream theory, which makes it impossible to conceptualize (often empirically unobservable) power relationships at the structural level and to come to terms with relational and definitional forms of power, which are arguably of growing importance in the emerging inclusive-neoliberal world development order.

The structural element of power is an important aspect of the current global political economy. According to Isaac, structural power can be defined as an “enduring capacity to act which may or may not be exercised on any particular occasion”, deriving from “the way in which power is implicated in the constitution of the conditions of interaction” (Isaac quoted in Kiely 1997: 148). This structuralist understanding of power and hegemony that incorporates the ideational level into its analysis will be further developed in the section on neo-Gramscian theory, which provides a different, multi-dimensional view of hegemony and power. Moreover, it will be shown that international institutions play a paramount role in the constitution of the conditions of interaction of states in the global economy, and thus wield tremendous power in the world development order.

Constructivism and International Institutions

While neo-realism and neoliberal institutionalism have dominated the study of international institutions until the late 1980s, constructivist scholars have, beginning in

the early 1990s, made a number of important contributions to the study of international institutions, by moving the debate beyond the state-centrism, positivism, and reductionism characteristic of neoliberal institutionalism and neo-realism. For constructivists, international institutions are important actors in the international arena that have an independent existence and fundamentally influence world politics in a number of ways. International institutions help in constructing and constituting the social world by providing norms and values which, in turn, influence the identities of actors. As Barnett and Finnamore have recently put it, international institutions “create actors, specify responsibilities and authority among them, and define the work these actors should do, giving it meaning and normative values” (Barnett and Finnamore 1999: 700). Since international institutions are treated as autonomous actors, constructivists challenge the state-centric ontologies of neo-realist and neo-liberal institutionalist approaches, and thus have provided a laudable criticism of the state fetishism of mainstream approaches.

Constructivists have also levelled another (arguably more important) criticism against neo-realist and neo-liberal understandings of international institutions. The bureaucratic control over information and expertise is seen by some constructivists as providing a basis for an organization’s autonomy. This control over technical (*i.e.* ‘objective’) knowledge makes international institutions appear apolitical and disinterested: “The power of IOs, and bureaucracies generally, is that they present themselves as impersonal, technocratic, and neutral – as not exercising power but instead as serving others” (Barnett and Finnamore 1999: 708). Yet, as Barnett and Finnamore point out, international organizations (IOs) do in a number of ways exercise power in the international arena. IOs have the power to fix meaning which is related to their ability to

classify; they act as conveyor belts for the transmission of norms and models of ‘good’ governance; and they set the overall research agenda (and with it the development discourse). This will become clear in my discussion of the *Sourcebook for Poverty Reduction Strategies* in the next chapter, in which the IFIs present ‘best practices’ and ‘technical knowledge’ about poverty reduction, pretending to give ‘neutral’ and ‘apolitical’ advice to the developing world on how to devise effective PRSPs.

However, the fundamental shortcoming of constructivism is related to the fact that constructivists provide no clear answer to the question of whose interests are being promoted by these variably autonomous international institutions. Ironically, constructivism, despite criticizing structuralist approaches for disregarding agency, does not provide a satisfying account of the agents behind international institutions. The fact that international institutions do not directly represent state preferences does not mean that there are no interests at all lurking behind the IFI’s agenda. As will be suggested later, these interests are however increasingly transnational in nature.

Another important shortcoming of most constructivist scholarship is the lack of recognition of the structural and material grounding of ideas and values (Bieler 2001: 97). While constructivists have correctly characterized structures as social constructs that become materialized only by way of intersubjective agreement, the puzzle of why specific ideas (and with them specific structures) become hegemonic at a given conjuncture has not been satisfactorily answered by constructivists. As Thomas Risse notes critically, for all the weight that constructivist give to ideas, they have not gone very far “in specifying the conditions under which new principled ideas and new knowledge become consensual by ‘catching fire’ among a variety of actors” (Risse 2002:

614). As will be discussed in more detail later, ideas must be distributed through a material structure in order to become hegemonic. Without publishing houses, newspapers, periodicals, etc., ideas would not reach a wider audience, which ultimately would make it difficult, if not impossible, for ideas to ascend to a hegemonic status. This material basis of ideas can be analyzed more effectively from a neo-Gramscian perspective that builds on Gramsci's insights on hegemony, and elaborates on the role of organic intellectuals in the production of hegemony.

2.4 Poverty in IPE Scholarship

Finally, a key weakness of all mainstream IPE scholarship, which is of particular importance in the context of this dissertation, is the lack of serious engagement with the modern conditions of poverty in the developing world, and the total disregard of developing countries and their citizens as agents in the world political order. The division of labour that emerged with the establishment of separate disciplines and fields in the early 20th century produced an absence of poverty from the concerns of mainstream international relations and international political economy (Gruffydd Jones 2005: 987). However, IPE is the field of study that one would presumably turn to in order to isolate the (international) factors causally implicated in the production of global poverty. To the extent that developing countries have entered the discourse of IPE, it has been predominantly in terms of the dangers that 'failed states' represent to 'international order', and in terms of the particular forms of statehood of developing countries and their implications for international society (Gruffydd Jones 2005: 993).

Important questions related to social issues, such as poverty and human security,

have been consistently marginalized within the discipline of IPE. This is linked to the deplorable Eurocentrism of IPE, but is also related to the state centrism of mainstream approaches which focus on the interactions of states in an anarchical international environment, and assume a (false) separation of domestic from international issues. As Gruffydd Jones notes, the narrow focus of international relations theory “automatically removed questions of the conditions of deprivation or affluence experienced by populations within states from the horizon of the discipline’s concerns” (Gruffydd Jones 2005: 993). Durfee and Rosenau in their evaluation of the relationship between IPE and poverty similarly note that “mainstream theorists have had virtually nothing to offer on the subject of poverty” (Durfee and Rosenau 1996: 521).

While realists excessively focus on the powerful countries and their interactions in an anarchical international system, they completely ignore the implications of the unequal distribution of power on individual citizens, especially in the developing world. On the rare occasion that realists actually pay attention to developing countries, it is usually in the context of the role that developing countries play in undermining the stability of the international order, or when realists discuss questions of war and peace and the role of the ‘Third World’ in the balancing of power (Durfee and Rosenau 1996: 530). Liberals on the other hand, have largely ignored questions of global poverty due to their individualist ontology, in particular the belief that individuals (and individual states) are solely responsible for their own immiseration. Moreover, liberals tend to elide questions concerning power and assume that the promotion of ‘free markets’ represents the best strategy towards achieving poverty reduction in the developing world.

At the same time, there has recently been a renaissance in IPE scholarship that has

contributed to exposing the narrow boundaries of the field and problematized a number of the silences and biases of IPE. In this context, scholars have attempted to widen the narrow confines of the discipline and to address its inherent Western-centricity, moving beyond the constraining rationalist and individualist epistemological and ontological points of departure of mainstream approaches. Part of this process is the growing attention paid to the powerless and silenced in the study of international relations 'from below', and the acknowledgement of the agency of the disempowered masses in the developing world. Part of this process is also the rediscovery of poverty as a topic of concern for IPE scholars, with the attendant emphasis on the role of global power imbalances in the production of poverty (Durfee and Rosenau 1996; Tooze and Murphy 1996).

Neo-Gramscian scholars, amongst others, have been at the forefront of highlighting the need to 'bring poverty in' to the field of IPE. As noted earlier, neo-Gramscian theory has an ethical dimension to it which explains why neo-Gramscian scholars have been at the cutting edge of this re-conceptualization of IPE, with strong support however from feminist, post-modernist and post-colonial scholars. An important contribution of neo-Gramscians has been the identification of forms of power that have been largely ignored, given the 'power as resource' mentality predominant within the mainstream which consequently disregarded 'the weapons of the weak'. Such novel forms of power include the power of resistance, explosive power, *i.e.* the power of the powerless to express their discontent, and inertial power, the power of resistance that takes no organized or politically conscious form (Tooze and Murphy 1996: 699). At the same time, as discussed in more depth in the following chapter, in the aftermath of

September 11, growing concerns regarding the stability of the international order have translated into a more serious engagement with poverty as mainstream scholars have started to discuss the complex connections between poverty and terrorism.

A fundamentally different and original understanding of international relations and international institutions has recently been developed by a number of critical scholars in the field of IPE. Amongst others, Robert W. Cox and Stephen Gill have applied Gramscian concepts to the contemporary world order and developed a stream of analysis that is critical of the dominant paradigms of IPE, examining a much broader range of social relationships than those immediately posited at the level of the interstate system, the predominant focus of mainstream IPE (*e.g.* Cox 1983, 1987 and 2002; Gill 1990, and 1993; but also Murphy 2000; Bieler 2001; Rupert 1995; Robinson 2003 and 2004; Van der Pijl 1998, Morton 2004 and 2007). The neo-Gramscian theoretical perspective addresses many of the shortcomings of mainstream approaches and can improve upon our understanding of how the structural characteristics of the existing world order have emerged, and what role the IFIs have played in the political project of producing neoliberal transnational hegemony. In order to better understand the neo-Gramscian approach, the discussion will, however, first turn to illustrating some of Gramsci's ideas that are central to scholars working in the neo-Gramscian tradition. This discussion of Gramsci will particularly focus on the idea of hegemony and the creation of consent in society, and the role of agency in the reproduction of capitalist societies.

2.5 Relevant Concepts in Gramsci's Thought

Antonio Gramsci was an Italian intellectual who developed his main theoretical insights

while incarcerated by the Fascist Party in pre-Second World War Italy. In his writings, Gramsci rejected deterministic and reductionist interpretations of Marx's analysis, which proposed that the ideational sphere is easily reducible to the material realm, or in Marxist terms that the ideological superstructure was a mere reflection of the material base (Simon 1982: 11). In the deterministic interpretation of Marxism, political and ideological developments are the expression of developments within the economic base, and history possesses a necessary movement that can be directly derived from the evolution of the productive forces, which progress independently of human will.

This vulgar and deterministic view also prevailed in much of the Marxist development literature until the early 1980s (Corbridge 1990: 625). Most critical development approaches displayed a crude economism in which all social and political phenomena were 'read off' from the economic base, and the political and cultural developments in the periphery were reduced to the functional needs of Western capitalism (*e.g.* Frank 1969). This view reflected the Althusserian assumption that political action has only a relative autonomy from the economic mode of production, but is always 'in the last instance' fully determined by it (Althusser 1977). Therefore, agency is necessarily subordinated to structure, and social phenomena are explained by the functionality they have for global capitalism. This approach, on conceptual grounds, severely limits the agency of peripheral actors since they are, in the last instance, always directed by the whims of the capitalist mode of production.

Contrary to this view, Gramsci stresses in his writings the importance of agency and the dialectical relationship of material and ideational phenomena. Ideas and material conditions are always bound together and mutually constitute each another, and therefore

cannot be understood independently from each other. This is also the case with structures and agents. According to Gramsci, there exists a “necessary reciprocity between structure and superstructure, a reciprocity which is nothing other than the real dialectical process” (Gramsci cited in Forgas 1988: 193). The economic base does not determine rigidly or otherwise the ideological superstructure, but rather must be analyzed in relationship to the cultural sphere. Therefore, it is important that men acquire a critical awareness of the circumstances under which they are living and a consciousness of the (class and other) conflicts inherent to capitalism (Forgas 1988: 192).

In his principal work, *Prison Notebooks*, Gramsci also moves away from the orthodox Marxist assumption that control in the economic sphere (over the means of production) leads automatically to control of the ideological and political sphere (over the state). Contrary to orthodox Marxism, Gramsci understood the realm of culture and ideology to be somewhat autonomous (Levy and Egon 2003: 5). For Gramsci, this autonomy of the superstructure expresses itself in the relative autonomy of civil society. Civil society, in Gramsci’s view, has a dual existence. On the one hand, it is the ideological arena in which the hegemony of the predominant class is secured and represents part of the ‘extended state’, complementing the coercive potential of state agencies:

The general notion of the state includes elements which need to be referred back to the notion of civil society (in the sense that one might say State = political society + civil society, in other words hegemony protected by the armour of coercion (Hoare and Smith 1971: 263).

State power is thus maintained not only through the formal organization of political society, but also indirectly through many of the institutions of civil society (Macdonald

1997: 19). In this sense, Gramsci suggests that the state is “the entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance, but manages to win the active consent of those over whom it rules [...]” (Hoare and Smith 1971: 244).

On the other hand, civil society is a relatively autonomous sphere in which subordinated classes can articulate their counter-hegemonic ideas and the struggle for hegemony between fundamentally opposed groups can take place. The hegemonic power of the predominant ideology can be challenged in a counter-hegemonic struggle within civil society. This requires the unification of a variety of different social forces, which share a common conception of the world, into a broad democratic alliance. Gramsci calls this counter-hegemonic struggle the ‘war of position’ (Hoare and Smith 1971: 238).

Gramsci’s Concept of Hegemony

From Machiavelli’s *The Prince*, Gramsci borrowed the idea that political rule always consists of a combination of coercion and consent. While Machiavelli focused in his writings on how political control was being exercised through coercion, Gramsci showed how in advanced capitalist societies political control is generally not exercised by way of a coercive state apparatus, but by means of a hegemonic ideology embedded in organizations of civil society and through the internalization of values and ideas promoted by the state. The use of the term hegemony in the Gramscian sense must be distinguished from the use of it in the mainstream IPE literature. Neo-realist accounts understand by hegemony the predominance of one nation over others through military and economic power and thus direct coercion.

In contrast, for Gramsci, hegemony is conceptualized relationally as the rule of one group not through means of force, but through consent by means of political and ideological leadership. Hegemony is not based on the repressive performance of dominant social forces and institutions, but rather on the consensual integration of subaltern interests by active agreement or passive acceptance (Brandt and Sekkler, forthcoming), and thus describes a condition of a relatively harmonious and inclusive set of social relationships. In this vein, Cox explains that hegemony exists “when the dominant state and dominant social forces sustain their position through adherence to universalized principles which are accepted or acquiesced in by a sufficient proportion of subordinate states and social forces” (Cox 1993: 264). In this form of rule, a particular interest parades itself as universal and defines the existing social structure as normal and natural.

Hegemony is also rooted in the institutions of civil society, such as the church, schools and the media, which play a central role in ideological reproduction, providing legitimacy through the assertion of moral and intellectual leadership and the projection of a particular set of interests as the general interest. No clear line can be drawn between civil society and the state since the dominant social forces attempt to gain ideological predominance within civil society through controlling ideological discourses. However, hegemony is always open to contestation by counter-hegemonic forces within the sphere of civil society. This is related to the fact that civil society offers a relatively autonomous space in which counter-hegemony can be articulated, the dominant class view questioned and alternative views developed. This means that hegemony is never absolute, monolithic or one-dimensional but should rather be conceived of as contingent, highly unstable, and

constantly in need of being reproduced; it can never be taken for granted, but has to continually be fought for afresh (Simon 1982: 37). This also makes it difficult to unequivocally establish the extent to which a political order should be considered hegemonic in nature. However, the more the reproduction of social relations requires the exercise of coercion, the less hegemonic a political order becomes. At the same time, the more a political order is perceived to be legitimate and inclusive, and representative of a broad set of interests, the more hegemonic this political order becomes.

The process of *transformismo*, or co-optation, is essential to the production and exercise of hegemony. *Transformismo* refers to the convergence of competing political programs until fundamental difference cease to exist (Hoare and Smith 1971: 58). Similarly, Cox has described co-optation as “a strategy of assimilating and domesticating potentially dangerous ideas by adjusting them to the policies of the dominant coalition” (Cox with Sinclair 1996: 130). Ideas that potentially threaten the hegemonic worldview may be co-opted, and in the process of co-optation reformulated, so as to make them consistent with hegemonic projects (Morton 2000: 258). The inclusion of counter-hegemonic ideas, such as civil society participation and poverty reduction into the IFIs lexicon, could be seen as examples for this process of co-optation.

‘Organic’ Intellectuals and the ‘Historic Bloc’

‘Organic intellectuals’, the thinking and organizing element of a particular social class, play a crucial role in the creation of a hegemonic ideology and a ‘historic bloc’ (Hoare and Smith 1971: 3). According to Gramsci, all men are intellectuals and philosophers. Gramsci explicitly rejects the common notion that intellectuals are only those who reason

or think well. Intellectual activity cannot be defined by its intrinsic nature or the essence of its reasoning; intellectuals are not characterized by the activity of thinking alone, which is common to all people, but by the function which they perform in society. As Gramsci argues, “all men are intellectuals, one could therefore say, but not all men have in society the function of intellectuals” (Hoare and Smith 1971: 3).

The organic character of intellectuals derives from the degree to which they are bound to a particular social group. This binding however is not just a question of class origins or social position, but more importantly is also a question of the relationship between the ideas intellectuals put forth and their position within society (Ives 2004: 76). As Peter Ives notes: “The ‘organic’ quality of intellectual activity is related to how people justify the way a given society is organized and their role in that organization” (Ives 2004: 77). The neoliberal paradigm could in this light be understood as an ‘organic ideology’ emerging in the international arena in the early 1970s, produced by intellectuals who are organically linked to the emerging transnational capitalist class project.

In addition to generating economic ideas, it is also the task of ‘organic intellectuals’ to organize the social forces they stem from, and to develop a ‘hegemonic project’ that is able to transcend the particular interest and to bring the interests of their class into harmony with those of subordinate classes (Bieler 2000: 9). According to Gramsci, ‘organic intellectuals’ must give their social group “homogeneity and an awareness of its own function, not only in the economic but also in the social and political fields” (Hoare and Smith 1971: 5). To be successful, the ‘hegemonic project’ must go beyond ‘organic ideas’ (the economic sphere) to reach the social and political

spheres. It should be broad enough to incorporate diverse and even partly antagonistic ideas and interests in order to create societal cohesion and consensus.

To build an 'historic bloc', dominant social forces must achieve leadership in the sphere of production and ideological hegemony in the political and social sphere; an 'historic bloc' cannot exist without a dominant class (Cox 1983: 169). Gramsci uses the term 'historic bloc' to indicate when a "hegemonic class combines the leadership of a bloc of social forces in civil society with its leadership in the sphere of production" (Simon 1982: 27). This requires intensive dialogue and coordination between leaders and followers within the would-be hegemonic class (Cox 1983: 169). Gramsci's ideas were developed to explain politics within nation states, but these ideas can be adapted to the international level (as will be explained in the following section), and this seems expedient in the era of neoliberal globalization.

2.6 Coxian IPE and the Era of Neoliberal Globalization

Robert W. Cox has applied a number of Gramscian concepts and ideas to the contemporary world order and developed a stream of analysis that is critical of the dominant paradigms of international political economy: neo-realism, neo-liberalism, and constructivism. Through its roots in critical theory and its social forces-centred paradigm, neo-Gramscian theory offers a unique perspective through which to explore the changing form and content of IFI policy. Moreover, Cox's theoretical perspective can help us to better understand how the structural characteristics of the neoliberal world order emerged, how to account for the transition from one world order to another, and what role international institutions, such as the World Bank and the IMF, play in the coming

about of world orders.

Of particular importance to Cox's analysis is Gramsci's concept of hegemony. Following Gramsci, Cox describes hegemony as political rule that is based on a relatively inclusive set of relationships, where consent rather than coercion tends to predominate and universal appeal of policies translates into broad support (Cox 2002). Consent is achieved through a combination of ideological legitimation and material concessions to, and social compromises with subaltern social forces. Hegemony within a particular historical order is constituted by the interplay of three separate spheres of social activity: the social relations of production, consisting of the totality of social relations that engender particular social forces through material and ideational forms of social interaction; different forms of state, encompassing historically contingent and amendable state-society complexes; and world orders, describing different ways in which the relations and conflicts between separate states in the international system can be organized and solved (Morton and Bieler 2004). Within each of the three spheres, the dialectical interplay of ideas, defined as intersubjective meanings and shared collective images; material capabilities, describing accumulated (power) resources; and institutions, understood as means of stabilization, leads to the production of a stable social order and historical structures within it. A key distinguishing characteristic between different social orders is the degree to which these are hegemonic in nature.

According to Cox, social forces engendered by the production process are the privileged collective agents in society, and the social relations of production in the Western core countries have traditionally been the starting point in the analysis of hegemony by neo-Gramscians. Changing production relations tend to give rise to a

reconfiguration of social relations at the levels of state-society and world order. As Cox suggests, since the beginning of the accumulation crisis of Fordism in the early 1970s, an ongoing restructuring process of production has persevered in the world economy which has been referred to by numerous neo-Gramscians as the transnationalization of production, a key element of what has by mainstream approaches been discussed under the banner of neoliberal globalization. This process has culminated in the emergence of a transnational regime of production which is increasingly embedded in global circuits of capital accumulation and the emergence of a transnational capitalist class, which will be discussed in more detail below (Sklair 1999). This furthermore resulted in the movement of states from Keynesian welfare states in the direction of Schumpeterian competition states (Hirsch 1995), and a reconfiguration of world order, from the embedded-liberal towards a neoliberal world order. The making of this neoliberal order is however conflict-ridden and full of contradictions and social struggles, especially in developing countries where neoliberalism has often meant increased deprivation for the majority of the population while a tiny elite minority rakes in the proceeds from privatization and liberalization.

More importantly, the current neoliberal world order must be conceptualized as a non-hegemonic order, which is increasingly characterized by the use of coercion in the governing of social relations and the resolution of conflicts (Soederberg 2005; Gill 1997). In the area of development, non-hegemony is best expressed by the growing unwillingness of developing country governments to voluntarily implement SAPs (Khan and Sharma 2001), and by the rapidly growing opposition to neoliberal restructuring and the emergence of post-neoliberal political regimes in many developing countries

(Macdonald and Ruckert, Forthcoming). Similarly, Gill suggests that the emerging transnational historical bloc has a position of supremacy but not hegemony (Gill 1995). Supremacy is used by Gill to describe a non-hegemonic bloc of forces that exercises dominance for a period over apparently fragmented populations until a coherent form of opposition emerges (Gill 1997).

In the past, hegemonic world orders, such as the embedded liberal order which predominated from the end of World War II until the early 1970s, have materialized through the extension of the hegemony of leading domestic social forces outwards into the international system (Rupert 1995). Generally, hegemonic strategies first and foremost materialize at the national scale of politics, before social forces within powerful states begin to propagate the nationally hegemonic ideology at the global scale, employing predominantly TSAs to this end (Taylor n.d.: 95). Similarly, at the current conjuncture, TSAs, such as the World Bank and the IMF, play an essential role in the attempt to produce hegemony around inclusive-neoliberal practices in developing countries, projecting a structure of values and ideas about the nature of world order “that permeates a whole system of states and non-state entities” (Cox 1996: 151).

Analyzing the current world order, Cox suggests that the capitalist world economy has undergone a dramatic change since the early 1970s, both at the material and the ideological level. At the material level, we are witnessing a radical change in the way in which world production is organized, expressing itself in the transnationalization of the relations of production and the rise of a global as opposed to an international economy, and the internationalization of certain aspects of state structures (Cox 1986: 234, Robinson 2004: 10). A global capitalist economy has been emerging, which brought with

it the free flow of capital and commodities and the internationalization of the process of production itself (Robinson 1997: 25). These changes in the production structure also involved a restructuring of the international division of labor and the reorganization of the productive structures in each nation (Cox 2002: 81, see also Hirsch 1995).

As a consequence, new transnational actors are emerging in this increasingly global economy, such as transnational corporations operating through FDI and a transnational managerial elite, organizing itself in transnational networks, including the Trilateral Commission, the Mont Pélérin Society and the Pinay Circle (van der Pijl 1995: 120). At the ideological level, 'organic intellectuals' at the World Bank and the IMF have played a crucial role in emitting an ideology based on neoliberal principles, and in pressuring countries through SAPs to apply neoliberal policies to their economies. SAPs and PRSPs must be analyzed in this broader context of the restructuring of the world economy through neoliberal policies in the aftermath of the crisis of Fordism and the debt crisis in the early 1980s. The following section will discuss in more detail these important changes to the structure the world economy that have materialized over the last two decades, in order to situate the PRSP approach in a macro-structural global context.

From the *Pax Americana* to a Nascent 'Transnational Historic Bloc'

The writings of Cox and his neo-Gramscian framework can help to us to better understand the recent restructuring of the world economy and to illuminate the role that the IFIs play in the process of neoliberal globalization. Cox's ontological starting point is the assumption that the *pax Americana*, the period of a Fordist accumulation regime following the Second World War and lasting until the early 1970s, has come to an end.

The *pax Americana* was characterized by a relative stability guaranteed by a high number of international institutions controlled by the United States, in which the rules of the international order could be set and ideological hegemony could be preserved (Cox 1996: 104). The United States was successful in creating a post-war ‘historic bloc’ that was based on a model of national accumulation in which the mobility of capital was highly restricted and corporatism, the union of the state with productive forces, was the model of economic regulation (Cox 2002: 80). In the Fordist era, the nation state played a crucial role in the regulation of the economy. It implemented stabilization policies to prevent recessions and depressions, redistributed income through taxation to bring about greater equality, controlled labor and money markets, and intervened intensively into the working of the markets, decommodifying many areas of the national economy. As Colin Leys summarizes, the development framework that was created after the Second World War was designed to:

permit national governments to manage their economies so as to maximize growth and employment. Capital was not allowed to cross frontiers without government approval, which permitted governments to determine domestic interest rates, fix the exchange rate of the national currency, and tax and spend as they saw fit to secure national objectives (Leys 1996: 6).

At the same time, liberalism was the guiding principle of the international trade regime. Despite protests from various European states during the Bretton-Woods negotiations for a more structured and welfare-oriented trade regime, the United States succeeded in building a trade regime that was broadly based on liberal principles. This post-war consensus, which is commonly known as *embedded liberalism* (Ruggie 1982), allowed for welfare state policies domestically (‘Keynes at home’) within an order of free trade and highly restricted financial flows (‘Adam Smith abroad’). As Cox has suggested, “the

Bretton-Woods system attempted to strike a balance between the liberal world market and the domestic responsibilities of states” (Cox 2002: 80).

This balanced compromise between defense of welfare at the domestic level and a liberal international economic order guaranteed a steady growth during three decades, until the crisis of the Fordist post-war order in the early 1970s. While this Keynesian compromise between capital and labor was less pronounced in the developing world than in developed countries, one can nevertheless observe manifold interventionist mechanism through which developmental states captured and redirected parts of the accumulated surplus, redistributing it to the disfavored social strata. As Robinson notes: “The outcome of world class struggles in this period was the Fordist compromise: Keynesian, or New Deal, states and Fordist production in the cores of the world economy and diverse, multiclass developmentalist states and populist projects in the periphery, what some have called peripheral Fordism” (Robinson 2004: 42).

Since the late 1970s, this ‘historic bloc’ based on an (inter-)national economy and national regimes of capital accumulation has suffered serious disruptions, and a new ‘transnational historic bloc’ has been emerging. This transnational phase is characterized by a period of major reconfiguration of the capitalist system, including its institutional reorganization (Robinson 2003a: 3). The economic crisis that hit the industrialized world in the late 1960s led to a process of restructuring of the production process and to the ascendancy of a ‘hyper-liberal’ form of capitalism (Cox 1995: 37), in which transnational production expands through FDI by multinational corporations and production processes are integrated on a transnational scale, with different phases of a single process being carried out in different countries (Cox 1986: 233). In this period, the material and the

political obstacles to the free movement of capital around the globe have decreased dramatically.

The first step towards this ‘hyper-liberal’ capitalism was the liberation of capital from the institutional constraints of the nation state system. The collapse of the fixed currency exchange rate system in 1973 and the end of national control of capital signaled the beginning of the era of globalization, in which national capital became more and more ‘transnationalized’ and was accumulated in offshore capital markets outside of the regulatory powers of national states. Liberated global financial markets began to determine currency values, to destabilize economies, and to undermine national macroeconomic (demand side) management *à la* Keynes. The declining ability of the state to intervene into the process of capital accumulation due to the newfound mobility of capital has put transnational capital into a more powerful position *vis-à-vis* the state. The globalization of production and finance have led to a reconfiguration of social forces and made it more difficult for nations to sustain independent economies, political systems, and social structures. Transnational capital has potent weapons at its disposal to put pressure on states: “[i]nvestment strike and capital flight are powerful weapons that no government can ignore with impunity” (Cox 2002: 81). This new-found structural power of (transnational) capital has been used to instill discipline on governments and trade unions, forcing governments to cut down spending, or in some cases to reallocate government funds from providing social subsidies to subsidizing private business, and to adopt monetary policies of low inflation and high interest rates (Robinson 2003a: 9).

These structural changes have led to a truly global economy, in which “global production is able to make use of the territorial divisions of the international economy,

playing off one territorial jurisdiction against another so as to maximize reductions in costs, savings in taxes, avoidance of anti-pollution regulation, control over labour”, and global finance has achieved a “virtually unregulated twenty-four-hour-a-day network”, extending via computer networks from the core cities, such as New York, Tokyo, London, Paris and Frankfurt, to the rest of the world (Cox 2002: 82). In this brave new world of global capitalism, transnational production circuits are emerging as the dominant form of production.

During the Fordist era, most countries developed in the context of national markets with national circuits of production. These national production circuits were linked to the world economy through commodity exchange and capital flows. The nation-state mediated the workings of national markets, articulated different modes of production with corresponding regimes of consumption, and provided societal cohesion (Hirsch 1995). In the current phase of transnational capitalist production, the increasing globalization of the production process leads to the emergence of transnational circuits of production, in which national production systems have become fragmented and integrated externally into truly globalized circuits of commodity production and accumulation (Robinson 2004: 10). A host of recent studies support the notion that national capitalist circuits of production are slowly being replaced by transnational ones (*e.g.* Dicken 1998; Sklair 2001).

Even those industries that have traditionally operated locally, such as the auto industry, have recently started to transnationalize the production process through subcontracting and outsourcing practices. As Dicken maintains, by the 1990s world auto production had become a transnational spider web stretching across the globe (Dicken

1998: 32). Auto production processes have turned out to be so globalized that the final products cannot be attributed to national production chains but are the result of a complex division of production amongst numerous global production sites. Yet, it should be emphasized that these new transnational production structures and relations are emergent rather than accomplished. It should also be noted that spatial de-concentration and fragmentation of production under globalization have not gone hand in hand with a decentralization of command or loss of power of core companies in the world economy. Rather the opposite could be said to be true: the globalization process is accompanied by a centralization of command and control of the global economy and a concentration of capital in the hands of multinational corporations (Robinson 2004: 15). These processes of centralization and concentration of capital, however, are not new phenomena but rather mechanisms related to the competitive process in capitalist markets that have always been a part of capitalism but recently intensified (Giddens 1971: 58).

Other key characteristics of this new 'hyper-liberalism' are the liberation of the private sector from state intervention, the weakening of trade unions and strengthening of capital in the production process, and the implementation of SAPs in developing countries to deregulate the 'over regulated' and 'distorted' economies in the South in order to solve their balance of payments problems (see next chapter). SAPs became the (initially *ad hoc*) answer to the debt crisis that unfolded in the early 1980s, and neoliberal policies were intended to guarantee that debtor countries would be able to fully service their debts and tackle balance of payment problems (Bienefeld 2000; see next chapter for a fuller description of SAPs).

Transnational Social Forces

The emergence of transnational capital has been accompanied by the appearance of transnational social forces, which began articulating their interests in transnational organizations and started organizing themselves politically and institutionally (Sklair 2001: 22). In the late 1970s, transnational corporate and political elites made explicit claims to build and manage a global economy through restructured multilateral and national institutions. This new 'transnational managerial class' attempted to establish a global ideological hegemony of neoliberal thinking by transnationalizing certain aspects of state authority and developing frameworks of thought and guidelines for economic policies in multilateral institutions, such as the Trilateral Commission, the World Bank, and the IMF (Gill 1990). Despite the fact that this process of transnational class formation has by no means been completed, the first signs of the tendential emergence of a transnational capitalist class can be observed (Robinson 2004).

The formation of the Trilateral Commission in the mid 1970s, which brought together transnationalized fractions of business and the intellectual and political elite from North America, Europe and Japan, is one marker in the emergence of a transnational capitalist class.⁶ Others are the creation of the 'Group of 7' forum, which began institutionalizing collective management efforts of the global economy at the governmental level; and the World Economic Forum, held annually in Switzerland, which brings together top representatives of multinational corporations and global political leaders. In addition, a number of neoliberal 'think tanks' produced studies on how to restructure the world economy, arguing for more market liberalization and

deregulation. According to William Robinson, this led eventually to the formulation of a “coherent program of global economic and political restructuring”, which was articulated by the increasingly organized transnational elite. This program “centred around market liberalization – the so-called ‘Washington consensus’ – and set out to convert the world into a single unified field for global capitalism” (Robinson 2003a: 12).

Emerging Transnational Structures of Authority

As pointed out earlier, the emergence of a transnational regime of accumulation went hand in hand with the internationalization of the state and the growing importance of international institutions, which I will refer to as TSAs hereafter. It is however important to emphasize at the outset that these twin developments are less persistently observable phenomena than deeply ingrained structural, and possibly reversible, *tendencies* of the world capitalist order (Robinson 2004). The internationalization of the state refers to the process by which nation states increasingly prioritize the interests of transnational (mobile) capital over domestic (fixed) capital and social groupings (Baker 1999: 81). This is manifested in the deregulation of financial markets and the opening up of national economies to international competition.

This process expresses itself institutionally in the growing importance of those state agencies that are linked to (and often directly represent) the interests of transnational capital, such as ministries of finance and central banks, which in many countries operate independently of mechanisms of democratic control. By contrast, ministries which had been built up in the context of national corporatism, such as labor ministries, ministries of

⁶ Gill’s study on the role of the Trilateral Commission in the global political economy was ground-breaking in this regard, describing the emergence of this new transnational capitalist class (Gill 1990). For other

industry, and planning offices, increasingly become subordinated to the central organs of international economic policy.

The internationalization of the state also finds expression in the growing importance of international institutions and other forms of international cooperation and decision-making, which in IPE have often been referred to as 'governance without government' (Rosenau 1990). Cox has called this form of governance in the world economy *nebuleuse*, a loose system of global governance comprising unofficial elite fora, such as the Trilateral Commission, and the World Economic Forum; official institutions, such as the IMF, the World Trade Organization (WTO), and the World Bank; and central state agencies, notably treasuries and central banks (Cox 2002). This process has led to the growing importance of democratically unaccountable international institutions and private authorities, such as rating agencies, in the governance of the world economy (*e.g.* Sinclair 2000). Ulrich Brand has recently suggested that this new loose, global form of governance could be understood from a regulationist perspective as the crystallization of a new mode of regulation of capitalism at the global (and not the national) level (Brand 2005).

The internationalization of the state, however, represents only one of the two central structural tendencies of neoliberal globalization. The second central element of this process is the emergence of increasingly powerful TSAs and the prevalence of transnational governmental practices. As widely recognized, not only by neo-Gramscian scholars, policy making in times of neoliberal globalization has increasingly been taking place at various scales, evidenced in the resurging interest in local governance arrangements below the nation-state, on the one hand, and the proliferation of

academic studies on the TNC, see Sklair 2001; Robinson 2004; and Kentor 2005.

transnational governance institutions above the nation-state, on the other. The term 'transnational governance' attempts to capture the complex web of governance arrangements that make up a patchwork of networks at multiple scales (Jessop 2005). The term governance describes the process of 'governing without government', or the development of a variety of mechanisms for the regulation of social relations without the concentration of regulatory authority in one single locale.

As Djelic and Sahlin-Andersson note, "transnational governance suggests entanglement and blurred boundaries to a degree that the term global could not [...]. Organizations, activities, and individuals constantly span multiple levels" (2006: 4). To put it differently, TSAs are crucial governance agents in a system in which public authority is increasingly becoming transnationalized, and in which the governing of social spaces is achieved through the coordination of the activities of a host of actors at multiple scales. The PRSP process provides a superb example to illustrate how transnational governance functions as it operates at multiple levels, incorporating numerous agents at different scales. At the local level, civil society actors are integrated into the policy-making process and local forces are expected to play a key role in overseeing the implementation of PRSPs. At the national level, recipient governments are officially in charge of the PRSP process to develop their individual, country-owned PRSPs. At the global level, the World Bank and the IMF provide 'technical knowledge' and 'best practices' for the elaboration of PRSPs, consult with the recipient government on how to devise 'adequate poverty reduction strategies', and ultimately approve PRSPs.

In order to conceptualize the IFIs as emerging TSAs which are variably autonomous but, at times, highly contested institutions in the international arena, I will in

the following section draw on historical materialist conceptualizations of the state and elaborate on how TSAs command authority in the international realm. From a broadly historical materialist understanding, authority structures can be conceived of as the crystallization of antagonistic social relationships in society (Hirsch 2003: 241; Poulantzas 1973). The state represents a relational structure in which contending social forces operate and through which these forces act upon the world in their struggle to pursue their particular interests. However, it is important to emphasize that “the state cannot be considered as merely the direct instrument of the dominant class” (Cox 1987: 19). To put it differently, the state is itself a structured form of social relations, and dominant social forces act through the state in a strategically selective manner (Baker 1999: 86). However, this is not to suggest that the state at any given time represents a unitary or homogenous entity (as Marxist theories of the state have traditionally argued), neither does this understanding limit its applicability to the national level. In a similar vein, Gramsci sees the life of the state as a “continuous process of formation and superseding of unstable equilibria between the interests of the fundamental group and the subordinate groups – equilibria in which the interests of the dominant group prevail, but only up to a certain point [...]” (Gramsci quoted in Ives 2004: 121).

Building on this conceptualization of national structures of authority, international institutions could analogously be seen as the expression of a particular configuration and crystallization of social forces in the international arena, in which the dominant (transnational) social forces attempt to inscribe their particular interests into the institutional landscape. While this institutional configuration is permanently contested, it seems reasonable to suggest that from the early 1980s until the mid-1990s the emerging

transnational capitalist class has been (somewhat) successful in determining the agenda of TSAs, in general, and the agenda of the IFIs, in particular, and neoliberalism was relatively hegemonic in the developing world. However, since the mid-1990s the IFIs have come under increasing pressure to reorient their development approach, and counter-hegemonic forces in the developed and the developing world have started to more strongly contest neoliberal policy.

Thus, it is pertinent to point out that the IFIs cannot be conceptualized as mere instruments of an emergent transnational capitalist class, which have achieved a functionally necessary autonomy from the social forces surrounding them, as suggested by some Marxist IPE scholars (Cammack 2004). Rather, the social relationist approach attempts to conceptualize the Bank and the Fund as “historically developed moments of global capitalist social relations” (Taylor 2005: 154), relations that are subject to on-going social struggles and different forms of political contestation. In contrast to understanding the IFIs in the ‘closed manner’ of functionalist and instrumentalist accounts, the social relationist view of the IFIs also helps to promote a better understanding of the possibilities and limits to struggles that directly target the Bank and the Fun (Taylor 2005).

After having outlined my theoretical understanding of the IFIs, it seems appropriate to provide some concrete examples for how the transnationalization of certain aspects of state authority expresses itself in the developing world. Increasingly, the relationship between capital and labour in developing countries is influenced by the IFIs through conditionalities attached to IFI financing. When the IFIs make concessional lending conditional on the enactment of new labour codes to increase the flexibility of

labour markets, or on the reduction of social spending and subsidies to workers and the poor, it has a fundamental impact on the configuration of social forces domestically and potentially alters the balance of power between labour and capital (Robinson 2004).

Other examples are the deregulation of financial markets and the liberalization of trade, which are preconditions for being granted access to IFI financing, and induce shifts in the balance of power of domestic social forces. In some policy areas, TSAs have gradually begun to supplant national institutions in policy development, and guidelines for appropriate (sound) macroeconomic policy are increasingly being formulated at the transnational level.

As McMichael suggests, structural adjustment also plays a key role in the internationalization of the state, the growing importance of those state agencies that are linked to the interests of transnational social forces. According to McMichael, “[s]tructural adjustment loans [...] restructure economic initiatives in debtor countries and redistribute power within the state. The most widespread restructuring redistributes power from program oriented ministries (social services, agriculture, education) to the central bank and to trade and finance ministries” (McMichael 2004: 149). The state agencies that have historically serviced the poor and disenfranchised are losing out under structural adjustment to those agencies that are more directly connected to global markets and transnational capital. As a consequence, economic, and in particular competitiveness, criteria are privileged over social concerns.

These general statements, however, need to be qualified. The extent to which developing country states have seen their sovereignty being compromised and have implemented orthodox IFI structural adjustment packages clearly depends on their

position of power in the international political system and their degree of independence in international financial markets. It is no coincidence that the most industrialized developing countries with access to natural resources, such as oil, and therefore to private capital markets, have historically showed the least willingness to implement structural adjustment policies. Furthermore, it is also clear that local opposition and resistance often determine the extent to which developing country governments give in to the privatization and liberalization dictates of the IFIs.

In addition, we should not forget that transnational authority structures have not yet acquired and might, in fact, never achieve any centralized institutional form, comparable to national state structures (Robinson 2003b: 43). Rather, there are a number of competing formal and informal institutions that make up the emerging transnational governance landscape. Moreover, it is important to point out that the emergence of transnational authority structures in the world political order has not made the nation state itself irrelevant, as some left intellectuals have argued in recent contributions to the globalization debate (*e.g.* Hardt and Negri 2000). Rather, as described earlier, the nation state is domestically subject to strong forces of reconfiguration, disintegration, and fragmentation (Hirsch 2003). As Hirsch points out, “the nation-state, with its physical monopoly of force, is still the main guarantor of the existing social order and social cohesion (Hirsch 2003: 246). Transnational capital depends as much on the nation state as all other forms of capital before it. The nation state continues to play a central role in creating and reproducing the conditions of capitalist accumulation worldwide. It enforces the system of property rights, guarantees (a specific) social order and contractual predictability, and provides the basic infrastructure for capital to be able to appropriate

surplus value (Wood 2004). Finally, the nation state also remains to be of central importance for the purpose of regulating class and other antagonistic social relationships domestically and the creation of a degree of social cohesion in society (Hirsch 2003: 243).

Recognizing the internationalization of the state and observing the tendential emergence of transnational authority structures does not oblige us to deny the continuing importance of national state structures in a capitalist world order. In fact, TSAs are emerging under globalization *from within* the system of nation states (Robinson 2003b: 43). As Robinson argues convincingly, “[t]he rise of a TNS [Transnational State, A.R.] entails the reorganization of the state in each nation (*national states*) and it involves simultaneously the rise of truly supranational economic and political institutions. These two processes – the transformation of nation-states and the rise of supranational institutions – are not separate or mutually exclusive. In fact, they are twin dimensions of the transnationalization of the state” (Robinson 2003b: 43-4). Yet, what this view implies is that we have to overcome the national-international dualism and the search for causation at either the domestic or the international level, acknowledging the dialectic relationship between national and transnational structures of authority.

In this context, we also have to overcome the genuinely disempowering Weberian understanding of the state as the (only) legitimate source of public authority (in a territorially bound locale) for us to be able to observe the emergence of transnational structures of authority that are unfolding next to national state structures. In the neoliberal era, multiple pockets of authority are appearing, and especially in developing countries, the monopoly of public authority (that states were *assumed* to hold) has been undermined

by powerful transnational governance institutions. Again, it is important to highlight that the extent to which countries are subject to this new form of (unaccountable) transnational authority depends on their position of power in the international system. However, as will be discussed later, the introduction of the PRSP approach has arguably increased the power of the IFIs over developing countries, and thus further undermined the sovereignty of the developing world and contributed to the growth of unaccountable transnational public authority. Most mainstream theories, and in particular neo-realism and neoliberal institutionalism, are unable to detect this shift of public authority away from accountable democratic institutions to unaccountable transnational authority structures.

The Role of TSAs in Producing Hegemony

In analyzing the ideological dominance of this emerging 'transnational historic bloc', Cox employs the Gramscian concept of hegemony. According to Cox, international institutions have played an important role in the attempt to produce a (global) ideological hegemony of neoliberalism, and in the shift from a national Fordist to a transnational post-Fordist regime of accumulation. Neoliberal policies have been aggressively propagated by the IFIs, by exerting enormous pressure on developing countries to adopt neoliberal reforms. However, the neoliberal regime of development has never become fully hegemonic in developing countries, even during its heyday in the early 1990s, and resistance to this model remains pronounced in many parts of the developing world. In this sense, many neo-Gramscians have accurately claimed that we are currently living through a non-hegemonic period of world order, in which direct (or indirect) coercion is

resurfacing in many areas in global politics (Gill 2000b).

This can effectively be illustrated by the pressure that the IFIs often have to put on developing countries during the implementation process of SAPs. The lack of consensus around development policies often leads to half-hearted attempts of policy implementation. Sometimes this also translates into a complete lack of willingness by developing country governments to implement agreed-upon adjustment policies. The following section will examine the crucial role that the IMF and the World Bank have played in the (thus far largely unsuccessful) attempt to create a global hegemony of neoliberalism and in the legitimization of this novel neoliberal world order.

Institutionalization in the international capitalist system can be understood as a means of stabilizing and perpetuating a particular order that is in the interest of the dominant social forces. During the *pax Americana* the powerful social forces were located within nation states. Nevertheless, the *pax Americana* was built around a set of international institutions – the World Bank, the IMF, the General Agreement on Tariffs and Trade (GATT), and various bodies of the United Nations – which reflected the power relations between nation states prevailing at their point of origin and tended to encourage collective images consistent with these power relations (Cox 1986: 219). The transnationalization of capitalist production changed the character of these international institutions dramatically, most notably in the context of development. Until the 1970s, the IFIs supported the idea of state-led development and encouraged developing countries to implement import substitution industrialization strategies. However, today, these TSAs must be understood, as described earlier, as a site where emerging transnational social forces articulate their neoliberal understanding of development, promoting less state

intervention and the integration of developing countries into a single world market.

For Cox, international institutions are the mechanisms through which hegemony (in a Gramscian sense) is produced and exercised in the world order. In his seminal article “Gramsci, Hegemony and International Relations”, Cox lists five elements that are vital to understanding the operation of hegemony through international institutions (Cox 1983). International institutions are hegemonic, when they: “(1) embody the rules which facilitate the expansion of hegemonic world orders; (2) they are themselves the product of the hegemonic world order; (3) they ideologically legitimate the norms of the world order; (4) they co-opt elites from peripheral states and (5) they absorb counter-hegemonic ideas” (Cox 1983: 172). However, in my discussion of how these elements are relevant for understanding the introduction of the PRSP, I will append a sixth element that has largely been overlooked in analyzing the PRSP process: the provision of material incentives to subaltern social forces so as to co-opt these forces into a hegemonic worldview. In discussing these features in more detail, it is useful to distinguish between material aspects of hegemony, such as the first two elements and my addendum, and ideological aspects of hegemony, namely the last three elements of Cox’s list.

At the material level, quite simply, the IFIs help developed countries exercise control over the developing countries. The IFIs are controlled by the most powerful industrialized countries (and the dominant social forces within these countries), and the IFIs’ articles of agreement ensure that power remains with the dominant states through voting rights based on financial contribution. The IFIs affect the terms under which developing countries get access to development financing and international capital markets. In most cases, the granting of loans is dependent on the implementation of

SAPs, policies that have radically changed the social fabric of developing countries, opening up the developing world to capital from the outside and freeing the private sector from government intervention.

As McMichael suggests, the debt crisis dramatically enhanced the power of developed countries over the developing world due to the drying up of private capital flows to developing countries and the increasing importance of official development assistance (McMichael 2004: 135). Since 1978, more than seventy countries undertook almost 600 stabilization and structural adjustment programs imposed by the IFIs in exchange for access to concessional funding (*ibid.*). This debt regime remarkably transformed the reality of developing countries and fundamentally altered the nature of the development project. Through the imposition of austerity measures, privatization programs, liberalization of the economy, and export expansion, a new world market-oriented, transnational development project has crystallized over the last two decades. Some critics of the IFIs have long argued that this new development project represents nothing else than a mechanism to continue “colonial trade and economic patterns developed during the colonial period, but which the Northern powers want to continue in the post-colonial period” (Khor quoted in McMichael 2004: 137). This ‘hard power’ of the IFIs is, however, underwritten by the ideological ‘soft power’ of agenda setting and the framing of the development debate.

In fact, the IFIs play an essential role in the construction and dissemination of global development knowledge and norms, justifying policies that help to facilitate the expansion of ideas promoted by transnational social forces and legitimating ideologically the norms of the neoliberal world development order. The World Bank has the largest

research and policy analysis budget of any development institution, and the global media pay considerable attention to the publication of the World Bank's major studies and reports, which allows it to fundamentally influence development discourse. For instance, in a volley of papers, the IFIs recently promoted globalization, liberalization and privatization as policies that are 'good for the poor' (*e.g.* Dollar and Kraay 2000; Dollar 2001). Even the draft version of the Dollar and Kraay paper received significant media attention and has been quoted repeatedly in important international media as unquestionable evidence that globalization and neoliberal policies are helping the poor. Through large research budgets, public relations exercises and media attention, IFI studies, publications and pronouncements attempt to monopolize development discourse and build consensus and legitimacy around the dominant hegemonic ideology.

However, it is not just the production of consensual knowledge that is the thrust of the ideological power of the IFIs; what is arguably more important are the ways in which the IFIs set the very parameters of the larger development debate. Hegemony of the neoliberal project is sought by attempting to ingrain its central assumptions into the words, images, symbols and forms of the development debate so that the ways in which resistance emerges are circumscribed within parameters largely set by the IFIs. As Marcus Taylor notes: "In this manner, the Bank aims to use its position and money to exert influence over the entire 'development community' of smaller regional development banks, other public and private aid agencies, NGOs, academics, and national governments, and hence keep the development debate constrained within the parameters of a neoliberal model" (Taylor n.d.: 99). This 'soft power' has also been insightfully discussed by Arturo Escobar who highlights that the IFIs partake in the

construction of a discursive formation in which “only certain things can be said or even imagined” (Escobar 1999: 85).

Cox’s last two characteristics of how international institutions participate in the production and maintenance of hegemony are of particular importance to this study. International institutions have the function of co-opting elites from the periphery and absorbing counter-hegemonic ideas to create or insure the dominance of the hegemonic ideology. First, hegemonic institutions involve peripheral elites to give an appearance of broad representation and to legitimize the policies that are pursued by them. In the PRSP process, the incorporation of CSOs could be seen as an attempt to co-opt civil society actors in the developing world, some of the fiercest critics of the IFIs, into the development framework, and to give broader legitimization to the contested policy interventions of the IFIs into developing countries. Second, hegemonic institutions, to make it seem as though the concerns of critics are being heard and taken seriously, absorb counter-hegemonic ideas and concepts and, through a process of co-optation, make them consistent with the hegemonic project.

As pointed out earlier, this process of co-optation, or *transformismo*, is essential to the production and exercise of hegemony. However, in this process the meaning of the concepts is usually transformed to fit the interests of the hegemonic forces. As will be shown later, this mechanism could be applied to the concept of participation of civil society in the PRSP process, in which the notion of participation has been transformed from the ability to influence decision-making processes and to reshape policies at the domestic level to mean nothing more than information-sharing and consultation on largely pre-determined sets of policies. As some have suggested, participation has been

absorbed by mainstream discourse and molded into a managerial tool (Fraser 2005).

The sixth element of material co-optation which I appended to Cox's list is often disregarded despite the fact that it seems to be the most important one in the struggle to establish a hegemonic worldview. As discussed earlier, hegemony involves material concessions to subaltern social forces and active support by those not necessarily benefiting from the current order. The IFIs have since the introduction of the Post-Washington Consensus emphasized the need for developing country governments to more effectively deal with welfare issues and to more seriously address the negative effects of structural adjustment than through previous social compensation funds. In the PRSP process, the IFIs suggest that developing country governments increase their poverty-related spending and subsidize the consumption of the extremely poor, particularly in areas such as health care and education. As the following chapters will demonstrate, the IFIs have undoubtedly put pressure on developing country governments to increase their poverty-related spending, using the resources freed up by the HIPC debt relief initiative. In fact, the principle of 'debt relief additionality' requires that debt relief must be invested in initiatives directly aimed at reducing poverty. Thus, while the IFIs' commitment to adjustment policies remains unwavering, they nevertheless go beyond paying lip-service to poverty reduction.⁷

The significance of the Coxian framework in the case of the PRSP approach is that it reminds us that attempts by the IFIs to respond to criticism, in particular, concerns that their policies are insufficiently poverty-focused, or insensitive to local circumstances and exceedingly 'top-down', must be viewed with skepticism. Despite the fact that the

⁷ However, it needs to be emphasized that the Bank solely focuses on absolute poverty, and completely disregards relative levels of poverty.

IFIs have recently started to acknowledge the shortcomings of former SAPs and have incorporated counter-hegemonic ideas into their rhetoric surrounding the PRSP approach, careful consideration should be given to the underlying intentions of the IFIs and the hidden agenda at the heart of this rethinking process, which arguably lies in the production of a hegemonic inclusive-neoliberal world development order as discussed in more depth in the following chapter.

2.7 The Dialectics of Hegemony and Counter-Hegemony

One of the main shortcomings of all previous analyses from a neo-Gramscian perspective has been the insufficient incorporation of resistance and counter-hegemony into the *theorization* of hegemonic practices (Persaud 2001: 49). The best example for this lack of theorization of counter-hegemonic forces is the omission of feminist and environmental movements (as important counter-hegemonic forces) in Cox's analysis of world order (Cox 1987). Another key concern is the lack of attention paid to counter-hegemonic forces in the developing world. Cox focuses in his analysis of world order on the interests of the dominant social forces in the West, and on the ways in which those dominant interests become embedded in TSAs. Thus, he neglects the role that counter-hegemonic practices play in the process of (re-)producing hegemony. For many neo-Gramscians, counter-hegemony in the periphery is seen as a response to the embedded interests already formed in TSAs, and to the neoliberal recipes those institutions prescribe to developing countries. However, as Randolph B. Persaud has recently argued, it might be more accurate to understand hegemony and counter-hegemony "as a simultaneous *double movement*, the consequence of which is the reciprocal configuration of each other"

(Persaud 2001: 49). Interestingly, many accounts of neoliberalism outside of neo-Gramscian scholarship are also complicit in overstating governmental reach and downplaying the contestations, social struggles and compromises that inevitably characterize neoliberal policy practices (Larner and Craig 2002: 8).

In the case of the PRSP process, the critiques of SAPs from CSOs in the South and the North and social resistance on the ground in developing countries are at least partly responsible for the introduction of the PRSP process. Therefore, this study will acknowledge the dialectical nature of hegemony and counter-hegemony in its analysis of the PRSP process, and emphasize the agency of social forces in developing countries. In so doing, it will criticize neo-Gramscian approaches for (too often) restricting their analysis of neoliberal hegemony to the dominant social forces located in the West. This focus on Western capitalist elites as the main actors and agents has long been criticized by many neo-Marxist scholars (*e.g.* Burnham 1991), but was only recently recognized by some neo-Gramscian scholars themselves (*e.g.* Cox 2002: 33; Persaud 2001).

In his exemplary analysis of Jamaican foreign policy, Persaud has convincingly argued that the marginalized classes in Jamaica wielded tremendous influence in the development of alternative economic policies during the rule of the People's National Party (PNP) under Michael Manley (Persaud 2001). While global forces shape the context in which local social forces articulate their political views, these local forces nevertheless can make a difference in shaping the political agenda of the day. In another important critique of the elite-centeredness of neo-Gramscian approaches, Laura Macdonald has noted that neo-Gramscians in general, and Robert Cox in particular, might underestimate the degree to which strong counter-hegemonic movements have

already materialized in resistance to neoliberal forms of globalization, and how this has led to the re-constitution of the neoliberal order. Macdonald maintains that there is a tendency in Cox's work to "portray global civil society in one-dimensional terms without recognizing the forms of contestation against the transnational capitalist hegemony that already exist" (Macdonald 1994: 276). This tendency to put too much emphasis on the hegemonic forces and too little on the counter-hegemonic forces in society characterizes one of the main weaknesses of neo-Gramscian approaches.

A first step towards rectifying this (problematic) lack of agency in neo-Gramscian analyses would be to acknowledge that counter-hegemonic practices play an important role in the process of producing hegemonic structures. These structures can only be explained with reference to the counter-hegemonic practices that continuously challenge hegemony. In the investigation, it will therefore be imperative to acknowledge that the introduction of the PRSP approach must be seen as a sign of the power of counter-hegemonic social forces within civil society operating in developing and developed countries. A second step would be to recognize that each hegemonic structure necessarily has the potential to create counter-hegemonic social forces. As Gramsci reminds us, hegemony is never absolute and is in continuous need of being reproduced. Hegemony always carries the risk of being undermined by counter-hegemonic forces.

2.8 Civil Society as a Sphere of Contestation and Co-optation

In the case of the PRSP process, the absorption of counter-hegemonic ideas and the co-optation of peripheral elites take on the form of participation of civil society organizations. And indeed, from the neo-Gramscian perspective, civil society is the key

locus of social domination and hegemony production. Therefore, the final task of this chapter will be to look in more depth at the neo-Gramscian theoretical understanding of civil society that informs this study. At the beginning of the twenty-first century, the concept of civil society has become an important protagonist in development discourse. The main actors in the development industry, the IFIs, multilateral and bilateral donors, NGOs and other development groups have all appropriated the language of civil society, and claim that civil society should be able to meaningfully participate in the political process of a country. As the 1993 UNDP *Human Development Report* states, “national governments must find ways of enabling their people to participate more in government and to allow them much greater influence on the decisions that affect their lives” (quoted in Macdonald 1997: 1).

Although the notion of civil society has become popular in current development discourse, there remains considerable disagreement about what precisely the concept means. This is not surprising since the definition and the understanding of civil society depend entirely on the theoretical lens through which the concept is being examined. For liberals, civil society represents a sphere of autonomy and liberty and a counterbalance to the power of the state. Citizens voluntarily associate with each other in organizations, such as business clubs, labor unions, churches, charities, and people freely congregate to exchange products of their labor for mutual benefits in the market place.

Most critical approaches stress the fact that the underlying class, power, and economic structures of capitalism limit the participatory potential of civil society groups in the political process. The dominant groups in capitalism are able to exercise much more influence on the state than the subordinated and the disenfranchised. As E.E.

Schattenschneider notes, “[t]he flaw in the pluralist heaven is that the heavenly chorus sings with a strong upper-class accent” (quoted in Macdonald 1997: 18). At the same time, Marxists also question the clear distinction between state and civil society drawn by liberals. As described earlier, Gramsci suggests that the state and civil society cannot be seen as two separate spheres since the dominant social forces always permeate the sphere of civil society in order to maintain their (ideological) hegemony.

Cox and Gill have reformulated Gramsci’s insights on civil society and applied these to the era of neoliberal globalization. In accordance with Gramsci, Cox understands civil society as the ideological arena in which hegemony is secured, complementing the coercive potential of state agencies. States and corporate interests try to influence the development of civil society “towards making it an agency for stabilizing the social and political status quo” (Cox 2002: 102). At the same time, the relative autonomy of civil society turns the ideological realm into a key site of political contestation among rival social groups and ideas. Civil society offers an autonomous space in which subordinate social groups can develop their own consciousness, and those discontented with the predominant social structures can mount their protests and seek alternatives (Cox 2002: 102). This means that even within the hegemonic ideology there is always room for counter-hegemonic forces to develop and to challenge hegemonic ideas. However, at the same time, since hegemony implies deep-rooted power relations, attempts by civil society to build a counter-hegemonic bloc will face formidable challenges that will not easily be overcome.

At this point, let me provide an example for this dialectical power dynamic: the PRSP process could be read as a sign of successful lobbying by CSOs for more poverty-

sensitive development policies. Under the growing pressure from civil society groups, the IFIs had to acknowledge the (at least) partial failure of their structural adjustment programs and completely moved away from using the language of structural adjustment. However, as I will document in the following chapters, in practice many SAP policy recommendations have remained in place, such as the privatization of public services and the liberalization of trade. This suggests that, on the one hand, CSO campaigns have been somewhat successful at influencing IFI policies, but that, on the other hand, the impact has been limited and many parts of the neoliberal development model have still remained in place. A Gramscian view of civil society thus unveils the potential power of civil society to readjust the balance of power between fundamentally opposed societal actors, without romanticizing or idealizing the extent to which substantial change can be easily achieved.

2.9 Conclusion

This chapter provided a theoretical discussion of international institutions, focusing on the insights that can be derived from neo-Gramscian theorizing. It has suggested that mainstream approaches to international institutions are suffering from numerous theoretical weaknesses that can be addressed by applying the Gramscian understanding of hegemony to the current world development order. International institutions were conceptualized as structured social relations at the transnational level, through which the dominant transnational social forces operate in and act upon the current world order. It was furthermore claimed that by applying the Coxian framework, one can better understand the role of the IFIs in the PRSP development approach and the intentions

behind its introduction. The PRSP approach was located macro-structurally in the on-going neoliberal restructuring process which began in the early 1970s and the emergence of a non-hegemonic transnational historic bloc, which has recently garnered formidable opposition.

The IFIs have for decades been (unsuccessfully) trying to build hegemony around a neoliberal development model, combining economic incentives and conditionalities (coercion) with consensus building strategies (co-optation of elites and integration of CSOs). As argued earlier, the neoliberal development model has never been able to establish itself as the unchallenged (commonsensical) development model in the periphery, and beginning in the mid-1990s was increasingly contested in open confrontation and large scale street protests. A neo-Gramscian reading of the PRSP process reveals the contested nature of neoliberal policies and highlights the role of counter-hegemonic forces in developing countries in exposing the failure of structural adjustment and bringing about the PRSP approach.

Moreover, the neo-Gramscian perspective can help to make sense of the IFIs policy shifts towards the PRSP development model. In particular, the notion of co-optation, or *transformismo*, is useful in this regard. According to Cox, co-optation refers to “a strategy of assimilating and domesticating potentially dangerous ideas by adjusting them to the policies of the dominant coalition” (Cox with Sinclair 1993: 130). As the following chapters will suggest, civil society participation, country ownership, and poverty reduction have been successfully ‘adjusted’ and disarmed by the IFIs. In the PRSP process they serve as ‘policy tools’ in an attempt to establish the hegemony of a slightly modified inclusive-neoliberal development model.

To put it differently, the IFIs attempt to create hegemony around a somewhat modified inclusive-neoliberal development model by engaging counter-hegemonic agents in civil society and by providing (limited) material incentives to the poor and marginalized through increased poverty-related spending. Civil society is the arena in which the dominant hegemony is created and challenged, and this makes it imperative for the IFIs to penetrate civil society in order to create a hegemonic inclusive-neoliberal development model. The introduction of the PRSP process represents a novel attempt to establish a hegemonic inclusive-neoliberal development model, which in substance differs somewhat from former SAPs, building on the Post-Washington Consensus policy prescriptions.

The following parts of the study will seek to examine and illustrate these (theoretical) claims by reflecting on the past behaviour of the IFIs in responding to critiques of their lending practice and examining IFI material that documents the shift from the Washington to the Post-Washington Consensus in the following chapter, while chapter four and five will evaluate the procedural similarities and policy differences between earlier SAPs and PRSPs in the case of Nicaragua and Honduras. While one modestly hopes that the academic analysis of Bank and Fund policies can contribute to the destabilization of the IFIs neoliberal paradigm, it is however pertinent to point out that the ultimate outcome of the PRSP approach will depend on the social struggles on the ground and the extent to which counter-hegemonic forces are able to further bring the social deficit of developing countries onto the IFIs agenda.

Chapter 3

Towards an Inclusive-Neoliberal Development Model: From The Washington to the Post-Washington Consensus

“The poor are the main actors in the fight against poverty. And they must be brought center stage in designing, implementing and monitoring anti-poverty strategies”
(World Bank 2001: 12).

3.1 Introduction

Having been subject to immense criticism during the 1990s, the World Bank and the IMF have recently been involved in an attempt to redefine their approach to development. And indeed, in their rhetoric, the IFIs have moved away from structural adjustment towards poverty reduction and country ownership of development policies. This orientation towards poverty reduction and country ownership is reflected in the launching of the Comprehensive Development Framework (CDF) in 1999, which is described by the Bank as an attempt to operationalize an holistic approach to development, integrating non-economic aspects into development, and emphasizing the needs and the participation of the poor in the development process (Wolfensohn 1999; Pender 2001: 407). As part of this policy shift, the Bank has also been engaged in a renewed theoretical discussion about development, eventually leading to the emergence of the Post-Washington Consensus, a theoretical convergence between (Washington Consensus based) neoliberal ideas and the new information-theoretic (neo-Keynesian) paradigm developed by Joseph Stiglitz.

The articulation of the Post-Washington Consensus was moreover accompanied by a new policy tool, the Poverty Reduction Strategy Paper (PRSP), which emphasizes country ownership and civil society participation as two of the key principles in

development cooperation. According to the IFIs, these policy changes have resulted in the abandonment of structural adjustment lending and the policy conditionality associated with it, in favor of a development approach that emphasizes partnership and cooperation between the IFIs, developing country governments and civil society organizations. Moreover, in this process the IFIs have repositioned themselves as institutional providers of information and knowledge, while borrowing governments are asked to take on responsibility, or “ownership”, for the development policies that they choose to pursue (Stiglitz 1998b: 21).

While many critics have questioned the extent to which this shift is real and not merely rhetorical (*e.g.* Soederberg 2005; Cammack 2002 and 2004; Fraser 2005), this chapter suggests that neoliberal policy has transmogrified into a new inclusive-neoliberal body, which is emerging through the articulation of the CDF and the PRSP approach (see also Craig and Porter 2005 and 2006). The chapter attempts to outline this emerging inclusive-neoliberal model by excavating the discontinuities within continuity in the IFIs’ development approach. Without significant discontinuity we could not speak of *inclusive* neoliberalism, yet without significant continuity we could not speak of inclusive *neoliberalism*. This alludes to the fact that we have not entered an era after neoliberalism, but rather an era in which policies have emerged from tendencies and contradictions originating within neoliberalism, which nevertheless deviate somewhat from earlier policy prescriptions and could thus further destabilize the former paradigm. These inclusive-neoliberal policies attempt to address some of the contradictions and shortcomings of previous neoliberal reforms which have tended to disfavor the poor and further polarized Latin American societies, undermining the social cohesion necessary for

the smooth reproduction of capitalist social relations. As this chapter will suggest, inclusive neoliberalism thus represents a new phase of more socially interventionist and ameliorative forms of neoliberal policies.

A neo-Gramscian reading of this inclusive-neoliberal model suggests that its introduction represents an attempt by the IFIs to resolve some of the legitimacy problems and contradictions that neoliberal policies were facing in the periphery. The (albeit limited) inclusion of formerly excluded people is part of an effort to make the neoliberal project and its concomitant principles of privatization, liberalization, and deregulation truly hegemonic. Yet, this emerging inclusive neoliberal regime of development also speaks to the power and agency of counter-hegemonic forces in developing countries that have staunchly opposed structural adjustment policies and pushed their own agenda of social inclusion onto the IFIs, and recently have been somewhat successful in transforming the IFIs' agenda.

In substantiating these claims, the chapter will unfold as follows. First, it will briefly delineate the Washington Consensus, outlining some of its main policy prescriptions, especially structural adjustment policies. It will secondly document the growing criticism surrounding the Washington Consensus, and describe the complex confluence of forces that led to the disintegration of the Washington Consensus and the struggle over the emerging Post-Washington Consensus. The third part will expose some of the presuppositions that lie at the heart of the Post-Washington Consensus, focusing mainly on Joseph Stiglitz' and James Wolfensohn's contributions to this emerging policy consensus. In the fourth part, it will turn to the CDF and look in more detail at the PRSP approach, documenting the most important elements of the PRSP approach and outlining

some of the limitations of the Post-Washington Consensus. The final section will highlight the ways in which the Post-Washington Consensus deviates progressively from the Washington Consensus while pointing to the nevertheless pronounced and problematic similarities between both paradigms, and the various contradictions embedded within inclusive neoliberalism.

3.2 Development Policy during the Washington Consensus Era

During the period from 1980 until the mid-1990s, the World Bank and the IMF proceeded with a strong sense of certainty in promoting a particular set of development policies, which came to be known as the Washington Consensus (Pender 2001: 398; Williamson 1990). This policy package emerged in the early 1980s as an initially *ad hoc* answer to the experience of some Latin American countries, which were struggling to overcome the debt crisis and to solve their balance of payment problems. However, this same policy package soon became institutionalized as the Washington Consensus, dominating much of development theory and practice during the 1980s and 1990s.

The term Washington Consensus, which is widely used not only in academia but also amongst the development community, was originally coined by John Williamson, former advisor to the IMF and chief economist of the World Bank. Williamson summarizes the Washington Consensus as “macroeconomic prudence, outward orientation, and domestic liberalization” (Williamson 1990: 1). However, a more comprehensive definition of the Washington Consensus must incorporate other key aspects, such as minimal government intervention and the elimination of government subsidies, fiscal and monetary austerity, freeing of interest rates, trade liberalization,

privatization of state-owned businesses, well-defined property rights and independent central banks (Williamson 1990).

As Fine points out, an analysis of the Washington Consensus should not exclusively focus on the neoliberal development policies that embody the Washington Consensus but, more importantly, must include the particular sets of institutions that pursue and promote these policies (Fine *et al* 2001: 132). After its formulation, the Washington Consensus rapidly came to dominate the policy stance of the World Bank and the IMF. In fact, the IFIs were heavily involved in developing and propagating this novel (neoliberal) worldview in the developing world as suggested by neo-Gramscian theory. The appointment of Tom Clausen as the president of the World Bank in 1981 was instrumental to the ascendance of the neoliberal paradigm inside the Bank as Clausen himself was an ex-banker and a convinced proponent of the new neoliberal doctrine of limited government intervention and the virtues of ‘self-regulating’ free markets. Another marker was the appointment of Anne Kruger, a principal promoter of the New Political Economy, to the post of chief economist at the Bank. At the same time, economists trained in the ‘new development economics’ and the associated New Political Economy at elite institutions in the US increasingly outnumbered technical specialists inside the Bank administering traditional development projects (Rapley 2002: 51ff.).

In accordance with the Washington Consensus and its neoliberal agenda, the Bank and the Fund prescribed macroeconomic stabilization and structural adjustment policies to the developing world, policies which were initially conceived as a cure to the debt crisis that broke out in the early 1980s in Latin America and rapidly spread to other parts of the developing world. SAPs became the standard policy package prescribed to all

developing countries during the 1980s and 1990s, no matter what fiscal situation developing countries would find themselves in (Mosley *et al* 1995: 27). Thus, the IFIs were important agents in the early attempts of creating a neoliberal world development order through the coercive linking of concessional finance to the implementation of neoliberal policies.

Structural adjustment policies entered the policy making realm in the early 1980s slowly replacing project-related development cooperation. In the Washington Consensus era, most public and even some private funding was made conditional upon the implementation of often far-reaching economic policy reforms which heavily constrained the capacity of developing countries to experiment with their own (unorthodox) development models (Pender 2001: 399). In this context, it is noteworthy that the Bank initially promised its Board that structural adjustment loans (SALs) would be a temporary measure to address an exceptional crisis in the balance of payments of some developing countries and that SALs would never exceed 10 per cent of the Bank's annual lending. Nevertheless, the Bank soon defended SALs as a means of persuading more developing country governments to pursue the 'right macroeconomic policies', with endogenous factors being given a greater prominence than exogenous factors as causes of poor economic performance (Mosley *et al* 1995: 40).

The World Bank and the IMF had two particular goals in mind when devising SAPs: First, at the macroeconomic level, stabilization policies were supposed to guarantee short-run stabilization of inflation, balance of payments, and budget deficits. Stabilization policy prescriptions were predominantly overseen by the IMF and included budgetary austerity to control deficits, currency devaluation, and price liberalizations.

Second, the more longer-term oriented goal of SAPs at the microeconomic level was to achieve long-term efficiency gains, through the allocation of resources in accordance with (global) market signals (Bienefeld 2000: 534) and the liberation of market forces from the straight jacket of government controls (Engel 2006: 7). Key policies promoted at the micro-economic level included trade and financial liberalization, privatizations of state-owned enterprises, tax reform and increased labor market flexibilization.

One of the most problematic side-effects of the introduction of SAPs was the growing uniformity and homogeneity of development policy across a wide spectrum of countries. As Mohan *et al* argue, the growing power of the IFIs has led to an unprecedented homogenization of development policies in the 'Third World': "The declining availability of alternative sources of finance have meant that there has been precious little leeway for experimentation with heterodox policies at odds with the [IFI's] prescriptions" (Mohan *et al* quoted in Pender 2001: 399f.). Other key concerns were the effects of SAPs on the weakest and poorest members of society, especially the removal of subsidies on staple foods and other key consumption goods.

The neoliberal model of market-led development was portrayed as the *conditio sine qua non* for sustained economic growth in the 'Third World' and was intensively promoted by the Bank and the Fund through conditions that were attached to IFI loans, particularly 'emergency loans'. The debt crisis provided the needed leverage to the IFIs to intensely promote the neoliberal model. However, the need to resort to conditionality expresses the limited 'buy in' that SAPs received from many developing countries. It was under President Robert McNamara that the World Bank for the first time introduced policy conditionality in the financial operations of the Bank. McNamara describes policy

conditionality as “the idea of encouraging economic growth and development by linking financial assistance to the adoption of a particular set of policies recommended by the World Bank” (McNamara quoted in Pender 2001: 399). Indeed, during the 1980s and 1990s, many loans became effectively conditional on the governments’ willingness to implement neoliberal economic policy reforms. Even when peripheral governments were fundamentally opposed to neoliberal policy reforms (and consequently often failed to implement these reforms), they nevertheless had to pay lip service to the reform programs to be able to qualify for IFI funding.

However, as Gramsci reminds us, coercion is only one and generally the less visible side of hegemony. In the early stages of the neoliberal experiment, the World Bank was able to promote an arguably somewhat limited consensus surrounding neoliberal development policies through a host of publications, such as the much-cited Berg Report (World Bank 1981), which stressed the failures of the state-led development model and highlighted the need to move beyond the Keynesian inspired development paradigm that dominated the post-World War II period. Thus, the Bank influenced its social environment not only through resorting to coercive elements, such as attaching conditionalities to its finance, but also through the production and dissemination of (neoliberal) development knowledge. Organic intellectuals inside the Bank played a key role in popularizing neoliberal thinking beyond the confines of elite institutions and the corridors of power in the West.

3.3 The Unraveling of the Washington Consensus

The Washington Consensus and its neoliberal policy prescriptions have long been out of fashion in academia, and have been strongly criticized by civil society organizations and a variety of international development organizations. One reason for this is the fact that growth outcomes in the developing world during the 1980s and the 1990s were deeply disappointing and, typically, far below the levels reached before the debt crisis and the implementation of neoliberal policies (Weisbrot *et al* 2001). At the same time, poverty reduction made little headway in the ‘Third World’, and global financial crises, arguably linked to the neoliberal policies of eliminating restrictions on domestic finance and international capital flows, have had a devastating impact on millions of poor people (Fine 2001b: xi). As the 2003 *Human Development Report* points out, 54 developing countries were worse off in 2003 than they were in 1990 in terms of GDP per capita, and social indicators have deteriorated dramatically in most parts of the developing world since the introduction of SAPs (UNDP 2003a: 2).

At the same time, a number of independent reviews of SAPs have questioned the appropriateness and effectiveness of the neoliberal policy prescriptions promoted by the IFIs through SAPs (*e.g.* SAPRIN 2003; Weisbrot *et. al.* 2001; Agrawala 1994; Bienefeld 2000; Stiglitz 2002). In fact, overall ‘Third World’ debt rose dramatically from US\$ 785 billion in 1982 to US\$ 1.3 trillion in 1992 in the aftermath of adjustments that were supposed to mitigate the external debt burden (Engel 2006: 7). Moreover, even after ferociously implementing SAPs, there was no significant improvement in the overall macroeconomic situation in many developing countries as acknowledged by a World Bank study as early as in 1988. This study notes that as a result of SAPs, investment

ratios declined in many countries, and budget deficits were higher in the highly indebted and sub-Saharan countries after SAP implementation, while, at the same time, relative growth increased only for half of the recipient countries, and inflation came down for only about half (World Bank 1988: 24).

Yet, the same World Bank study points to a dramatic deterioration in the situation of the poor as many governments were forced to reduce government expenditure on social services in order to meet their debt-servicing requirements (World Bank 1988: 30). In the 2000/2001 World Development Report, the Bank again acknowledges that neoliberal reforms to open developing countries to the free flow of goods, services, and capital did not always mitigate the plight of the poor but sometimes actually worsened their conditions (World Bank 2001; also Wade 2001b: 1436). Finally, World Bank staff started to openly criticize the neoliberal growth record, with Stiglitz commenting that “many countries followed the dictums of the liberalization, stabilization, and privatization, the central premise of the so-called Washington Consensus, and yet did not grow” (Stiglitz 1998b: 9).

What is more, the part of the world where rapid economic growth took place over the last 30 years and poverty was reduced dramatically did rely on a strong developmental state which intervened heavily into the workings of the market. As is widely acknowledged, the success of the Newly Industrializing Countries (NICs) in East Asia cannot be explained without reference to the essential role that the state played in the accumulation and development process (*e.g.* Wade 1990 and 1992; Amsden 1989; Bienefeld 1989; Chang 2002). Interestingly, the World Bank implicitly acknowledged the significant role of Asian developmental states in its own analysis of the East Asian

miracle in a 1993 report, but argued that other regions lack the types of social institutions and norms characteristic of East Asia that made the success of the developmental state possible (World Bank 1993). At the same time, East Asian economies grew much more rapidly over the last decades than other world regions that more closely followed the neoliberal advice emanating from the IFIs, especially Latin America (see Figure 1 below).

Further contributing to the decline of the Washington Consensus, especially within the Fund, was the East Asian economic crisis in 1997. While advocates of the Washington Consensus initially argued (in a disingenuous way) that kleptocratic elites are solely to be blamed for the currency crisis of 1997 that materialized first in Thailand but rapidly spread to the wider economy and to other East Asian economies (Wade 1998: 1536), the IFIs however soon had to recognize that the lack of strong domestic institutions and the necessary regulatory infrastructure contributed to the outbreak of the Asian financial crisis (World Bank 2001). As is well-documented, the premature liberalization of financial markets and capital accounts without regulatory oversight has been costly for many developing countries and has contributed to economic and political instability throughout the developing world (Stiglitz 2000: 1079; Rodrik 1999). The IFIs should at least partly be blamed for the outbreak of the Asian crisis as they encouraged and pressured developing countries to open up capital accounts, before accomplishing a stable macroeconomic environment and devising the necessary regulatory institutions. Indeed, the very frequency of financial crisis has been one of the most striking features of the global economic environment during the era of neoliberal structural adjustment as more than 100 financial crises have broken out since the introduction of the Washington

Consensus (Onis and Senses 2005: 268; Stiglitz 2000: 1075).

Source: Weisbrot 2000

At the same, growing social activism by an emerging coalition of global civil society organizations through the medium of (sometimes violent) protests against the policies of privatization and liberalization further undermined the Washington Consensus (Gills 2000). The massive protests at the World Trade Organization (WTO) meeting in Seattle in 1999, initiated a series of protests against neoliberal globalization and for social justice in the global economy. While the opposition of the recipients of development aid to structural adjustment policies is not particularly novel and has in the past found expression in a culture of street protests and general resistance to Western interventions (Rojas 2005: 112), this protest culture has recently also taken hold of developed countries, and is increasingly becoming transnational in nature (Hardt and Negri 2000).

Finally, the process by which SAPs were formulated and implemented also sparked much debate in critical development circles. Even within the IFIs, this process has recently come under fire as Joseph Stiglitz, among others, has criticized the paternalistic attitude and the (top-down) manner in which the IFIs impose their policies onto developing countries without local ownership or participation in policy development. In an interview in 2000, Stiglitz stated that one of his key objectives as the Chief Economist at the World Bank would be to change the process of the development dialogue (Pender 2001: 403). In this interview, he asserts that “there was still the colonial mentality of the developed countries who were telling the rest of the countries what to do” (Stiglitz quoted in Pender 2001: 403). The coercive conditionality that was used during the debt crisis is not appropriate in times when in most countries ‘good policy environments’ prevail. In Stiglitz’ view a more relaxed approach is needed today, which allows countries to shape their own economic policies (see also Stiglitz 2002).

This line of criticism had also been articulated earlier by developing country governments and civil society organizations in the South, which criticized the process by which developing countries received development assistance and the conditions upon which this funding was based. These critical voices have pointed out that the ‘top-down’ nature of the IFIs’ approach resulted in a lack of participation of developing country stakeholders, including governments themselves and civil society organizations. As Green maintains, in the past, the IFIs did not allow for input from developing country governments, and structural adjustment was imposed and enforced upon the developing world from above (Green 1998: 218). Despite the notional responsibility of developing country governments for program design, in practice, IFI programs have been essentially

designed by IFI staff, with government involvement being extremely limited. In a similar vein, Woodward points out that although governments may be able to influence some aspects of the program design, “on the overall shape of the programme – how far the budget deficit is cut, [...] how far the exchange rate is devalued and how the exchange rate system is changed, etc. – the Fund’s role is generally decisive” (Woodward 1992: 44). As a result, there has been little room in the past for experimentation with ‘heterodox’ macroeconomic policies at odds with the policy prescription of the Washington Consensus (McKinley 2005).

By the mid-1990s, the IFIs found themselves in a seriously compromised position. The Asian miracle seemed to contradict the neoliberal policy prescriptions championed by the IFIs, prominent voices inside the IFIs began to question the neoliberal paradigm and the ‘top-down nature’ of structural adjustment lending, and the failure of SAPs to deliver high and sustained levels of economic growth in the developing world called into question the IMF’s and World Bank’s approach to development. At the same time, counter-hegemonic actors in the South protested vigorously against structural adjustment measures, and during the ‘Fifty Years is Enough’ campaign, various NGOs called for a reorientation of the IFIs, some groups even demanding their total abolition. In the late-1990s, the IFIs finally conceded that the SAP development approach has failed to deliver on some of its promises (Stiglitz 1998a and 1998b; World Bank 2001), and that a new policy paradigm was needed to address growing poverty and the lack of economic dynamism in developing countries. It is important to highlight that this new consensus is still in the making and that we should not see the Post-Washington Consensus as a monolithic entity. Hence, the next section will paint a highly stylized picture of the

emergent Post-Washington Consensus.

3.4 Towards a Post-Washington Consensus

The critique of the Washington Consensus outside of the IFIs has been around since its initial formulation in the 1980s. However, only relatively recently did the Washington Consensus come under assault from within the IFIs themselves. Joseph Stiglitz, Chief Economist of the World Bank from 1996-2000, has been the most influential voice involved in the articulation of the Post-Washington Consensus. This is partly linked to Stiglitz' academic work on informational imperfections in market economies, which provides the intellectual backbone to this new consensus (see Fine *et al* 2001: 4). But, more importantly, Stiglitz was also the main driving force within the IFIs behind the programmatic articulation of the Post-Washington Consensus.⁸

While the development institutions of the United Nations family have long been critical of structural adjustments, and have for decades advocated a more poverty-sensitive adjustment process (with a human face) (see *e.g.* UNICEF 1987), the rethinking process among the Bretton-Woods institutions first started within the Bank, but with the onset of the Asian financial crisis also spread to the IMF. Within the Bank, there has been a renewed interest in poverty and governance issues throughout the 1990s, which can be observed in the growing importance that the Bank has attributed to poverty related issues in its publications. This rethinking process, as argued earlier, must be understood in the context of the spectacular failure of SAPs and in light of the immense protests against neoliberal globalization that have materialized throughout the 1990s.

⁸ Stiglitz, however, left the World Bank in 2000 in order to be able to more freely express his political opinions.

During his time as the Chief Economist at the World Bank, Stiglitz also provided a number of policy descriptions in well-received speeches and seminal articles that outline the programmatic essence of the Post-Washington Consensus and mark a strategic re-orientation of the IFIs. As Stiglitz maintains: “[T]he Washington Consensus provided some foundations for well-functioning markets”, but it was “incomplete and sometimes even misleading” (Stiglitz 1998a: 34). In his much-acclaimed speech on “More Instruments and Broader Goals: Moving towards the Post-Washington Consensus”, Stiglitz enters into a critical dialogue with the Washington Consensus, pointing out its deficiencies and inadequacies, and seeking to establish a new agenda for economic development. In the eyes of Stiglitz, the main shortcoming of the Washington Consensus has been its narrow focus on some macroeconomic factors, such as low inflation and budget deficits to the neglect of other important issues, such as stable institutions and competition policy. As he argues: “Making markets work requires more than just low inflation, it requires sound financial regulation, competition policy, and policies to facilitate the transfer of technology, to cite some fundamental issues neglected by the Washington consensus” (Stiglitz 1998a: 1).

In line with the theoretical findings of new institutional economics (NIEs), Stiglitz acknowledges that every economy needs an institutional infrastructure which provides the regulatory environment and the political stability under which markets can function effectively. Consequently, Stiglitz maintains that “the state has an important role to play in appropriate regulation, social protection and welfare” (Stiglitz 1998a: 25), and that “we should not see the state and the market as substitutes, [...] the government should see itself as a complement to markets, undertaking those actions that make markets fulfill

their functions better” (Stiglitz 1998a: 26). Thus, Stiglitz overcomes the state versus market dichotomy, which informed much of the development debate in the 1980s and 1990s (Fine *et al* 2001a: 136), instead suggesting that states and markets should be seen as complementary institutions which can work together, and that state intervention should be greater in depth and breadth than anticipated by the supporters of neoliberal policies (Fine *et al* 2001a: 138).

The Post-Washington Consensus also moves beyond the misguided paradigm of trickle-down economics in which development was equated to GDP growth and where no attention was paid to how the gains from economic growth were being distributed. While the Post-Washington Consensus continues to emphasize that an integral part of successful development is the increase in GDP per capita, it nevertheless points to the need to raise overall standards of living and to guarantee a fair distribution of the gains from growth. The Post-Washington Consensus seeks “increases in living standards – including improved health and education – not just increases in measured GDP” (Stiglitz 1998a: 31). It is here that the state resurfaces in development thinking as it can guarantee a fair distribution of resources through various mechanisms of reallocation so as to provide equal opportunities to all citizens. In his discussion of the state, Stiglitz thus adds a further dimension to the state that was famously omitted in the Washington Consensus: the role of the state in social protection and social justice (Stiglitz 1999b: 15). This dimension is lacking in the Washington Consensus in which the main task of the state was seen to be the protection of property and the provision of security. However, this element of social justice, which is articulated by many proponents of the Post-Washington Consensus, has unfortunately not found its way into most IFI publications

where the focus continues to be on GDP growth and the redistribution of resources is rarely discussed, except when it comes to the extremely poor.

Moreover, the experience of East Asia has demonstrated that a well-educated and healthy labour force can dramatically speed up economic development. However, in the area of health and education, markets do not function particularly well as deregulated markets tend to under-provide human capital (Stiglitz 1998a: 26). As Stiglitz points out: “It is very difficult to borrow against the prospects of future earnings since human capital cannot be collateralized. These difficulties are especially severe for poorer families. Governments thus play an important role in providing public education, making education more affordable, and in enhancing access to funding” (Stiglitz 1998a: 26). The same is true for health care where markets tend to leave behind those unable to afford private health insurance as the case of the United States powerfully demonstrates. Consequently, for advocates of the Post-Washington Consensus, states are expected to play an active role in the areas of health care and education, compensating for the numerous ways in which markets do not function properly.

This renewed interest in the state is directly linked to Stiglitz’s understanding of informational imperfections and market failures in capitalist economies. The market failure approach returns our attention to the state and proposes government intervention in a number of areas in which markets can be complemented by smart government policy. At the same time, though, Stiglitz warns us that state action should be in line with the capacity of the state and that an effective state is more important than an active state (Stiglitz 1998a: 29). According to this view, a state should match its role to its capacity and what the government does and how it does it, should reflect the capabilities of the

government. As will be demonstrated in the next section, this theoretical rethinking process and the articulation of the Post-Washington Consensus also affected the IFIs' practical operations, culminating in the broadening of development objectives and a significant reorientation in the IFIs' policy approach.

3.5 From Structural Adjustment to Poverty Reduction: Broadening the Objectives

As discussed earlier, the World Bank and the IMF reacted to the harsh criticism of their operations in the mid-1990s and reoriented themselves, redefining their mission and renewing their sense of purpose. The appointment of James Wolfensohn as World Bank President in 1995 was the beginning of this re-orientation process. Wolfensohn was a key player in the attempt to regain the lost confidence in the IFIs as effective transnational governance institutions. He embarked on a fundamental overhaul of the IFIs' policy outlook and carved out a new role for the Bank and the Fund, trying to rebuild legitimacy for their interventions into developing countries. But Stiglitz's appointment as Chief Economist of the Bank in February 1997 was similarly important in reshaping the Bank's outlook. As Stiglitz himself asserts: "I had certain objectives in mind when I came to the World Bank. One of them was to change the thinking both with respect to the objectives – broadening them from just growth to this more broad-based democratic and equitable sustainable development. The second objective was to bring about a change in economics" (quoted in Pender 2001: 403).

While the World Bank already renewed its commitment to poverty reduction in the 1990 World Development Report (World Bank 1990), and poverty assessments were

a well-established practice by the mid-1990s (Craig and Porter 2005: 237), the poverty agenda however reached its zenith in 2000 with the publication of the 2000/2001 World Development Report.⁹ In this report, the Bank passionately argued that reducing poverty should be at the heart of the development agenda for the 21st century (World Bank 2001: 5). Faced with the picture of increasing global poverty and inequality, the Bank maintains that a new approach to development focusing on poverty reduction is necessary to achieve the Millennium Development Goals (MDGs), which the international community has set itself for 2015: to reduce by half the proportion of people living in extreme income poverty (living on less than US\$ 1 a day); to ensure universal primary education; to reduce infant and child mortality by three-quarters; to guarantee universal access to reproductive health service; and to eliminate gender disparity in primary and secondary education (World Bank 2001: 6). To accomplish these goals, the 2000/2001 Development Report proposes a three-legged strategy: providing equal opportunities to all, enhancing security, and empowering the poor (World Bank 2001: 10).

This renewed interest in poverty reduction partly originates from the increasingly destabilizing effects of global neoliberal governance and a growing concern with the potential threats to global order associated with pervasive poverty (Thomas 2001: 159). This link between security and poverty was brought centre-stage after the terrorist attacks of September 11 2001, and had found expression earlier in a number of United Nations publications (*e.g.* UNDP 1997). But this link was also articulated by World Bank president Wolfensohn in his speech to the Security Council in which he remarked that “If

⁹ While there is a certain cyclicity to the issue of poverty reduction in IFI thinking, there are nevertheless some identifiable differences in the most recent return of the poverty agenda, in particular the articulation of clear poverty reduction targets through the MDGs, the emergence of novel aid modalities, especially PRSPs, and the emphasis on results-based management (Maxwell 2003: 6).

we want to prevent violent conflict, we need a comprehensive, equitable, and inclusive approach to development” (quoted in Thomas 2001: 160). Poverty reduction, social inclusion and social cohesion are all understood to be important preconditions for global political stability, and the IFIs have thus started to advocate a more inclusive form of neoliberal governance through the PRSP process.

Apart from putting an emphasis on the need to reduce poverty worldwide, another key aspect of the PRSP approach is the notion that poor people should be more directly involved in the important decisions that shape their lives and should participate in the formulation of poverty reduction strategies. According to the World Bank, “[i]nternational institutions should listen to – and promote – the interests of poor people. The poor are the main actors in the fight against poverty. And they must be brought center stage in designing, implementing and monitoring anti-poverty strategies” (World Bank 2001: 12). The idea of increased participation had been articulated earlier by the United Nations and found its way into the 1993 *Human Development Report*, in which the UNDP notes that “people today have an important urge to participate in the events and processes that shape their lives” (UNDP 1993: 1), and that “the important thing is that people have constant access to decision-making and power. Participation in this sense is an essential element of human development” (UNDP 1993: 21).

Not only has the notion of civil society and poor people’s participation been put on the IFIs’ agenda, but the Bank and the Fund have also expressed the need for more genuine country ownership of and government involvement in development policies: “Developing countries need to develop their own mix of policies to reduce poverty, reflecting national priorities and local realities” (World Bank 2001: 7). This notion of

country-ownership was put forward earlier by James Wolfensohn in his proposal for the CDF, in which he asserts, “it is clear to all of us that ownership is essential. Countries need to be in the driver’s seat and set the course. They must determine goals, and the phasing, timing, and sequencing of programs” (Wolfensohn 1999: 9).

3.5.1 The Comprehensive Development Framework and PRSPs

All the aforementioned concerns found expression in the CDF, an ostensibly new approach to development that was embraced by the IFIs in 1997 and attempts to address some of the shortcomings of structural adjustment lending. According to the Bank, this new approach emphasizes the interdependence of all elements of development – social, structural, human, economic, environmental, and financial – and advocates a holistic long-term strategy, focusing on poverty reduction, with the developing country government in the lead, both ‘owning’ and directing the development strategy (Klugman 2002a: 2), and the IFIs taking on the role of a partner in development.¹⁰ The reconceptualization of the relationship between the South and the North as one between partners can partly be explained as a response to the persistent and highly contested interventions of the IFIs into developing countries, leading to accusations of imperialism and neo-colonialism by Southern social movements and progressive governments (Abrahamson 2004: 1455). The notion of partnership helps to silence those criticisms by claiming to return power and responsibility to developing countries.

At the same time, the ideas of ownership and partnership address a deep-rooted problem that was identified earlier by the IFIs: the unwillingness of many developing

¹⁰ However, it should be noted that country ownership was already discussed by the Bank as early as in 1988 (World Bank 1988).

country governments to voluntarily implement structural adjustment policies and the subsequent failure of conditionality, both speaking to the non-hegemonic nature of neoliberal development policy. While many Southern governments have paid lip service to adjusting their economies, they nevertheless have at times not followed through with the implementation of many of the most highly contested policies and have not always met policy conditions. As the Bank elaborates in the 2000/2001 WDR, “Recipients do not see the [policy] conditions as binding and most donors are reluctant to stop giving aid when conditions are not met” (World Bank 2001: 193). In a more powerful statement made to the news media in 1999, the Bank acknowledges that “conditionality has been unsuccessful: governments fail to deliver on promised reforms and actually hold back from reform in the hope of being able to ‘sell’ the reforms to donors for a higher price – or a second time” (quoted in Cammack 2004: 201).

In this context, the new partnership is seen by the Bank and the Fund (instrumentally) as a way to make development cooperation more effective and efficient and country ownership is expected to contribute to a genuine commitment to implementing neoliberal adjustment policies. The IFIs increasingly realize that a strong consensus around IFI policies in the developing world will make the implementation of adjustment policies less contentious and increase the likelihood of their full implementation. In fact, a closer look at the IFIs’ understanding of country ownership suggests that the PRSP approach could be seen as a ‘managerial tool’ to create a consensus around a somewhat modified and more inclusively oriented neoliberal development model so as to guarantee the adoption of inclusive-neoliberal policies. As the IFIs have recently acknowledged, countries that feel that reforms have been imposed

on them from the outside are not as committed to such reforms (Dollar and Svensson 1998). Consequently, they will either only reluctantly implement the adjustment policies that they were asked to put in place, or they will completely back out. It is thought by the IFIs that government commitment to programs and policies based on a broad consensus is necessary to ensure that adjustment policies are implemented effectively and sustainably. According to the IMF,

ownership matters because it directly affects program implementation. [...] When the program is owned by the country, decisions on such actions are likely to be made quickly and in support of the program, which makes it more likely that the program will succeed. Furthermore, ownership will make it easier to generate domestic political support for the program, since it is likely to be seen, at least in part, as an indigenous product, rather than a foreign imposition (Khan and Sharma 2001: 14).

In a very similar fashion, Stiglitz notes that “policies that are imposed from the outside may be grudgingly accepted on a superficial basis, but rarely will be implemented as intended” (Stiglitz 1998b: 21).

Further, ownership should help to make development aid more effective and efficient. According to the Bank, the “single most important theme running through the dialogue on development effectiveness is the need to put committed developing countries governments and their people at the centre of their development process” (quoted in Abrahamsen 2004: 1455). The IFIs’ ‘instrumental’ understanding of ownership and partnership supports a neo-Gramscian reading, which points to the process of co-optation, or *transformismo*, where country-ownership is turned into a managerial tool of hegemony building, while ‘real ownership’ and sovereignty are being hollowed out.

Nevertheless, we should not neglect the counter-hegemonic potential of the IFIs’ appropriation of the concept of country ownership. This counter-hegemonic potential lies

primarily in the inscription of developing countries as agents in the new Bank and IMF discourse. This discursive shift from portraying developing countries as aid partners rather than passive recipients acknowledges the active role of developing countries in shaping their own future and development path, rather than seeing them as objects of external benevolence and agency. As Rita Abrahamson notes, the discursive reconstitution of developing states as subjects carries the potential to open up new possibilities for decision and action (Abrahamson 2004: 1455). At the same time, though, the IFIs have attached a whole range of new conditionalities to PRSPs, further restraining and circumscribing any agency by developing countries. Thus, while notionally acknowledging the importance of country ownership, the IFIs have arguably increased their leverage over developing countries through the introduction of the HIPC initiative, as further elaborated in the following two chapters.

Debt Relief and the HIPC Initiative

One of the key elements and policy tools of the inclusive-neoliberal development model is the HIPC debt relief initiative. The original HIPC initiative was launched in 1996 as part of an effort to reduce the stock and payments of debt by developing countries. As the IMF maintains, “its objective was to reduce eligible countries’ debt burdens to the thresholds established under the Initiative, *subject to satisfactory policy implementation* [A.R.]” (IMF and IDA 2006: 1). The countries eligible under the initiative are highly indebted developing countries, which in the past pursued or adopted policies of adjustment supported by the IFIs. These countries could benefit from the HIPC initiative, according to the IMF, through an ability “to put to good use the resources freed by debt

relief” (ibid.).

And indeed the HIPC initiative has resulted in a drastic reduction of the stock of debt of the 29 participating HIPC countries, by almost 90 per cent (IMF and IDA 2006: i). This however has only translated into a mild reduction in the flows of interest payments from developing countries to the developed world. According to Jubilee Debt Campaign, interest payments were reduced by 26 per cent, which in the eyes of Jubilee is not nearly enough to achieve the MDGs (Jubilee Debt Campaign 2006). Nevertheless, it is expected by the Bank that social expenditure will increase significantly in all 29 HIPC countries due to savings in interest payments. Accordingly, the IMF concludes that “the volume of debt relief has increased significantly since the inception of the HIPC initiative in 1996, herby reducing HIPC’s debt service burdens and allowing them to finance increased poverty reduction efforts” (IMF and IDA 2006: i).

While this might be true, it is however imperative to note that debt relief is used instrumentally by the Bank and the Fund so as to provide a strong incentive for developing countries to comply with IMF and Bank demands on policies such as privatization, liberalization, and deregulation, in times of growing resistance to neoliberal forms of governance. As Jubilee Debt Campaign reports, the IFIs generally attach between 10 and 20 ‘trigger conditions’ to debt relief, the details of which vary for each country (Jubilee Debt Campaign 2006: 3). However, conditions generally include technical reforms of public expenditure management and governance (such as budget tracking exercises), meeting specific targets related to health and education (such as on spending, teacher numbers or vaccination rates), and structural reforms (such as privatization and liberalization) (ibid.).

Moreover, the way the debt relief initiative is structured makes it easy for the IFIs to influence developing country's policies. To enter the HIPC initiative (called 'decision point'), a country must have been in good standing with the IFIs for three years. After having reached decision point, the developing country starts receiving debt relief from the IFIs, signifying a reduction in debt service payments which is supposed to free up additional resources for social spending. However, no debts are cancelled until the country reaches the 'completion point' of the HIPC initiative three years later, and debt relief can be suspended at any time. The conditions for reaching debt cancellation are set at decision point, and debt cancellation will only be forthcoming if all 'trigger conditions' have been met. It is important to point out that most of the 26 HIPC countries have had debt relief suspended because of failure to meet IMF economic targets or comply with structural conditionalities at some point or another (Jubilee Debt Relief 2006: 4). Thus, the IFIs have made extensive use of their ability to put pressure on developing countries by threatening to suspend debt relief and withhold debt cancellation, largely on the backs of the poor that hope to benefit from increases in social spending.

As the neo-Grainscan notion of *transformismo* suggests, the IFIs have co-opted debt relief and have turned it into a tool to tighten their grip over developing countries and to oversee the implementation of inclusive-neoliberal policies. As Jubilee Debt Campaign notes, "[p]rivatization is often frequently forced through by debt conditions, often with disastrous consequences" (Debt Jubilee Campaign 2006: 1). As the following discussion will demonstrate, the Bank and the IMF have continued to prescribe somewhat modified neoliberal policies through the introduction of PRSPs, and have made debt relief conditional upon the implementation of increasingly contested macroeconomic

policies.

Inclusive Neoliberalism and the *Sourcebook for Poverty Reduction Strategies*

The PRSP is the most prominent policy tool of the Post-Washington Consensus and it is here that the shift to an inclusive-neoliberal development model most visibly presents itself. Endorsed in 1999, the PRSP has been officially incorporated into all IFI development policies and programs and is the basis of all future IFI concessional lending, as well as debt relief granted under the HIPC initiative (Cling, Razafindrakoto and Robaud 2003: 1). The national PRSP is the tool through which the goals of country ownership, civil society participation, and poverty reduction are to be achieved. Each national PRSP sets out a comprehensive plan for a developing country's macroeconomic, structural and social policies and programs over a period of three years. The policy content of the document is supposed to be formulated by the developing country itself, and to reflect the country's individual circumstances and characteristics. The principles underpinning the PRSP approach suggest that development strategies should be (Klugman 2002a: 3):

- 1 Country-driven and -owned, predicated on broad-based participatory processes for formulation, implementation, and outcome based progress monitoring;
- 2 Results-oriented, focusing on outcomes that would benefit the poor;
- 3 Comprehensive in scope, recognizing the multidimensional nature of the causes of poverty and measures to attack it;
- 4 Partnership-oriented, providing a basis for the active and coordinated participation of development partners;
- 5 Based on a medium- and long-term perspective for poverty reduction, recognizing that sustained poverty reduction cannot be achieved overnight.

As will be discussed in more detail below, the types of policies promoted through the PRSP approach somewhat deviate from previous neoliberal reform proposals, and

arguably signify a transformation of neoliberalism towards more inclusively oriented policies. In terms of policy content, inclusive neoliberalism continues to prescribe most of the elements of the traditional neoliberal macroeconomic core, while acknowledging the need for a more prominent role of the state in empowering and protecting its people, enabling citizen participation, and providing an adequate regulatory environment (Craig and Porter 2006: 12). What is needed for development is thus a *capable* state that supports the crucial institutions of law, provides transparent and good governance, and does not overextend itself but is aware of its own resources and limitations, while all along respecting the ‘technical knowledge’ and ‘best practices’ provided by the IFIs in their PRSP guidance materials.

Even though the IFIs claim that policy content and priorities of each PRSP should be reflective of developing countries’ particular circumstances, values, and priorities, they nevertheless have provided a very detailed outline of the process of elaboration and the issues to be addressed in each and every PRSPs, and have identified specific policy criteria for the ultimate approval of all PRSPs in the two volumes of the World Bank’s *Sourcebook for Poverty Reduction Strategies* (Klugman 2002a and 2002b). Every developing country is expected to follow five key steps in developing a national PRSP: 1) assessing poverty and its key determinants; 2) setting targets for poverty reduction; 3) prioritizing public actions for poverty reduction; 4) establishing systematic measuring of poverty trends and evaluating the government impact of programs and policies; and 5) describing the main aspects of the participatory process (Klugman 2002a: 4).

In addition, the IFIs have identified four priority areas, which they consider to be imperative in bringing economic growth to the developing world, and which they have

turned into conditions that have to be met before concessional lending for a PRSP can be approved. These include sound macroeconomic policies and structural reform policies, such as trade liberalization and banking sector reform; appropriate sectoral policies and programs; improved governance; and realistic costing and appropriate funding for poverty alleviation programs (Klugman 2002a: 16). This constitutes the framework for all discussions around the PRSP. At the same time, however, the Bank asserts that the *Sourcebook* is not supposed to prescribe policies, but rather aims to describe ‘empirical facts’ and ‘best practices’, and to provide ‘technical knowledge’ and analytical tools to developing countries (Klugman 2002a: 2). Yet the *Sourcebook* makes it unambiguously clear that the IFI ultimately have the final say in either embracing or disapproving national poverty reduction strategies: “[w]hile the shift to country ownership will allow more leeway in terms of policy design and choice, acceptance by the Bank and the IMF boards will depend on the current international understanding of what is effective in lowering poverty” (Klugman 2002a: 4).

In both volumes of the *Sourcebook*, the IFIs concretize their understanding of what (in their view) constitutes the current international understanding of ‘sound macroeconomic policy’, the non-negotiable precondition for IFI funding and debt relief under the HIPC initiative. They assert that there is a strong international consensus on what is ‘good structural and macroeconomic development policy’, and that this policy package should be applied to all developing countries. Arguably, the effectiveness of the PRSP approach will depend on the nature and effect of the macroeconomic and structural policies pursued to achieve poverty reduction. It is therefore important to discuss the IFIs’ understanding of what constitutes sound macroeconomic policy and to determine

the extent to which the policy advice contained in both *Sourcebooks* differs from earlier stabilization and adjustment policies supported by the Bretton-Woods institutions during the era of structural adjustment. Thus, the following section will highlight, through a discussion of important policy components of the PRSP approach, some of the core elements of the inclusive-neoliberal development model. This discussion will also provide a powerful illustration of how the emerging inclusive-neoliberal development regime is riddled with internal contradictions and conflicts.

Economic Growth and Macroeconomic Stability

The PRSP *Sourcebook* opens with a discussion of why economic growth matters for poverty reduction: “Economic growth is the single most important factor determining poverty. Numerous statistical studies have found a strong association between national per capita income and national poverty indicators” (Klugman 2002b: 4). The case for economic growth is straight-forward and there is no doubt that economic growth must play an important role in reducing poverty in most developing countries. However, the key point of the debate around IFI development policies in the past has not been whether growth is good for poverty reduction, but rather whether macroeconomic policies promoted by the IFIs have contributed to a positive economic growth performance (*e.g.* Weisbrot *et al* 2001; Stiglitz 2002). As pointed out earlier, structural adjustment policies produced rather meager economic growth rates in most developing countries throughout most of the 1980s and 1990s.

Moreover, it is important to ask the question of who mainly benefits from economic growth. The Bank acknowledges in the *Sourcebook* that distributional patterns

and the sectoral composition of growth are key factors in determining the impact of growth on poverty. As the Bank notes: “A number of empirical studies have found that the responsiveness of income poverty to growth increases significantly as inequality is lowered” (Klugman 2002b: 6). As is empirically well-documented and logical, growth associated with progressive distributional changes will have a more positive effect on poverty levels than growth which leaves the distribution of wealth unchanged.

Consequently, the Bank maintains that “policies that improve the distribution of income and assets within a society, such as land tenure reform, pro-poor public expenditure, and measures to increase the access of the poor to financial markets, are thus essential to a country’s poverty reduction strategy” as growth alone is insufficient for poverty reduction (Klugman 2002b: 4). This language must come as a surprise to many critics of the Bank, as it touches the politically sensitive topic of wealth redistribution, and acknowledges the need for progressive income *and asset* redistribution. However, as will become clear through the discussion of taxation and fiscal policy, most concrete policy advice actually directly conflicts with this progressive stance.

In the subsequent section, the *Sourcebook* discusses the relationship between economic growth and macroeconomic stability, one of the areas where IFI policies have been under heavy criticism for a prolonged period of time. The *Sourcebook* unsurprisingly makes a straight-forward case for the importance of macroeconomic stability in achieving poverty reduction. According to the IFIs, macroeconomic stability is essential for economic growth, without which it will be impossible to reduce poverty in a sustainable manner. It is recognized that there might be temporary trade-offs between macroeconomic stability measures and poverty reduction. However, these should be

addressed through appropriate compensatory measures, rather than by giving up the goal of macroeconomic stability and sacrificing long-term growth to a short-term policy view. Stability has to be privileged as poverty reduction will only be sustainable if achieved through a growth in output which requires economic stability and confidence among investors and entrepreneurs (Klugman 2002b: 5).

Macroeconomic stability is defined by the IFIs in terms of “current-account and fiscal balances with low and declining debt levels, inflation in the low single digits and rising per capita GDP”, whereas instability is understood to encompass “large current account deficits financed by short-term borrowing, high and rising levels of public debt, double-digit inflation rates, and stagnant or declining GDP” (Klugman 2002b). Inflation-targeting, non-inflationary budgets and independent central banks are seen as the predominant means through which to achieve macroeconomic stability.¹¹

The key aspects of the IFI discussion on stable macroeconomic policy are the relationship between inflation and growth performance, on the one hand, and inflation and distribution of wealth, on the other hand. In this context, it is pertinent to point out that there is, contrary to the IFIs’ grandiose claim, a lack of consensus on the relationship between inflation and growth in academic circles. According to the IFIs, conventional economic wisdom (*i.e.* the ‘technical knowledge’ the IFIs refer to) suggests that low levels of inflation are conducive to growth and that disinflation largely insulates the poor from the regressive changes in income distribution associated with inflation (Klugman 2002a: 4-5).

This view is however highly contested in academia. In his discussion of the

¹¹ Ironically, IFI-promoted macroeconomic policies, especially financial deregulation, have been directly responsible for massive instability, both at the domestic and the international level.

Washington Consensus, Stiglitz alludes to a different relationship between inflation and growth. In his seminal lecture on the Post-Washington Consensus, Stiglitz points to empirical evidence (Barro 1997 and Fisher 1993) that corroborates his view that mild inflation rates up to 30 per cent have little demonstrable impact on growth performance (Stiglitz 1998a: 8). Accordingly, Stiglitz ardently criticizes the IMF's obsession with low inflation rates, which dramatically curtails the ability of developing country governments to spend freely on poverty-related issues. Moreover, Stiglitz is not alone in his criticism of inflation-targeting and tight monetary policy. As UNCTAD has recently commented, inflation does not seem to be a major concern in most developing countries at this point, yet inflation-targeting remains a top priority of the IFIs (UNCTAD 2002: 24).

This unwavering commitment to tight monetary policy is problematic as it might translate into lower output growth and higher levels of unemployment, and therefore undermine the IFI's laudable attempt to reduce poverty through economic growth (UNCTAD 2002: 24). What is more, the poor themselves appear to be less concerned with the impact of high levels of inflation on the distribution of wealth than with the negative impacts of disinflation on employment and economic growth. As UNCTAD notes, ironically drawing on the Bank's famous study *Voices of The Poor*:

It is significant that the African poor, when they express themselves on matters related to macroeconomic policies, do not consider inflation as a major issue affecting their welfare. The stability that they aspire is stability in employment and constant and regular sources of income. The rural poor in Ethiopia and Nigeria stress that contractionary macroeconomic policies resulting in lower employment and declining wage bills in the public sector affect their own livelihoods adversely by the ripple effects of declining effective demand (UNCTAD 2002: 24).

However, possibly even more disconcerting (than the arguably negative impact of low levels of inflation on growth and output) is the fact that inflation-targeting substantially

reduces developing country governments' policy options in times of economic recession. Important counter-cyclical government policy instruments, such as deficit spending and the provision of inexpensive credit, which are taken for granted in the West, have become unavailable to most developing countries during the era of structural adjustment and the application of monetarist policies. The fact that the IFIs seemingly continue to universally promote the same set of tight monetary policies, described as 'best practice' in the *Sourcebook*, raises concerns, as unorthodox and idiosyncratic macroeconomic policies might be better suited to addressing developing countries' often unique macroeconomic problems, particularly during short-term balance of payments crises (McKinley 2005). Unfortunately, almost all developing countries have adhered to the IFIs monetary advice and have set aggressive inflation targets in their PRSPs, mostly hovering around three per cent (Gottschalk 2005: 429). This clearly limits the extent to which HIPC resources can be spent on the poor as government spending is aggressively reined in and under observation by independent central banks.

Fiscal Policy and Taxation

The *Sourcebook* acknowledges that fiscal policy can have a direct impact on the poor and developing country budgets are ascribed an important role in poverty reduction strategies. Budgets are of paramount importance as resources made available through the numerous poverty reduction and official debt cancellation programs, such as the HIPC initiative and the more recent Multilateral Debt Relief Initiative (MDRI), are expected to be channeled through budgets into poverty-sensitive areas, such as health care, education, and infrastructure, particularly in rural areas. More importantly, additional external resources

freed up through debt relief are supposed to be added to expenditures already earmarked for social sectors, guaranteeing the delivery of essential public services, while non-discretionary and discretionary non-priority spending is to be examined, in order to insulate the economy from inflationary pressures (Klugman 2002b: 12). Thus, the IFIs expect developing country budgets to be generally non-inflationary yet poverty-sensitive. This focus on poverty-sensitive budgets is definitely to be welcomed. And, indeed, social expenditure has increased notably since the introduction of the PRSP approach in most PRSP countries (Driscoll and Evans 2005), particularly in areas such as health care and education, areas which were persistently neglected during the reign of the Washington Consensus. However, the misplaced concern with inflation clearly limits the extent to which governments can add resources to their budgets in poverty-sensitive areas.

Another important long-term goal for most developing countries should be “to raise domestic revenue levels with a view to providing additional revenue in support of their poverty reduction strategies” (Klugman 2002b: 13). As external resources will eventually dry up after the HIPC and the MDRI debt relief initiatives have been fully implemented, it is important for developing countries to attain growth in public revenues to be able to increase social spending. Moreover, developing countries have historically had rather low levels of government expenditure compared to industrialized countries. While government expenditure in the OECD countries has risen from 20 per cent of GDP in the 1960s to almost 50 per cent of GDP in 1995, average government expenditure in developing countries barely surpassed 30 per cent of GDP in 1985, and slowly declined to roughly 27 per cent by 1990 (World Bank 1997: 2). In this regard, it is of utmost importance for developing countries to find ways to raise the necessary resources in the

gargantuan fight against poverty. To increase levels of taxation, which have historically been rather low in developing countries, would be one possible solution.

According to the World Bank, tax policy should aim at moving toward a system of easily administered taxes with broad bases and moderate marginal rates. The general recommendation is to avoid raising taxes on corporate and personal income, given their alleged adverse effects on investment and capital flows, and instead to introduce a broad based consumption tax. According to the *Sourcebook*, the ‘best tax systems’ generally include “a broad-based consumption tax, such as a VAT, preferably with a single rate, minimal exemptions, and a threshold to exclude smaller corporations from taxation”, while “the personal income tax should be characterized by only a few brackets and a moderate marginal tax rate” (Klugman 2002b: 13). The same counts for the corporate income tax, which “should be levied at one moderate rate” (Klugman 2002b: 13). Finally, “taxes on trade should play a minimal role. Import tariffs should have a low average rate and a limited dispersion of rates to reduce arbitrary and excessive rates of protection” (Klugman 2002b: 13).

As UNCTAD notes, the tax regime described by the Bank as the ‘best tax regime available’ is actually a highly regressive tax regime, in which poverty is undoubtedly being augmented through the negative effects of consumption taxes on the poor (UNCTAD 2002: 27). Even the Bank has recently acknowledged that indirect taxes tend to increase poverty as they are generally regressive (World Bank 2001: 70). However, this does not lead the Bank to question regressive taxes in favor of higher direct income and business taxes, which could also play an important role in the redistribution of income and assets. Rather, the Bank suggests that the negative effects of regressive taxes

should be temporarily offset through the expenditure system. Again, there seems to be a contradiction between the goal of poverty reduction and the actual policy advice that is given to developing countries in the area of taxation.

Liberalization of Finance and Trade

The *Sourcebook* is also very clear when it comes to the issues of trade and financial liberalization. In the *Sourcebook*, financial and trade liberalization, policies that have been at the heart of the Washington Consensus, are considered to be pro-poor policies. The elimination of financial repression (*i.e.* directed and subsidized credit through artificially low interest rates) and the move toward market-determined interest rates and credit allocation are expected to generally improve resource allocation. More than that, financial liberalization will also provide poor people “access to safer assets, [...] incentives to save, and access to credit markets” (Klugman 2002a: 22). However, this ‘technical knowledge’ is highly contested as many IFI critics believe that financial liberalization has, in fact, contributed to the exclusion of the poor (and particularly poor rural farmers) from credit as interest rates have generally shot up drastically in the aftermath of liberalization, with credit becoming unaffordable to the poor (UNCTAD 1998, chap.3).

Moreover, as poor people generally do not have property that could serve as collateral, they are denied credit by financial institutions operating under the profit motive. Micro-credit schemes might have mitigated the overall negative effects of financial liberalization on the poor, and indeed many PRSPs discuss these schemes as a way to alleviate rural poverty (Gottschalk 2005: 424). But it is important to keep in mind

that interest rates in micro credit schemes are often horrendously high, reaching up to 30 per cent, and that peer-pressure makes it essentially impossible to default on loans (Weber 2003).

Additionally, high interest rates related to financial liberalization have also placed heavy burdens on governments as the servicing of domestic debt becomes more expensive and resources are being diverted from the productive towards the financial sector. Finally, high interest rates have arguably had a negative effect on private investments in most developing countries, where private investments have stagnated as it is more profitable to simply park money in a high interest yielding bank account than to invest in productive activities (UNCTAD 2002: 29). Again, there is no consensus that financial liberalization should be considered a pro-poor policy as there are many convincing arguments that it, in fact, has had an overall negative impact on the poor (ibid.). It should be up to developing countries to determine their own idiosyncratic approach in this area. However, the inclusive-neoliberal model holds on to the conventional wisdom that liberalized credit markets are desirable but acknowledges that the negative side-effects need to be addressed.

The topic of trade liberalization is discussed at length in a separate chapter in the *Sourcebook*. Overall, the Bank sticks to its well-known, conventional view that trade liberalization is good for the poor as it contributes to economic growth, but also because it improves income distribution. The Bank asserts that “trade liberalization can therefore be expected to help the poor overall, given the positive association between openness and growth” (Klugman 2002b: 30). At the same time, the Bank acknowledges the potential negative short-term effects of trade liberalization on the poor. According to the Bank,

“[o]verall, individual country studies suggest that adjustment costs are low relative to the gains from liberalization; however, the extremely poor may be incapable of sustaining themselves even for short periods under adverse adjustment costs” (Klugman 2002b: 33). This leads to the conclusion that “complementary policies – particularly the provision of an effective social safety net – are therefore necessary to minimize adjustment costs and to help make trade reform work for the poor” (ibid.). Additionally, sequencing of trade liberalization is seen as an alternative to speedy, across-the-board liberalization as it will allow market participants to slowly adapt to the new environment. Finally, the Bank reassures us that “[i]n general, attaining and sustaining a high rate of economic growth is a key factor in improving outcomes for the poor over time” (ibid.). And trade liberalization is expected to bring about economic growth, more employment, and higher wages in developing country economies, ultimately contributing to the overall goal of poverty reduction.

However, recent studies on trade liberalization have come up with fundamentally opposed conclusions. Again, the Bank’s view is not uncontested in academia and amongst other multilateral institutions. According to these alternative studies, trade liberalization has not only contributed to higher levels of unemployment in developing countries (Buffie 2001: 190), but also led to growing wage inequality, generally disfavoring unskilled workers (UNCTAD 2002: 35). Poor and unskilled workers have often seen their wages fall during the liberalization process, with declines exceeding 20 per cent in many cases (UNCTAD 1997: chap.2). This view contrasts sharply with the Bank’s expectation that liberalization will actually bring up the wages of the unskilled and poor (Klugman 2002b: 31). At the same time, trade liberalization can have extremely

unfavorable overall effects on developing country economies as increased foreign competition oftentimes leads to the closure of domestic industries, with an even greater effect on unemployment, pay, and poverty (UNCTAD 2002: 37). In fact, many critics of the Bank argue that the most open developing countries have performed worse than the more protected economies over the last 20 years when it comes to economic growth and poverty reduction. As Ray Kiely points out, “the evidence suggests that trade liberalization does not have the outcomes that the Bank expects, and that poverty has actually increased among LDCs with the most open trade regimes” (Kiely 2004: 10).

While most of these alternative studies do not deny the importance of trade and world market participation, they however acknowledge that integration only makes sense if domestic companies are in a position to successfully compete against foreign competitors. Otherwise, liberalization will simply result in de-industrialization and the disappearance of indigenous industries, with all the negative side effects associated with de-industrialization. In fact, World Bank advice in the *Sourcebook* makes it seem difficult for developing countries to pursue limited, time-bound protection for infant industries so as to provide an opportunity of actively promoting the development of an industrial sector. This is, however, the development path that almost all developed countries, including the East Asian Tiger states, have chosen in the past (Chang 2002; Wade 1990; Bienefeld 1989).

Again, most PRSP countries seem to stick rather closely to the IFIs’ advice on trade liberalization, and a number of developing countries that form part of the PRSP initiative have started to further reduce their already low levels of protection of the economy (UNCTAD 2002). While short-term compensation might help to alleviate the

most apparent negative impacts of trade liberalization, and should therefore be welcomed, it does nothing to arrest the growing inequality in income distribution which clearly undermines the central goal of poverty reduction. The inclusive-neoliberal medicine in the area of liberalization thus resembles earlier prescriptions without, however, denying the social costs of liberalization and recognizing the need to offset those costs through the expenditure system, while also promoting a more sequential opening of national economies to international trade flows.

Privatization

Finally, the IFIs continue to openly and avidly support the privatization of public utilities in developing countries, in many cases effectively linking debt relief to the privatization of public utilities. It is argued that that privatization will contribute to economic growth, and lead to a general improvement in service delivery through extended coverage and better access. As the Bank maintains, “[t]he overarching rationale for privatization is its potential to create more efficient firms and stimulate economic growth, generating the conditions for poverty reduction” (Klugman 2002b: 286). While the Bank might be less enthusiastic than in the past and more sensitive to the necessary pre-conditions of successful privatization, such as competition and effective regulation, the goal of privatizing public utilities nevertheless remains in place. This less enthusiastic treatment of privatization is also linked to the fact that privatization has recently stalled in practice, particularly in Africa, as a result of opposition from developing country governments, local social movements, and lack of interest from international investors (Fine and Van Waeyenberge 2006: 151). However, the privatization of public utilities clearly remains a

top priority on the IFIs agenda as utility privatization was turned in many developing countries into a pre-condition for debt relief under the HIPC initiative.

Again, development economists and social movement activists have widely questioned the IFIs' notion that privatization represents a pro-poor policy choice, and that utility privatization will unambiguously help in the attempt to reduce poverty and contribute to economic growth and development in the periphery. Rather, study after study demonstrates the negative impacts of the privatization of essential services and public utilities on the poor and marginalized in society (*e.g.* SAPRIN 2003, Bayliss 2003). Moreover, many recent reviews of the privatization of public utilities have completely questioned the rationale for privatization. As Bayliss' review of water privatization in sub-Saharan Africa suggests, private ownership is not a miracle cure for poor enterprise performance. Rather, privatization has worked well where utilities have already been performing well prior to privatization; however, privatization has not contributed to performance improvement where this was not the case (Bayliss 2003: 526). At the same time, the need for investors to make profits has tended to put upward pressure on prices. These price increases often happened prior to privatization as part of a reform process in which public utilities are made more attractive to international investors.

Another key problem with privatization in most developing countries so far has been that multinational companies have generally invested very little in infrastructural development (the main rationale for privatization), and have mostly opted for short-term management contracts, where companies carry no risk but are guaranteed returns up to 15 per cent (Bayliss 2003: 524). In fact, oftentimes infrastructure is actually upgraded by

developing countries with IMF and World Bank financial support prior to privatization, only to be handed over to private operators that make handsome profits through its operation without incurring any financial risks (ibid.). In essence, this form of privatization amounts to a subsidization of big multinational companies, or to use Harvey's term 'accumulation by dispossession' (Harvey 2003), and has little to do with poverty reduction.

As the discussion above suggests, there are many good reasons as to why privatization is highly contested within the development community, and the IFIs themselves have recently begun to acknowledge some of the negative side-effects of privatization, in particular escalating prices, and the need to offset these through different forms of subsidization. Unsurprisingly, prices for essential services have in many cases not declined in the aftermath of privatization as predicted by the Bank, which expected efficiency gains to translate into lower prices (Klugman 2002b: 286). The need to recover cost and generate profits has in many cases driven prices up to levels unaffordable to the poor (Bayliss 2003: 516). Consequently, developing country governments are expected to subsidize the extremely poor through taxpayer revenue or revenue from other service users in order to guarantee universal access to health care, clean drinking water, electricity, and other essential services and commodities once they have been privatized (Klugman 2002b: 286).

Again, the Bank does not break with the neoliberal logic of commodification, but rather acknowledges the need to subsidize those that cannot become 'normal' customers or effectively participate in market transactions. Through subsidizing poor market participants, the IFIs want to make markets fully functional, sustainable, and hegemonic

until they do not require further subsidization as market-led growth will lift the poor out of poverty. This has recently been discussed by the Bank in terms of a ‘big push for markets theory’ (World Bank 2006a). From a neo-Gramscian perspective, these elements of inclusion represent an attempt to provide material incentives to make neoliberal reforms more hegemonic, and thus the implementation of contested neoliberal reforms more likely. In this process, the neoliberal logic of commodification and the market colonization of all aspects of social life are not fundamentally challenged, as the inclusive-neoliberal development model that is promoted under the tutelage of the Post-Washington Consensus holds on to the belief that markets are to be privileged over governments in the allocation of resources, and that almost all government services should be privatized.

To sum up, inclusive neoliberalism differs from previous forms of neoliberalism in a number of crucial ways: it advocates a ‘milder opening’ of the economy to the dictates of the market, recognizing the importance of competition policy, sequencing, and regulatory oversight. The gradualist approach to liberalization and privatization championed by most proponents of the Post-Washington Consensus recognizes the failures associated with rushed liberalization and privatization. As Stiglitz explains: “Perhaps of all the IMF blunders, it is the mistakes in sequencing and pacing, and the failure to be sensitive to the broader social context, that have received the most attention – forcing liberalization before social safety nets were in place and before there was an adequate regulatory framework[...].” (Stiglitz 2002: 73). As discussed earlier, proponents of the Post-Washington Consensus recommend the sequencing and pacing of reforms to allow domestic actors to adjust to international competition and to grant governments the

opportunity to adequately deal with the social consequences of structural adjustments. This, it is hoped, will generate political support for the reform policies and provide a stable investment climate conducive to capitalist accumulation.

In the context of this study clearly the most important departure from orthodox neoliberalism is, however, the emphasis on questions of poverty and exclusion that have resurfaced in the development discourse with the articulation of the Post-Washington Consensus and the emergence of inclusive-neoliberal policies. Neoliberal trickle-down economics has recently been questioned by various proponents of the Post-Washington Consensus, which have pointed to the experience of East Asia as an example for fast economic growth in the absence of high levels of inequality. Stiglitz, in particular, has highlighted how government interventions can bring about a sustained reduction in poverty and guarantee that the poor participate in the gains of society as it grows, without jeopardizing overall economic growth (Stiglitz 2002: 78). While the IFIs continue to emphasize that sustained poverty cannot be achieved without substantial economic growth, they have nevertheless started to acknowledge the importance of directly addressing poverty by increasing poverty-related expenditures.

This renewed focus on poverty reduction within the Bank and the Fund finds expression in a number of ways. On the one hand, the IFIs simply recognize the need for increased spending in the areas of health care and education, and pressure developing country governments to earmark resources freed up through debt relief for the expansion of social programs. Some academic and multilateral reviews indicate that for most PRSP countries, annual expenditure as percent of GDP was higher in the post-PRSP period in areas such as health, education, and transport sectors compared to pre-PRSP levels

(Driscoll and Evans 2005: 7). On the other hand, the IFIs have also realized that states should play a more active role in subsidizing the consumption of the extremely poor, of those who cannot afford to pay for privatized essential services at market-determined rates, in particular through the provision of Conditional Cash Transfers (CCTs). However, this renewed national and international attention to social policy agendas to redress poverty and promote inclusion remains congruent with the neoliberal predilections for commodification and liberalization.

Lack of Hegemony of the Bank's 'Technical Knowledge'

The above discussion has illustrated that many of the neoliberal core beliefs have reappeared in the *Sourcebook*. Moreover, the discussion highlighted that the IFIs 'sound macroeconomic policies' never have been (and probably never will be) accepted by everyone as 'best practice' and 'technical knowledge', and that there is indeed no international consensus on effective macroeconomic policy. The IFIs' obsession with so-called 'sound macroeconomic policies' has certainly been problematized for almost two decades, not only by NGOs and political activists in the anti-globalization movement, but also by highly reputable (mainstream) economists (*e.g.* Krugman 1995; Stiglitz 1998a, 1998b, and 2002; Rodrik 1999 and 2001) and numerous multilateral institutions (UNCTAD 2002; UNDP 2003b). As the discussion thus far suggests, it is blatantly unjustified to claim (as the IFIs do) that there is a consensus in the development community that what is really required in the quest for development and economic growth are 'sound macroeconomic policies', as identified by the Bank in the *Sourcebook*. To the contrary, critics have for quite some time now maintained that developing

countries would be better off with heterodox and idiosyncratic macroeconomic policies (McKinley 2005; UNCTAD 2002). As Stiglitz's discussion of the Washington Consensus shows, even within the Bank opinions differ on what kind of macroeconomic policies should be pursued.

While the Bank and the Fund have attempted to create a hegemony surrounding neoliberal thinking over the past 20 years, they have (fortunately) not succeeded in convincing all parts of the development and epistemic community of the value of their neoliberal recipes. Nevertheless, the IFIs seem to continue to push for the implementation of almost identical and highly contested 'sound macroeconomic policies' from the era of structural adjustment, while acknowledging the need to be more sensitive than in the past to the social side-effects of neoliberal policies. Yet, one of the central contradictions within the PRSP approach seems to be the inconsistency between neoliberal macroeconomic policy conditionality and the social focus of poverty reduction strategies. As many commentators have remarked, IMF agreements seem to be driving poverty reduction strategies, and economic policy conditionalities determine social spending, not the other way around as would be desirable. In this vein, McKinley observes that in the era of poverty reduction strategies, "social policies remain ill equipped to undo the harm of neoliberal economic policies – *e.g.* economic stagnation, underemployment, increasing vulnerability, intensifying insecurity and widespread poverty" (McKinley 2005: 2). The empirical investigation of Nicaragua's and Honduras' PRSP in the following two chapters will attempt to throw further light on the manifold antinomies within the PRSP approach, and inclusive neoliberalism more generally. However, our attention will first turn to another key element of 'inclusion' in inclusive-neoliberal policy, the attempt to

include civil society voices in the development of the PRSP, and the decision-making process more broadly.

3.5.2 The Concept of Participation in the PRSP Process

Civil society participation is seen as one of the core elements of the PRSP process, and central to the achievement of the principles underlying the PRSP approach. In fact, one of the declared aims of the PRSP process is to broaden the participation of civil society, and especially of the poor, ensuring the broad involvement of all elements of the domestic constituency. It is also considered to be one of the crucial dimensions differentiating the PRSP approach from previous structural adjustment reforms (Brown 2004: 238).

Similar to the policy framework component in the Bank's *Sourcebook*, there is a process component that emphasizes the importance of participation in the elaboration of poverty reduction strategies and lays out the World Bank's expectations. While the idea of civil society participation is not entirely new to the World Bank, it has nevertheless reached a new level of formalization with the introduction of the PRSP process.¹²

However, the term participation itself is highly ambiguous and contested, and different actors come to the table with different understandings of what participation means. In the *Sourcebook*, participation is defined as "the process by which stakeholders influence and share control over priority setting, policymaking, resource allocations, and/or program implementation" (Klugman 2002a: 237).

¹² Participation has long been advocated by academics rooted in the Latin American conscientization literature (e.g. Chambers 1983), and many NGOs have promoted and practiced 'Participatory Rural Appraisals' as a solution to the failures of top-down development projects. At the same time, the support for participatory processes is not entirely new to the World Bank as it has over the 1990s introduced participation as a safety check in large scale development projects and published a number of 'best practice' resource books on participation. These trends were nevertheless substantially expanded and formalized through the introduction of the PRSP approach (Fraser 2005: 321).

According to the *Sourcebook*, the mechanisms of participation can be participatory research (*i.e.* perceptions of the poor), information dissemination, consultation – informal and structured – and the formation of committees and working groups on issues dealt with in the PRSP (Klugman 2002a: 238). Nevertheless, the Bank predominantly advocates two avenues for participation in the context of the PRSP approach. First, the Bank promotes the participation of the poor in poverty assessments. Participatory poverty diagnostics have gained prominence inside the Bank in the late 1990s due to their perceived rich results. These techniques have the aim of giving the poor a voice, a voice that is not distorted by the mind-set of the investigator. Typically, the techniques also hope to capture the perspective of the poor in a way that can be communicated to decision-makers in government and development agencies (World Bank 1999). Both aspects are seen as important preconditions for the ultimate objective of empowering the poor. Second, people are expected to provide feedback on national poverty reduction strategies in a comprehensive consultation process in which stakeholders are asked to provide their opinions on previously formulated PRSPs (Klugman 2002a).

The *Sourcebook* emphasizes the capacity of civil society participants to contribute positively to each stage of the PRSP process, including generating a deeper understanding of poverty and its determinants through participatory poverty diagnostics, and strengthening the claims of the poor by enhancing people's awareness of their right to participate in the policy process (Klugman 2002a: 241). According to the IFIs, participation of civil society in the policy process can also serve to make it more equitable, transparent and representative of various stakeholder interests. CSOs are

considered by the IFIs to be essential counterweights to autocratic and partially unresponsive states, and, as such, they enhance democratic stability, increase efficiency, and promote good governance and accountability. At the same time, active negotiation between different stakeholders is expected to lead to a more widely shared consensus, a broader sense of policy ownership, and a shared long-term vision among all development stakeholders (Klugman 2002a: 239). The difficulty with this romantic view of the concept is that it assumes a rather unrealistic situation in which stakeholders engaged in a dialogue of equals arrive at a rational solution that reflects a common interest (Fraser 2005).

While participation can improve collaboration among stakeholders and build a common understanding of some issues, the interest in consensus formation should be considered within the context of growing IFI concerns regarding the low implementation rates of earlier structural adjustment programs. As this dissertation illustrates, the IFIs continue to be strongly committed to certain structural reform policies, and engaging local NGOs and the poor are perceived to be important by the IFIs in building a broad-based consensus surrounding neoliberal reforms. Excluded civil society actors have recently become the 'primary agents of dissent' to IFI-supported reform policies (Craig and Porter 2003: 58). And indeed, structural adjustment reforms have oftentimes stalled as an outcome of civil society protests, particularly directed against the privatization of public utilities.

It is, therefore, not surprising that the IFIs have recently acknowledged that if civil society is engaged in adjustment programs and projects from the outset, there is a greater likelihood that they will be accepted. For example, the World Bank suggests in the

Sourcebook that “[n]egotiation between stakeholders over priorities can lead to broader ownership and a more widely accepted consensus around development policies”

(Klugman 2002b: 241). Similarly, Wolfensohn points out in the proposal for the CDF that “[d]epending on local circumstances, civil society has a greater or lesser voice, but our experience is that by engaging civil society in projects and programs, better results are achieved both with design and implementation and usually greater effectiveness.”

(Wolfensohn 1999: 9). In a very similar fashion, Stiglitz notes that “[t]here is likely to be greater acceptance of reforms – and a greater participation in the transformation process – if there is a sense of equity, of fairness, about the development process, a sense of ownership derived from participation, and if there has been an effort at consensus formation” (Stiglitz 1998b: 22). It is noticeable that Stiglitz uses the words ‘a sense of partnership and ownership’, not *actual* partnership or ownership in his discussion of CSO participation. Thus, it seems that the ultimate goal of the participation process is not an open political debate over the policy direction, but rather “public approval of IFI policies reached through extensive consultation between civil society representatives and their constituencies” (Klugman 2002b: 241).

Critical contributions to participatory development in the field of development studies have long suggested that participatory processes can operate as a social technology of control (Cooke 2001). Cooke, for example, challenges the mainstream view that participatory processes necessarily empower the participants and suggests that these processes can also be instrumentalized so as to remould the self-perception and identity of participants through ‘coercive persuasion’, such that “group processes can intentionally be shaped to set up specific psycho and group dynamics to achieve

particular outcomes” (Cooke 2001: 116).

While this is rarely achieved in the PRSP process, due to the shallow nature of the actual participation processes, it is nevertheless reasonable to assume that the Bank’s great hope is not that participation would change the Bank and its development policy, but rather that it would engender a new willingness on the part of borrowing country governments and civil societies to ‘learn from’ the Bank and implement the Bank’s ‘expert knowledge’ (Fraser 2005: 322). For instance, the *Participation Sourcebook* maintains that participation offers opportunities for ‘social learning’, whereby “people within a local system learn the value and rationale of new social behaviors specified by an expert” (World Bank 1996: 4).

It is notable that unlike with the policy component of the PRSP which is evaluated by the IFIs and endorsed or declined, there is no in-depth analysis of the participation process and the extent to which CSOs participated in the formulation of the PRSP. The World Bank stresses that the participatory process itself will vary greatly from country to country as each country is blessed with peculiar government structures, a unique set of social institutions, and an idiosyncratic history of civil society participation (Klugman 2002a: 5). This means that it is essentially impossible to develop a blueprint for participation, which could serve as a guide to the implementation of participation or for the evaluation of participation. As the World Bank argues, “there is no blueprint for participation, especially at the macro-economic level. On the contrary, there are a number of choices given a country’s particular context, its starting points, what is considered feasible in that country and what outcomes it hopes to achieve” (Klugman 2002b: 238).

Consequently, the quality of participation will not be evaluated by the IFIs

according to any fixed criteria, a fact that has been problematized by many NGOs since governments will not feel a strong incentive to incorporate the views of civil society actors as long as disregarding civil society voices has no direct impact on IFI funding. The rather vague guidelines on participation mean that decisions on who to include rest ultimately with governments, and inclusion of civil society actors will depend on the quality of government civil society relations which differ in each individual country. This could be welcomed from a democratic stand-point as it is desirable that developing countries themselves have the ultimate say in who is going to be included in participation processes. However, while some parts of the public are to be given a voice through participation, this is on a purely discretionary basis, as condescension not a right (Brown 2004: 243).

Contrary to the IFI's technocratic and managerial view of participation, CSOs, particularly those representing the poorest and most marginalized segments of the population, tend to view 'genuine' participation more as a means of empowerment than as a tool to build consensus (CCER 2001a; Bread for the World 2002). Participation for them facilitates democratic processes and increases their ability to participate in and influence the decision-making processes that affect their lives. In this sense, participation would involve opening the debate surrounding the PRSP up to diverse and conflicting interests, and would therefore be less likely lead to a consensus, particularly around contentious issues such as macroeconomic policy. In fact, there is a deep tension between participation as a means of empowerment and a more technocratic understanding of the concept as an instrument of consensus-building. By continuing to celebrate participation as a means of building consensus among all well-informed development stakeholders, in

this case around (neoliberal) structural reform policies, the IFIs clearly reveal their weaker commitment to meaningful participation. Moreover, the IFIs assume that civil society (which is an arena of social struggles) is bereft of mutually exclusive ideologies and interests. In response, many CSOs have argued that the PRSP approach has failed, in practice, to facilitate participation as an open-ended political process that involves a real transfer of power to the poor and opens up the dialogue to contesting development visions (*e.g.* Bread for the World 2002; Christian Aid 2001).

This discussion of the IFI's (instrumental) understanding of participation suggests that the main goal of participation does not lie in the incorporation of (alternative) ideas by civil society organizations into national PRSPs and a more meaningful dialogue on development priorities. Rather, the main goal of participation seems to be the creation of a consensus around the content of the PRSP, whose parameters have been largely defined by the IFIs in the *Sourcebook*, prior to any participation of CSOs. Thus, as suggested in the previous chapter, the idea of participation has been co-opted by the IFIs, only to be employed instrumentally so as to engender a broader societal consensus on neoliberal reforms, thus making participation consistent with the hegemonic ambitions that lie behind the PRSP approach. It is, however, unlikely that this consensus-building attempt will be successful, as illustrated by the experiences of Nicaragua and Honduras in the following chapters.

3.6 Conclusion - From Neoliberalism to Inclusive Neoliberalism

This chapter has provided a description of the shift from the Washington to the Post-Washington Consensus, documenting the confluence of forces that led to the ascendancy

of a new inclusive-neoliberal policy consensus. The rising criticism of the neoliberal adjustment policies by civil society actors and the failure of SAPs to deliver robust economic growth and to contribute to poverty reduction in the developing world have prompted the IFIs to somewhat reorient their development approach. As a result, the IFIs have reframed their development approach through the Post-Washington Consensus and have introduced the concepts of country-ownership, participation, and poverty reduction into the development debate, leading to the articulation of the CDF and the PRSP approach. Moreover, the IFIs have pledged to take a 'backseat' and let developing countries determine their own development policies and priorities.

As the discussion has suggested, there are a number of substantial similarities between orthodox neoliberal policies promoted through SAPs during the Washington Consensus era and the inclusive-neoliberal policy mix emerging under the Post-Washington Consensus and articulated in PRSPs. Most notably, both policy regimes promote 'sound macroeconomic policies', espouse a belief in market- and export-driven development, best expressed in the push for further liberalization, deregulation, and privatization, and overall support market solutions to the development *problematique*. At the same time, the Post-Washington Consensus remains deeply conservative in fiscal and monetary matters.

Nevertheless, while many IFI critics have questioned the extent to which the shift from SAPs to PRSPs is real, and not merely rhetorical, this chapter has suggested that a novel inclusive-neoliberal development model is materializing through the CDF and the PRSP. Important norms that entered the global development order in the late 1990s under the tutelage of the Post-Washington Consensus, and that have consequently left an

imprint on not just the discourse but also the practices of most development organizations, are empowerment, participation, the promotion of opportunities, and poverty reduction. The concept of inclusive neoliberalism seeks to grasp these changes and discontinuities in the policy approach of the IFIs introduced in response to the manifold contradictions of and the growing resistance to the earlier phase of neoliberal policy reform (Peck and Tickell 2002). However, these changes do not amount to a paradigm shift, but should rather be seen as experimental forms of poverty management within the neoliberal paradigm, with the aim of strengthening it (Maxwell 2001).

The social repercussions of first- and second-generation neoliberal reforms triggered a sustained metamorphosis of the neoliberal project, marked by the re-emergence of the state (and other social institutions) and the normalization and extension of the market logic to encompass new spatial and social frontiers (Perreault and Martin 2005). This turn in IFI strategy has been conceptualized as a move towards inclusive neoliberalism, defined as the grafting of a positive liberal emphasis on empowerment and participation onto little modified neoliberal macroeconomic policies, and creating a new policy mix that allows neoliberal reforms to persist by way of a shallow re-embedding of markets through the promotion of greater citizenship participation and social inclusion through consumption subsidies (Craig and Porter 2006: 12).

Moreover, the notion of inclusive neoliberalism suggests that neoliberal practices have been entering a new era of more socially interventionist and ameliorative forms of governance, so that those marginalized or dispossessed by the neoliberalization processes of the 1980s and 1990s can, through inclusion processes, be better integrated, regulated and controlled (Graefe 2005), as further elaborated in the following two chapters. Thus,

following the rolling back of state institutions under earlier forms of neoliberalism, we are currently witnessing the development of a 'roll-out neoliberalism' that seeks to stabilize and further entrench neoliberalism through the introduction of new social institutions, ameliorative policies, and participation mechanisms (Peck and Tickell 2002), all representing new forms of deep neoliberal interventionism (Weber 2004).

At the same time, inclusive neoliberalism does not represent a return to the Keynesian era of progressive decommodification of increasing aspects of social life, but rather signals a move towards the 'social investment state', which activates the capacity of its citizens in preparation for integration into markets. As Jayasuriya notes this emphasis on capabilities is associated with "a clear shift away from welfare as income management to a notion of welfare as capability to function within the market sphere" (Jayasuriya 2006:54). Thus, inclusive neoliberalism rejects a public responsibility to create the conditions for full employment, which characterised Keynesian economic policy, and rather puts the burden on the shoulders of individuals to actively seek employment and acquire the necessary skills to become competitive in the market place. In contrast to the Keynesian era, inclusive neoliberalism promotes active social policy that does not envision social protection from the market, but rather understands the goal of social policy to lie in integrating the poor with increased capabilities into market structures.

A neo-Gramscian reading of this political project suggests that the ultimate goal of inclusive neoliberalism is the combination of broadly macroeconomic neoliberal policies with a stronger emphasis on social inclusion. The track record of IFI policies and the apparent policy constraints and contradictions of the new PRSP approach lend

support to the neo-Gramscian understanding of the PRSP process. As suggested earlier, through the PRSP approach the IFIs attempt to resolve some of the contradictions and address some of the criticisms of the neoliberal SAP development approach, without moving substantially beyond forms of neoliberal governance. This could be understood as instances of *transformismo* where counter-hegemonic concepts, such as poverty reduction and civil society participation, have been absorbed and reconfigured into 'policy tools' so as to turn a non-hegemonic into a hegemonic world development order.

However, this novel inclusive-neoliberal model is itself laden with numerous contradictions and does not resolve many of the problems of uneven development in the world economy. Quite to the contrary, the CDF and the PRSP approach represent an institutionalized expression of the contradictions of capitalist social relations manifest at a plethora of different levels (Taylor 2005: 167). The central contradiction of this new consensus is the incompatibility of neoliberal macroeconomic and poverty-sensitive social policies. Despite the absence of positive development results from neoliberal macroeconomic policies, the Bank and especially the Fund still seem to be unwilling to move substantially beyond standard neoliberal macroeconomic policy prescriptions, which informed the era of structural adjustment. This clearly limits the success of each and every poverty reduction strategy in the developing world as monetary guidelines will be directly conflicting with the need for lax fiscal policies in support of poverty reduction. Moreover, the fact that the IFIs ultimately endorse the PRSP, and that they believe that there is a common understanding of what is 'good macroeconomic policy', which should be reflected in individual country PRSPs, raises significant doubts about the sincerity of the IFI's claim that developing countries are now in the 'driver's seat' and

will be able to develop their own strategies with input from civil society organizations.

What is more, inclusive neoliberalism represents a novel phase of neoliberal policy that is full of complex contradictions and compromises in as far as it attempts to incorporate and neutralize its critics and to provide material incentives to the disempowered masses, while at the same time adhering to the basic principles of neoliberal commodification and market colonization of the lifeworld. It introduces new selectivity and policing mechanisms which tighten criteria for access to development funds, by linking debt relief (and the promise of inclusion) to ever more stringent conditionalities, while claiming that developing countries now 'own' their poverty reduction strategies, and are therefore fully responsible for the implementation and development results of each and every PRSP.

Finally, inclusive neoliberalism is a shallow social compromise (compared to the post-war social-liberal welfare state) in that it does not aim to decommodify important aspects of life through the granting of social citizenship rights (Esping-Andersen 1990), but rather focuses on the targeted subsidization of consumers in the context of privatization and liberalization. It, therefore, fits nicely within the wider neoliberal project, which is based on 'accumulation by dispossession' (Harvey 2003), and to which we might add 'accumulation by subsidization'. In the PRSP approach, 'unfit market participants' are subsidized by public monies in an attempt to reproduce stable markets in highly sensitive areas, such as in the provision of health care and water. This implies that it is problematic to suggest that the turn to inclusive neoliberalism is only a juridical and rhetorical turn, completely lacking elements of (material) compromises and incentives (Craig and Porter 2005: 233). As sometimes overlooked by neo-Gramscian authors,

material incentives and social compromises are key in producing hegemony (Kenny and Germain 1998).

The task of the following two chapters will be to illuminate in more depth the aforementioned contradictions and constraints of the PRSP approach through a discussion of Nicaragua's and Honduras' experience with the PRSP process, and to further illustrate how the PRSP approach represents a novel inclusive-neoliberal model of development whose goal arguably lies in the organization of hegemony around somewhat modified neoliberal development policies.

Chapter 4

Inclusive Neoliberalism and the Poverty Reduction Strategy of Nicaragua

4.1 Introduction

Nicaragua was one of the first countries in the developing world to be accepted into the HIPC debt relief initiative due to its heavy indebtedness and the lack of progress in poverty reduction. As one of the most impoverished countries in the Western hemisphere, with poverty rates hovering around 50 per cent and extreme poverty around 20 per cent in 1998 (Government of Nicaragua 2000: 5), Nicaragua entered the HIPC initiative in 1999, and was expected to formulate a national PRSP outlining how it plans to allocate the funds saved through debt relief. Nicaragua has a rather spotty record in its collaboration with the IFIs as its cooperation with the IMF and the World Bank broke down during the reign of the Sandinistas and Nicaragua went 'off-track' numerous times, even after the return of liberal forces to power in the 1990s. In fact, during the 1990s, IMF agreements rarely lasted for more than one year before breaking down as neoliberalization processes were strongly contested within civil society (White and Dijkstra 2003). Nevertheless, Nicaragua signed various agreements with the IFIs in the early 1990s which signalled the beginning of the implementation of IFI-style structural adjustment policies in the country.

In this chapter, I will compare the content of structural adjustment policies with Nicaragua's PRSP so as to trace the discontinuity within continuity in Nicaragua's neoliberal development policies, and to better illustrate my claim that the PRSP approach is representative of a novel phase of neoliberalism. In this phase, heightened concerns about 'inclusion' have translated into a limited return of the state and the promotion of

inclusive-neoliberal development policies, especially through the emergence of CCTs and the erection of a pilot social safety net. These (limited) material incentives represent one side of the attempt to make neoliberalism more inclusive and thus more hegemonic (in neo-Gramscian terms), and illustrate that the IFI's are becoming increasingly involved in the governance of the social sphere and the poor, through linking conditionalities to achieving social and poverty reduction outcomes. As I will highlight further, this attempt is full of internal contradictions, as inclusion elements are combined with the neoliberal policies of commodification and liberalization which have tended to produce disfavoured social outcomes and led to more pronounced forms of exclusion in Nicaragua, despite never being fully implemented as suggested by the IFIs.¹³

Additionally, I will examine the role played by critical civil society forces in the elaboration of the PRSP. Civil society has remained the key realm of opposition to the neoliberalization of Nicaraguan society and contestation of many of the core policies of neoliberal adjustments, especially wide-spread privatizations. This is linked to the mass mobilization and popular organization left over from the Sandinista era which provided a base from which organized labor and other social sectors could mount their resistance to the implementation of neoliberal policies (Stahler-Sholk 1995). This discussion will show that civil society participation in the development of the PRSP has been rather shallow, as many critical perspectives were not taken into consideration in the PRSP, and that country ownership has remained largely absent in Nicaragua.

In particular, various critical NGOs were concerned that by participating in civil

¹³ There are, of course, some voices that suggest that the failure of SAPs is linked to their partial or improper implementation and related to certain factors external to developing countries that are considered to be largely uncontrollable, such as world interest rates, debt overhang, and a contraction in demand from developed countries due to a slowdown in economic activity (*e.g.* Easterly 2001).

society consultations on the PRSP they would provide legitimacy to neoliberal policies that they assume have been strongly implicated in the deepening of inequality and the proliferation and persistence of poverty. In response, some NGOs started a parallel PRSP consultation process and elaborated an alternative PRSP document, *La Nicaragua Que Queremos* (Bradshaw and Linneker 2002). Thus, the chapter will also demonstrate that, while the IFIs made an attempt to engage civil society forces, especially by forcing the Nicaraguan government to reopen its dialogue with CSOs before accepting the PRSP, this did not produce the hoped for consensus within civil society surrounding the content of the PRSP. In the end, the IFIs were not willing to derail the PRSP process and make significant concession even when it became evident that large sectors of civil society felt that their voices were not included in the national PRSP.

The chapter begins with a discussion of the macro-structural and historical context of Nicaragua's cooperation with the IFIs in the early 1990s, locating the emergence of the PRSP process within the (partly failed) neoliberalization process of Nicaraguan society. The second part reviews structural adjustment policies in Nicaragua under various governments and economic agreements, as well as the socio-economic impacts and shortcomings of previous social compensation strategies, highlighting the highly contested (non-hegemonic) nature and piecemeal implementation of SAPs in Nicaragua. Third, the discussion turns to the content of the Nicaraguan PRSP and delineates some of the similarities and differences between the PRSP and previous SAPs, before finally evaluating the role of some critical civil society organizations in the PRSP process in order to illustrate that perspectives critical of the neoliberal paradigm did not find their way into the official PRSP.

4.2 Nicaragua and the Era of Neoliberal Globalization

Nicaragua entered a period of deep social and structural transformation in the early 1990s when Sandinista rule came to an abrupt end. While Nicaragua had limited its interactions with the world capitalist order following its socialist revolution in 1979, as soon as the liberal forces of the Nicaraguan Opposition Union (UNO) captured power in the early 1990s, Nicaragua quickly inserted itself more fully into the global economy and began cooperating with the World Bank and the IMF. At the same time, the internationalization and neoliberalization of the Nicaraguan state apparatus advanced rapidly, and by the mid-1990s the Nicaraguan elite had largely internalized the neoliberal policy stance represented by the IFIs. This attempt to modernize the economy followed a sharp decline in economic activity throughout the 1980s, related to the US boycott of the Nicaraguan economy and the contra war (Ryan 1995: 206ff.).

The structural transformation of the Nicaraguan economy and state must be analyzed in the world-historic, macro-structural context of the process of neoliberal globalization. As discussed in more depth earlier, neoliberal globalization entails new forms of political and economic articulations of core and peripheral countries, such as the increased penetration of peripheral states by transnational social forces through a number of direct and indirect channels and the growing power of transnational authority structures, such as the World Bank and the IMF. Moreover, this phase of world history also represents a new accumulation model in which the Nicaraguan economy is articulated differently to world capitalism than in previous world-historical periods, containing the seeds for a new, truly global division of labour (Robinson 2001). At the same time, in the domestic sphere, neoliberalization encompasses the ascendance of

transnationally oriented social forces, with their attendant support of full integration into the world capitalist order in line with the comparative advantage(s) of the Nicaraguan economy. Nicaragua started to undergo a gradual transition from a more nationally oriented accumulation model supported by the Sandinistas towards a transnational export-led accumulation model in the early 1990s, much later than most other Latin American countries that entered the period of structural transformation in the 1980s, in the aftermath of the debt crisis.

There are a number of key external forces that were heavily involved in the neoliberalization of Nicaragua's political and economic institutions. As has been meticulously documented by William Robinson, US intervention in the early 1990s played a fundamental role in the reorganization of the Nicaraguan state and civil society along neoliberal lines. The USAID program in Nicaragua became the largest in the world and the US embassy the most heavily staffed in Central America (Robinson 1997: 31). As Robinson notes, "[t]he *Strategy Statement* [of USAID, A.R.], a remarkable blueprint of a neoliberal republic, laid out a comprehensive program of restructuring every aspect of Nicaraguan society on the basis of the economic power that the United States and the international financial agencies would be able to wield over the shattered country" (ibid.). In this period, most financial aid was conditional upon satisfactory implementation of the policies set out in the 'grand strategy' that the US government developed for Nicaragua and the numerous agreements signed with the IFIs. However, while the state apparatus was surrendered to the increasingly powerful transnational social forces within Nicaraguan society, the turn towards neoliberalism was highly contested and strongly challenged by counter-hegemonic forces within civil society, and many of the policies on

the US 'wish-list' were never fully implemented.

While the emphasis on external forces in the transformation process sheds some light on the origins of neoliberalization, domestic social forces nevertheless played a leading role in adjusting the Nicaraguan economy to the world market. For instance, local transnationalized fractions of the domestic elite staged their own political protagonism and succeeded in breaking the hegemony of the domestic industrial sector, which had a clear interest in keeping the Nicaraguan economy closed, and thus insulated from fierce external competition. In fact, a substantial share of the capital that was invested in industries directly producing for the world market, and thus promoting rapid world market integration through structural adjustment, was local capital (Robinson 2001).

The textile industry provides a good example of this process as the national accumulation strategy via import substitution industrialization, promoted by the Sandinista regime and to some extent by the Somoza dictatorship, has largely been replaced by *maquiladora* assemblage for export. Indeed, *maquiladora* production has increased rapidly over the 1990s, to US\$ 232 million in 1996, partly reflecting the low wages in Nicaragua compared to the wage levels in other textile producing countries, but also partly related to the privileged access to the US market of Nicaraguan producers (ibid.: 542). Other areas of intense economic activity emerging under the neoliberal export-oriented transnational accumulation regime that crystallized in the 1990s include non-traditional agricultural exports, such as exotic fruits, flowers, ornamental plants, winter vegetables, and spices; and transnational services, such as tourism and hospitality. *Maquiladora* production and non-traditional exports made up almost 40 per cent of all exports in 1997, and have since then continued to grow rapidly (Robinson 2001: 543).

By the mid-1990s, the Nicaraguan state was safely in the hands of transnationally oriented political elites that preached the full integration of Nicaragua into the global economy and supported IFI-led structural adjustment programs. Moreover, the massive indebtedness of the Nicaraguan economy was a powerful tool used by the elite in the opening of Nicaragua to outside capital, as it allowed the Nicaraguan elite to claim that it had no choice but to follow IFI suggestions or to be cut off from all foreign aid flows; this, as is widely acknowledged, did not represent a viable option given the heavy aid dependence of the Nicaraguan state, and thus bestowed upon the transnationally oriented elite a limited degree of autonomy from counter-hegemonic social forces (Walker 1997).

By 1992, Nicaragua's debt stood at US\$ 11 billion, one of the highest per capita debts in the world, and almost 50 per cent of Nicaragua's foreign bilateral and multilateral aid went directly to debt servicing (Robinson 1997: 34). The power of the IFIs was thus (theoretically) tremendous and structural adjustment policies should have been implemented smoothly as the embryonic transnational social forces in Nicaragua stood firmly behind the IFIs. Yet, the neoliberal model never gained a hegemonic status within civil society, linked to the fact that the Sandinista experience had significantly increased civil society's capacity to challenge neoliberal policies (Stahler-Sholk 1997). This will become apparent in the following discussion of structural adjustment in Nicaragua. The strong resistance to neoliberal policies also partly explains the recent search for more inclusively oriented neoliberal policies. In order to historically contextualize SAPs, the discussion will first go back to the early attempts of the Sandinista government to successfully restructure the economy in the late 1980s, before moving to a discussion of structural adjustment and the societal responses to it under the

new US-supported governments in the 1990s.

4.3 A Short History of Structural Adjustment in Nicaragua

Whereas most other Latin American countries began adjusting their economies in the early 1980s after the emergence of the debt crisis, SAPs were not introduced into the Nicaraguan economy until the late 1980s. The economic crisis that surfaced in Nicaragua in the late 1980s was not directly related to the early 1980s Latin American financial crisis, but rather originated in the confluence of a number of endogenous and exogenous factors. After the revolution in 1979, when the Sandinistas came to power following their protracted struggle against the US-supported Somoza regime, Nicaragua was relatively independent from the international financial system. The economic crisis of the late 1980s must therefore be analyzed in relation to the social and economic transformation of Nicaragua under the Sandinistas in the middle of the US-supported Contra War and economic blockade (Catalan Aravena 2000: 55), and the numerous contradictions that this ambitious Sandinista project of social transformation entailed (Ryan 1995: 12).

The Sandinista government attempted to establish a mixed economy, combining production of the state with a more limited and better regulated private sector, which eventually resulted in state control of approximately 40 per cent of the economy, along with the nationalization of banks and foreign trade (Stahler-Sholk 1997: 79). The results of the Sandinista program were highly ambiguous. On the one hand, Sandinista reforms achieved some impressive outcomes: general access to health care, a steep decline in illiteracy, rising immunisation coverage, and land redistribution through land reforms, without however providing proper land titles to the rural poor (Walker 1997). On the

other hand, the economic transformation, the fiscal largesse and the emphasis on consumption led to high inflation and macroeconomic disequilibria by the late 1980s, which could only be countered through some form of fiscal adjustments (Dijkstra 2000). These economic disruptions can partly be blamed on the US economic blockade and the need to massively finance the military in light of the Contra War, but must also partly be attributed to the unsustainable expansionary fiscal and monetary policies of the Sandinista leadership (Ryan 1995).

Structural adjustment policies were introduced in Nicaragua in the late 1980s, after the collapse of the Sandinista mixed economy. In 1988, the Sandinista government, without the support of the IFIs, made serious efforts to stabilize the economy and to restore macroeconomic equilibrium through implementing limited structural adjustment measures. Since their initial implementation in Nicaragua, SAPs have continuously been applied, despite their unsatisfactory outcomes and their severe social costs. However, many of the adjustments demanded by the IFIs were never fully implemented as certain elements of structural adjustment were vigorously opposed.

In discussing structural adjustment in Nicaragua, I will distinguish four phases: the failed reform period, in which the Sandinista government applied SAPs without the support of the IFIs; the period of 1990-1993 under the Chamorro government, when hyper-inflation was brought under control and the first IMF stand-by agreement was signed; the 1993-1996 period, when the first ESAF was implemented (still under the Chamorro government), and finally 1996-2001, during which the second ESAF was put into practice under president Alemán.

4.3.1 Structural Adjustment under the Sandinista Government (1988-90)

In 1988, the Sandinista government made serious efforts to stabilize the economy and to restore macroeconomic equilibrium in light of massive fiscal imbalances and the recognition of problems linked to the pursuance of a state-led development strategy which interfered significantly with the functioning of the market. The initial goal of adjustments proposed by the Sandinistas was the realignment of relative prices. To achieve this, exchange rates were brought together, the local currency was devalued, and key domestic prices were set free (Catalan Aravena 2000: 56). Furthermore, measures to limit absorption were taken, such as credit control and a reduction in the fiscal deficit. However, this attempt to correct the macroeconomic disequilibrium in Nicaragua did not enjoy the support of multilateral financial institutions, and international assistance to support it was negligible (Dijkstra 1996).

As Catalan Aravena has pointed out, the adjustments implemented by the Sandinistas did not work in the absence of sufficient international reserves. The policy of influencing relative prices through devaluation simply fed inflationary expectations and generated further inflation which, in turn, made further devaluation necessary (Catalan Aravena 2000: 57). Thus, an impressive devaluation-inflation spiral was created that led to an average devaluation of the exchange rate in 1988 of 281,757 per cent, while accumulated inflation rose to around 33,000 per cent (*ibid.*). In the same year, real wages fell by 70 per cent (Dijkstra 1996: 538), and in 1989, further cutbacks in the budget could not help to get inflation under control. When the Sandinista government relaxed the fiscal discipline prior to the 1990 elections, inflation, which was brought down to 1,689 per cent in 1989, came up again to 13,450 per cent in 1990 (Arana 1997: 82). Together with

the reduction in aggregate demand, inflation ended up feeding a strong recession that resulted in a reduction of per capita GDP of 20 per cent during the years 1988-1989, while underemployment rose to more than 30 per cent (Dijkstra 1996: 538). The Sandinista government also increased interest rates and restricted credit, which contributed to the rationing out of small enterprises and the bankruptcy of many small businesses (ibid.).

4.3.2 Structural Adjustment under the Chamorro Government (1990-1993)

After a decline in popular support for the Sandinistas and sustained interventions by the US into the political landscape of Nicaragua, a coalition of 14 political parties, the National Opposition Union headed by Violeta Barrios de Chamorro, emerged victorious from the elections in 1990. When the Chamorro government took office, the US economic blockade was instantly lifted and the Contra War discontinued, and Nicaragua was able to rejoin the international financial community. In 1991, the Nicaraguan government signed a 'stand by agreement' with the IMF whose main goal was the stabilization of the still highly volatile economy, through a reduction in government spending and deficit, an increase in Central Bank reserves, tight credit, and utility privatization (Stahler-Sholk 1997: 84). Under favourable external conditions and with IFI support, the Chamorro government took measures, as part of the so-called *Mayorga* plan, to structurally adjust the Nicaraguan economy. This adjustment entailed a massive shift from a state-centred and domestically-oriented model of accumulation towards one that was market- and export-driven. During this transformation process, 343 out of 352 state enterprises were liquidated (Arana 1997: 86).

Moreover, the government attempted to contain galloping inflation through restrictive fiscal policy by further reducing public expenditures. Simultaneously, it started to liberalize external trade by reducing import tariffs and the selective consumer tax, mainly affecting imports. The nominal rate of protection of the economy dropped from 43.2 per cent in 1990 to 15.2 per cent in 1991 (Catalan Aravena 2000: 59). Additionally, from its inauguration, the Chamorro government tightened credit policies, and began reforming the financial sector, restructuring the banking sector, and establishing seven private banks in 1991 (Dijkstra 1996: 539). However, all adjustment measures failed to drive hyperinflation out of the system or to rejuvenate the stalling economy.

The *Mayorga* plan (and with it the transnational project of neoliberalizing Nicaraguan society through ‘shock therapy’) failed for a number of reasons. First, and most importantly, the plan lacked popular support amongst large segments of civil society as it was applied with even greater orthodoxy than initially envisaged (Stahler-Sholk 1997: 85). Social compensation, such as emergency credits to small producers and special social safety provisions that were supposed to complement restructuring processes as initially promised by the government did not materialize (ibid.). To the dismay of the government, the electoral victory of the UNO did not translate into wide popular support for the neoliberal policies so strongly promoted by UNO. Nor could the new Nicaraguan elite rely on an oppressive military apparatus to impose adjustments coercively onto Nicaraguan society because the Sandinista People’s Army remained relatively intact and under the ideological control of the FSLN (Robinson 2003b: 76).

What is more, the experimentation with neoliberal adjustment policies, such as the intended public sector layoffs, reduced social spending, and rate increases in public

services and privatizations, engendered severe social unrest and triggered a series of national strikes in May and July of 1990 which brought the country close to a complete standstill and powerfully displayed the willingness and ability of the popular classes to mount resistance against SAPs. While government workers occupied their offices during the May general strike, completely paralyzing all government operations, during the July general strike, strike supporters erected barricades in various barrios, reminiscent of the insurrection against the Somoza regime in the late 1970s (Stahler-Sholk 1997: 85-6). The July 1990 strike brought the country close to a full-out civil war.

In response, the Chamorro government finally realized that a more balanced compromise with organized social forces would have to be found, or otherwise neoliberalism might never be implemented. Consequently, the new government started to engage in a more cooperative approach which sought compromises with counter-hegemonic social forces. For example, the Chamorro administration promised to index wages to a basket of basic consumer goods in order to avoid the further erosion of wage levels (*ibid.*), and suggested that workers become shareholders of privatized enterprises. Robinson has captured this period of tremendous social struggles well when he writes that: "Nicaragua entered a period of endemic social conflict in which cycles of standoff, negotiation, and compromise alternated with peaceful and violent strikes, demonstrations, and clashes in the country side and the city" (Robinson 2003b: 76). Strong resistance within civil society made it necessary for the governing elite to resort to a 'creeping implementation' of the neoliberal model through 'slow-motion counterrevolution' (Robinson 1997: 32). However, another important factor that contributed to the failure of adjustment was the lack of external resources that were promised, but not disbursed, by

the US government. Without sufficient external funding, the stabilization of the exchange rate became an impossible task and a new devaluation-inflation spiral was created (Catalan Aravena 2000).

Hyperinflation could only be brought under control in 1991 with the introduction of the *Lacayo* plan, spearheaded by the Minister of the Presidency Antonio Lacayo. The process of confrontation over the *Mayorga* plan gave way, in February 1991, to a new period of negotiation with labour and business organizations, promoted by the Nicaraguan government so as to achieve a broad consensus on economic policy (Arana 1997: 88). As an outcome of this process, the *Lacayo* plan consisted of a heterodox policy package, incorporating concerns of both labour and business. Under the *Lacayo* plan, domestic prices were indexed to the US dollar and the exchange rate was frozen in a credible manner by making the gold Cordoba freely convertible with the dollar. The new Cordoba was devalued by 400 per cent, which caused prices to rise by 300 per cent (Catalan Aravena 2000: 60). Additionally, the government introduced regressive consumption taxes, and continued to further dismantle 'inefficient' state industries. At the same time, as a concession to workers, earnings were protected from the negative effects of devaluation by an income policy based on selective price controls of basic goods (Arana 1997: 89).

Once economic stability had been achieved in 1992 with inflation rates returning to below 10 per cent, the government announced that the time for the reactivation of the economy had come. It expected that price stabilization and the guarantees offered to the private sector would lead to a substantial increase in investment. However, this turned out to be an unrealistic expectation, and instead an outflow of capital continued without any

increase in private investment (Stahler-Sholk 1997). This can be explained by the overvaluation of the Gold Cordoba, the high interest rates, which led to the bankruptcy of small and medium-sized businesses, and the lack of a clear solution to disputes over property rights, which continued to create insecurity on the side of investors (Catalan Aravena 2000).¹⁴ Overall, Nicaragua's economic situation did not improve significantly during both macroeconomic adjustment exercises: GDP per capita declined in 1991, 1992 and 1993, foreign debt rose noticeably, unemployment climbed up to 38 per cent, and the social costs of the adjustment process were significant, as will be discussed later in this chapter (Arana 1997: 82).

Again, opposition to the *Lacayo* plan was pronounced (despite the social compromises build into it), and in September 1993, the country was brought to a complete halt by a national transportation strike (Envío Collective 1993). This, in turn, led to the renegotiation of some of the stipulations in the plan, particularly related to wage increases. Importantly, this strike was the first social protest that was not orchestrated and controlled by the Frente Sandinista de la Liberación Nacional (FSLN), but developed organically out of the growing dissatisfaction with domestic adjustment policies within civil society. While many of the earlier episodes of resistance to the economic adjustment program were partially or wholly incited by FSLN leaders, particularly secretary general Daniel Ortega, who then kept the protesters on a short leash, this newest uprising was truly originating from within a reinvigorated civil society (ibid.).

¹⁴ By 1989, the Sandinista land reform had meant a redistribution of over 5,000,000 acres of land to 120,000 families (Envío Collective 1989). Large-scale private landholdings were reduced from 36 per cent to 6.4 per cent of arable land. However, while the Sandinistas redistributed significant amounts of land,

Both the *Mayorga* and the *Lacayo* adjustment plans clearly impacted the nature of class relationships in Nicaragua and represented the beginning of the ongoing process of neoliberal restructuring of Nicaraguan society and the reorganization and internationalization of the Nicaraguan state apparatus. The Chamorro administration's naïve and uncritical belief in the market and its general disregard for market imperfections displayed a bias that favored large transnationally oriented businesses and substantially strengthened the positions of monopolies, oligopolies, and the business elite in line with the government's transnational accumulation model, which touted integration into the global economy via export promotion of non-traditional agricultural products and textiles as the key to development (Arana 1997: 85). At the same time, a new oligarchic 'financial rentier class' emerged under the neoliberal restructuring process, an unproductive class which is closely integrated into the global economy and a strong ally of IFI adjustment policies (Robinson 2003).

What is more, domestically oriented small- and medium-sized businesses, the backbone of the Nicaraguan economy, where the vast majority of all workers find their employment, were suffering immensely due to the lack of access to credit and the impossibility of competing with heavily subsidized foreign imports. Thus, while transnationally oriented and financial capital fractions have tremendously benefited from the restructuring process and gained in power compared to national capitalist fractions and small- and medium-scale producers, the neoliberal agenda was never fully implemented through the *Mayorga* and the *Lacayo* plan, and it was the main task of the structural adjustment agreement with the IFIs to further entrench neoliberal policies in

many rural farmers never received proper land titles, which created confusion and conflict when the Sandinista government lost power in the 1990 election.

Nicaragua and to promote support for highly contested SAPs.

4.3.3 Structural Adjustment During the First ESAF Agreement (1994-1997)

As noted above, most bilateral aid flows were conditional upon the good standing of Nicaragua's 'stand by agreement' with the IMF which supported both of Nicaragua's early adjustment exercises. However, at the end of 1992, Nicaragua went 'off-track' and the IMF ended its cooperation with Nicaragua. This led to a massive balance of payments crisis since Nicaragua is one of the most heavily aid-dependent countries in the world. Aid flows between 1990 and 1995 averaged almost 30 per cent of GDP, and without these financial flows the trade deficit increased quickly and the balance of payments situation deteriorated markedly (Catalan Aravena 2000).

After intense negotiations with the IFIs, Nicaragua signed its first ESAF agreement in April of 1994. While some of the neoliberal policies had already been implemented prior to this agreement, the ESAF agreement was nevertheless the big push on behalf of the IFIs for the realization of a truly neoliberal Nicaragua. Thus, the ESAF agreement contained most of the familiar 'sound macroeconomic policies' that have been applied all over Latin America since the early 1980s, such as the privatization of public utilities, the liberalization of trade and finance, the scaling back of the state, and tight credit and restrictive fiscal policy (Dijkstra 2000). However it is important to note that the ESAF agreement was again not fully implemented (for a variety of reasons). Most importantly, parliament, where the Sandinistas remained the official opposition, backed off from implementing unpopular adjustment policies in light of on-going resistance and contra-adjustment protests, especially by unions and other organized sectors of civil

society (Envio Collective 1995).

In monetary matters, the first ESAF agreement attached great importance to price stability and low inflation, which is to be brought down to single digits. This was to be achieved through a further contraction of credit and a decline in government expenditures (Jonakin 1997: 352). The main goal of fiscal policy was to table a balanced budget. Therefore, the Chamorro government is asked to drastically reduce the public sector by eliminating 13,500 positions in the period 1994-96. This reduction in state bureaucracy was seen as a way to increase efficiency inside government and to reduce the public payroll, addressing the chronic budget deficit of the Nicaraguan state (Catalan Aravena 2000). In the area of finance, the ESAF agreement prescribed the privatization of all remaining state-controlled banks and the closure of the largest state-owned development bank *Banco Nacional de Desarrollo* (BANADES), which provided subsidized and targeted credit, mostly to rural farmers (Dijkstra 1996: 538). Moreover, the government was expected not to recapitalize state-owned banks with government resources. All in all, macroeconomic stability and low inflation were clearly privileged over employment, growth, and equity considerations in the fiscal and monetary framework of the first ESAF agreement.

The IFIs also requested, under pressure from the US administration, that properties that had belonged to its American nationals (*i.e.* nationalized Nicaraguans) before the Sandinista nationalization of industries and agrarian reforms, be returned to their 'original owners', or that compensation be paid (Catalan Aravena 2001). With strong IFI support, the Nicaraguan government launched an assault on the land and agrarian reforms that were implemented by the Sandinistas, much of which had never

been formalized as in many cases land titles were not issued properly. This resulted in conflicts and confusion over land titles and property rights, negatively impacting investments in the economy (Stahler-Sholk 1997: 90). The financial means to compensate the former owners would be secured through the privatization of public utilities, as the IFIs put forward a plan to privatize public utilities and to raise water and electricity rates to levels of marginal cost recovery to make their acquisition attractive to foreign companies (Dijkstra 2000). In preparation for privatization, the Nicaraguan government in 1995 broke up the state giant TELCOR, the monopoly provider of telecommunication and postal services. Concomitantly, the government allowed private participation in both newly created companies, *Correos de Nicaragua* and *Empresa Nicaragüense de Telefonía* (ENITEL), without, however, fully privatizing them as was demanded by the IMF agreement.

The full privatization of ENITEL and *Correos de Nicaragua* met with opposition from both workers and unions, as well as from parliament, as both companies were immensely profitable and substantially contributed to government revenues (ibid.: 8). The bill to privatize the state-owned telecommunications company, first presented in 1994, was soundly rejected by the National Assembly (Catalan Aravena 2001). In particular, unions have been staunchly opposed to the privatization of the telecommunications sector, claiming that selling such profitable state patrimony will harm the country, and that TELCOR's growth potential is unique in Latin America. From 1990 to 1993, TELCOR generated over US\$ 26 million in profits that were used by the state to cover its fiscal deficit (Envio Collective 1994). At the same time, IFI agreements in other areas, such as the reduction of public service employment, privatization of other state

enterprises, and payment of compensation were not fully implemented either (Catalan Aravena 2001: 34).

Moreover, some of the monetary targets, in particular the rate of inflation, set in the ESAF agreement could not be met. In consequence, the IMF and the World Bank discontinued the flow of resources to Nicaragua in 1995, without, however, officially suspending the first ESAF agreement (*ibid.*). While the Nicaraguan economy recovered in 1994 and reached a positive per capita GDP growth rate (0.3 per cent) for the first time since 1988, which in 1995 rose to 1.3 per cent (Catalan Aravena 2000: 71), SAPs had devastating social consequences as many urban Nicaraguan workers lost their jobs, with little support forthcoming from the contracting public sector, while the rural sector was severely affected by the loss of access to credit in a high interest environment linked to financial liberalization.

Levels of unemployment skyrocketed in the aftermath of both adjustment plans, reaching almost 24 per cent in 1994, compared to 11.1 per cent at the beginning of the neoliberal experiment in 1990 (Arana 1997: 83), while underemployment affected more than 51 per cent of the population in 1994, compared to 33 per cent in 1990 (Stahler-Sholk 1995: 83). The job cuts in the formal sector have been dramatic, with a 23 per cent drop between 1990 and 1994 in the number of people paying social security, while the informal economy started to expand rapidly (*ibid.*). At the same time, government austerity often took the form of cutbacks in government spending for agricultural credit and technical assistance for rural farmers; to the extent that subsidized credit was still available in 1994, it was predominantly directed at large scale export producers (Enriquez 2000: 50). Even though small and medium producers accounted for roughly 60 per cent

of agricultural production, their share of credit fell from 56 per cent in 1990 to 23 per cent in 1993 (Stahler-Sholk 1997: 91). A key element of this was the steep decline in credit provision to rural families by the National Development Bank, BANADES, which in 1988 serviced more than 100,000 rural agricultural producers, but by 1991 only extended credit to 30,000 (*ibid.*). This contributed to both rising levels of rural poverty and the deepening of inequality in the country side, with small producers increasingly lacking access to various inputs into the production process (Conroy *et al* 1996).

4.3.4 Structural Adjustment under the Alemán Government (1997-2000)

At the end of 1996, a new government coalition was voted into power, which took office in January 1997. The Liberal Alliance, headed by president Arnaldo Alemán, initially somewhat criticized the previous administration for subordinating Nicaragua to the demands of both multilateral agencies and bilateral donors. However, the room for manoeuvre was clearly limited, as the new government quickly realized that it was heavily dependent on external aid flows and the programs supervised by the multilateral agencies (Robinson 2003).

In 1997, the IMF and the World Bank reached an agreement with the newly elected Liberal government, and the second three-year ESAF agreement was approved by the IMF in March 1998, with the conclusion of Article IV Consultations.¹⁵ Some of the conditions stipulated by the donors were precisely those reforms that had not been

¹⁵ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

implemented under the previous ESAF agreement, namely the full privatization of public utilities, the closure of BANADES, and the resolution of property rights claims (Catalan Aravena 2000: 65). However, there were also a number of novel conditions that were added on to the second ESAF agreement.

Overall, the main objectives of the second ESAF were to restore the sustainability of the government and external finances, and to implement 'needed' structural reforms to achieve sustained high rates of economic growth (Government of Nicaragua 1998: 4). However, besides further structural reforms, the second ESAF agreement also contained a number of specific macroeconomic policy suggestions: in the monetary sphere, the main goal was to bring down inflation from double digits to 5 per cent by the year 2000, which had not been achieved during the first ESAF agreement (*ibid.*). This was to be achieved through a further rationalization of state expenditures and deeper credit contraction. Current outlays of the central government are programmed in the ESAF arrangement to drop from 22.5 per cent of GDP in 1996 to 18.5 per cent in 2000, mostly by cutting 1,500 government positions per year between 1997 and 2000 (Government of Nicaragua 1998: 5).

Further trade liberalization, another conditionality of the second ESAF agreement, was to be achieved through a reduction of maximum import tariffs from 25 per cent in 1997 to 10 per cent by July 1999, the phasing out of subsidies for non-agricultural exports, and the approval of a law on foreign investment, outlawing discrimination against foreign investors in Nicaragua (Government of Nicaragua 1999: 1). In the area of privatization, the second ESAF agreement prescribed the privatization of the telecommunications company ENITEL by the year 1998. The agreement also suggests

the vertical separation of generation, transmission and distribution of electricity in preparation for the divestment of the electricity sector (Freije and Rivas 2002: 8). Prior to the restructuring of the electricity sector, the state-owned *Instituto Nacional de Energía* (INE) was engaged in generation, transmission and distribution of electricity in a state monopoly environment.

In the beginning of 1998, some important steps in the implementation of SAPs were taken by the Liberal government. For instance, the petroleum sector was opened to private investment, and the water distribution company and the electricity provider were restructured in preparation for privatization, leading to significant price increases. Private sector participation was allowed in the generation of electricity, and concessions were issued to the private sector to run some of the formerly state-owned generating plants (Catalan Aravena 2001: 33). The 1998 energy sector law, in accordance with the second ESAF agreement, vertically separated generation, transmission and distribution of electricity, by segmenting INE in six separate companies: three generation plants; one transmission company; and two distribution companies. This would allow the Nicaraguan government to offer the profitable pieces of the electricity market for sale. However, the full privatization of both the telecommunication and the electricity markets was again postponed due to opposition within and outside of parliament. In fact, both the telecommunication and the electricity markets were not fully privatized during the second ESAF agreement, and privatization resurfaced in Nicaragua's PRSP as a pre-condition for approval of debt relief under the HIPC Initiative, as discussed in more depth later in the chapter. However, finally approved was the closure of BANADES, which had been opposed by parliament for years, and the problem of property rights was largely resolved.

Titles to land that had been allocated to small farmers were legalized, while large land owners whose land had been expropriated were either compensated financially or offered an equal amount of land (Catalan Aravena 2000).

In conclusion, both ESAF agreements approximated the standard IMF policy advice of the Washington Consensus era with their emphasis on low inflation, controlled spending, balanced budgets, trade and financial liberalization, export orientation, and privatization of public utilities, while emphasizing that poverty reduction must be achieved mainly through economic growth and the trickling down of the benefits of strong economic performance to the poor. As pointed out earlier, SAPs have remained subject to strong opposition within civil society which is directly related to the negative economic and social impacts of SAPs in the past, affecting the vast majority of the Nicaraguan people.

Table 1: Key Conditionalities of IMF Adjustment Programs in Nicaragua

Date	Agreement	Amount	Policy Conditionalities
09/91	Stand-By-Arrangement	US\$ 58.4 M	Interest Rate Deregulation Restriction of domestic credit Privatization of state-owned companies Reduction in government spending Increase Central Bank reserves
04/94	ESAF	US\$ 173 M	Cuts in Government Spending Cuts in Public Sector Employment Improvements in Tax Collection (Introduce VAT) Restriction of Credit Resolution of Property Rights Issues Labour Market Flexibility Privatization of remaining state companies (particularly in the telecommunication, water, and electricity sector)

			Reduction of state-owned bank operating costs
03/98	ESAF	US\$ 136 M	Cuts in government spending Increase user fees and taxes Cuts in public sector employment Restriction of credit Elimination of targeted credit (closing of development bank BANADES) Privatization of remaining state-owned enterprises (in telecommunication, electricity and water sector) Improvement of quality of social spending

Source: numerous IMF documents (my compilation).

4.3.5 Economic and Social Impacts of SAPs

It is important to note that the macroeconomic disequilibrium of the Nicaraguan economy was not cured with the introduction of neoliberal adjustment policies in the 1990s.

Despite a reduction in the budget deficit due to tight credit and stringent fiscal policy, balance of payment problems did not disappear because of the increase in the trade deficit linked to the liberalization of trade, as income related to trade taxes historically represents the most important source of government revenue in most developing countries (Elson 1995). What is more, the privatization of state companies led to a massive loss in government revenues, further undermining the fiscal position of the government (Stahler-Sholk 1997). Even up to this day, Nicaragua faces significant fiscal problems due to its balance of payment deficit which continues to be financed by the international community. Thus, one could argue that the implementation of structural adjustment policies has actually increased the dependence of the Nicaraguan state on foreign aid and outside political forces. The liberalization of trade and the privatization of (profitable) state companies left the Nicaraguan state with a massive current account deficit in 2001

that could only be closed through international aid (US\$ 592 million) and remittances from migrant workers (US\$ 336 million) (Robinson 2001).

Indeed, the main source of contradiction in the structural adjustment process in Nicaragua was the policy of contraction of public expenditure, designed to reduce the budget deficit, combined with the privatization of state companies and the liberalization of trade, the main sources of government revenue that could not be replaced. As a consequence, the budget deficit was not eliminated with the implementation of SAPs, but ended up being financed from the outside. Thus, despite more than a decade of SAPs, which inflicted immense social costs upon most members of Nicaraguan society, especially the poor, Nicaragua's balance of payment problems were not solved, and Nicaragua continues to remain dependent on aid and remittances to bridge its domestic financing gap. The only significant economic success of SAPs was that hyperinflation was brought under control in 1991, and that from then onward relatively low inflation rates prevailed.

Beside the persistent current account deficits, the level of debt represents another major problem in Nicaragua that was not solved during the decade of structural adjustment. In 1990, Nicaragua was the most heavily indebted country in per capita terms in the entire world, with an overall debt burden of more than US\$ 12 billion, roughly 600 per cent of its GDP (German 2003: 10). During the 1990s, Nicaragua serviced and was forgiven a significant share of its overall debt; however, after a decade of restructuring and adjustment, foreign debt still stood at US\$ 6.4 billion in 2000, or 262 per cent of GDP (IMF and IDA 2000b: 36). What is more, the servicing of internal and external debts absorbed a hefty 38 per cent of government spending in 2000, preventing any

improvements in the living conditions of the poor (ibid.). In fact, since starting to implement SAPs, Nicaragua has significantly increased its level of debt repayment to foreign creditors. For instance, in 1990, Nicaragua paid US\$ 52 million on debt servicing. By 1991, this climbed to nearly US\$ 600 million, and stayed close to this level throughout much of the 1990s. This suggests that SAPs might better be seen as debt collection devices than development policy (Bienefeld 2000).

Another negative economic side effect of SAPs was the deindustrialization of the Nicaraguan economy. As a result of tight credit policy and the unmitigated liberalization of the economy, manufacturing production decreased significantly since the beginning of the adjustment process in 1988, and manufacturing exports declined from US\$ 169 million to US\$ 6 million in 1993 (Dijkstra 1996: 543). At the same time, the share of manufacturing slipped from 15 per cent of the GDP in 1992 to 5 per cent in 2000 (ibid.). What is left of the manufacturing industry has for the most part been turned into *maquiladora* factories operating in Export Processing Zones (EPZs), in which poor working conditions tend to prevail and wages are generally low and working conditions extremely precarious (Diaz Mendez 2002).

The social costs of applying structural adjustment policies to Nicaragua have been significant and structural adjustment has significantly weakened the social fabric of Nicaraguan society. The remarkable success story of delivering health care and education to the majority of poor people after the revolution in 1979 was reversed, and poverty has increased noticeably since the early 1990s (Babb 1996: 32). Real wages fell sharply after the devaluation of the currency in the early 1990s, and prices of many basic consumer goods rose out of reach for the majority of Nicaraguans after currency devaluations

(ibid.). Many of the positive achievements of the Sandinista revolution have been eroded and, in particular, women have carried most of the burden of painful adjustments (Elson 1995). As Babb points out, “at work and in the family, women have often provided the cushion needed when resources are in short supply. Women seek new sources of income, stretch household budgets, and take up the slack by offering services that are no longer provided by the state” (Babb 1996: 33).

Access to health care and education has under neoliberal rule increasingly become restricted again to the more well-off sections of the population after the introduction of ‘user-fee’ charges for basic services supported by the IFIs in the early 1990s. For example, starting in 1993, schools started charging mandatory user fees for matriculation, tuition, and books. The annual matriculation fee in 1993 was only 5 *Córdobas* (less than US\$ 1) for a primary school student and 10 *Córdobas* for a secondary school student, monthly tuition rates were the same (5 and 10 *Córdobas* respectively). While this seems relatively affordable, as Robert Arnove notes: “[W]hen approximately 70 percent of the population is unemployed and living in poverty, these so-called “nominal” fees represent a hardship for families struggling to feed and clothe themselves – especially when many households have five or more children” (Arnove 1995: 43). In consequence, about a quarter of primary school children have not enrolled in primary school since charges for registration and a monthly tuition fee were introduced in the early 1990s, and attendance at secondary school and university has fallen continuously, the latter once again becoming the privilege of the rich (Curtis 2003: 3).

Moreover, as the education budget fell from an average of US\$ 37 per capita in the 1980s, to an average of US\$ 27 per capita in the 1990s, illiteracy climbed from 13 per

cent in the late 1980s to 26 per cent by the end of the 1990s (Catalan Aravena 2001: 40). Health services were similarly affected by spending cuts, as resources earmarked for the Ministry of Health were reduced from US\$ 40 per capita in the late 1980s, to US\$ 15 per capita by the end of the 1990s (*ibid.*). Thus, whilst Nicaragua experienced a decade of very modest economic growth during the 1990s and (hyper-) inflation was brought under control, the social impacts of SAPs have undoubtedly been negative, despite the IFIs' claim that poverty was reduced during the era of SAPs in Nicaragua. The World Bank claimed in 2003 that "Nicaragua has made significant progress in reducing poverty over the last decade, despite its status as one of the poorest and least developed countries in Latin America" (World Bank 2003: i). This assessment, however, critically depends on the Bank's method of measuring poverty. Judged by the relative levels of consumption, the Bank maintains that overall poverty declined from 50.3 per cent in 1993 to 45.8 per cent in 2001, and that extreme poverty fell from 19.4 per cent to 15.1 per cent during the same period (*ibid.*).

The problem with income-based measures of poverty, which are privileged by the IFIs, is that they do not account for changes in the institutional and social environment, especially the extent to which goods and services are decommodified. In fact, using the Unsatisfied Basic Needs (UBN) method, a very different picture of the social impacts of SAPs emerges.¹⁶ The UBN method shows a sharp overall increase in the levels of poverty during the implementation of SAPs. Poverty climbed from approximately 40 per

¹⁶ The UBN method measures access to goods or services by individual households that are associated with individual wellbeing. The UBN method is considered to be a direct measure of poverty since its measures are derived straightforwardly from factors requiring little interpretation. In Latin America, most countries collect information on household conditions, access to sanitary services, education, and health care, which can be used in constructing poverty statistics using the UBN method.

cent in 1988, when the Sandinista government first experimented with SAPs to 72.6 per cent of the total population in 1998, at the height of the implementation of SAPs (Vargas 2001: 164; see also Castro-Monge 2001: 420). Using this same method, extreme poverty has also increased dramatically during the same time period, reaching 44.7 per cent in 1998 (Vargas 2001: 164). This simply suggests that while people might have higher monetary incomes (as suggested by the Bank's income statistics), they nevertheless can be worse off, as many social services have been commodified under SAPs and citizens now have to pay to send their children to school or to receive treatment in health clinics. The discussion will return to the question of how to best measure poverty later in the chapter, as many NGOs were critical of the quantitative poverty diagnostic that forms part of the PRSP process.

The social impacts of SAPs are also evidenced by the fact that Nicaragua dropped from its 60th position in 1990 on the Human Development Index (HDI) to the 127th spot by 1997 (UNDP 1998). Finally, inequality has exploded in Nicaragua since the beginning of the implementation of SAPs, especially in terms of income inequality, as income has become more strongly concentrated in the hands of fewer people. The richest 10 per cent in 1998 received 46.0 per cent of all income, compared to 0.7 per cent for the poorest 10 per cent (Robinson 2003: 311). As Robinson notes: "indeed, Nicaragua, which experienced a significant redistribution of resources downwards towards the poor majority in the 1980s was by the late 1990s one of the most unequal countries in the world" (ibid.: 310).

4.3.6 Early Attempts at Social Compensation through FISE

The notion that adjustment policies should go hand in hand with social compensation, as expressed in the *Sourcebook for Poverty Reduction Strategies*, is not entirely new to the IFIs' thinking and was already part of the second generation of adjustment reforms in some Latin American countries (Pastor and Wise 1999). In fact, beginning in the early 1990s, the donor community acknowledged that structural adjustments could result in increased social insecurity for large parts of the population. The downsizing of the Nicaraguan state and the privatization of many formerly state-run companies resulted in massive layoffs, particularly in areas such as the military, education, and the health sector. Consequently, donors started to promote projects that would have direct effects on those most severely affected by restructuring, attempting to compensate for the possible negative effects of structural reforms and restrictive macroeconomic policies and to alleviate their social consequences (Dijkstra 2004: 198).

The Nicaraguan government started to address some of the social consequences of structural adjustment, beginning in the early 1990s. As Dijkstra points out, it was, however, the donor community that provided the main stimulus to erect an emergency social investment fund called FISE (*Fondo de la Inversión Social de Emergencia*) in Nicaragua. Specifically, it was at the initiative of USAID that FISE was created in 1990, with the stated aims of generating temporary employment through investment in the social economy and rebuilding the social infrastructure that had been devastated during the civil war in the 1980s (ibid.: 201). Moreover, it was the Inter-American Development Bank (IDB) that provided most of the funding to maintain FISE and to, over time, expand the operations of FISE into areas and investments that historically have been under the

responsibility of governmental ministries. In essence, FISE became a *de facto* independent government institution under strong influence of the donor community, reporting predominantly back to donors rather than to the Nicaraguan government. As Dijkstra suggests, “the project menu was and still is established in accordance with the wishes of the donors” (ibid.: 199).

The importance of FISE is best expressed by the fact that 48 per cent of all investments in the two most important social sectors of education and health were undertaken by FISE between 1991 and 1999. Moreover, figures from the National Public Investment System confirm that the share of total public investment over the period 1991-91 was a staggering 11 per cent. But more importantly, FISE was by far the most lavish investor in education, with 79 per cent share of total investment, and also contributed at various times almost 30 per cent of investment in the health sector (Dijkstra 2004). These figures reveal the extent to which the Nicaraguan economy depends on the inflow of aid for social and infrastructural investments. But more interestingly, despite the dedication of large funds to alleviating the social side-effects of SAPs through FISE, the levels of poverty did not experience a sustained reduction between 1991-99 in Nicaragua, as discussed earlier, but rather increased noticeably, if measured by the UBN method. This alludes to the strong negative impacts of structural adjustment on the vulnerable and foreshadows the inherent problems with the inclusive-neoliberal approach, which does not break meaningfully from the recipes of earlier adjustment periods, but rather adds social inclusion elements *post hoc*.

4.4 From Structural Adjustment to Poverty Reduction

Given the social costs of adjustment policies, which even the IFIs have recently started to acknowledge (*e.g.* World Bank 2001), it is no surprise that opposition to the neoliberalization of Nicaraguan society has remained strong, and protests against various aspects of structural adjustment continue to break out from time to time. This partly explains the need for more inclusively oriented adjustment policies which more effectively attempt to address some of the social dislocations generated by and the mounting resistance to the neoliberal model than in previous periods, with the ultimate aim of generating support for slightly modified inclusive-neoliberal policies. This also suggests that the agency of counter-hegemonic social forces in the periphery has been crucial in the recent rethinking process surrounding development policy.

The failure of adjustment policies to address Nicaragua's deteriorating socio-economic situation, in particular its enormous debt burden, forced the Nicaraguan government to seek further financial assistance from the IFIs through the HIPC initiative which was agreed to by governments around the world in 1996. The fundamental goal of the HIPC initiative is "to reduce the external debt of the HIPC's and provide them with a fresh start" (World Bank 2003: 1). A major review of the HIPC initiative in 1999 resulted in a significant enhancement of the original framework to one that is intended to produce deeper, broader and faster debt relief for HIPC's, and has an overall debt relief allowance of approximately US\$ 40 billion for 26 countries (IMF and IDA 1999a). This framework requires the preparation of a full PRSP as a condition for debt relief. As a heavily indebted country, Nicaragua was a candidate for the HIPC initiative.

After being accepted into the HIPC initiative in late 1999, the Nicaraguan

government began to work on a PRSP, in which it outlined how to achieve the main goal of the PRSP initiative, sustainable poverty reduction, and how to implement the economic reform programs linked to debt relief through IFI conditionality. In December 2000, Nicaragua was approved by the IFIs for up to US\$ 4.5 billion in debt relief under the HIPC initiative, provided that it would develop a national PRSP, which would be endorsed by the IFIs and that it would reach completion point of the HIPC initiative.

The SETEC took the lead in developing the PRSP, a government body which is staffed partly by economic experts that are on the payroll of the IDB and bilateral donors, and which directly responds to the president (Dijkstra 2005: 449). In neo-Gramscian terms, SETEC is arguably the most internationalized arm of the Nicaraguan state, as many SETEC employees are foreign-trained economists that work side by side with foreign aid workers. The main task of SETEC is to provide ‘technical advice’ on macroeconomic issues to the president. What is more, many aid workers have their own offices inside SETEC and are, at times, leased to the Nicaraguan government (Interview SETEC, Managua, 12.08.2005). SETEC held regular meetings with the donor community and reported directly back to president Arnoldo Alemán. Interestingly, parliament remained relatively uninvolved in the elaboration of the PRSP as technocrats within the bureaucracy were entrusted with the elaboration of the strategy. Similarly, the IMF and Word Bank conclude that “the PRSP document was prepared in a highly centralized manner by a group that enjoyed support at the highest level of government. Moreover, there was little dissemination of the PRSP outside of Managua” (World Bank and IMF 2005: 63).

In 2001, Nicaragua went briefly ‘off-track’ “due to policy slippages in the

monetary and fiscal area”, but signed a PRGF agreement with the IMF in late 2002, in the hopes of reaching the ‘completion point’ by the end of 2003 (IMF and IDA 2004: 9). In addition to ‘sound’ macroeconomic policies, participation of civil society is one of the prerequisites for the endorsement of the PRSP by the IFIs. The following sections will seek to assess the extent to which the policies put forth in Nicaragua’s PRSP differ from earlier SAPs and evaluate the participation of civil society in the formulation of Nicaragua’s PRSP. This will lead to a discussion of whether the final document is representative of the entire spectrum of ideas articulated during the PRSP consultation processes, and culminate in an effort to evaluate the extent to which the IFI’s have been able to make neoliberal policies more hegemonic through the PRSP process.

Table 2: Timetable of the Implementation of the PRSP in Nicaragua

June 1999	G7 Summit links HIPC initiative to PRSP
November 1999	Government presents to CONPES a poverty diagnostic which was initially backed by the World Bank
January 2000	Government presents to CONPES the initial draft document that would form the basis of the PRSP (3 pillars)
May 2000	Government presents to CONPES a matrix of social programs (most of which are not new)
June 2000	CCER and other NGOs are invited to participate in designing the methodology to be used in the consultation on the PRSP
July 2000	Limited consultation with CSOs in CONPES on select issues (mostly social programs)
August 2000	English version of Interim-PRSP is approved by the IFIs (document unknown to civil society)
October 2000	Leon Norte begins local consultation process sponsored by Danish NGO <i>Ibis Dinamarca</i>
November 2000	CCER organizes a parallel PRSP consultation process, culminating in an alternative PRSP document (<i>La Nicaragua Que Queremos</i>)
December 2000	Nicaragua reaches decision point of the HIPC initiative
January 2001	NGOs send letter to the World Bank and IDB claiming that the I-PRSP is not supported by social organizations and local governments

January 2001	Approval of PRSP is delayed as IFIs put pressure on the Nicaraguan government to increase participation and organize more comprehensive consultation processes
May 2001	Government finishes consultation process
September 2001	Nicaragua's PRSP (Strengthened Growth and Poverty Reduction Strategy) is approved by the IFIs
November 2002	Government presents first Progress Report to the IFIs
October 2003	Government presents Second Progress Report to the IFIs
January 2004	Nicaragua reaches completion point of the HIPC initiative (waiver necessary)
2005	Nicaragua's Second-Generation PRSP called National Development Plan (NDP) is approved by the IFIs

4.5 Nicaragua's Poverty Reduction Strategy – Adjustment with a Human Face?

The first step in the development of a Poverty Reduction Strategy is the elaboration of an I-PRSP, which sets out the overall macroeconomic framework and provides a poverty diagnostic. This I-PRSP, called in the case of Nicaragua 'A Strengthened Poverty Reduction Strategy' (SPRS), was presented to the IFIs in 2000. The full PRSP, the Strengthened Growth and Poverty Reduction Strategy (SGPRS), was finished in 2001, and the second-generation PRSP titled National Development Plan (NDP) was completed in 2005.

The following section will briefly discuss the poverty diagnostic, before highlighting the most important elements of the macroeconomic content of both generations of PRSPs and the social investment strategy to protect vulnerable groups. In doing so, I will discuss the similarities and differences between inclusive-neoliberal policies at the heart of both generations of PRSPs and earlier neoliberal SAPs, and substantiate the claim that inclusive elements are increasingly part of neoliberal development policy. In this process, the many antinomies and limitations of inclusive-neoliberal policies will also surface. The discussion will revolve around the same policy

elements that have been interrogated in an ideal-typical manner in the previous chapter: economic growth and macroeconomic stability, fiscal policy and taxation, liberalization of finance and trade, and privatization. During this discussion, particular attention will be given to those policy elements that deviate progressively from SAPs and are directly geared towards ameliorating the negative social effects of earlier adjustment policies. Before however turning to this discussion, I will briefly analyze the debt situation in Nicaragua and the impact that debt relief will have on the Nicaraguan economy, as debt relief is the carrot used by the IFIs to entice governments to implement the inclusive-neoliberal development model.

4.5.1 Poverty Reduction through Debt Relief – The HIPC Initiative

Facing immense external pressures from NGOs and numerous debt relief campaigns, the IFIs began promoting debt relief as a solution to wide-spread poverty in developing countries in the late 1990s. Nicaragua was one of the first developing countries to be accepted into the HIPC initiative, and was declared eligible by the World Bank in September 1999. This participation in the HIPC initiative was necessary given Nicaragua's unsustainable external debt position, which was amongst the worst recorded by the HIPC initiative (IMF and IDA 1999a). At the end of 1998, the stock of Nicaragua's debt is estimated to have been US\$ 6 billion, including US\$ 2.1 billion in arrears to non-Paris Club bilateral official and commercial creditors (*ibid.*: 19). Nicaragua's debt is distributed between multilateral creditors (26 per cent), Paris Club official creditors (26 per cent)¹⁷, official bilateral creditors (46 per cent), and commercial

¹⁷ The Paris Club is an informal group of financial officials from the world's 19 richest countries, which meet on a regular basis in Paris to discuss the restructuring of bilateral debt owed by developing countries.

creditors (5 per cent) (*ibid.*).

Moreover, as Oxfam suggests, the actual debt repayments in the late 1990s were two and a half times the spending in health and education combined (Oxfam 2006). This diversion of resources was taking place in a situation characterized by high levels of extreme poverty in the absence of adequate social service provision by the state. While Nicaragua has signed a number of rescheduling agreements with Paris Club members since the early 1990s, the overall debt burden has not declined significantly (Castro-Monge 2001: 423). In 1998, Nicaragua's debt-to-export ratio reached the astronomical level of 600 per cent and the debt service ratio hovered around a devastating 32 per cent. As a result, there was little hope that Nicaragua would be able to pull itself out of this debt trap (IMF and IDA 2004: 22).¹⁸ As pointed out earlier, the HIPC initiative aims to drastically reduce the debt stock and interest payments of developing countries so as to liberate economic resources in the attempt to reduce poverty. It is obvious that debt relief is an important pre-condition for Nicaragua to climb up the economic ladder. Moreover, debt relief has the potential to free up significant resources for poverty-related spending, as the discussion of Nicaragua's fiscal policy, later in this chapter, will highlight.

Nicaragua was scheduled to reach the decision point of the HIPC initiative at the end of 1999, but due to the government's failure to meet certain targets of the ESAF agreement and growing concerns regarding progress in governance, it did not do so until the end of 2000 (Dijkstra and Evans 2003: 23). Under normal circumstances, the

The Paris Club negotiates solely with individual countries and, since its inception in 1956, has at various times assisted in the restructuring of 'Third World' debt.

¹⁸ The debt-to-export ratio is defined by the IMF as the ratio of total outstanding debt at the end of the year to the economy's exports of goods and services for any one year (IMF 2003b: 173). Generally, it is considered problematic if a debt-to-export ratio climbs above 150 per cent. The debt-service ratio is defined as the ratio of external debt-service payments of principal and interest on long-term and short-term debt to exports of goods and services for any one year (*ibid.*).

conditions for reaching the decision point include two three year periods of compliance with IMF and World Bank structural adjustment programs, as well as the elaboration of a national PRSP. Since Nicaragua could not show six years of compliance with ESAF, as both the first and the second ESAF were discontinued, the donors set specific conditions for the decision point, apart from the general requirement of the elaboration of a participatory PRSP. The country had to return to an 'on track' position with the IMF, and had to implement an extensive reform programs, covering privatization and liberalization, and public sector and social welfare reforms.

Contrary to the idea of the HIPC initiative that there would be an *ex post* assessment of general performance in terms of reforms, combined with an *ex ante* outlining of the plans for poverty reduction, this implied that Nicaragua was subject to *ex ante* conditionality with respect to both macroeconomic targets and structural reforms (ibid.). Interestingly, the financial community decided to allow Nicaragua to participate in the HIPC initiative even though not all concerns regarding the governance style of the Alemán administration were resolved.¹⁹ As Castro-Monge argues, "final arrival at the decision point was less due to the resolution of all outstanding concerns than to the creditor community's desire to ensure that at least half of the HIPCs had reached decision point by the close of 2000" (Castro-Monge 2001: 425).

In Nicaragua, total debt relief through the HIPC initiative amounted to approximately US\$ 4.5 billion, representing a reduction of 72 per cent of the net present value of Nicaraguan debt (Trocaire 2004a: 16). External debt as a percentage of Nicaragua's export earnings was reduced from 540 percent in 1999 to a level below the

HIPC initiative's target of 150 percent by 2005. Moreover, debt service as a percentage of government revenue has declined sharply from 20 percent in 2000, and is scheduled to reach 9 percent in 2007, and decline further thereafter (IMF 2006). This translated into a significant reduction in interest payments in the PRSP period (1999-2004) as compared to the SAP period (1990-98), as per capita debt service declined from US\$ 53.4 in the SAP to US\$ 46.8 in the PRSP period (Cuesta 2007: 348). However, Nicaragua only received the bulk of the assistance under the HIPC initiative after satisfying a number of conditions, including adoption and implementation of a participatory poverty reduction strategy paper. In this light, debt relief could be seen as a tool to further tighten the grip of the IFIs over Nicaragua by providing a strong incentive for the implementation of slightly modified neoliberal policies. The following discussion will examine the extent to which neoliberal policies remain at the heart of Nicaragua's PRSP, despite the discursive shift in the IFIs' development thinking. The discussion will draw on the content of both the first-generation PRSP (or SGPRS), accepted in 2001, as well as the second-generation PRSP (or NDP), presented to the IFIs in 2005.

4.5.2 The Poverty Diagnostic in the Interim-PRSP

The poverty diagnostic arguably represents the most important step in the whole PRSP process, as PRSPs are expected to directly respond to the root cause of poverty identified in the poverty diagnostic. The SGPRS attributes poverty mainly to "past disastrous economic policies and severe political turbulence" (Government of Nicaragua 2001: 12). According to the SGPRS, the origins of extreme poverty in Nicaragua can be traced back

¹⁹ Donors were increasingly concerned with Alemán's governance style and the rapidly increasing corruption in Nicaragua under his rule. In particular, it was assumed that Alemán misappropriated foreign

to a series of erroneous macroeconomic policies implemented during the 1980s under the Sandinista government (ibid.: 13). More concretely, the government blames the Sandinistas for the implementation of unsustainable fiscal policies during their reign that led to economic collapse and to high levels of indebtedness in the late 1980s (ibid.). At the same time, the government argues that “prudent macroeconomic policies produced an extraordinary growth performance” in the period from 1960 until 1977, and that ‘prudent (read: neoliberal) macroeconomic policies’ can be expected to lead to robust future economic growth, and, in turn, contribute to poverty reduction (ibid.). Importantly, the government focuses in its poverty analysis solely on *endogenous factors*, a reality that was severely criticized by civil society representatives as the discussion later in the chapter will demonstrate.²⁰ Moreover, the fact that social exclusion and poverty (as measured by UBN) have been increasing in Nicaragua since the introduction of SAPs, despite the prevalence of modest economic growth rates throughout the 1990s, does not find any mention in the SGPRS.

Other factors that do receive recognition in the poverty analysis are high levels of unemployment, insecurity in relation to property rights, low levels of access to basic infrastructure, high birth rates, low educational attainment and low quality of education, and insufficient access to health services (Government of Nicaragua 2000: 8ff). It is acknowledged that these factors are particularly acute in rural areas, but an analysis of poverty specific to rural areas is absent from the analysis (Trocaire 2004b: 5).

While the high degree of inequality in income distribution and consumption is

aid to the advantage of his political supporters and family clan (Dijkstra 2005: 449).

²⁰ While macroeconomic policies implemented by the Sandinistas are partly to be blamed for the poor economic performance of the Nicaraguan economy throughout the 1980s, the government completely

noted in the diagnostic (Government of Nicaragua 2000: 8), no concrete steps are suggested to reduce the former. Indeed, the redistribution of wealth is seen as an ‘unsustainable solution’ to the problem of poverty in the SGPRS, since it is assumed that only growth of output and income levels can be successful in reducing poverty in the long run (Government of Nicaragua 2001: 17). In discussing the social achievements of the Sandinista government, the SGPRS highlights that “[t]he social programs implemented in the 1980s were not accompanied by the necessary structural changes to render them sustainable, as they were based on the redistribution of existing income and property rather than on the growth of output and income” (ibid.). Consequently, the Nicaraguan government does not address the central question of social inequality in the PRSP, and simply assumes that new social investments will guarantee that the poor benefit from (pro-poor) economic growth, which is expected to quickly materialize in a business-friendly environment of sound macroeconomic policies.²¹

Another major omission in the poverty analysis is the fact that gender is neither treated as a cross-cutting theme nor does it find any mention in the poverty diagnostic. Women are mentioned predominantly in sections dealing with health and education, while some information is provided on their participation in the labor market and income differences between the sexes. However, paramount issues, such as access to land and credit, especially for rural women, are not dealt with in the poverty diagnostic, which is deeply problematic, given the fact that the majority of the poor in Nicaragua are rural

disregards the role of the US Contra War and the economic blockade in its poverty analysis, and the failure of neoliberal adjustment policies to revive the economy in the 1990s.

²¹ According to the World Bank, pro-poor growth is achieved through the promotion of policies that enhance the capacities of poor households to participate in market transactions and welfare gains related to economic growth. While some bilateral donors highlight that pro-poor growth should go hand in hand with a reduction in inequality, and thus define pro-poor growth as economic growth that contributes to reducing social inequalities, the Bank only focuses on absolute gains, not relative gains.

women (Trocaire 2004a). In line with the Post-Washington Consensus and inclusive-neoliberal thinking, the poverty diagnostic comes to the conclusion that the most efficient way to address poverty is the combination of 'sound macroeconomic policies' with the strengthening of the human capital of the poor through targeted social investments in the areas of health and education.

Finally, while the IFIs expressly recognize the multidimensional nature of poverty and the Nicaraguan government has performed both quantitative and qualitative poverty diagnostics, the quantitative dimensions predominate in the discussion of poverty in the actual PRSP. The quantitative poverty analysis is built on living standards measurement surveys conducted in 1993, 1998, and 1999 (post-Hurricane Mitch) and on demographic and health surveys. As the discussion later in the chapter will document, most NGOs were very critical of the way in which poverty was being measured by the government in the PRSP.

4.5.3 The Macroeconomic Framework of Nicaragua's SGPRS

The main body of the SGPRS consists of four pillars: economic growth and structural reform, investment in human capital, better protection of vulnerable groups, and good governance and institutional development. There are furthermore three cross-cutting themes discussed at the outset which are to be integrated into in all policy proposals emanating from the PRSP process: environmental vulnerability, social equity, and decentralization. It is important to highlight that these cross-cutting themes neither command a great share of resources, nor do they receive much attention in the remainder of the document. In the area of environmental protection, the SGPRS simply refers to

other government initiatives unrelated to the SGPRS which are expected to adequately address the environmental problems currently present in Nicaragua (Government of Nicaragua 2001: 37).

Social equity is said to be enhanced by all initiatives taken in the SGPRS, and thus does not require its own strategy: “Virtually all of the SGPRS will encourage increased social equity. Better education, health, nutrition for the poor, as well as improved and stronger control over their reproductive health services will all go far to reduce the gaps in welfare” (ibid.). Finally, decentralization notionally plays a more prominent role in the remainder of the SGPRS, but surfaces rarely in actual policy prescriptions, except in the area of education and health care.

Economic Growth and Structural Reform

In line with neoliberal doctrine, economic growth is seen as the most important piece of the overall puzzle of sustainable poverty reduction in the SGPRS. Nicaragua’s SGPRS sets quite ambitious growth targets for the implementation period of 2000-2005, to maintain a real average annual growth rate of 5.5 per cent (Government of Nicaragua 2000: 87). Similarly, the second-generation NDP aims for GDP growth of 4.5 per cent during the 2006-2010 time period (ibid.: 74). Interestingly, growth during the implementation of the first-generation PRSP was lagging far behind the stated goal, hovering around 3 per cent (ibid.).

The first pillar of the SGPRS, broad-based economic growth and structural reform, sets out the overall economic development strategy through which to achieve the ambitious goal of annual economic growth of 5 per cent. At the heart of the accumulation

strategy lies the private sector, with a particular focus on export-oriented industries and world market integration on the basis of comparative advantage. As the government argues, “[u]ltimately it is the private, not the public sector which will directly generate productive jobs, increased incomes and wealth in Nicaragua” (Government of Nicaragua 2001: 27). The main sources for economic growth are thought to “be a renewed drive to increase exports and more dynamic private investment. To this end, the government aims to revitalize the agricultural sector and to foster private investments by completing its privatization program and increasing availability of long term resources from the private pension funds” (Government of Nicaragua 2001: 39).

This economic reform strategy has been widely criticized for being too narrowly focused on macroeconomic policy, while not putting enough emphasis on the development of the productive base of the Nicaraguan economy (IMF and World Bank 2005). In response, the second generation NDP (for the period of 2005 to 2009) puts more emphasis on actions that will enhance the investment climate and promote the development of the productive base of the economy (Government of Nicaragua 2005: 2). However, in a rather similar vein to the SGPRS, the NDP largely disregards the domestic economy, especially rural markets, and instead maintains that export promotion and FDIs are key to Nicaragua’s economic success: “Given the limited domestic savings and the vulnerability in the current account, direct foreign investment and national capital investments are development priorities because of the positive impact on competitiveness, the creation of new and better jobs, the transfer of technology and managerial know-how, and the generation of foreign exchange” (ibid.: 35). It also explicitly favors ‘free trade’ in its trade relations with other developed and developing

countries, as will be discussed in more detail below (ibid.: 30).

Although the government recognizes that while a market-driven response might activate the economy in certain areas, “the country’s poverty level will require a special effort to ensure that the rural economy, where Nicaragua’s poorest are concentrated, expands as well” (Government of Nicaragua 2001: 28). Similarly, the SGPRS articulates the need to “place a strong emphasis on the development of rural areas because of their higher incidence of poverty and continued high potential for growth with their abundant, though underemployed, factor endowments (ibid.: 25). Nevertheless, despite acknowledging the rural economy as the key to overall health of the Nicaraguan economy, the SGPRS provides very little in terms of financial commitments and resource transfers to small and medium-sized enterprises and farmers in rural communities. In fact, Trocaire, in a study assessing rural poverty in Nicaragua, contends that “there is a discrepancy between the discourse on the need to support rural small and medium enterprises (SME) and the portfolio of programmes and projects. Only 0.2 per cent of the total budget for the implementation of the SGPRS for the first five years was allocated to this component which is worrying given that SMEs are the main source of employment in both rural and urban areas” (Trocaire 2004b: 8).

Moreover, what is disconcerting is that in the NDP, the government recommits itself to more strongly promoting the concentration of private investments in a number of (mostly urban) economic clusters that hold a comparative advantage in the world economy. To this end, the government has identified six clusters that promise to capture a share of world markets: tourism, coffee, beef and dairy products, shrimp farming, forestry, and light manufacturing. The NDP explicitly builds on the cluster development

approach in the hopes that it will contribute to productivity growth, enhancing the overall competitiveness of the Nicaraguan economy and contributing to poverty reduction (Government of Nicaragua 2005: 36). As the NDP points out, “[o]ne way to ensure the sustainable generation of employment and poverty reduction is through the development of private activity and the strengthening of productive and commercial interrelations. The vision of clusters has been adopted to increase productivity and develop the territories’ economic potential (ibid.). Thus, the Nicaraguan government highlights in the NDP the need to concentrate its infrastructural and productive investments in the most promising (mostly urban) economic clusters, signaling that those areas with little economic potential (in mostly rural areas) will be left behind. In defending this focus on economic clusters, the government argues that people living in unpromising rural economic zones should migrate to high growth urban areas in order to find employment and participate in a thriving economy (Interview SETEC, Managua, 12.08.2005).

Thus, one of the key constraints of both generations of poverty reduction strategies is the overall neglect of the productive capacities of the rural poor. Many of the identified economic clusters are located in urban areas, such as the *maquiladora* industry which is highly concentrated in the outskirts of Managua, the cattle and dairy industry which is located in and around Boaco, and the aquaculture clusters which can be found in the area around Chinandega (see Map 1 below). While the tourism cluster potentially spans the whole Pacific coast from north to south, it is nevertheless certain cities, such as San Juan del Mar in the South, Granada and Masaya in the centre, and León del Norte in the north of Nicaragua that will likely reap most of the benefits from the influx of foreign tourists and money. Also, few clusters can be found in the northern rural zones, with the

exception of the coffee clusters that are located between Estelí and the Honduran border. However, what is particularly discomfoting is that only one single industrial cluster was identified in the most impoverished North Eastern zone of Nicaragua

Map 1: Industrial Clusters in Nicaragua (Government of Nicaragua 2005)

Not only does the overall accumulation strategy articulated in the PRSP remain anchored in a neoliberal vision of export-promotion, support for big urban business and world market integration under the banner of comparative advantage, but the monetary framework of both the first- and second-generation PRSP is also widely in line with the well-known monetarist prescriptions of the Washington Consensus. To achieve a stable macroeconomic environment, the adoption of sound macroeconomic policies, particularly in the monetary sphere, is considered to be of paramount importance. Consequently, the

SGPRS suggests that “continued prudent and coherent monetary policy” is a key ingredient in the policy mix that will spur overall economic growth (Government of Nicaragua 2001: xii).

In fact, the traditional neoliberal conditionalities of the IFIs have not noticeably changed in the monetary sphere, where (much in line with earlier SAPs) clear numerical targets in terms of price stability have been identified: the I-PRSP proposed to bring down the inflation rate to 5 per cent by 2005 (Government of Nicaragua 2000: 87). In the SGPRS, inflation is expected to decline even further from 10 per cent in 2000 to 4 per cent in 2005 (Government of Nicaragua 2001: 41). In order to achieve this ambitious goal, public investment will have to be reduced, as the government openly acknowledges. However, it suggests that “[a]s public investment is expected to fall, economic performance will hinge on an increase in private investment from 19.4 per cent of GDP in 2001 to 23.7 per cent in 2005” (ibid.: 40). Thus, much in line with neo-classical investment theory, it is assumed that private investment that was ‘crowded out’ by the public sector will return and revive the economy. While inflation actually averaged 7 per cent from 2001-2005, and thus stayed significantly above the envisioned target of the SGPRS, the NDP again notes that inflation should decline to an average of 4.6 per cent for the period 2005-2010, which is considered realistic as long oil prices do not increase further (Government of Nicaragua 2005: 75).

At the same time, Nicaragua’s PRGF agreement with the IMF of 2003 stipulates similar monetary conditionalities, and stresses that “monetary policy will be geared toward strengthening the reserve position of the BCN [Banco Central de Nicaragua, A.R.] in a low-inflation context” (IMF 2003A: 25). As many observers have suggested, it might

be sensible to conclude that the IMF agreement has been steering the PRSP into the murky waters of monetarist macroeconomic principles, and that IMF concerns regarding the fiscal position of the government have informed the overall macroeconomic strategy of Nicaragua's PRSP, more generally (see *e.g.* Bertelsen and Jensen 2002; Dijkstra 2005; but also World Bank and IMF 2005).

All in all, the macroeconomic framework and the overall accumulation strategy do not deviate substantially from earlier SAPs, but rather aim to push Nicaragua down a similar neoliberal path to the one that had been pursued so unsuccessfully over the previous two decades, leading to a steep decline in economic growth rates in Latin America (*e.g.* Weisbrot et al 2000). It is also interesting to note that Nicaragua's PRSP does not discuss monetary policy in terms of employment or any other social objectives but rather narrowly focuses on macroeconomic stability. While it might be understandable to rein in inflation once it reaches intolerably high levels (in the two digits), given the negative impacts of high levels of inflation on the poor linked to their inability to insulate themselves from inflationary pressures, it is not comprehensible that monetary policy is solely focused on the goal of price stability and blatantly disregards all other social objectives, particularly in times when macroeconomic stability has been widely achieved (Gottschalk 2005). This reality represents a clear contradiction in Nicaragua's PRSP, as tight monetary policy makes it difficult to increase poverty-focused government spending and, as such, might not be an effective tool in achieving poverty reduction.

Fiscal Policy and Taxation

As pointed out earlier, fiscal policy is identified by the IFIs as an important vehicle in the fight against poverty. Fiscal policy makes a difference in so far as it can be used to channel and redirect economic resources directly to the poor. At the same time, however, fiscal policy is seen as key for ensuring macroeconomic stability. Interestingly, in the first-generation SGPRS, overall government expenditure is scheduled to fall from approximately 40 per cent of GDP in 2000 to 27 per cent of GDP by 2004-05, as it had ostensibly reached unsustainable levels in the aftermath of Hurricane Mitch. As noted earlier, public expenditure of 40 per cent of GDP is quite normal in those industrialized countries where strong social safety nets prevail. To be fair, the high levels of government spending in 2000 were, in the case of Nicaragua, linked to the extraordinary amounts of external aid received in the post-Mitch era for disaster relief and reconstruction (Dijkstra 2005). As these resources have largely dried up, Nicaragua does require an adjustment strategy. However, another way to address this issue would be to raise domestic revenues through progressive taxation instead of reducing public expenditure. This possibility is, unfortunately, not considered in Nicaragua's PRSP.

Nevertheless, Nicaragua's first PRSP budget clearly displays increased concerns for poverty issues and suggests that investments in human capital, discussed in the second pillar of the PRSP will be poverty-sensitive. In this vein, the government maintains that the second pillar "entails a major improvement in the coverage, quality, and integration of public education, health, nutrition, and family services, mostly in rural areas" (Government of Nicaragua 2001: xii). This is to some extent true, and Figure 1 below shows that poverty-related outlays as per cent of GDP were scheduled to increase through

the implementation of the PRSP despite a significant contraction in general government expenditure.

Figure 2: Central Government Expenditure

Source: IMF 2003a

Moreover, as Figure 2 below indicates, poverty-related public expenditure did indeed increase from the period of 2001 to 2005. However, as CCER has critically remarked in its review of the first two years of the implementation of the SGPRS, poverty-related spending remained in absolute terms (contrary to initial government plans) roughly at the same level in the first two years of implementation (Bradshaw, Linneker and Quiros Viquez 2004: 4), before rising in absolute terms as well. Thus, CCER comments that debt relief “[f]unds have ensured that spending on health, education, and other prioritized areas has not decreased too much, rather than representing an increase in this area” (ibid.). However, from 2003 to 2005, poverty-related spending has climbed significantly

in both relative and absolute terms, reaching US\$ 683.5 million in 2005 (see Figure 2 below). This represents an increase of 46.3 per cent since 2001, and suggests that poverty concerns have, in fact, been taken more seriously by the Nicaraguan government with the introduction of the PRSP, and resources freed up through debt relief schemes were used to increase poverty-related expenditure, as suggested by the IFIs.

Source: Government of Nicaragua 2006

What is more, comparing average social spending in the SAP period (1990-98) with the PRSP period (1999-2004), it becomes clear that spending has increased significantly in the inclusive-neoliberal phase, as per capita health and education expenditure climbed from US\$ 58 to US\$ 76.2, representing an increase by more than 20 per cent (Cuesta 2007: 348). Yet, as many Nicaraguan NGOs have critically noted (*e.g.* Bradshaw, Linneker and Quiros Viquez 2004: 37), it is difficult to evaluate the extent to which the increase in poverty reduction expenditure and social spending will actually trickle down to the poor, as the expenditure tracking system is problematic for a number of reasons. One of the key problems of this system lies in the fact that all expenditure on health and education has been accounted as part of poverty reduction expenditure,

regardless of its nature or real intentions. This leads to numerous distortions as, for example, fat salaries for government officials are included in poverty-related government spending, and an increase in the salaries of those well-paid officials will lead to an increase in the level of poverty reduction expenditure.²²

In addition, not all resources freed up through debt relief and earmarked for poverty spending ended up in poverty reduction programs. In fact, during the period from 2001 to 2003, Nicaragua saved approximately US\$ 580.3 million through debt relief; however, a large portion of this money was directed away from poverty reduction and instead used in the financing of other domestic priorities, including the reduction of internal debt levels. CCER estimates that only 30-40 per cent of the debt relief of the first two years was actually used for its intended purpose, to tackle poverty head-on (Bradshaw, Linneker, and Quiros Viquez 2004: 3). While a Bank representative mildly criticized this 'misuse' of HIPC funds, the IMF supported it, maintaining that swapping internal for external debt strengthens the position of the Central Bank and encourages macroeconomic stability, both indirectly contributing to poverty reduction (Interview World Bank, 17.08.2005, Managua).

Another problem which has not been adequately addressed in the literature on PRSPs is the fact that increases in poverty-related spending are in most cases and countries a direct outcome of increased external financial assistance, and thus might not be sustainable. In the case of Nicaragua, for example, 60.7 per cent of all poverty-related spending in 2005 was directly dependent upon the inflow of external resources

²² The Nicaraguan government provided a redefinition of poverty-related expenditure in the second-generation PRSP. However, many programs that only indirectly affect poor people, such as investments in infrastructural projects, continue to be counted as poverty-reducing expenditure (Government of Nicaragua 2005: 130).

(Government of Nicaragua 2006: 77). This will make it extremely difficult to maintain high levels of social spending without additional external funding once the HIPC and the more recent MDRI have run their course. Thus, the short term poverty-related spending spree that Nicaragua is currently experiencing will most likely come to an end in the aftermath of debt relief initiatives unless the government finds a way to make up for the lost resources through increased taxation or other measures, such as the reallocation of government funds. Unfortunately, the push for further trade liberalization, which is part of the PRSP process, makes it even more difficult to uphold high levels of social spending as developing country governments generally rely heavily on the income stream generated by trade taxes (Elson 1995).

Liberalization of Trade and Finance

As mentioned already, the beginning of the liberalization of trade and the financial system in Nicaragua go back to the early 1990s, when the first ESAF agreement with the IFIs was signed. The liberalization of trade proceeded with great speed and conviction on behalf of the Nicaraguan government, despite strong opposition to the liberalization agenda, whereas the implementation of financial liberalization was discontinuous and at numerous times significantly delayed. In fact, many of the elements of the financial liberalization agenda, such as the privatization of BANADES, which provided subsidized credit to farmers, were repeatedly voted down by the National Assembly even though Nicaragua's ESAF agreement clearly stipulated the closure of BANDAES and the full liberalization of credit markets.

Over the last decade, the Nicaraguan economy has been opened up to foreign

investment and trade barriers have been cut back dramatically. The highest nominal import tariff rate was reduced from 60 per cent to 10 per cent in 2000, the government-owned export trading monopolies were abolished, and Nicaragua has been making a determined effort to reach free trade agreements with the country's major trading partners (Government of Nicaragua 2001: 16). As discussed earlier, the liberalization of trade had a dubious impact on the Nicaraguan economy in the 1990s, leading to higher levels of unemployment and the closure of many domestic industries. Nevertheless, Nicaragua's PRSP touts trade liberalization and world market integration as the cure to Nicaragua's economic ills. Despite its questionable impact on the Nicaraguan economy, the government sets out to even further liberalize foreign trade:

The government has already reduced protection on industrial goods, eliminated tariffs on imports of inputs and capital goods used in agriculture, and instituted a 1.5 per cent tax refund on the value of exports. Notwithstanding these actions, an anti-export bias still persists [...]. This will be further reduced as the free trade agreements with Mexico, Canada, Panama, and the Dominican Republic are implemented, and a lower Central America common tariff takes effect once negotiations are completed (Government of Nicaragua 2001: 28).

As part of this liberalization project, Nicaragua is strongly committed to participating in the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA). And indeed, Nicaragua ratified the agreement in October of 2005, but did so only under duress and amidst opposition within civil society. Interestingly, Nicaragua's formal debate and vote on CAFTA in the National Assembly lasted for four hours only, representing a clear attempt to limit substantial discussion and to push the agreement through parliament quickly. It should be mentioned that US trade envoy Robert Zoellick, in a visit to Nicaragua on the day of the debate, threatened a complete cut-off of US aid if the right

wing of the Nicaraguan parliament would not successfully unite behind DR-CAFTA and against efforts by the Sandinistas to build a coalition with supporters of former President Arnoldo Alemán. Prior to this visit, the Sandinista leadership of the Assembly had vowed to block a vote on CAFTA until a set of compensatory measures were passed to protect those adversely affected by the agreement. However, the Sandinistas were not successful and such an agreement did not materialize. One of the key contradictions within the inclusive-neoliberal paradigm comes to the surface here: on the one hand governments claim to show increased concern for the lot of the poor and implement policies to ameliorate their suffering and promote their inclusion, while, on the other hand, they continue to be committed to neoliberal policies, such as trade liberalization, that tend to deepen exclusion and often have harmful impacts on the poor.

The first attempts at financial liberalization go back to the early 1990s, when an IMF stand-by agreement was implemented. The deregulation of interest rates (*i.e.* a dramatic increase of rates) and the recapitalization and privatization of state banks was a condition built into the first stand-by arrangement, while the contraction of credit and the privatization of BANADES (serving predominantly the rural credit market) were part of the first and second ESAF agreement. The impacts of financial deregulation were immediately felt by those dependent upon subsidized credit, in particular rural farmers and SMEs. More generally, formal credit became heavily skewed against low-wealth households in the post-liberalization period and poor households have been pushed out of formal credit markets (Boucher, Barham and Carter 2005). Thus, the main pillars of a deregulated financial system were already in place when the PRSP agreement was being negotiated.

What is more, financial liberalization culminated in a substantial banking crisis in early 2000, when two major banks collapsed and the government decided to intervene, in essence socializing the tremendous costs of the financial crisis. The substantial costs of this intervention, estimated to be in the hundreds of millions of US dollars, are still being shouldered by the state, which has an extremely high internal debt ratio as a direct consequence of the bail out (CCER 2001a). As noted earlier, part of the money saved through debt relief was (mis)used to reduce this internal debt load, a direct outcome of rushed financial liberalization without putting in place the necessary regulatory architecture.

Given the tumultuous experience with financial liberalization, the main task of the Nicaraguan government in the area of finance is, according to the SGPRS, to strengthen the deregulated financial system through a number of measures: implementing prudential norms on capital adequacy, credit risk assessment, provisioning, and lending limits to related parties; strengthening the superintendency of banks and the supervision process; and reforming legal norms on financial guarantees to permit use of movable properties as collateral (Government of Nicaragua 2000: 88). As such, the main goal of the PRSP in the financial realm seems to be to make the neoliberal system of financial allocation more resilient and less crisis-prone. Nevertheless, the Nicaraguan government has recognized the problem of access to credit for the majority of the poor in deregulated financial markets, which is linked to their lack of collateral. In attempting to address this issue, the government suggested to put in place micro-credit schemes as a way to alleviate the negative side effects of credit liberalization. Unfortunately, the government has not made any significant financial commitment to finance micro-credit schemes, and consequently

little credit has been made available to the rural poor since implementation of the SGPRS began in 2001 (CCER 2001, Trocaire 2004b).

Privatization

The privatization of public utilities remained a politically sensitive topic in Nicaragua throughout the 1990s, and many unsuccessful IFI attempts were made to convince the Nicaraguan parliament (and the public) to privatize the most profitable utility providers. Indeed, many social struggles and street protests in Nicaragua were directly linked to privatization policy, and NGOs and unions were successful in fighting the privatization of the telecommunications, electricity and water sector in the 1990s (Bertelsen and Jensen 2003: 57). Despite the claim that conditionality would be 'streamlined' through the PRSP process, the IFIs have attached numerous conditionalities to debt relief and other IFI funding that are directly related to the privatization of public utilities. In fact, with the introduction of the PRSP process, the IFIs have finally succeeded in breaking open some of the most profitable sectors of the Nicaraguan economy to outside investors and multinational corporations.

While there is currently a thriving debate about whether conditionality has actually declined or increased since the introduction of the PRSP approach (*e.g.* Pearce 2006), in the case of Nicaragua, it is clear that debt relief came with numerous strings attached, including in the area of utility privatization. In fact, full privatization was promoted in those areas where the IFIs had previously unsuccessfully supported it, or where privatizations were implemented partially, such as in the telecommunications, electricity, and water sectors, plus in the highly contentious realm of pensions. In

essence, the IFIs used the carrot of debt relief to convince the Nicaraguan parliament to finally implement much disliked and contested privatization reforms.

The I-PRSP notes that the privatization of telecommunication services is expected to finally be implemented with the initial sale of 40 per cent of ENITEL assets and a later offer of the remaining shares (Government of Nicaragua 2000: 87). The privatization of the electricity sector was the second main structural reform demanded by the IFIs for Nicaragua to be able to qualify for debt relief. The previously achieved vertical separation of the electricity sector made it easy to quickly proceed with the privatization of the highly profitable electricity distribution units which, despite strong concerns, were all bought up by the same Spanish multinational company, thus turning Union Fenosa into a monopoly provider of electricity. What is more, the government and the IFIs failed to conduct a social impact assessment of electricity privatization (Bertelsen and Jensen 2003: 61). Social impact assessments are important as they detail the possible social impacts of privatization on the poor, and the fact that no social impacts assessments were conducted for any of the IFI promoted utility privatization raises serious questions about the importance given to the social dimension in the PRSP, and represents another contradiction within inclusive-neoliberal policy.

Nevertheless, aware of the social impacts of privatization, the IFIs demanded that electricity prices be frozen for the poor and that electricity consumption of the poor be cross-subsidized in the case of price increases. The IFIs' proposal suggests that the heaviest users of electricity, such as industry and rich households, should predominantly shoulder the burden of price increases linked to privatizations (IMF and IDA 2000b). This is supposed to prevent the exclusion of the poor that currently have access to

electricity from being priced out of the market, and thus marks an important element of inclusive-neoliberal policy. However, not surprisingly, electricity rates sky-rocketed in the aftermath of the privatization, oftentimes exceeding amounts approved by the Nicaraguan Energy Institute, especially in rural areas where increases of 30 to 40 per cent have been the norm (Romano 2005).

At the same time, a problem that is unlikely to be solved through privatization is the lack of access to electricity for a large part of Nicaraguan society, particularly in rural areas and in the North Eastern Atlantic region. This issue is important given the extremely low penetration rate of electricity of 43 per cent of the population. As experience suggests, private companies are unlikely to invest in new distribution infrastructure that is desperately needed to bring electricity to rural areas. Private companies tend to be more interested in investing in densely populated areas with good infrastructure where profits can be made easily, rather than in rural areas where it is hard to fully recover investments. This is moreover reflected by the fact that the Nicaraguan state continues to hold the responsibility for and to incur the costs related to electrifying the North Eastern area of the Atlantic zone (Bertelsen and Jensen 2003: 60).

In the water sector, the I-PRSP stipulates that water and sewage rates be adjusted upwards until marginal costs are fully recovered so as to make the water sector attractive to investors. Moreover, the government is expected to “offer to private investors long-term concessions for regional water and sewerage sub-systems in León, Chinandega, Matagalpa, and Jinotega” (IMF and IDA 2000b: 15). However, the privatization of the water sector has not actually been followed through as envisaged by the IFIs since major social protests have made it virtually impossible for the government to quickly move

forward with the privatization of water. What is more, in 2003 a law was passed unanimously by the Nicaraguan National Assembly that suspended all private concessions involving water uses until a national debate about the issue has taken place and until a consensus has been reached (Romano 2005). Similarly, the privatization of the electricity generating units was delayed, and in 2004 the IMF introduced a waiver in its HIPC completion point document so as to not delay the full implementation of debt relief, despite Nicaragua's failure to privatize the water sector and to further divest the electricity sector (IMF and IDA 2004).

Thus, many of the structural conditionalities and 'trigger points' that surfaced in the PRSP process are reforms that in previous periods of structural adjustment were not fully implemented, and have returned to the attention of the IFIs in the PRSP process. In fact, there are few surprises in terms of the types of macroeconomic policies promoted through the PRSP process, such as the maintenance of a stable macroeconomic framework, low inflation rates, tight fiscal policy, further trade liberalization, and the highly contested privatization of social services, especially in the area of water; thus there is little discontinuity between SAPs and PRSPs in the realm of macroeconomic policy. At the same time, conditionalities have also been emerging in unanticipated areas, and certain expectations regarding the use of debt relief funds have been clearly outlined in the HIPC decision point document.

One of the key triggers for reaching completion point of the HIPC initiative is the "implementation of reforms to promote human capital development and social protection, including the adoption of an action plan to introduce an effective social protection programme, based on the results of a pilot programme started in 2000" (IMF and IDA

2000b: 17). Moreover, the HIPC decision point document stipulates that all debt relief is expected to be used “in accordance with proposals set out in Annex 3 of the HIPC decision point document and must be reported in the PRSP process” (ibid.). Thus, conditions also include requirements for the *use* of debt relief funds, as debt relief must be spent on specific projects and actions which are outlined in the PRSP, and is subject to detailed reporting and monitoring (Dijkstra and Evans 2003: 24). Interestingly, the IFIs require specific reform measures and approval of laws in the social realm as well, and conditionalities are increasingly linked to achieving social outcomes, such as poverty reduction goals. The decision point document includes an annex outlining the specific projects for which HIPC relief will be used, such as a school back-pack program, a program to provide education materials in rural areas, and a program to provide basic medical services and supplies (IMF and IDA 2002b: 31).

This not only expands the set of *ex ante* HIPC conditions, but also undermines the notion that PRSPs are based on participation and ownership, and leads Dijkstra and Evans to conclude that, in the case of Nicaragua, “conditions for reaching the HIPC Completion Point are more extensive than ever, and also far more extensive than they are for many other HIPC countries” (Dijkstra and Evans 2003: 23). The following discussion will elaborate on the ‘social inclusion’ elements that also form part of the PRSP. Interrogated from a neo-Gramscian perspective, this arguably represents an attempt to make neoliberalism more hegemonic, by providing (although very limited and targeted) material incentives to the most disfavored regions and parts of Nicaraguan society in order to redress poverty from within a neoliberal framework.

4.5.4 Pilot Social Safety Net – The Protection of Vulnerable Populations

As top priority in the SGPRS has been assigned to the reduction of extreme poverty, the Nicaraguan government has acknowledged that social safety nets or social protection projects will be crucial for reducing overall levels of poverty (Government of Nicaragua 2001: 23). This new-found concern for ‘social inclusion’ finds expression in the introduction of a number of pilot projects that directly focus on the reduction and alleviation of extreme poverty. The two most important programs in this context are the Social Protection Network (SPN), or *Red de la Proteccion Social*, and the Implementation Support Program (PAI), both of which were supported by the IFIs, and were predominantly funded through resources freed up by debt relief related to the HIPC initiative (IMF and IDA 2002b). In fact, more than 50 per cent of all debt relief funds were expected to be allocated to social initiatives and compensation strategies (Government of Nicaragua 2001: 43).

While previous social compensation attempts, such as FISE, mainly focused on infrastructure investments in poor municipalities and on short-term poverty alleviation through unconditional redistributive measures during times of crisis, both the SPN and the PAI consist of CCTs, which directly target the extremely poor and their social behavior. This is in line with the IFI’s turn towards promoting human capital formation, itself part of the emergence of the Post-Washington Consensus. Most programs focus exclusively on children as the recipients of human capital investments and closely monitor compliance with conditions as a precondition for receiving cash transfers (Rawlings and Rubio 2005: 30). The introduction of CCTs is related to the criticisms of traditional social assistance programs of being poorly targeted, carrying high

administrative costs, being prone to clientelism and excessively focused on current levels of poverty with little attention to long-term, structural causes of poverty (ibid.: 33). CCTs are also perceived as compensating for market failures that help perpetuate poverty, without however necessitating a break with the logic of commodification and de-statization of social service provision. Thus, CCTs are in line with Post-Washington Consensus thinking which highlights the need for more pronounced interventions by the state *on behalf* of the market. In fact, in the case of Nicaragua it is mainly NGOs or private clinics that are contracted to provide health services to the poor and receive government subsidies in order to improve the provision of social services ‘on the supply side’ (ibid.: 36).

The Social Protection Network

The most serious attempt of social inclusion that emerged in the PRSP process can be found in the erection of the SPN, modeled after PROGRESA, the Mexican conditional cash transfer program. The SPN is a pilot social safety net which offers assistance to approximately 20,000 households in an attempt to improve the well-being of the extremely poor, while from the IFIs’ view also stimulating the accumulation of ‘human capital’ through behavioral changes, which are perceived to be important in improving the productivity of the labor force (IMF and IDA 2000b). A particular emphasis is placed on children under five years of age and other extremely vulnerable groups. The program started in 2000, with the initial goals of, first, supplementing the incomes of families in extreme poverty for up to three years; second, improving access to health care for children under the age of five; and third, reducing school drop out rates during the first

four years of schooling (Bradshaw and Quiroz Viquez 2006: 8).

The beneficiaries of the first phase of the SPN were identified on the basis of the poverty map which was developed by the Nicaraguan government for the PRSP. The evaluation of the SPN suggests that more than 80 per cent of the families selected live in extreme poverty (ibid.). In the first phase from 2001-2003, 10,093 families in six municipalities participated in the program, representing about 1.2 per cent of all Nicaraguan families living in extreme poverty. The SPN focused exclusively on the impoverished departments of Madriz and Matagalpa, which represent the only municipalities where poverty worsened between 1998 and 2001 according to World Bank data. In addition, the departments of Madriz and Matagalpa were selected due to their relatively strong institutional capacity and local coordination, and reasonably good coverage of health posts and schools, while also providing easy physical access from the capital Managua (IFPRI 2004: 4). During the second phase from 2003-2005, the program expanded its reach and the number of beneficiaries doubled to approximately 20,000 households, which nevertheless represented only 2.5 per cent of the extremely poor in Nicaragua (IDB 2003: 5).

The cash transfer to extremely poor families consists of two main components: the *Bono Alimentario*, a 'food security transfer', paid out on a bi-monthly basis to all participating households, worth US\$ 224 per annum; and the *Bono Escolar*, the school attendance transfer, paid out on a bi-monthly basis to those households with children aged 7-13 who have not yet completed the fourth grade of primary school, worth US\$ 112 per annum. The attendance school transfer also carries an additional teacher transfer (US\$ 60 per annum), providing an incentive for teachers to monitor and report the

absence of children from school, and a school supplies transfer (US\$ 21 per annum), given at the beginning of the school year. Thus, the maximum support through the SPN amounts to US\$ 362 per annum and per household (IFPRI 2004: 8).

However, this money transfer to the poor is not unconditional; there are indeed a number of strings attached to participation in the program: to partake in the SPN, households have to commit to sending their children to school on a daily basis and to visiting health centers every two month in order to receive vaccinations. They also must agree to participate in educational sessions on a whole range of issues, such as nutrition, sexual behavior, reproductive health, family hygiene, and child care in exchange for monetary rewards. In case of non-compliance, participating households will be punished by being removed from the program. In practice, all the aforementioned tasks are exclusively performed by women as SPN program administrators preferably designate mothers as the household representative, whenever possible. This strategy mimics the design of PROGRESA, the Mexican conditional cash transfer program, and is based on research that claims that resources in the hands of mothers tend to lead to better outcomes for child well-being and household food security (Strauss and Tomas 1995). As Rawlings and Rubio note, “[t]he programs designate mothers as recipients of the grants in recognition of the international evidence that women often make more optimal household spending decisions affecting children’s welfare” (Rawlings and Rubio 2005: 33).

The evaluation of the first phase of the SPN (2001-2003) conducted by the IDB delivered a very positive verdict, and a number of social indicators have improved substantially for the program participants. For example, in the area of education, the matriculation rate increased by 21.7 per cent and the retention rate by 10 per cent for first

to fourth grade pupils, while in the area of health vaccination, rates of timely immunization among children between 1 and 3 years increased by 18.3 per cent and anemia amongst small children was largely brought under control (BID 2003: 6). CCTs also tend to result in higher consumption levels. In the case of Nicaragua, consumption levels remained unchanged in SPN areas despite worsened economic conditions, suggesting that the SPN insulated the poor from the negative effects of economic contraction (Rawlings and Rubio 2005: 48). Thus, the SPN might help poor people to protect consumption in times of economic crises.

While this social safety net should be welcomed – despite the problematic elements of control – it must be stressed that it currently reaches only 2.5 per cent of the extremely poor, and therefore is just a ‘drop in the ocean’ of poverty. Thus, one of the key problems is the extent to which poor people remain excluded from basic social services despite the introduction of the pilot social safety net. In addition, another major concern regarding the SPN lies in the way in which it singles out peoples’ behavior as the root causes of poverty and reinforces stereotypical gender roles inside the household. In other words, the form of inclusion that is promoted by the SPN is also debatable, leading some observers to arrive at somber conclusions regarding the success of the SPN. As Bradshaw and Quirós Viquez suggest, “[t]he RPS [SPN, A.R.] is a good example of how policies that include or target women can be as, if not more, damaging than those that exclude or ignore women (Bradshaw and Quirós Viquez 2006: 7).

This conclusion is based on a gendered analysis of the SPN and two main realizations: first, that the conditionalities attached to cash transfers show that the IFIs assume families do not know how to behave properly in terms of reducing health risks,

nor do families fully grasp the (future) value of sending their children to school. This focus suggests that the IFIs deem the root causes of extreme poverty to lie in improper individual behavior linked to a lack of information, rather than structural inequalities and the lack of access to resources and affordable care and education. Second, the SPN stipulates that women will be responsible for insuring that their children attend school and get their vaccinations in time. What is more, women have to undergo schooling themselves, attending courses on health and nutrition, adding to their already strenuous work-loads. Thus, the program is based on the implicit assumption that women are not engaged in income-generating activities and are readily available to take on extra burdens. As such, the SPN reinforces the notion of women being primarily mothers taking care of the family rather than labor market participants, while also imposing extra costs on women that have not been recognized. The negative impacts that these extra work hours can have on already over-burdened women are well-documented in relation to SAPs (*e.g.* Elson 1995), and led Bradshaw and Quirós Viquez to conclude that “[t]hese hidden costs may mean that women’s well-being, economic and social, may actually decline as the well being of the family is improved” (Bradshaw and Quirós Viquez 2006: 13).

Finally, CCTs do nothing to address the deep-rooted power and class inequalities that lie at the heart of the dismal situation of the Nicaraguan poor. CCTs might alleviate the most pernicious of social conditions that are the norm for many poor people, but do nothing to shift the balance of power in favor of the disempowered. The provision of food and health subsidies to the most vulnerable does not tackle the causes of that vulnerability, and thus is not sustainable in the long run because it depends on the ‘good

will' of the national government to subsidize the consumption of the poor and provides no means for significant empowerment.

The SGPRS Implementation Support Program (PAI)

The second main program in the fight against poverty is the PAI, the goal of which is to establish an effective model of coordinated and integrated implementation of the SGPRS. As part of a pilot project, eleven municipalities were selected to partake in the program, receiving transfer payments from the central government. Measures directly addressing poverty include giving milk to school children, providing seeds and storage silos to rural communities, and donating animals to farmers. Again, one of the key problems is that the PAI is not actually reaching the majority of the poor. As an NGO review of Nicaragua's PRSP reports, "[i]n a recent survey, only 1 in 5 of those interviewed in areas covered by the PAI knew of any government poverty reduction initiatives in their community" (Bradshaw and Linneker 2002: 5). In fact, sadly only 1.9 per cent of all PRSP spending is allocated to the PAI.

It is pertinent to note that both government programs directly aim at improving the social indicators identified by the internationally agreed MDGs, without, however, significantly changing the power structure or resource redistribution in Nicaraguan society. Thus, even if both programs will help to improve some of the desolate social indicators, it is safe to predict that they will not noticeably improve the overall situation of the majority of the excluded and disempowered poor, especially given that cash subsidies to the poor are complemented by the commodification of basic social services, as discussed earlier in the chapter. At the same time, as noted earlier, the extent to which

governments can allocate funds to social issues is clearly circumscribed by the neoliberal macroeconomic framework within which the PRSP operates, and the IMF is well-known for its warnings that social expenditures should not create 'inflationary pressures' in the economy.

4.5.5 Civil Society Participation in the PRSP Process

The second key pillar of inclusive-neoliberal development policy is the inclusion of civil society organizations into the policy-making process so as to engender a domestic policy consensus. During the period of Sandinista rule, national and international NGOs working in Nicaragua were characterized by high levels of political coordination and a strong political consensus. The state and civil society were intimately connected, and NGOs emerged within the framework of the broader revolutionary process which was itself transforming the relationship between the state and civil society (Macdonald 1997: 102). NGOs did not see themselves as a counter-weight to the state, but rather their main role was to perform the function of an intermediary, "capturing assistance from the international level and channelling it to the Nicaraguan people" (ibid.).

With the end of the revolutionary process and the ascendancy of neoliberal forces inside government, civil society became the key battle ground over SAPs and CSOs were amongst the most vocal opponents of them. In fact, many of the neoliberal policies faced stiff resistance from social forces within civil society and the relationship between civil society and the state was increasingly conflictual. While many of the old left took refuge within civil society, remaining wedded to the ideals of the revolution and thus vehemently opposing the neoliberalization processes in Nicaraguan society, the

neoliberal elite vigorously promoted structural adjustment with strong support from the US and the IFIs. This led to a pronounced polarization of Nicaraguan society. However, the large gulf between the state and civil society somewhat narrowed in the aftermath of the natural disaster that struck Nicaragua in August 1998.

In the aftermath of Hurricane Mitch, Nicaraguan society experienced an unprecedented national level coordination of civil society activities. This raised hopes that the significant role played by NGOs in the reconstruction process and the more friendly and cooperative relationship with the state would translate into meaningful participation of civil society in the PRSP process, where inclusion of CSOs into the political dialogue surrounding poverty reduction plans is seen as a key ingredient of success. During the reconstruction process, the umbrella NGO CCER brought together 21 networks that represent the involvement of more than 350 national NGOs, social movements, sectoral networks, unions, and collectives and federations (Bradshaw and Linneker 2002).

While CCER initially set out to coordinate the reconstruction process, it turned itself into a key voice of Nicaraguan civil society even after the immediate reconstruction work ended. CCER was also a key player in the PRSP process as it initiated a parallel PRSP consultation process when it became clear that the participation of CSOs in the official PRSP process was going to be shallow and may even be used to legitimate (neoliberal) IFI policies and programs for which critical civil society voices had little sympathy, as discussed in more detail below. The following discussion will first elaborate on the official government consultation on both the interim- and the full PRSP, before turning to two parallel PRSP consultation processes which were initiated by CCER and

the international NGO *IBIS Dinamarca*. In order to evaluate the extent to which critical CSO perspectives were integrated into the official PRSP, I will draw on several interviews and compare and contrast the official with two alternative PRSP documents.

Government Consultation on the Interim-PRSP

As highlighted earlier, the first step in the process of developing a national PRSP is the poverty diagnostic, which is done at the time of the I-PRSP. Importantly, the World Bank stresses that the description of poverty “should take into account poverty’s multidimensional nature by going beyond consideration of income and asset holdings of the poor to encompass the non-monetary dimensions of poverty, particularly education and health status, vulnerability to shocks, and disempowerment” (Klugman 2002a: 7). The first interaction between the Nicaraguan government and CSOs in the PRSP process concerned the findings of the poverty diagnostic which were provided by the World Bank and presented to the *Consejo Nacional de la Planificación Económica Social* (CONPES), a social space of dialogue between the government and CSOs.²³ CONPES was identified by the donors as the preferred space of civil society consultation, and pressure was put on the Nicaraguan government to engage CSOs within CONPES (Interview SETEC, Managua, 12.08.2005; see also Dijkstra 2005: 449).

Not surprisingly, various civil society groups disagreed fundamentally with the way poverty was being defined and measured by the Nicaraguan government, with

²³ CONPES (National Economic and Social Planning Council) was founded in 1999 as a space of dialogue and consultation between civil society and the government. Its main purpose is to advise the president in policy formulation, to monitor and evaluate social and economic programs, and to make recommendations on the annual budget. Some civil society organizations are members of CONPES, such the Community-Based Movement (MCN), various labor unions, and the Superior Business Council (COSEP). The only NGO participating in CONPES is CCER. Other members of CONPES are the political parties and

support from the World Bank. Yet, this critique was given inadequate consideration by the Nicaraguan government and the IFIs. The main concern of CCER was related to the way in which the government used a one-dimensional consumption measure of poverty, contrary to the World Bank's suggestion in the *Sourcebook* to apply a multi-dimensional approach to the poverty analysis (Interview CCER, 09.08.2005, Managua). Despite the wide-ranging criticisms of 'income-poverty' approaches by CSOs, poverty line indicators remained privileged in the PRSP process in Nicaragua.

Furthermore, CCER criticized the apparently arbitrary figure of less than US\$ 1 per day as a measure of poverty, since this amount is dramatically insufficient to cover even the most basic needs of people in Nicaragua. Generally, the World Bank has used reference lines of US\$ 1 for extreme poverty and US\$ 2 for poverty in terms of 1993 Purchasing Power Parity when measuring poverty worldwide. While none of these figures are realistic measures of poverty, they have nevertheless become the internationally accepted standard. In the case of Nicaragua, the situation was even worse, as the poverty line was further lowered to US\$ 1 of daily expenditures and the extreme poverty line was set at less than US\$ 0.50. For the IFIs to go below its traditional US\$ 1 standard, without proper justification, was considered to be completely unacceptable by CCER. Neither the World Bank nor the Nicaraguan government revealed data to justify these arbitrary figures, despite pressure from civil society organizations to legitimize such low levels. In fact, CCER's on-going criticism of the poverty metric adopted by the Nicaraguan government met with little response from either the government or the IFIs (Interview CISAS, Managua, 18.08.2005).

government representatives. The CSOs that are currently members of CONPES were selected by the government (Government of Nicaragua 2001). For a full list of CONPES members, see appendix.

While criticizing the focus on narrow quantitative poverty measures, various NGOs also questioned the government's claim advanced in the poverty diagnostic that poverty had been significantly reduced between 1993 and 1998, due to the successful implementation of SAPs, from 50.3 per cent to 47.9 per cent of the total population. An alternative analysis of the official data undertaken by CCER shows that the total number of people living below the poverty line has, in fact, increased from 2,190,787 in 1993 to 2,225,401 in 1998, which represents 51 per cent of the total population (Bradshaw and Linneker 2002: 4). Moreover, the narrow focus of the government on reducing the numbers in extreme poverty rather than seeking to affect overall levels and depth of poverty, as well as the distribution of resources and power, has been heavily criticized by a number of NGOs, especially since the analysis of CCER shows rises in the overall poverty in Nicaragua since 1993 (CCER 2000).

However, none of these critiques triggered a serious response from the government or the IFIs, and no significant changes were made to the initial poverty diagnostic notwithstanding the sustained interventions by CCER (Bradshaw and Linneker 2002: 151). Even though the PRSP agenda is to a large extent based on the results of the poverty diagnostic, the government argued that there is little to be gained from discussing definitions and actual levels of poverty, and that civil society energies should be directed towards the formulation of the PRSP in Nicaragua, and the decisions to be made around the principles and the pillars of the PRSP (Quirós Viquez 2003: 1).

The actual design process of the PRSP began in January 2000. The first draft of the I-PRSP consisted of three main pillars: broad based economic growth and structural reform, human capital formation, and better protection for vulnerable groups. Civil

society organizations played no role in the formulation of this first draft, and only after the draft had been finished, were selected groups consulted within CONPES. The I-PRSP was presented to CONPES and to the international community in April 2000. Initial criticisms by CSO members, but also by the donor community, focused on the absence of a discussion of gender issues, the lack of a decentralization strategy, and the disregard of environmental concerns. However, the key point of contention was the lack of a strategy related to the issue of governance, which was a key concern for both local CSOs and the IFIs, given the severe corruption allegations against previous Nicaraguan administrations. The Nicaraguan government eventually integrated good governance as a fourth pillar into the PRSP, in response to criticism from both the IFIs and local CSOs. However, as Ana Quirós Viquez (2003) has critically noted, the real driving force behind this rethinking process by the government was the sustained pressures from the IFIs which insisted on the incorporation of governance issues into the PRSP.

The consultations on the I-PRSP within CONPES resulted also in the elaboration of a detailed proposal for how to improve the poverty reduction strategy, encompassing 56 amendments to the I-PRSP draft. However, these amendments were completely ignored by the Nicaraguan government (Interview CCER, Managua, 09.08.2005), and some parts of the final I-PRSP, such as the macroeconomic chapter of the I-PRSP, were neither presented to CONPES nor to other civil society actors before submission to the IFIs (Rasmussen 2003: 7). Outside of government and CONPES, very little information was available on the I-PRSP, and no further presentations were made to civil society once the I-PRSP was submitted to the Boards of the IFIs (Bradshaw and Linneker 2002).

In June 2000, an IMF mission visited Nicaragua. According to the head of the

mission, Jorge Guzmán, its goal was to “provide macroeconomic input into the I-PRSP” (Rasmussen 2003:7). The IMF staff worked behind closed doors with experts from SETEC, the government body responsible for the elaboration of the PRSP, on the macroeconomic chapter of the I-PRSP and refused any contact with CONPES members or any other civil society group. As Rasmussen points out, after this ‘IMF visit’ the content of the I-PRSP was “sort of state secret for several weeks, and it was not translated into Spanish until more than a month after it was sent to the IFIs” (ibid.).²⁴

In July 2000, the I-PRSP was submitted for approval to the IFIs without the knowledge of any CSOs, or further participation by or consultation with them, and was endorsed by the IFIs shortly thereafter. Civil society organizations did not even receive a copy of the I-PRSP until 3 months later, when the document was finally translated into Spanish and was made public by the government (Interview CCER, Managua, 09.08.2005). It is apparent that there was very little input from civil society into the I-PRSP, despite the fact that its development is arguably the most important step in designing a national PRSP, as it sets the underlying assumptions about poverty and provides the foundation upon which the full PRSP and its macroeconomic policies are built. Nevertheless, the government justified the lack of participation of civil society in the design of the I-PRSP by maintaining that there was a major time constraint and that the document was still ‘alive’, with the most important stage yet to come – the decisions about the implementation of poverty reduction programs and projects (Quirós Viquez 2003: 3). However, this claim is highly questionable, since the macroeconomic and structural frameworks were already set out in the I-PRSP (based on a specific

²⁴ The official language of the PRSP process is English and most PRSP are only translated into local languages once they have been accepted by the IFIs.

understanding of poverty and its determinants), and only minor changes were made during the revision period of the document (Interview CISAS, Managua, 18.08.2005).

It is quite revealing that in the detailed description of the required process for preparing and negotiating an I-PRSP in the World Bank *Sourcebook*, there is no requirement for any civil society participation in the design of the I-PRSP. The IFIs simply assume that due to limited country capacity and time constraints, the question of participation can only be addressed in the preparation of the full PRSP. Although participation is widely presented as a cornerstone of the PRSP process, it is enough for governments to acknowledge in the I-PRSP that there *will be* future consultation with civil society on the content of the full PRSP, even though the most critical elements are already set in the I-PRSP and are not likely to change significantly during the formulation of the full PRSP.

Government Consultation on the Full PRSP

With support from the Boards of the World Bank and the IMF forthcoming, the I-PRSP was scheduled to be accepted automatically as the official PRSP in March 2001, without substantial changes and without further consultation on the document. However, in January 2001, a number of civil society organizations joined forces and sent a letter to the Boards of the IFIs, as well as a number of bilateral donors, highlighting that the SGPRS, that was set to be approved by the IFIs in March 2001, lacked support from a large number of civil society organizations or local governments, and that there had been no significant participation of civil society during the formulation process of the full PRSP (Interview CISAS, Managua, 18.08.2005).

Thus, it was apparent that a wide consensus surrounding the PRSP was not emerging within Nicaraguan civil society. In response, the IFIs delayed the approval of the SGPRS, and pressured the Nicaraguan government to broaden the consultation process, by setting up a more extensive dialogue process that would also include departmental meetings and the participation of the poor. This process culminated in a series of workshops over a six months period organized by SETEC, which concluded in August 2001 and were based on the participation of 'invited guests only' (Bradshaw and Linneker 2002: 153). Following IFI and donor suggestions, the government organized workshops in eleven municipalities, and the outcome of this consultation process was published by CONPES in the document *Consulta Municipal sobre la ERCERP* (CONPES 2002). However, due to time limitations, the results of the consultations held after June could not be included into the PRSP as the government wanted to have the PRSP approved by August 2001. CSO complained strongly about this rush, given that Nicaragua was not on track with the IMF at the time and would therefore not be able to reach the Completion Point of the HIPC Initiative, no matter how quickly the PRSP would be approved (Dijkstra 2005: 449).

According to one participant, the workshops that formed part of the civil society consultation can best be described as information-dissemination sessions as participants did not receive the SGPRS prior to the workshop, thus providing no time to read, reflect and prepare comments on the document (Interview Ibis Dinamarca, Managua, 03.08.2005). After a short presentation on the four pillars of the PRSP, participants were invited to discuss the public investment program and the specific projects that were to be implemented as an outcome of debt relief and thought to affect each municipality. Only

these programs and projects were open to discussion with civil society because of the government belief that civil society has valuable expertise in certain project areas, such as health care, education, and good governance (Interview SETEC, Managua, 12.08.2005). However, there was no discussion of the structural and macroeconomic issues, which ultimately frame the investment programs and specific projects, and debate about the overall development strategy was lacking in the workshops. As the Fund and the Bank acknowledge in their own evaluation of participation processes, “the consultations centered on human capital investments and protection of vulnerable groups, with relatively little focus on growth strategies and macroeconomic policies” (IMF and World Bank 2005: 63). Additionally, they also agree in their own evaluation of CSO participation in Nicaragua that “[t]here has been no significant movement toward opening up the debate on the macroeconomic framework and alternative policy tradeoffs to a broader group of participants” (ibid.: 64).²⁵

At the same time, the government created a poverty focus group, whose purpose was to consult with poor people in 16 select municipalities in order to produce recommendations for improving the SGPRS. Urban and rural Nicaraguans considered to be extremely poor were invited to discuss the SGPRS in Madriz, Nueva Segovia, Jinotega, Matagalpa, Boaco, Raas, Río San Juan and Raan (Government of Nicaragua 2001: 62). Unfortunately, the suggestions of the poor rarely found their way into Nicaragua’s PRSP, as again acknowledged by the IFIs in their own evaluation of Nicaragua’s PRSP process (IMF and World Bank 2005: 65). Thus, while the IFIs did

²⁵ Interestingly, the Fund and the Bank also claim that the urgency of the economic circumstances – most notably the considerable public sector deficit and the fragility of the financial system in the aftermath of a financial crises – limited the extent to which alternative macroeconomic policies could be explored. It

indeed put pressure on the Nicaraguan government to set up a more extensive consultation that would include departmental meetings and the participation of the poor, this did not translate into the inclusion of ideas opposed to the neoliberal agenda at the heart of the PRSP.

4.6 Parallel PRSP Processes and Consultations by Civil Society Organizations

In early 2001, critical CSOs were confronted with a difficult situation, because they had to decide whether to participate in the official government consultation process that would allow (from their point of view) little or no significant input into the SGPRS, and would lend support and legitimization to the official poverty reduction strategy, or whether to develop a parallel PRSP consultation process. This would allow CSOs to undertake a deeper parallel participatory process and to develop an alternative PRSP. CCER decided to participate in the official consultation process, while at the same time organizing a parallel PRSP consultation process. As Bradshaw and Linneker point out, “the compromise decision reached by the CCER [...] was not to rule out discussion with the government on the official PRSP, nor to accept and work from their narrow economic conceptualization of poverty” (Bradshaw and Linneker 2002: 153). The idea to develop an alternative series of consultations on the PRSP was also informed by the fear that any involvement in the government process could be used by the government to co-opt civil society and to legitimize the content of the SGPRS. Another important player in the Nicaraguan civil society landscape, the Danish NGO *Ibis Dinamarca*, also decided to start a parallel local consultation on the PRSP in León del Norte. The following sections

moreover suggests that under different circumstances, the IMF would have been more receptive to alternative macroeconomic policy suggestions (IMF and World Bank 2005: 64).

will describe and contrast both alternative PRSP documents with the official PRSP, so as to further evaluate the extent to which civil society views were incorporated into the official PRSP.

4.6.1 CCER and *La Nicaragua que Queremos*

In January 2001, CCER started the parallel PRSP consultation process. The aim of this process was to provide a forum for participants to construct their own vision of the “Nicaragua they wanted”, rather than merely commenting on the government document. CCER organized 23 workshops between January and April 2002 in 14 departments and in the two autonomous regions *Atlántico Norte* and *Atlántico Sur*, in which almost 1000 people participated. During this process, CCER facilitated discussions with various organizations of civil society and local governments about the priorities and policies that they thought should be part of a strategy for development and the reduction of poverty. According to CCER, “the purpose [of the consultation process, A.R.] was to empower those [civil society, A.R.] organizations so that they could put forward their own proposals and have influence in the formulation of the re-enforced strategy for the reduction of poverty which the government started at the end of 1999” (CCER 2001b: 3). The results of this consultation process were published in the document *La Nicaragua que Queremos* (CCER 2001a), and draft versions of this document were successively handed over to SETEC, so that they would be taken into consideration in the formulation of the PRSP. However, as a comparison between the official SGPRS and *La Nicaragua que Queremos* will reveal, CCER’s analysis of poverty differs fundamentally from the governmental point of view, and the recommendations regarding macroeconomic policies

presented by CCER rarely found their way into the SGPRS.

An Alternative Poverty Diagnostic

To be able to address the problem of poverty and to come up with adequate solutions, it is first necessary to provide an analysis of the root causes of the impoverishment of the Nicaraguan people. As CCER maintains, if the real determinants of poverty are not identified properly, projects and programs are not likely to achieve their objective of reducing poverty in a sustained way (CCER 2001b: 6). Contrary to the government's understanding of poverty, CCER argues in *La Nicaragua que Queremos* that structural inequalities found at all levels of Nicaraguan society constitute the fundamental causes of poverty in Nicaragua, and that growth alone will not help to solve the poverty problem of the country (CCER 2001a: 6). Indeed, Nicaragua is one of the most unequal societies in the world, in which the richest 10 per cent receive 45 per cent of the country's total income, while the poorest 40 per cent receive only 10 per cent; in fact, the Gini coefficient of 56.0 is amongst the highest in Latin American (Government of Nicaragua 2001: 8; Government of Nicaragua 2004: 36). Moreover, after more than a decade of structural adjustment, the gap between the rich and the poor has widened remarkably, and the average wages of workers have diminished dramatically (Vargas 2001: 41). CCER expresses its fear that economic growth could further deepen social inequality in Nicaragua, and argues that there is a need for policies to specifically address the modification of the distribution of income, in order for growth to have an impact on wide-spread poverty. According to CCER, "[i]t is necessary to undertake policies designed to achieve a more equal distribution of income. This will promote more

effectively the creation of wealth and it will make a significant impact in reducing poverty” (CCER 2001b: 7). This finds little expression in the official PRSP where economic growth is seen as the panacea to all development and social problems.

At the same time, CCER also points to the unequal power relations prevailing at the level of world order as a cause of the impoverishment of Nicaragua. According to CCER, “[in] general term, the process of impoverishment of the Nicaraguan people is linked to the way power relations were established and executed at the different levels of life: political, economic, ideological, and every day life relations between people, not only at a national level, but also on an international level” (ibid.: 6). The unequal (economic and political) power distribution in the international system has led to a situation in which Western countries successfully push trade liberalization for the products that they export and force developing countries to open up their markets, while, at the same time, the industrialized world continues to protect those sectors in which developing countries possess a ‘competitive advantage’ and in which competition from the developing world might threaten their own economies, such as in the agricultural sector. CCER concludes its poverty diagnosis by stating that “[b]earing in mind these considerations, it becomes clear that the government did not take into account the ideas set out by the persons and organizations who participated in the consultation and debate process of CCER about the causes of the impoverishment of the Nicaraguan people” (ibid.).

An Alternative Macroeconomic Framework for the PRSP

While there is a consensus that poverty reduction strategies cannot succeed in the long

run if they are not accompanied by policies to generate economic growth and to protect or improve income distribution, it is precisely the content and nature of these policies that lies at the heart of the development debate. As discussed earlier, there is no strong consensus on what constitutes good (pro-poor) macroeconomic policy other than that which is claimed by the IFIs (see chapter 3). This can also be seen in the huge gap that separates the IFIs' view of macroeconomic issues from the views of most NGOs in Nicaragua. In fact, many NGOs have critically noted that the especially important area of macroeconomic issues has remained totally excluded from serious discussions and from all consultations on the PRSP, and that, to their dismay, the macroeconomic approach in the PRSP is strikingly similar to the approach promoted during the era of structural adjustment (Bradshaw and Linneker 2002). CCER undertook discussions on macroeconomic questions in its parallel consultation process, and came up with a detailed alternative development strategy that significantly deviates from the IFIs' 'technical advice', as the following discussion will highlight.

CCER argues that what is needed to spur economic growth is quite different from what is put forward in the SGPRS. As discussed earlier, the economic pillar of the SGPRS focuses on export-orientation by the private sector as the engine of economic growth. However, this focus on export-orientation as the core of Nicaragua's development strategy is harshly criticized by CCER. According to CCER, the backbone of the Nicaraguan economy is the army of small-scale producers in rural and urban areas that produce for local and national markets (CCER 2001a: 26). In the view of CCER, the Nicaraguan government should make a stronger attempt to support those small- and medium-sized farmers and business entrepreneurs, and the state should provide

development funds to these target groups, channeled through creative and diverse mechanisms. This however would demand a more assertive state: “[T]here would also need to be a strengthening of the role of the state and a mixed economic model to articulate effectively the state and the marketplace” (CCER 2001b: 8). CCER points out that even though the SGPRS mentions that rural SMEs are an important part of the private sector in Nicaragua and should therefore be supported financially (Government of Nicaragua 2001: 28), very little money is actually directed towards this very important sector of the economy (CCER 2001b: 10).

There is also a fundamental disagreement between CCER and the Nicaraguan government over what kind of infrastructure development is necessary to provide an enabling environment for economic development. The money that is provided by the government for infrastructure development is mostly channeled towards a few key areas, such as tourism, textiles, agro-industry, and electronic products, in an attempt to build ‘economic clusters’. This ‘cluster strategy’ could be understood as an attempt to attract FDI and to serve the interests of the most powerful national business groups aiming for export orientation. Indeed, according to CSO critics of this new ‘cluster strategy’, “the big business sectors will be the main recipients of the benefits offered by this concentration of public investment, sidelining the extensive small and medium business sector dedicated to producing for the national market” (Grigsby 2003: 15).

In opposition to the government focus on (mostly foreign) big business, CCER posits that local SMEs should lie at the heart of any development strategy, and should receive extra government support (CCER 2001a: 20). This immense sector has great potential, but without the appropriate infrastructure and access to credit, it is damned to

remain stagnant, and will not be able to generate growth and employment. In Nicaragua, small and medium producers have had limited access to finance in the aftermath of financial liberalization and lack adequate roads to get to urban markets. To solve these problems, CCER recommends the reinstallation of a state development bank that grants loans to SMEs at favorable interest rates, and to better connect rural areas to urban markets by updating the rural urban infrastructural linkages (ibid.: 20f).²⁶

The liberalization of trade is another topic on which there is no consensus between the government and many civil society groups. Over the last decade, the Nicaraguan economy has been rapidly opened up to foreign investment and trade barriers have been cut back dramatically. NGOs have long deplored the negative effects of trade liberalization on the Nicaraguan economy which, they claim, are related to the rapid deindustrialization of certain sectors, on the one hand, and the growth of undesirable *maquiladora* production, on the other hand. Concerning the liberalization of the economy, CCER contends that, as long as markets in the North stay protected and Northern farmers are subsidized by their governments, Nicaragua should also protect its domestic economy and subsidize key agricultural commodities and industrial sectors (CCER 2001a: 11). As CCER points out, small agricultural producers in Nicaragua cannot compete with the highly subsidized and mechanized food producers from the United States or other Western countries, and the local food production will be destroyed if it is not protected from outside competition. This, in turn, will increase the dependency of Nicaragua on developed countries and worsen the balance of payment problems that Nicaragua is struggling with already (ibid.).

²⁶ The closure of BANADES was a condition attached to the IFIs' concessional finance to Nicaragua which parliament opposed for years before it finally submitted to the IFIs' demands.

The privatization of public utilities is another sensitive issue that has a long history of struggle and protest within Nicaraguan civil society. As pointed out earlier, the SGPRS proposes to stimulate the participation of the private sector in a number of basic social services that have not yet been privatized, particularly in the areas of water provision and health care. In spite of the intensive debates surrounding privatization in Nicaragua, the policy of privatization of public utilities was kept completely out of the official consultation process, likely because the Nicaraguan government and the IFIs knew that resistance to privatization is widespread among members of CSOs in Nicaragua. In its own document, CCER harshly criticizes the privatization of public utilities and claims that privatization has not led to any improvements in service delivery, as prices have gone up, often out of reach of many poor people, while service provision has deteriorated. As CCER notes, “rates for telecommunication and electricity have been raised notwithstanding stipulations that the government would protect the consumers. The reason for this is the enormous pressure of the private sector who is in possession of the privatized enterprises” (CCER quoted in *Bread for the World* 2002: 13). This implies a serious increase in costs for the poor who see their incomes diminishing as a result of higher prices for basic services. Despite strong NGO reservations, the SGPRS continues to celebrate privatization of public utilities as an action aimed at modernizing the economy and contributing to economic growth and poverty reduction (Government of Nicaragua 2001: 27).

CCER furthermore questions whether privatization can help in fighting corruption and abolishing ‘rent-seeking’, as asserted by the IFIs. The rhetoric of neoliberalism holds that privatization will reduce ‘rent-seeking’ activities. But, in contrast to what it was

supposed to do, privatization has made matters worse and even fostered corruption in many cases, as CCER describes:

Another negative effect of privatization that we have been criticizing is that they [sic] generate corruption. It is known that the Nicaraguan government itself is implicated in cases of corruption with funds originating from privatizations. On the other hand, public officers are using their power in order to obtain gifts in exchange for exemptions and other advantages offered to private enterprises. Privatization has not eliminated corruption; it only changed its mechanisms (Bread for the World 2002: 12).

One of the most important manifestations of poverty is without question the limited access to basic services, such as health care and education. Like many CSOs, the SGPRS emphasizes the need to improve the access of the poor to these social services.

Nevertheless, CSOs and the Nicaraguan government disagree on how to achieve this goal. The SGPRS proposes to partially privatize Nicaragua's health care and to introduce a two-tier health care system, despite strong criticism from CSOs. The Nicaraguan government argues in the SGPRS that due to budgetary constraints it has been forced to limit its social budget and to look instead to operational efficiency gains. The health reform is supposed to create these efficiency gains by granting more autonomy to hospitals and clinics, and by leaving "the provision of health services for the more fortunate Nicaraguans to the private sector" (Government of Nicaragua 2001: 31).

However, CCER's proposal in *La Nicaragua que Queremos* highlights the need to provide good health care to the population as a whole, not just to certain sectors of it. In fact, one of the key demands of CCER was to put a stop to the privatization of health services in Nicaragua (CCER 2001b: 13). The experience of other countries that have privatized parts of their health care system has demonstrated that the private sector can easily lose interest in guaranteeing an ample and efficient service when it is faced with

declining profits (Bread for the World 2002: 30).

In the area of education, the government wants to provide basic education free of charge. However, the SGPRS proposes user fee schemes in the area of secondary and tertiary education. This is surprising given their well-known effects on the poor. CCER is in favor of free education at all levels, particularly in rural areas, and concludes the section on education in *La Nicaragua que Queremos* by pointing out that “most of CCER’s proposals for specific action have not been taken into account by the government’s document, particularly those aimed at: lowering the number of students dropping out, the revision of academic programs and plans, literacy campaigns, [...] and greater and better investment in education for the population” (ibid.: 30).

Another important issue totally neglected in the SGPRS is the question of unequal land distribution and access to land for Nicaraguan farmers. The distribution of land in Nicaragua is very unequal, despite the Sandinista attempt to redistribute land in the 1980s, and various NGOs argue that only a land reform could help to improve this situation. CCER proposes the creation of a land bank for the most poverty stricken sectors, allocating land to the landless poor, and establishing a body to regulate the buying and selling of land (CCER 2001b: 10). The government did not incorporate these concerns into its PRSP, despite the fact that lack of access to land is one of the main reasons for rural poverty in Nicaragua. The SGPRS only addresses the question of uncertainty of land property rights and suggests the modernization and acceleration of the operations of land-registry and titling systems in order to solve the problems of undefined land ownership and property conflicts (Government of Nicaragua 2001: 18).

In their own evaluation of the participation of CSOs in the PRSP process, CCER

maintains that “although it is possible to find some agreements between the complete document [SGPRS] written by SETEC and recommendations made by the persons involved in the consultation and debate process by CCER about this subject, it can also be said that most of those agreements are partial or tangential and most of the recommendations made by the persons who participated in the PRSP process have not been dealt with in the official PRSP” (CCER 2001b: 1). Overall, CCER is highly critical of the neoliberal and monetarist policies that have been implemented during structural adjustment in Nicaragua since 1990, and which are again highlighted in a slightly modified version in the SGPRS as the solution to poverty. In fact, CCER questions whether the policy measures proposed in the SGPRS can bring about the level of economic growth required to reduce poverty and to implement the PRSP. “While we would suggest that although necessary, economic growth is not sufficient to reduce poverty, even this central pillar of the strategy is weak, and it is questionable if policy measures proposed can bring about the level of economic growth required to implement the PRSP now and in the future” (Quiros Viquez 2003: 6).

4.6.2 *Ibis* and the Local PRSP of León Norte

Another important actor in the Nicaraguan civil society landscape, the Danish NGO *Ibis*, initiated a second parallel PRSP consultation process. *Ibis* organized local workshops on the PRSP in the four municipalities of León Norte: Acuapa, El Jiracal, El Sauce and Santa Rosa del Pinón. According to *Ibis*, the aim of the workshops was to develop a local PRSP in cooperation with local governments in the hopes that its recommendations and proposals would be incorporated into the official PRSP. The outcome of this local

consultation process was published in the local PRSP document of León Norte, *Estrategia de Reducción de La Pobreza – León Norte* (Alcaldías Municipales 2000). There is substantial correspondence between CCER's document *La Nicaragua que Queremos* and the local PRSP of León Norte, but unfortunately, there is little resemblance between the latter and the official PRSP. After comparing the contents of both documents, the participants of a workshop on the PRSP concluded that they could not find their local, alternative ideas in the SGPRS (Rasmussen 2003: 11).

As in CCER's document, the definition of poverty in *Ibis'* document is very different from the income-based definition of poverty in the SGPRS supported by the IFIs. In the local PRSP, poverty is defined as a state of social injustice, where people and families have inadequate access to resources and basic services, such as nutrition, health, housing, employment, and education, and which allows neither socio-economic development nor the improvement of living standards (Alcaldías Municipales 2000: 8). The analysis of the causes of poverty also differs fundamentally from the analysis in the SGPRS. In the local PRSP, factors contributing to poverty at the local, national and international levels are identified. However, as already discussed, the international dimensions of poverty, such as the harmful impacts of IFI-supported adjustment programs and the significant power imbalances between the developed and the developing world, were completely ignored by the SGPRS. Other issues raised are the unjust competition in the international market (*i.e.* neo-mercantilist protectionist policies in the developed world), the invasion of transnational companies, which evade taxes and do not pay decent wages, and the interference of the developed world into the affairs of the developing world (*e.g.* through conditionality attached to loans).

In the section on alternatives and actions to reduce poverty, a number of policy recommendations are made that resemble the suggestions made in *La Nicaragua que Queremos*. The local PRSP of León Norte argues, among other things, for access to credit for small farmers, the creation of a credit bank with low interest rates, the provision of funding for small businesses, the creation of local markets, access to free education at all levels, access to free health care, and the protection of key national commodities (Alcaldías Municipales 2000: 12). However, as with the case of CCER, none of *Ibis*' 'unorthodox' policy recommendations were incorporated into the SGPRS. Thus, in the case of Nicaragua, there is a pronounced difference between the policy aspirations of critical civil society organizations and the policy recipes of the SGPRS. These differences, as highlighted in Table 3 below, show that the PRSP process did not engender a wide-spread consensus regarding poverty reduction policies and strategies as the views of civil society organizations critical of the IFIs' neoliberal wisdom are rarely reflected in the national PRSP.

Table 3: Comparison of Official and Alternative PRSP of Nicaragua

Sphere	Policy Aspirations of critical NGOs	Policy Recipes of SGPRS
Macroeconomic Policies	Expansionary macroeconomic policies when necessary	Fiscal and monetary prudence; Low inflation
Economic Development	Promote domestic market; Strong state that articulates different sectors of the economy and promotes small business	Export-orientation; Private sector-led development; Focus on big business
Trade policies	Protect domestic market when necessary	Liberalize trade completely
Health care	Provide free health care at all levels; End privatization of health care system	Provide free primary health care; Introduce two-tier health care system

Education	Provide free education at all levels	Eliminate primary school fees; Apply user fees at higher levels
Access to credit	Provide cheap credit to small and medium business through state development bank	Let markets determine interest rates and access to credit
Income distribution	Redistribute income through progressive taxation	Income redistribution seen as unsustainable
Land distribution	Redistribute land to poor farmers	Develop markets for land and clarify property rights
Labor market	Provide employment; Eliminate measures that increase unemployment	Reduce rigidities in labor market
Privatization	End privatization of public utilities	Further privatize public utilities

Sources: CCER 2001a and 2001b and Government of Nicaragua 2001.

In a large national workshop in 2001, the government provided a forum for discussion of the SGPRS and brought together the three main parallel PRSP processes. The government even accepted the need to form a joint commission to identify the common concerns and recommendations raised by CSOs during the parallel consultation processes (Government of Nicaragua 2001). However, later that year, government officials in another national forum on the PRSP acknowledged that they had not incorporated any of the results of the consultation processes, not even their own, into the strategy document (Quirós Viquez 2003: 3). The World Bank has acknowledged the deficiencies of the participation of civil society in the area of macroeconomic and structural policies, but has argued that participation of civil society is 'just beginning' in Nicaragua, and that it will

take time to build the capacities and the 'know-how' within civil society to be able to meaningfully participate in macroeconomic policy making. According to World Bank officials, this experience should be understood as a first step in the right direction, which will hopefully be followed by many others (Interview World Bank, Managua, 17.08.2005; see also IMF and World Bank 2005: 64).

In conclusion, most interviewees and observers agree that the participation of civil society in the formulation of Nicaragua's SGPRS has been limited to consultation and information dissemination. Even worse, consultation was also restricted to certain areas of the PRSP and excluded such important issues as monetary policies, privatization and liberalization. Macroeconomic policies were largely 'written in stone' and the government and the IFIs were not willing to engage in a meaningful dialogue with civil society in this area. However, this area is clearly the most important one since all other decisions ultimately depend on the macroeconomic framework. This led some voices to describe the PRSP as "strategy that is really owned by nobody in Nicaragua, except maybe some donors" (Avedano et al 2003: 11). The consultations that did take place were extremely limited, and did not result in the incorporation of 'unorthodox' policy recommendations into the official PRSP. The SGPRS continues to be based, as the previous SAPs, on the premise that liberalization, export-orientation and privatization hold the key to rapid and sustained economic growth in spite of the harsh criticism of many CSOs. Critical civil society organizations were only permitted to tinker around the edges of a largely given (neoliberal) economic model with which they fundamentally disagreed, and which they considered to be the cause of exacerbated poverty in Nicaragua. Good governance (the fourth pillar of the PRSP) was the only concern of civil

society that was incorporated into the PRSP. However, this concern was already on the IFIs' agenda, and it is therefore very likely that good governance was taken into consideration because it was already being advocated by the IFIs themselves. As a reaction to their experiences, many CSOs have complained to the IFIs about the lack of meaningful participation, and forwarded their alternative PRSP to the IFIs. Yet, the IFIs endorsed Nicaragua's SGPRS in September 2001, maintaining in their assessment of participation that "the consultative process was significantly broad and the dialogue relatively inclusive and substantive" (World Bank 2002: 1).

At the same time, though, the IFIs put significant pressure on the Nicaraguan government before approving the PRSP to engage civil society and hold consultations on the PRSP after various NGOs complained to the IFIs that the Nicaraguan government completely failed to consult civil society on the PRSP. As an outcome of donor pressure, the National Council for Economic and Social Planning (CONPES), in which many civil society organizations were represented, became the official coordinator for the consultation process (Dijkstra 2005: 449), thus further institutionalizing state civil society interaction through CONPES. This could be understood as an attempt to engender a more broadly shared consensus on the PRSP, by disseminating information on the PRSP and by engaging CSOs in discussions on the content of the strategy, and provides support for a neo-Gramscian reading of the PRSP process.

Although donor pressure helped to install CONPES, and consultations – with financial support from donors – were actually held, these consultations barely changed the strategy. As discussed above, 'participation' has in the case of Nicaragua been extremely limited, amounting to consultations on already established documents, in areas

where the IFIs and the Nicaraguan government assumed that NGOs could contribute to making the PRSP stronger. Given the absence of substantial compromises and the unwillingness to integrate (non-neoliberal) counter-hegemonic ideas into the PRSP, this strategy has, however, not produced the hoped for consensus, as evidenced by the emergence of alternative PRSP processes. Thus, as suggested by neo-Gramscian theory, participation has in Nicaragua been transformed from 'giving a voice to the poor' in the decision-making process to engaging elite representatives of NGOs that in the past have been strong opponents of SAPs. Thus, civil society participation has been co-opted by the IFIs and 'adjusted' to serve as a tool to further embed neoliberal practices, a process that neo-Gramscians refer to a *transformismo* (Morton 2000). However, the fact that many of the CSOs that were heavily involved in the participation process fundamentally disagree with the SGPRS, and felt that their concerns were not incorporated, demonstrates the absence of the genuine participation necessary for significant development policy innovation to take place.

4.7 Conclusion

The results of the PRSP process in Nicaragua have thus far proven to be rather disappointing and it is doubtful that Nicaragua's PRSP and the inclusive-neoliberal development model that it espouses will deliver on its promise of significant poverty reduction, or even the achievement of the (not very ambitious) MDGs. While some of the identified targets of Nicaragua's PRSP have been achieved during the implementation of the first generation PRSP from 2001 to 2004, such as improvement in the net rate of primary school enrollment, a decrease in infant and maternal mortality, and better access

to reproductive health services, the majority of poverty targets have not yet been realized (Government of Nicaragua 2004: 47). However, a key problem is that many of the identified targets have not been adequately measured and continuous government statistics are largely unavailable. This makes it currently impossible to comprehensively evaluate the social impacts of the PRSP.

While there is no official (government and IFI) data available to assess how the overall levels of poverty have changed since the beginning of the PRSP process, in the second progress report on the implementation of the PRSP, the Nicaraguan government nevertheless acknowledges that “with negative growth of the per capita GDP in 2002 and 2003, poverty conditions may have remained the same or increased (especially in the rural area)” (ibid.: 47). Similarly, many NGOs maintain that poverty levels have not changed significantly since the beginning of the implementation of the PRSP (*e.g.* CCER 2007). What is more, CEPAL data based on the UBN method suggest that poverty has not significantly declined during the PRSP period, with an average of 69.4 per cent of the population being affected by poverty between 1999 and 2004, compared to 71.8 per cent during the SAP period (1990-98). This underscores the need to break more radically with the neoliberal model and to put the redistribution of Nicaraguan wealth on the political agenda so that poverty reduction goals can be achieved even in the absence of strong economic growth. This has been the rule rather than the exception in most developing countries in the context of the on-going promotion of and strong commitment to neoliberal macroeconomic policies in a low growth environment.

In macroeconomic terms, the PRSP contains few surprises and displays significant continuity with previous generations of SAPs. In fact, some of the conditions

attached to debt relief were left over from previous ESAF agreements, such as the full privatization of the telecommunications and electricity sector and further trade liberalization. Debt relief was used instrumentally by the IFIs to provide a strong incentive for the Nicaraguan government to fully implement reforms that in previous years had been either postponed or implemented partially. Yet, in the social realm there is important discontinuity as the inclusive-neoliberal development approach, in line with the Post-Washington Consensus, does highlight the need to invest in the capabilities of the poor, and consequently offers new attention to and financial mechanisms for investing in the human capital of the poor. This is evidenced by the erection of the pilot social safety net and an upwards trend in both total social spending and poverty spending.

From a neo-Gramscian perspective, this could be understood as an attempt to make neoliberal reform policies more hegemonic, by providing (limited and targeted) material incentives to those most negatively affected by structural adjustments, and thus to improve the social track-record of neoliberal reforms. As highlighted earlier, until the emergence of the PRSP approach, IFI conditions for aid or debt relief did generally not include poverty reduction programs or increased social spending; however, this changed with the introduction of the HIPC initiative and the PRSP approach, as conditionalities have increasingly intruded into the social realm as well. What is more, the IFIs have been very influential in setting the actual spending priorities proposed in the PRSP (Dijkstra and Evans 2003). This dominance of the IFIs in the formulation of the strategy has limited both participation and ownership, and suggests that the IFIs have actually expanded their reach into the internal affairs of developing countries through the PRSP process. This speaks to the important role that the IFIs play in the emerging transnational

governance landscape.

The rather disappointing results of the PRSP process thus far are not surprising, however, given that inclusive neoliberalism does not transcend most of the poverty generating prescription of the macroeconomic core of neoliberalism. It would indeed be surprising if the push for privatization, liberalization, and further deregulation would not eventually translate into higher levels of poverty and inequality, despite more serious attempts to ameliorate the social side-effects of such policies. At the same time, a key obstacle to poverty reduction in Nicaragua has been the misappropriation of a large share of government savings linked to debt relief, which were spent on internal debt reduction rather than on investments in the education and health of the poor as stipulated by the HIPC initiative. As noted above, while there was disagreement within the Bank over this 'misappropriation' of debt relief funds, the IMF supported this move, maintaining that the paying off of the unusually high internal debt load (resulting from the illegal socialization by the Central Bank of bad debts related to the banking crisis in 2001) represents a 'pro-poor policy option'.

However, the disappointing results are also arguably linked to the numerous contradictions and constraints built into poverty reduction programs and the inclusive-neoliberal development model more broadly. The Nicaraguan government mentions in various documents that budget constraints were a determining factor that limited the scope of the government's interventions in the area of health and education in support of the poor (*e.g.* Government of Nicaragua 2004: 39). This is linked to the IFIs unwavering support for tight fiscal policy and balanced budgets, which remains at the heart of the macroeconomic framework of all PRSPs, best evidenced by the practice of inflation-

targeting in the low single digits (Gottschalk 2005). As suggested earlier, one of the most important contradictions in the PRSP process lies in the incompatibility between tight fiscal and expansive social policy.

Another unresolved contradiction resides in the tension between country ownership and the on-going use of conditionality in exerting pressure on developing countries to implement policies spearheaded by the IFIs. As has been widely acknowledged in the case of Nicaragua, the macroeconomic chapter of the PRSP was elaborated by technocrats according to donor- and, in particular, IFI-guidelines with little input from domestic civil society actors. Ownership even within government was limited as SETEC, the technical secretariat of the president and incidentally the most internationalized arm of the state, was in charge of the PRSP process with little parliamentary oversight of the process. Although the IFIs insisted on the installation of CONPES as a space of dialogue between the Nicaraguan government and civil society, the consultations that were held on the PRSP had little impact on the actual content of the PRSP, particularly because the technocrats developing the PRSP proved to be more concerned about donor support than about the views of CSOs. The strategy was approved in Washington despite the lack of support from wide sectors of civil society. This demonstrates that country ownership of development policy remained extremely hollow in the case of Nicaragua. Similarly, participation, initially promoted by progressive social forces as an instrument to integrate previously excluded people into the decision making process, has been successfully absorbed by the IFIs and transformed to mean nothing more than information-sharing and consultation on largely pre-determined sets of policies. This, again, has been confirmed by the Nicaraguan experience.

Another key concern with inclusive neoliberalism is its intrusive nature as best exemplified by the CCT programs promoted through the PRSP. As part of these programs, monetary incentives are tied to active participation in a host of activities, such as literacy, health education and voluntary work activities in the community, and penalties are imposed in cases of non-compliance. Governments gather data from nurses, school teachers and community volunteers to assess the compliance of poor mothers which are targeted as the 'natural' executors of these programs. As widely documented in the literature, the additional labor associated with CCT programs predominantly falls on the shoulders of poor women and adds stress to the already precarious lives (Luccisano 2006). At the same time, the programs further entrench an archaic (gendered) division of labor in the household as mothers are the primary targets of state efforts to enhance the well-being of children, while shifting responsibility for social problems and ills from the collective to the individual, and to mothers in particular.

However, there are also some positive aspects of the PRSP process which should not remain unacknowledged. One main achievement of the PRSP process in Nicaragua has been returning poverty issues to the forefront of Nicaragua's public policy agenda, with a stronger commitment on behalf of the government to seriously address the dire situation of the poor. Of course, this effort will likely remain unsuccessful as long as the PRSP continues to be framed in neoliberal terms. Moreover, most observers view the PRSP as the most comprehensive attempt to date to link poverty issues with a strategy for economic development (Dijkstra 2005). In a country historically characterized by a great deal of economic and political volatility, the PRSP offers a framework that promises some degree of policy continuity and some broadly shared objectives. Finally, the PRSP

process also opened up a novel space of engagement between the state and civil society actors. Of course, this space has remained severely circumscribed due to the unwillingness of both the Nicaraguan government and the IFIs to actually listen to what CSOs have to say and take their views seriously, and consequently has not contributed to the IFIs' desired result of producing a stronger domestic consensus on the need for structural reforms through participation.

At the same time, the PRSP process has not been a complete failure from the perspective of the IFIs, which hope to engender support and build a consensus around their neoliberal interventions through the PRSP process. In their own evaluation of the PRSP process in Nicaragua, the World Bank and the IMF come to the conclusion that "debt relief has been to some degree a catalyst for gradual building of domestic consensus on basic elements of a sustainable stabilization program and for concentrating efforts to tackle pressing macroeconomic issues" (World Bank and IMF 2005: 63). The pressing macroeconomic issues that were successfully tackled are further privatizations and liberalizations which were finally pushed through Congress with the carrot of debt relief, despite opposition from a wide range of counter-hegemonic social forces. Nevertheless, with the introduction of inclusive-neoliberal policies, neoliberalism has arguably not become more hegemonic in Nicaragua. Most local NGOs remain strongly opposed to the IFIs inclusive-neoliberal model and continue to mobilize against various aspects of the neoliberal transformation, in particular the privatization of water and health care.

Chapter 5

Inclusive Neoliberalism and the Poverty Reduction Strategy of Honduras

5.1 Introduction

Honduras entered the HIPC initiative in 1999 as the second poorest country in the Western hemisphere, and with levels of poverty amongst the highest in the region. In order to qualify for the HIPC process, Honduras was required to develop a PRSP in which it outlines how debt relief resources will be employed so as to achieve a sustained reduction in the levels of poverty, from 63.9 per cent in 2002 to 40 per cent by 2015 (Cuesta 2007: 333). Under normal circumstances, Honduras should have reached the completion point of the HIPC initiative in 2002. However, Honduras went 'off track' in its agreement with the IMF, and the implementation of the PRSP was slowed down due to a lack of resource flows. Honduras only graduated to its 'completion point' in April 2005, five years after the boards of the World Bank and the IMF approved Honduras' PRSP.

The main goal of this chapter is to delineate the various similarities and differences between Honduras' PRSP and previous adjustment measures in order to provide further support for the claim that inclusive-neoliberal policies are currently emerging through the implementation of national PRSPs. This discussion will demonstrate that there is little discontinuity in the macroeconomic realm between previous SAPs and the PRSP, and that, similar to Nicaragua's experience, (neoliberal) conditionalities have actually mushroomed as a result of the PRSP process. However, contrary to Nicaragua, where the IFIs decided to waive some conditions after the lack of

compliance became apparent in certain areas, the IFIs derailed the PRSP process in Honduras in order to enforce a very conservative fiscal stance. This illustrates the extent to which the IFIs hold on to their monetary beliefs and attests to a disconcerting lack of ownership. At the same time, though, the discussion will show that Honduras' PRSP, in a very similar fashion to Nicaragua's PRSP, contains various elements of (very limited) material incentives and social compromises, for example, through the expansion of the social safety net and the introduction of conditional cash transfers. This is understood from a neo-Gramscian perspective as representing an attempt to entrench the neoliberal development model by improving upon its social outcomes, through the expansion of conditionality into the social realm.

At the same time, the chapter throws further light on the role of civil society in the PRSP process, documenting the limited degree to which critical NGOs could impact the official PRSP. As in Nicaragua, the lack of meaningful participation ultimately translated into the emergence of a parallel PRSP process and the elaboration of an alternative PRSP document by the NGO coalition *Interforos*. While, in contradistinction to Nicaragua, civil society is less polarized in Honduras and SAPs have not been subject to the same degree of social resistance, various elements of SAPs, especially privatizations of public utilities have nevertheless been opposed by different sectors of civil society, especially critical NGOs and unions, but also by the Honduran Congress. In the PRSP process, the Honduran government undoubtedly made an effort to engage civil society forces through the PRSP process, and new bodies and institutions for state society interaction were built up, such as the Democratic Forum (*Foro Democrático*). Nevertheless, the discussion on CSO participation further demonstrates that genuine civil society participation has not

been forthcoming in Honduras, as most suggestions by critical NGOs were ignored. This substantiates the neo-Gramscian claim that the meaning of participation has been transformed in the PRSP process, from signifying genuine CSO involvement in decision-making processes to being limited to consultation on previously established documents.

The chapter begins with a discussion of the macro-structural and historical context of Honduras' collaboration with the IFIs, before providing an overview of the neoliberal adjustment measures that were implemented in Honduras during the 1990s, as well as the compensation measures introduced to attenuate the social effects of SAPs. The chapter then turns to the PRSP of Honduras and analyzes its content, comparing and contrasting the PRSP with previous SAPs. Finally, the chapter evaluates the impact of CSOs in the elaboration of the PRSP, and concludes by suggesting that the PRSP represents a missed opportunity to develop a viable poverty reduction plan through a truly participatory process.

5.2 Honduras in the Era of Neoliberal Globalization

Honduras entered the era of neoliberal globalization under slightly different circumstances than most of its Central American neighbors. While there are numerous similarities to Nicaragua's insertion into the global economy in the early 1990s, there are also important differences which clearly distinguish Honduras from its Southern neighbor. The internationalization of the state and the transnationalization of the dominant social forces go back to the late 1980s, when the National Party candidate Rafael Callejas won the presidency (Robinson 2003b: 127). The policies promoted by Callejas after his inauguration in 1989 represented a turn towards more strongly

embedding an export-led development model in Honduras, and thus amounted to a significant break with the more nationally focused accumulation model that dominated much of Central America throughout the period of import substitution industrialization. Under Callejas' leadership, a transnationally oriented fraction of the political elite was consolidated and eventually took control of the state apparatus, restructuring the Honduran state and economy, largely in line with the dictates of the IFIs and the neoliberal logic of export promotion and transnational accumulation.

The dual process of internationalization of the state and transnationalization of social forces unfolded similarly to what had transpired during Nicaragua's deep transformation period in the early 1990s. External actors, such as USAID and the IFIs, showed tremendous leadership in the restructuring process and heavily promoted the export-led neoliberal development model. In fact, as Torres Rivas' famous thesis on the absence of an agro-oligarchy in Honduras suggests, exterior penetration was in the case of Honduras historically much stronger than in any other Central American country due to the lack of a powerful national bourgeoisie and the absence of revolutionary social movements (Rivas 1993). This weakness of the state and national social classes supported the deep penetration and domination of Honduran politics by powerful external forces, especially multinational companies producing a limited set of export crops, thus making Honduras the quintessential 'Banana Republic' (Robinson 2003b: 119).

The re-articulation of Honduras to the world economy under neoliberal principles was, however, deeply divergent from the Nicaragua's experience in that a militarization of politics preceded the ascendancy of a transnationally oriented neoliberal elite. The quasi-occupation of Honduras by US military forces and the attendant conversion of

Honduras into a US military base for launching counter-insurgency attacks into El Salvador and Nicaragua meant that Honduras gained an incomparable strategic importance for the US in Central America. This strategic importance is evidenced by the massive resource transfers from the US to Honduras in the period between 1980 and 1992, during which Honduras received US\$ 1.2 billion in economic and military aid and was turned into the largest US aid recipient per capita in the world. At the same time, the US diplomatic corps swelled and eventually reached 1,300, thus becoming one of the largest in Latin America (*ibid.*: 121). In this process, the US installed several dozen of its own military and air force bases, intelligence centers and command posts from which to fight social democratic and socialist movements in Central America during the late Cold War. This policy was part of the overall strategy of 'low intensity warfare', spearheaded by the Reagan administration in response to the overthrow of many pro-American dictatorships in the region by democratic social forces, such as the Sandinista movement in Nicaragua (Mamdani 2005: 12).

This, however, is not to suggest that Honduras was a mere puppet of US intervention and at the mercy of external forces, a view that prevails in much of the literature on Honduras. Rather, a coalition of US forces and the transnational faction of the domestic elite collaborated in a project of transformation from above, the direction of which was subject to on-going contestation and severe social struggles. Nevertheless, as was the case in Nicaragua, external donors, USAID, and the IFIs played a powerful role in the restructuring of Honduran society after the return to electoral democracy in the early 1980s. Key business figures in close coordination with technocrats organized transnationally oriented interest groups and think tanks to promote a neoliberal

accumulation strategy, with strong financial support from USAID (Robinson 2003b: 125). Key groups included the Foundation for Investment and Export Development (FIDE), the National Council to Promote Exports and Investments (CONAFEXI), the Federation of Agro-Export Producers (FEPROEXAH), and the National Association of Industrialists (ANDI), amongst others. USAID money often by-passed the Honduran state and ended up in the private sector in an effort to establish its hegemony, and with it that of the transnational factions. This restructuring process unraveled slowly throughout the 1980s, and only in 1988, could transnational social forces assert their dominance over Honduran politics (Thorpe 1996).

As was the case in Nicaragua, much of the capital invested in export production, particularly in the emerging industrial centre of San Pedro de Sula, was domestic capital, thus further evidencing the role played by local entrepreneurs in the restructuring of social relations. The expansion of export oriented *maquiladora* production throughout the 1980s was moderate, but exploded in the 1990s with the onset of neoliberal adjustments. The garment assembly industry (as measured in imports to the US) expanded from US\$ 20 million in 1983 to US\$ 113 million in 1990, before exploding to US\$ 1241 million in 1996 (Robinson 2001: 542). Other economic areas that expanded rapidly during the same period were non-traditional agricultural products, the tourism industry, and migrant remittances. On the basis of a new transnational accumulation model, Honduras in the early 1990s was in the process of being rearticulated to the world economy in line with the principles set out in numerous structural adjustment agreements.

5.3 A Short History of Structural Adjustment in Honduras

The regional conflict in Central America meant that security concerns trumped macroeconomic concerns during the 1980s, and that the Honduran state had substantial leverage in rejecting the neoliberal reform package supported by the IFIs and USAID. At the same time, the old national economic conglomerates maintained considerable influence over Honduran politics and managed to postpone the implementation of the neoliberal policy advice given by USAID and the IFIs (Thorpe 1996: 224). Nevertheless, some mild adjustment measures were taken in the 1980s, such as the passing of an Export Promotion Law in 1983, and the Temporary Import Law in 1984. These laws promoted the development of capitalist markets in agriculture and provided incentives for non-traditional agricultural exports by exempting industrial firms from taxation and customs duties if markets were located outside the Central American region and by providing favorable credit to the export sector. In doing so, they contributed to the consolidation of a transnationally oriented business elite in the emerging export sector (Robinson 2003b: 128).

Only with the end of the regional conflict and the electoral victory of Callejas in 1989, and thus the domination of the state by the transnational faction, did Honduras more fully travel down the path of neoliberal adjustment. Callejas was not only the favorite presidential candidate of the US, receiving financial backing through the National Endowment for Democracy, but was also surrounded by foreign trained economists and technocrats closely tied to the IFIs and USAID (*ibid.*). There are two time periods in the implementation of SAPs that will be distinguished in the following discussion of SAPs: the first SAP agreement signed by Callejas in 1990, involving a

stand-by agreement and the Enhanced Structural Adjustment Facility, and the second SAP adopted by his successor, Carlos Roberto Reina (1994-98) in 1994, *el paquetazo rojo*, which further deepened the neoliberalization process in Honduras.

5.3.1 The Transnational Project Takes Hold Under Callejas

Under Callejas' leadership, the neoliberalization of Honduran society went ahead full steam with a number of reform policies commonly referred to as the *paquetazo azul* and passed into law by Congress in 1990. Right from the beginning of his term, Callejas was faced with a number of key challenges: a massive public sector deficit and the inability to service the public debt, which meant that the IFIs had blacklisted Honduras in 1989, essentially making Honduras credit-unworthy in international financial markets; the changed geo-strategic environment in the post-Cold War era, which signified a noticeable decline of US interest in the region; and the countries' need for export diversification as a result of the excessive reliance on a narrow basket of export commodities, mostly bananas and coffee (Thorpe 1996: 227).

The first adjustment measure on the long list of neoliberal policies was the devaluation of the exchange rate in line with demands by the IFIs to enhance the international competitiveness of the Honduran economy. Indeed, the 1990 Letter of Intent specified to devalue the Lempira by 50 per cent across the board and to continue selective devaluations by broadening exporters' access to foreign exchange certificates (Equipo Envío 1990: 4). Within days of Callejas' inauguration, the Honduran *Lempira* was devalued by 50 per cent, dropping to four *Lempira* to the dollar, before further declining in 1991 to 5.40 *Lempira* to the dollar. In 1992 the currency was allowed to float freely

which led to a further drastic decline in the value of the Lempira, ultimately reaching 8.60 *Lempira* to the dollar, representing a sharp 400 per cent devaluation since 1990 (Thorpe 1996: 227). Interestingly, financial support to the export sector continued despite the fact that devaluation obviated the need for subsidies and compensatory measures to stimulate the export sector. Thus, while the banana industry was granted additional tax breaks, the coffee industry was singled out for increases in production subsidies with the passing of a string of export promotion laws in 1991.

The exchange rate devaluation was one of the key demands of the IFI in the first ESAF agreement signed in 1992. Other important issues on the agenda were the downsizing of the public sector, price liberalization of basic goods, the liberalization of the economy and increased private sector participation in the economy, especially in the provision of basic services (telecommunications, electricity, and other infrastructure). As was the case in Nicaragua, many of these structural reforms, in particular privatization, were highly contested and thus not immediately implemented but rather renegotiated in later agreements, and will also later resurface in the discussion of Honduras' PRSP. In fact, the privatization of HONDUTEL, the state telecommunication company, was expected to be achieved by mid-1996 according to the ESAF agreement (IMF 1994: 5), but was never completed in the 1990s.

The downsizing of the state proceeded rapidly with a reduction of the number of state employees by 15,000 in 1990, and by a further 10,000 in 1991 (Hernandez 1992: 86). The liberalization of trade also made significant headway under Callejas, as the maximum external tariff was brought down from 50 to 20 per cent. Private sector participation in telecommunications and electricity was, however, postponed as Congress

did not support the privatization of infrastructural services, and as various unions organized large protests against utility privatizations. For example, the telecommunications workers union (SITRATELH) organized various strikes against HONDUTEL's privatization beginning in 1994, warning that privatization will imply massive lay-offs, price hikes, service cuts and a reduction in government revenue flows (Posas 1995: 3). This series of strikes could only be brought to an end by the eviction of the workers, with the help of an army supported police contingent. Similarly, the Honduran Economists' College opposed utility privatizations, criticizing the ceding of strategic sectors of the economy to transnational interests and capital (*ibid.*).

On the fiscal side, Honduras was expected to streamline expenditures, freeze public employee salaries, and increase taxes to consumers by raising public service tariffs, select excise taxes, and general sales taxes, all well-known neoliberal policies to bring down government deficits with negative implications for the poor (Envío Collective 1990: 4). Monetary policy was expected to bring down inflation rates which, compared to most other Latin American countries, remained at moderate levels throughout the 1980s, hovering mostly around 10 per cent. This was nevertheless deemed too high by the IFIs, and Honduras was expected to reduce inflation rates to single digits (IMF 1992: 7). The monetary policy pursued moreover implied a credit contraction and a sharp increase in interest rates, climbing to 28 per cent in May of 1993. Historically, the financial system had been highly regulated in Honduras as the government set interest rates and determined the allocation of credit to much of the private sector, thus being able to subsidize 'national champions' and rural producers by way of cheap credit. But, with the liberalization of the financial system beginning in 1990, and speeding up with the freeing

of interest rate ceilings in 1992, interest rates shot up, eventually leveling off at around 30 per cent (Thorpe 1993: 230). Finally, the IFIs deemed it imperative that Honduras catch up on foreign debt obligations and honor its debt in full (IMF 2002).

Not surprisingly, the proposed adjustment measures failed to achieve their main objective, to enhance the fiscal position of the Honduran state. The fiscal deficit increased rapidly during the early 1990s, partly due to the disappearance of income from trade taxes and partly linked to huge infrastructural investment projects in the energy sector supported by the IFIs, which added further debt to the already unmanageable debt load of the Honduran state (Jackson 2005). This made it necessary to apply further adjustment measures to reign in the galloping deficit. At the same time, many sectors of Honduran society, including domestic capital which was hammered by the decline in effective demand and immensely suffered from high interest rates linked to the adjustment measures, started to express their concerns regarding the neoliberal wisdom. For example, the College of Honduran Economists commented on SAPs in a devastating critique in 1993, in which it argued that SAPs contributed to stagnating production, galloping inflation, reduced public investments and resulted in the concentration of income and the denationalization of capital (Envio Collective 1993). Asked about the document, Callejas responded that *The Economist* had recently praised Honduras for its accomplishments and that the international community was very satisfied with the progress Honduras had made since the beginning of the implementation of SAPs (ibid.: 2).

In contrast to Nicaragua, however, the SAP experiment went relatively unopposed within civil society in its early phase, with the exception of strikes by the collectively

organized middle classes against service cuts and utility privatizations, and the emergence of the 'Platform for Struggle'. The Platform for Struggle, which was founded in 1989 to oppose the neoliberalization of Honduran society, organized various large scale protests in big cities to oppose the implementation of structural adjustments in 1990 and 1991 (Envio Collective 1992: 6); however, it dissolved quickly because it was unable to effectively oppose SAPs and organize larger sectors of society. This was linked to its inability to win over leaders from civic organizations in the popular neighborhoods and the split within the Platform between those supporting milder forms of adjustment and those completely rejecting neoliberal reforms (ibid.).

The relative absence of opposition by civil society in the early phase of the neoliberal reform process is linked to the general weakness of progressive movements in Honduras, and the lack of effective organization of the poor and disempowered (Posas 1993). What is more, Callejas successfully applied a strategy of 'divide and conquer', and won over support for SAPs from several unions, especially the General Workers' Confederation, by providing high level administrative posts to a number of union leaders and their followers (Envio Collective 1992: 2). At the same, Callejas introduced social compensation measures as part of the structural adjustment package, including the Honduran Social Investment Fund (FHIS) in 1990, so as to attenuate the social impacts of neoliberal reforms from the very beginning (as discussed in more depth later in the chapter).

Indeed, in the World Bank's view, Callejas set Honduras on a solid neoliberal path by liberalizing the exchange rate and the financial system, reducing external tariffs and freeing agricultural trade from price controls. Nevertheless, the Bank was unhappy

about the spending spree that Callejas unleashed in 1993 in the run-off to the presidential elections (World Bank 1994b: vii). As the Bank states: “As the elections approached, the Callejas administration’s economic policy first faltered and then collapsed.[...] The fiscal deficit which was targeted to fall to 3.8 per cent of GDP, reached 11 per cent” (World Bank 1994b: 3). The ESAF was finally suspended in 1993 due to non-compliance, and the IFIs expected the immediate implementation of a new SAP package from the incoming Liberal administration of Carlos Roberto Reina, which won the presidential elections in 1993, running, however, on a populist platform of opposition to further neoliberal adjustments.

5.3.2 The Deepening of Neoliberal Adjustment under Reina

The dismal performance of the Honduran economy and the growing deficit necessitated in the IFIs’ view an immediate reply from the incoming administration of Reina. This reply came in form of the *paquetazo rojo*, a second SAP package that deepened the neoliberalization process by further readjusting the balance between the state and the market in Honduran society. On the one hand, Reina reacted to the social dislocations brought about by neoliberal restructuring with the promise to put a halt to further neoliberal reforms. In a famous statement, Reina proclaimed that “[m]y government will show no fear to the IMF. It will recognize its foreign debt, but will not continue paying with Honduran lives (Reina quoted in Posas 1995: 1). What is more, Reina promised ‘structural adjustment with a human face’, which was supposed to soften the previous harsh adjustments implemented to meet the IFIs’ demands. On the other hand, he nevertheless went ahead with implementing various elements of SAPs through promoting

the 'red package', and ultimately applying SAPs even more rigorously than his predecessor, despite increasing opposition to SAPs (as discussed in more depth below).

The stated goal of the 'red package' was to reduce the fiscal deficit which was standing at an unsustainable 11.2 per cent of GDP in 1994 (Posas 1994: 1). To this end, the IFIs suggested to further reduce public expenditure which, in the IFIs' view, was too high at 36 per cent of GDP (World Bank 1994b: viii).²⁷ To bring down the deficit, the Bank also proposed to cut at least 4000 positions in the 'large and inefficient public sector', devolve more activities traditionally considered to be in the domain of the state to the private sector, curb public investments, and privatize infrastructure services currently provided by the government in the realm of telecommunications, electricity, and water (ibid.: ix and 3). Moreover, a tax reform was suggested that would change the structure of the tax system, by reducing its traditional reliance on foreign trade and income taxes and shifting its focus towards indirect taxes. The first steps towards achieving this goal were to increase the sales tax "as the sales tax has great potential to increase revenue through a higher rate and expansion of the base to include goods and services that are now exempted" and create an internationally competitive tax system by bringing down business and income taxes to internationally competitive levels (World Bank 1994b: ix; IMF 1998b: 22).

Some of the IFI suggested structural reforms were implemented under the Reina administration through the *paquetazo rojo*, such as the reform of the tax system, where the list of goods for which consumers had to pay the 7 per cent sales tax was extended and the income and business tax top rate were reduced from 42 to 30 per cent. Moreover,

²⁷ In this context, it is important to highlight that most industrialized countries have much higher public expenditure to GDP ratios, hovering mostly between 40 and 50 per cent.

the deficit was brought under control by reining in public investments and further downsizing the public sector and reducing public sector expenditures by 10 per cent (Thorpe 1996: 229). However, inflation rates consistently stayed above the targeted rate in the lower single digits as articulated in the agreements between the IFIs and Honduras. In fact, inflation ranged from 12 to 30 per cent during 1990-97 (IMF 1998b: 29). Other measures deemed important by the IFIs that were, again, not implemented are the privatization of various state utilities, especially in the telecommunications and electricity sector, and the IFIs continued to push Honduras unsuccessfully to allow private sector participation in the provision of infrastructure, especially relating to ports and airports. Overall, the implementation required substantial political maneuvering in Congress, which somewhat reformulated the package before approving it, adding measures to promote production and better social compensation, without however undoing the most important reform proposals, with the exception of utility privatization (Posas 1995).

By the mid-1990s, opposition to SAPs was clearly growing in Honduras, and various sectors of society, including domestic business associations, raised concerns regarding the economic and social impacts of SAPs. Local business was suffering tremendously from high interest rates, reaching 40 per cent in the mid-1990s (ERIC 1997b). From the popular organizations in the street to high-level government officials and the business sector, discontent with neoliberal reforms was increasingly wide-spread and expanding in Honduran society. For example, IMF missions regularly sparked protests in front of the Central Bank, with protesters demanding that agreements between the IMF and the Honduran government be publicly available and openly discussed (ERIC 1997a: 2). This growing opposition is arguably linked to the dismal social outcomes of

neoliberal restructuring that became increasingly apparent.

Overall, the adjustment measures implemented throughout much of the decade of the 1990s had deep implications not just for the state, but also for the social structures of Honduran society and implied a reordering of the hierarchy amongst social forces. For example, social forces that were integrated into the world economy came to dominate those that had a national focus. Powerful financial capitalists born out of the liberalization of the financial system dictated by the IFIs ascended to the pinnacles of power. These social forces were predominantly transnational in orientation and did not value the building up of domestic industries or privilege a national market. Rather, financial liberalization and the attendant emergence of a financial rentier class were important drivers of the re-articulation of Honduras with the global economy (Robinson 2003b: 128). Moreover, profits were predominantly made in the externally oriented business sector and in the financial sector that now directly served the export sector (*ibid.*). In fact, more than 50 per cent of all credit was by the mid-1990s extended to the commercial sector, with dramatic consequences for the productive sector which increasingly lacked access to affordable credit (ERIC 1997b: 2). Finally, SAPs caused a significant redistribution of resources vertically from the poor to the rich, and horizontally from industrialists to the new financial elite, as the following discussion of the social impacts of SAPs will highlight.

Table 4: Key Elements of Structural Adjustment Policies in Honduras

Year	Name	Policy Conditionalities
1990	<i>Paquetazo Azul</i>	Deregulate interest rates and remove ceilings; Restrict domestic credit; Allow private participation in the provision of public services, especially in telecommunication and electricity generation; Reduce government spending, by eliminating 25,000 government jobs; Raise consumption taxes; Liberalize trade and reduce import tariffs
1994	<i>Paquetazo Rojo</i>	Further cuts in government spending to reduce fiscal deficit Further cuts in public sector employment (4000 jobs) Implement tax reform Privatize public utility providers in telecommunications, electricity and water sector Further liberalize trade

Source: Numerous IMF documents (my compilation).

5.3.3 Social and Economic Impacts of SAPs

The economic and social impacts of both SAP packages have been widely documented and are somewhat similar to those experienced in Nicaragua (*e.g.* Navarro 1992; Robinson 2003a; and Thorpe 1996). Overall, the structural imbalances of the Honduran economy were not cured, but rather amplified with the implementation of adjustment policies in the early 1990s. After the application of SAPs, production fell in real terms in 1990, with a particularly pronounced decline in manufacturing and construction, and a less severe contraction in the service sector. The only areas where economic activity did not stall were in agriculture and the extractive activities. Nevertheless, export performance in the post-SAP period was so disappointing that the IMF granted

approximately US\$ 61.9 million to offset foreign exchange losses on exports (Navarro 1992: 96).

The contraction of GDP translated into increased unemployment, especially in the public sector, contributing to the growing pauperization of large segments of Honduran society. Real per capita GDP growth averaged a deplorable -0.3 per cent throughout the decade of the 1990s, with the exception of two years, 1992 and 1993, when expansionary fiscal policy led to significant GDP growth of 5.6 and 6.2 per cent respectively.

Honduras' poor economic performance during much of the decade has been explained by the IFIs in terms of low productivity of labor and capital and inadequate investments in physical infrastructure (IMF 1998b: 6). As noted previously, however, Honduras is not an exception when it comes to slow growth in the aftermath of adjustment as SAPs have led to poor economic growth performance all over the developing world (Weisbrot *et al* 2001), suggesting that SAPs are partly responsible for the dismal economic performance of the developing world in the period from 1980-2000.

Moreover, external debt levels exploded in Honduras with the introduction of SAPs, peaking at 94.9 per cent of GDP in 1996, before mildly declining to 80.5 per cent in 1999, when Honduras was accepted into the HIPC initiative. This is counter-intuitive as it is generally assumed that levels of indebtedness would be reduced with the application of SAPs. The main explanation for this growing indebtedness are the massive loans that were given to Honduras by the World Bank, the IDB, and the Central American Bank for Economic Injection in the early 1990s to update the energy generating infrastructure in light of an impending energy crisis and to build a ring-highway around the capital (Thorpe 1996: 229). However, as witnessed in other

developing countries, the lack of fiscal capacity of the state was also directly related to the application of SAPs, as the intake from trade taxes declined drastically in the aftermath of trade liberalization, while the general tax reform did not yet produce the hoped-for revenue gains, and tax evasion remained high. Thus, the Honduran state was forced to take on more debt from IFIs in order to balance its books.

According to data of the Honduran government, extreme poverty (as measured by income levels) initially increased with the application of SAPs to 54.2 per cent in 1991, before slightly declining and staying at around 47 per cent until 1996, when extreme poverty again increased significantly to 53.7 per cent (Government of Honduras 2001). However, while the official poverty statistics do not show a significant movement in the levels of extreme poverty between 1990 and 1999, it is interesting to note that social indicators have deteriorated significantly as Honduras dropped from the 76th to the 112th place in the HDI during the same time period (UNDP 2000). This speaks to the fact that monetary measures do not always provide a comprehensive picture of poverty since changes in the institutional environment, such as the privatization of infrastructural services or the introduction of user fees, can have a dramatic effect on the poor, even when their monetary incomes increase. This is further evidenced by the growth in the prevalence of malnutrition in Honduras which jumped from 34.7 per cent in 1990 to 40.6 per cent in 1997 (Government of Honduras 2000: 11). Moreover, Honduran CSOs claim that overall poverty has substantially increased since the beginning of structural adjustment, ascending from 76 per cent in 1990 to 86 per cent in 1999 (FOSDEH 2001: 2), and that real wages have roughly stayed at the same level over the last two decades (Interforos 2000: 36).

Another major problem linked to SAPs is the fact that due to the devaluation of the *Lempira*, imported goods became significantly more expensive in Honduras. In a country that imports most of its goods, this means that with each devaluation the income of workers declined, ultimately making it impossible for the majority of people to afford many of the imported goods. This is not adequately captured by poverty measures based on income, the privileged IFI way of measuring poverty. In this context, particularly important are the increases in staple food prices linked to the multiple devaluations and the reduction of subsidies to producers (Thorpe 1996: 236). Finally, inequality has further increased to reach intolerably high levels, as the GINI coefficient increased from 0.55 in 1983 to 0.58 in 2003 (Government of Honduras 2001: 32), making Honduras one of the countries where wealth is the most unevenly distributed in the world.

5.3.4 Early Attempts at Social Compensation

As was the case in Nicaragua, structural adjustment programs in Honduras were accompanied by compensatory measures in the form of social investment funds which can partly explain why SAPs did not lead to an even greater increase in the levels of poverty in Honduras. These funds were conceived not only as a way to mitigate the social effects of SAPs through small scale investments in poor communities and appease those disfavored by SAPs, but also to help build the human resources needed in the long term quest for economic development (Beneria and Mendoza 1995: 54, World Bank 2006b). Amongst the key objectives of the Honduran social investment fund were: to alleviate the social costs of adjustment, generate employment, repair infrastructure, and ultimately better integrate the poor in the development process (Beneria and Mendoza 1995: 56).

While social investment funds were initially considered to be temporary measures, they have continued to operate in Honduras up to the present day.

The first social investment fund in Honduras was introduced in 1993 and, similarly to one in Nicaragua, was largely donor-driven and -controlled. According to the World Bank, the main activity of the Honduran social investment fund FHIS was “to fund small projects in social and economic infrastructure that would satisfy the basic needs of the poor, while at the same time creating employment and income” (World Bank 2006b: 2). During the pilot phase of the first FHIS (1993 to 1994), total funding amounted to approximately US\$ 98.4 million, while FHIS II (1995-1998) investments totaled US\$ 117.9 million (World Bank 2006b: 3-4). Interestingly, the sectors most benefiting from the inflow of resources linked to the FHIS have been education and health, where roughly 50 per cent of the resources have been concentrated. As an ex-post evaluation of FHIS explains, in the period from 1995 to 1998 56 per cent of new schools, 72 per cent of rural health centers, and 56 per cent of municipal health centers were attributable to FHIS, which thus had a considerable effect on the health and education infrastructure (Government of Honduras 2000: 10). Arguably, the largest beneficiary of FHIS was the local government as many of the resources have been allotted for infrastructural projects at the local level, with municipalities in the lead.

Nevertheless, the social compensation fund could not prevent the increase in poverty and suffering inflicted on the poor by the adjustment measures, as they operated within the logic of the neoliberal model. FHIS added compensatory measures, without however modifying the structural causes of poverty, the growing income polarization and impoverishment linked to adjustment policies, something I will return to later in the

chapter. If anything, the fund actually further promoted the neoliberal accumulation model by bringing those displaced by structural adjustment into the market as contract laborers employed by private-sector contractors that were directly paid by the international donor community. As Robinson notes: “These funds were therefore a further privatization of public services: state ministries were removed from activities formerly under their jurisdiction, and private capital was provided with funds and labor by transnational state institutions and their local offices” (Robinson 2003b: 247).

5.4 The Poverty Reduction Strategy of Honduras

Given the lackluster performance of the Honduran economy and the failure to bring down overall levels of poverty, Honduras’ participation in the HIPC initiative in 1999 was expected to free up resources for social investments previously committed to debt servicing and provide space to develop a nationally owned development strategy that would lead to better economic growth performance. How the savings from debt relief were to be invested is articulated in Honduras’ PRSP, which the government started to develop in 1999. As the first step towards approval of a full PRSP, Honduras however needed to develop an Interim-PRSP, beginning this task at the end of 1999 and presenting the document to the IFIs in April of 2000. The full PRSP was delivered to the IFIs in August of 2001 and approved shortly afterwards.

The following paragraphs will first discuss the macroeconomic content of both documents and compare and contrast these with the previous generations of structural adjustment policies. The continuities and discontinuities between earlier SAPs and inclusive-neoliberal policies will be highlighted, before turning the attention to the role of

civil society in the PRSP process. The discussion will, again, unfold around the same policy elements that have been interrogated in an ideal-typical manner in chapter three: economic growth and macroeconomic stability, fiscal policy and taxation, liberalization of finance and trade, and privatization. During this discussion, attention will particularly be paid to those policy elements that deviate from previous SAPs and are directly geared towards ameliorating the social side-effects of earlier adjustment policies. First, however, I will briefly analyze the debt situation in Honduras and the impact that debt relief was expected to have on the Honduran economy, as debt relief is a key tool in the attempt to build hegemony around the inclusive-neoliberal development model.

Table 5: Timetable of the Implementation of the PRSP in Honduras

June 1999	G7 Summit links HIPC initiative to PRSP
January 2000	Government presents initial draft document that would form the basis of the PRSP
February 2000	Government holds consultations on the I-PRSP
April 2000	I-PRSP is approved by the IFIs
March 2000	<i>Interforos</i> begins alternative PRSP consultation process
June 2000	Honduras reaches decision point of the HIPC initiative
December 2000	Government starts to hold consultations with CSOs on the PRSP in 'Democratic Forum' on select issues (mostly social spending priorities)
April 2001	The macroeconomic chapter is inserted into the PRSP, without having been discussed with any CSO representatives
April 2001	The umbrella NGOs <i>Interforos</i> and FOSDEH withdraw from the PRSP process
July 2001	Government finishes consultation process on PRSP
September 2001	Honduras' PRSP is approved by the IFIs, despite strong criticism regarding the participation of CSOs
December 2003	Government presents First Progress Report to the IFIs
January 2005	Government presents Second Progress Report to the IFIs
March 2005	Honduras reaches completion point of the HIPC initiative (no waiver necessary)

5.4.1 Debt relief and the HIPC Initiative in Honduras

Honduras entered the HIPC initiative in November of 1999 as one of the poorest countries in the Western hemisphere. The failure of adjustment policies to alleviate the massive debt burden necessitated the inclusion of Honduras into the HIPC initiative. While Honduras had throughout the 1990s benefited from multiple instances of concessional rescheduling with the Paris Club, in 1999 the debt load nevertheless remained disempowering, especially from a fiscal perspective with a net present value (NPV) debt to revenue ratio of 338 per cent, and a debt-service to revenue ratio of about 40 per cent in 1998 (IMF and IDA 1999b: 4). Moreover, debt service obligations have consistently been higher throughout the 1990s than social expenditures (*ibid.*: 11), a situation that is expected to be rectified through debt relief. In fact, in 1996, debt-service as a per cent of social expenditure reached an astonishing 220 per cent, signaling that more than double the amount of government money was flowing into debt repayments than into social service expenditure (IMF and IDA 1999b: 12).

Consistent with the reduction in Honduras' NPV of debt-to-revenue ratio to 250 per cent, total assistance under the HIPC Initiative is estimated to amount to US\$ 556 million in NPV terms (IMF and IDA 2000a: 23). However, debt relief was made dependent upon Honduras reaching the completion point of the HIPC initiative, initially scheduled for 2002, one year after the scheduled approval of the PRSP, and the submission of a progress report on the PRSP. In the meantime, Honduras was promised interim debt relief to facilitate the implementation of its PRSP, and to help address the large reconstruction costs and social needs faced by the country in the aftermath of Hurricane Mitch. The exact value of the interim debt relief was not determined at

decision point by the IDB and the World Bank, the two institutions that were supposed to deliver the debt relief. However, the percentage of GDP used to service debt was projected to decline from 3.6 in 1999 to 2.9 in 2000, 2.1 in 2001, and 2.3 in 2002 (FOSDEH 2004: 2), thus freeing up resources for social investments while awaiting the final approval of debt relief.

After having reached decision point, the Honduran authorities proceeded to put together a full PRSP, which was approved in Washington in October 2001. Incidentally, the third review of the PRGF, the IMF agreement with the Honduran government signed in 1999, was approved on October 5, 2001, and a new 'Letter of Intent' was signed a few months before the government of Carlos Flores left office. Unfortunately, this agreement went 'off track' soon after it had been reached, as the Honduran government exceeded the fiscal targets defined in the agreement, and the failure to reach a new PRGF agreement stopped the disbursement of new HIPC funds (SIDA 2003: 17).

Since most donors use IMF agreements as a signal for disbursing their own aid, being 'off-track' with the IMF meant that the resource flows for PRSP implementation soon began to dry up. As a result, the Conservative administration of Ricardo Maduro, which took office in January of 2002, was in a difficult situation because it inherited a huge fiscal deficit, typical for a post-election environment in Honduras, and at the same time, was expected to implement the PRSP with dramatically less resources than promised by the IFIs. According to the Vice-Minister of the Presidency, the government's ability to implement the PRSP was severely affected by the lack of an agreement with the IMF and resulting absence of debt relief and aid flows (FOSDEH 2004: 3). This is further evidenced by the fact that the execution rate of PRSP programs

remained disappointingly low in 2002 and 2003, with less than 20 per cent of the funds earmarked in the PRSP for projects related to economic growth actually disbursed, and less than 50 per cent of the funds earmarked for social programs in the areas of protection of vulnerable groups and human capital investments disbursed (SIDA 2003: 19).

Government officials blame the IMF's unwillingness to be more flexible in its fiscal stance for the low and unbalanced implementation levels in the early years of PRSP implementation (FOSDEH 2004: 5).

In this context, it is important to briefly outline why the agreement was discontinued as this will show the extent to which ownership has remained absent in the PRSP process in Honduras, as the IFIs have remained married to an inflexible fiscal orthodoxy, which in the case of Honduras seems to have trumped all inclusion concerns. The key bone of contention between the IMF and the Honduran government was the fiscal deficit that emerged in the pre-election period in 2001, reaching undoubtedly unsustainable levels at 4.6 per cent of GDP (*ibid.*: 4). However, the key issue is not the deficit itself, but how the IFIs proposed to deal with it. The IMF demanded that the government cut the deficit by achieving a targeted decline of the government's wage bill. Teachers in particular were singled out as the group whose earnings needed to be frozen so as to effectively deal with the deficit. Representatives from both the IMF and the World Bank had repeatedly stated that teachers make an excessive amount of money in Honduras during their negotiations with the Honduran government (Interview Interforos, Tegucigalpa, 21.07.2005). This was highly contentious as the salaries of teachers, while having risen substantially during the 1990s, continued to stay below the levels they had reached in 1989 (in real terms). In other words, teachers were making less money in 2001

than in 1989, and the mild salary increases undertaken by the government were clearly necessary to allow teachers to survive on their meagre earnings of US\$ 250 per month, in a country where the price of the basic food basket (excluding rent) fluctuates around US\$ 200.

It is also important to note that the deficit was linked to a number of unforeseeable and unique events, such as the recession of the US economy beginning in 2000, representing the largest export market for Honduran commodities; the natural catastrophe of Hurricane Mitch with the destruction of the equivalent of 70 per cent of annual GDP; and the galloping election campaign spending which would automatically recede after the election. Thus, a milder and spread-out reduction of the deficit would arguably have made more sense as the deficit was not linked to structural imbalances, but rather originated in largely uncontrollable one-time events. Another alternative could have been to raise the rather low income tax rates for top earners, as rates had come down dramatically after pressure by the IMF which turned 'income tax reform' into a conditionality in the 1990s.

What is more, the lack of an IMF agreement translated into the withholding of budget support by numerous other donors, such as individual donor governments, the IDB and the World Bank, budget support that should have been available to support the implementation of the PRSP. Thus, it was the weakest and most disempowered members of Honduran society that ultimately paid the price of the IMF's decision to withhold funding for the PRSP. Trocaire notes that the financial implementation of PRSP programs and projects has been very low with only 54.5 per cent of the total PRSP budget for 2001 and 42.2 per cent of the budget for 2002 implemented (Trocaire 2004a:

11). The local NGO Social Forum on Honduras' Foreign Debt (FOSDEH) estimates that the total cost of being off-track with the PRGF over the period of 2001-2003 was approximately US\$ 400 million or about one percent of GDP per year (FOSDEH 2004). These funds could have contributed to poverty reduction programs in Honduras had they been made available. Moreover, this also signals the IMF's attempt to use debt relief as a tool to impose its fiscal orthodoxy onto Honduras, apparently accepting the social costs of such a move. This demonstrates that concerns for inclusion by the IFIs remain embedded within an unwaveringly strong commitment to neoliberal macroeconomic management.

At the same time, the debt relief granted to Honduras, while significantly reducing debt service payments, will not substantially reduce the overall stock of debt. Rather, Honduras will continue to be dependent on the IFIs and continue to contract debt to pay for interest payments. Debt relief simply cements this dependence by making the debt regime sustainable into the distant future. In fact, because of the faltering implementation of debt relief, Honduras' external public debt has increased by 7 per cent from US\$ 4.3 billion in 1999 to US\$ 4.6 billion in September 2003 (FOSDEH 2004). Thus, the ultimate objective of the HIPC initiative seems to be to bring Honduras' debt burden to a sustainable level so as to guarantee the on-going interference of the IFIs into the internal affairs of the developing world, while also using the funds to alleviate poverty and thus make these interventions politically more acceptable.

Finally, in March 2004, the IMF approved a new PRGF and Honduras was back on track with the IMF. The Honduran government managed to negotiate an agreement with the unions that would link the wage bill of education spending to GDP growth and

the rate of inflation, and thus ensure that the IFI-imposed cap on public salaries set in the PRGF would not be violated (SIDA 2004: 6). However, since Honduras had broken its previous commitments to the IFIs, it took until April 2005 to finally reach the completion point of the HIPC initiative. At this point, multilateral creditors pledged US\$ 297 million in debt-service relief out of which US\$ 135 million had already been administered.

According to FOSDEH, the government received US\$ 201.9 million in interim debt relief in 2002 and 2003, only half of which was spent on PRSP implementation as reported in the first progress report on the PRSP (Government of Honduras 2004). Moreover, it is estimated that an additional US\$ 581.4 million will be received in HIPC debt relief in the 2005-2018 period (Government of Honduras 2005: 39). As was the case in Nicaragua, to be able to reach completion point, Honduras had to develop and implement a poverty reduction strategy and fulfil a number of conditionalities as outlined in the PRSP and in other IMF and World Bank agreements.

It is interesting to note that, similar to the Nicaraguan experience, UNAT (*Unidad de Apoyo Técnico*), the Technical Support Unit to the President, was in charge of developing the PRSP. UNAT is arguably the most internationalized arm of the Honduran state as it is heavily penetrated by foreign bureaucrats and consultants, working side by side with the president. In fact, it was initially financed by USAID to develop “technical capacity” close to the president and to manage foreign loan assistance and many of its employees are on the payroll of donors (Jackson 2005: 29). While UNAT’s main task is to give ‘technical’ and ‘apolitical advice’ to the president on important economic issues, it was the key player in the development of the PRSP. This contrasts with the systematically low participation in the elaboration of the PRSP and limited influence on

the final product by the democratically elected Honduran Congress (Cuesta 2007: 341).

5.4.2 Poverty Diagnostic and the I-PRSP

Before developing a full PRSP, the Honduran government had to present an I-PRSP to the IFIs, at the heart of which was supposed to be a multi-dimensional poverty diagnostic.

The poverty diagnostic of the I-PRSP is quite straightforward in that it proposes an individualist and atomist explanation of poverty where access to income generating activities is seen as key to poverty reduction and the distribution of wealth and structural inequalities are disregarded as root causes of poverty. While the government notes that “numerous representatives of civil society organizations are convinced that poverty is principally attributable to the high concentration of wealth, and for that reason demand that the government provide more resources and social compensation programs”

(Government of Honduras 2000: 34), it nevertheless comes to the conclusion that “when that assumption is tested against the facts, poverty is found to be a problem of insufficient access to means by which to generate income” and not rooted in the unequal distribution of wealth (ibid.). In other words, in line with the Post-Washington Consensus the government suggests that pro-poor economic growth is the ultimate solution to poverty reduction.

At the same time, however, it acknowledges that social programs can help to alleviate poverty in the short run: “Economic growth becomes the principal vehicle for raising income per capita, and the latter will have a significant impact in terms of poverty reduction. This does not preclude parallel programs aimed at redistribution of income, because it should not be forgotten that significant increases in income per capita require

long periods (10 to 15 years) of sustained growth [...] (Government of Honduras 2000: 36). One of the hotly debated questions in academia and amongst governments and civil society actors is, of course, what type of macroeconomic policies are best suited for achieving high levels of economic growth. As can only be adumbrated at this point, CSOs, the government, and the IFIs follow fundamentally different recipes, with the government and the IFIs holding on to most of the largely discredited neoliberal ideas, and mixing those with some novel insights from the Post-Washington Consensus, as will be discussed in more detail below.

Another criticism of the government poverty diagnostic has been raised in relation to the way in which poverty was measured exclusively by applying monetary metrics (Cuesta 2007: 340). Even though the government explicitly acknowledges the multidimensionality of poverty in the PRSP, it made no effort to operationalize this multidimensional nature through a qualitative poverty diagnostic. Similar to what transpired in Nicaragua, NGOs complained fiercely about the fact that only quantitative measures were used in assessing poverty on the ground (FODSEH 2004). At the same time, the claim that poverty had been reduced with the implementation of SAPs in the early 1990s was strongly contested by CSOs. The PRSP contends that both income-based measures of poverty and the UBN method document a decline in the incidence of poverty since the early 1990s. According to the PRSP, the income-based incidence of poverty declined from 74.8 per cent in 1991 to 64.5 per cent in 2000, while extreme poverty fell from 54.2 per cent in 1991 to 47.4 per cent in 2000 (Government of Honduras 2001: 9).

However, as acknowledged by the World Bank, this decline in income poverty is largely attributable to improvements and changes in income measurements, with the

government overhauling the ways in which it records income multiple times throughout the 1990s. In other words, a large part of the increased real income of the poor simply represents a gradually more complete measurement of income in Honduras (Zuvekas 2002). At the same time, to choose 1991 as the base year is problematic as poverty increased dramatically in 1991, representing a temporary spike and reflecting the effects of the elimination of price controls and the sharp devaluation of the exchange rate in 1990. Moreover, other social indicators in Honduras document the lack of improvement in the living conditions for the poor throughout the 1990s. In particular, the prevalence of undernourishment actually rose from 34.1 per cent in 1990 to 40.6 per cent in 1997 (Government of Honduras 2001: 11). Thus, the claim that the SAP contributed to poverty reduction seems rather disingenuous. However, NGO criticisms of the poverty diagnostic had no direct impact on the ways in which the government measured poverty and qualitative indicators did not find their way into the PRSP (Interview Interforos, Tegucigalpa, 21.07.2005), despite the World Bank's emphasis on (subjective) qualitative indicators in the *Sourcebook for Poverty Reduction Strategies*, in particular vulnerability, voicelessness and powerlessness.

5.4.3 The Programmatic Framework of Honduras' PRSP

The main body of Honduras' PRSP is composed of six strategy components that ultimately aim "to reduce poverty significantly and sustainably, based on accelerated and sustained economic growth whose benefits are distributed more equitably through greater access by poor people to the factors of production, including the development of human capital, and to social safety nets" (Government of Honduras 2001). To achieve this, the

PRSP lays out six pillars: (i) increasing economic growth; (ii) reducing rural poverty; (iii) reducing urban poverty; (iv) increasing investments in human capital; (v) strengthening the protection of vulnerable groups; and (vi) guaranteeing the sustainability of the strategy. Moreover, in line with the MDGs, the PRSP established eleven broad targets to be achieved by 2015 (ibid.):

1. Reduce income-based poverty and extreme poverty by 24 percentage points (from 66% and 49%, respectively, to 42% and 25%).
2. Double the net preschool enrolment rate from 31% to 62%.
3. Raise the net enrolment rate in the first two cycles of basic education (grades 1-6) from 86.2% to 95%.
4. Double the net enrolment rate in the third cycle of basic education (grades 7-9) from 35% to 70%.
5. Raise the proportion of new labor-force entrants that have completed their secondary education from 25% to 50%.
6. Reduce infant and child mortality rates by half, from 33 and 44 per 1,000 live births, respectively, to 17 and 22.
7. Decrease malnutrition rates in children under five from 40% (in 1997) to 20%.
8. Reduce the maternal mortality rate by half, from 147 to 73 per 100,000 live births.
9. Raise access to potable water and sanitation facilities from 81% and 70%, respectively, to 95% in both cases.
10. Achieve parity and raise the UNDP's gender-related HDI by 20%, from 0.640 to 0.770.
11. Implement a sustainable-development strategy to protect the environment.

The following discussion will first provide an analysis of the content of economic and structural reform policy, before interrogating the elements of social investments and poverty reduction that are hoped to contribute to achieving the above identified targets and represent the main differences with previous SAPs. This discussion will serve to further substantiate the argument that the PRSP, while continuing with the well-known prescriptions of neoliberal macroeconomic policy, does signify an increased engagement with social issues, and thus contains important discontinuity in the social realm.

Economic Growth and Structural Reforms

As established in the poverty diagnostic, economic growth is perceived to be the key to sustainable poverty reduction. In the words of the Honduran government: “Given the scale and depth of poverty, government monetary transfers are neither sufficient nor sustainable; therefore, economic growth and the reforms that stimulate it will be the driving force in poverty reduction” (ibid.: 59). In fact, the PRSP articulates the ambitious goal of GDP growth of 4.5 per cent over the period of 2001-2009. This is a rather ambitious goal given the poor economic performance of the Honduran economy over the past 15 years when per capita GDP growth has averaged 0.6 per cent. The two key factors singled out in the PRSP for explaining this poor growth performance are low labor productivity linked to low levels of educational attainment and the concomitant scarcity of human capital, and high population growth (Government of Honduras 2000: 36). Interestingly, there is no discussion of the way in which Honduras is integrated into the global economy and its dependence on a very narrow range of export commodities, as highlighted by many NGOs in the alternative PRSP, and there is no mention of the failure of neoliberal policies to stimulate economic growth.

Given the lackluster economic performance during the reign of SAPs in Honduras, it is surprising that at the heart of the economic growth strategy of the PRSP is the notion that the series of (neoliberal) economic measures adopted during the 1990s had a positive impact on the growth of the Honduran economy, and that the completion of structural adjustment policies will be instrumental to the revival of the economy (Government of Honduras 2000 and 2001). As the Honduran government notes: “In the long run, structural adjustment measures should have positive effects on the rate of GDP

growth, and should also, therefore, reduce poverty” (Government of Honduras 2000: 61). Consequently, the most important measures suggested to boost economic growth (and incidentally reduce poverty) include further opening up the economy to external investors and products, and the completion of those structural adjustment measures that had not been completed prior to the PRSP process due to popular resistance, such as the privatization of important state enterprises, and the further liberalization of trade and full integration of the Honduran economy into the channels of world trade (Government of Honduras 2001: 49 and 67). Moreover, it is assumed that the private sector will play an increased leadership role in achieving higher levels of investment and growth, in an environment of increased competitiveness and macroeconomic stability (Government of Honduras 2000: 75). In a similar vein to Nicaragua, the industrial clusters identified as carrying a high production and employment potential are light assembly, tourism, forestry, and agro-industry. Finally, higher investments into the human capital of the population are also highlighted as a precondition for economic development.

The rural sector receives particular attention in the PRSP because it is considered to be the engine of rural economic growth and poverty reduction, to be achieved through increased production and improved efficiency and competitiveness of small rural producers, by facilitating better access to infrastructure, market-support services, and technology and financing (Government of Honduras 2001: 71). However, while the PRSP acknowledges the role that SMEs play in the Honduran economy, and while it articulates a strategy to boost support for this sector which employs approximately 80 per cent of the Honduran labor force, the financial commitments made to support the rural sector and SMEs are rather modest at approximately 10 per cent of all PRSP spending

(Trocaire 2004a: 7). Furthermore, the rural development programs mentioned in the PRSP existed largely prior to the PRSP process and are not well integrated with the overall strategic goals of the PRSP (ibid.). Particularly disconcerting is the fact that there was no serious discussion about the implications of signing the DR-CAFTA for small rural farmers.

Another key criticisms of the original PRSP has been the lack of an effectively articulated accumulation strategy with clear priorities, similar to the criticisms raised against Nicaragua's first generation PRSP (Cuesta 2007: 341). The government attempted to address this issue in the 'revised PRSP of 2004' in which it acknowledges the need to better invest in the productive infrastructure (Government of Honduras 2004). While the original PRSP predominantly focuses on sound (neoliberal) macroeconomic policies and investments in social infrastructure to raise labor productivity, in line with Nicaragua's second generation PRSP, the revised PRSP of Honduras highlights the need to make more significant investments into the productive infrastructure so as to stimulate economic growth.²⁸ These investments into the economic and productive infrastructure (ports, highways, telecommunication, and irrigation systems) and the promotion of trade integration are also touted as catalysts for pro-poor growth. Finally, tourism is identified as another catalyst for pro-poor growth as indigenous and rural communities can market themselves to ecological, cultural and adventure tourists. What is interesting is that the government claims (in line with IFI thinking in the *Sourcebook*) that these infrastructural investments and the promotion of free trade are inherently pro-poor in nature. However, while these investments and projects are all cloaked in the language of inclusion, it is

unclear to what extent they will actually contribute to pro-poor growth. For example, while the DR-CAFTA trade deal might improve accessibility to the massive US market and spur competitiveness in the export-oriented agricultural sector, the PRSP does not consider the effects that DR-CAFTA will have on traditional agriculture and other sectors in which low levels of competitiveness prevail (SIDA 2004: 11).

To sum up, the accumulation strategy proposed in Honduras' PRSP is rather similar to Nicaragua's PRSP in which export promotion by an invigorated private sector is equally considered to be the panacea for achieving rapid economic growth. At the same time, Honduras' PRSP does differ from previous SAPs in its focus on international competitiveness, private sector development, and world market integration as the key to economic development. What is more, inadequate attention is given to the rural sector and SMEs (Trocaire 2004b), the backbone of the Honduran economy, and little emphasis is placed on industrial policy, infant industry protection, and other heterodox measures that are arguably key ingredients in the quest for economic development (Wade 1990).

Fiscal Policy and Taxation

Other key factors that, according to the PRSP, have in the past undermined the economic performance of the Honduran economy are macroeconomic instability and fiscal imprudence (Government of Honduras 2001: 23). The PRSP highlights that competitiveness has been negatively affected by macroeconomic instability, and the Honduran government promises to adhere more closely to the monetary guidelines stipulated in the agreements between the IMF and the Honduran government, especially

²⁸ A similar critique of first generation PRSPs has been articulated by the World Bank which argues that many PRSPs were inadequate, overlooking critical areas for development, such as infrastructure

the PRGF agreement with the IMF signed in March 1999. However, the goal of controlling inflation rates, in the case of Honduras, is less ambitious than in many other developing countries (Gottschalk 2005), including Nicaragua, with the Honduran government aiming to arrest inflation rates in the single digits, without articulating a clear numerical target (Government of Honduras 2001: iv).

Since controlling inflation through monetary means is difficult due to the lack of sophisticated monetary instruments, a problem experienced by most developing countries, the PRGF agreement with the IMF highlights the need to improve the efficiency of monetary instruments and increase the use of open market operations in monetary management, while increasing Central Bank independence (IMF and IDA 2000a: 10). This will allow the Honduran government to better control inflation by means of monetary policy. Since controlling inflation through monetary policy is at the moment cumbersome, most PRSP documents emphasize prudent fiscal policy as the key to containing inflation (Gottschalk 2005: 431). This is also the case in Honduras where prudent fiscal policy is presented as crucial for ensuring macroeconomic stability (Government of Honduras 2001). The PRSP notes that the goal of fiscal policy is to “achieve a low fiscal deficit, congruent with sustainable economic growth targets and a prudent monetary policy, and assure that it is financed, in a manner that avoids inflationary pressures whose negative impact is especially strong on poor households” (ibid.: 61).

To this end, further civil sector reform is necessary in the view of the IFIs. Civil sector reform would allow the Honduran government to revisit wage setting criteria for civil servants (IMF and IDA 2000a: 45) and limit the wage bill to 7.5 per cent of GDP

investments (World Bank 2004).

(IMF and IDA 1999b: 54). Overall, in the area of monetary policy, the differences between the PRSP and previous SAPs are minor, with the IMF and the World Bank continuing to promote 'sound monetary policies'. What is completely missing in the PRSP, however, is a discussion of the trade-offs between inflation-targeting and poverty reduction, which arguably requires loose fiscal policies. These inherent contradictions in inclusive-neoliberal policy are neither acknowledged nor problematized in Honduras' PRSP.

At the same time, though, the PRSP acknowledges that fiscal policy can play an important role in addressing poverty as it enables the government to channel resources directly into the hands of the poor, and that spending adjustments should be poverty-sensitive. Thus, while total government expenditure was expected to recede and fall below 25 per cent of GDP, and the deficit was scheduled to decline from the unsustainable level of almost five percent in 2001 to 3 per cent, poverty spending was, at the same time, expected to increase (Government of Honduras 2005: 20). This happened to some degree, as the fiscal deficit declined to 3.5 per cent of GDP by 2004 (*ibid.*). What is more, this adjustment was achieved without sacrificing poverty reduction spending, which rose from 7.0 per cent of GDP in 2001 to 8.4 per cent in 2004 (*ibid.*), and without any cuts in social expenditure.

In fact, the government's promise to significantly enhance social expenditure in the areas of health and education so as to improve the accumulation of human capital and better include the poor into the delivery of basic social services has, to some extent, been realized in the PRSP process (Government of Honduras 2001: 35). Recent data show that social expenditure and poverty spending have both shot up significantly with the

implementation of the PRSP in Honduras, especially if compared with the previous SAP period. Education and health spending increased from an average of 6.6 per cent of GDP in the SAP period (1990-1998) to 8.4 per cent for the PRSP period (1999-2004). This translated into an increase from US\$ 71.1 of per capita expenditure in health and education to US\$ 80.2 (Cuesta 2007: 348). This is also linked to the fact that per capita debt service payments declined from US\$ 85.4 to 62.6 (*ibid.*), and that the additional resources freed up by debt relief had to be invested into social programs, as stipulated in the HIPC decision point document (IMF and IDA 2000a). In order to better target poverty spending, the Honduran government developed a poverty map based on unsatisfied basic needs that guides the allocation of resources, with more resources per capita earmarked for the poorest municipalities (Government of Honduras 2001: 42). A more in-depth discussion of this attempt to make fiscal policy 'more inclusive' will surface later in the chapter when I turn to social inclusion policies promoted through the PRSP.

In the realm of taxation, the PRSP acknowledges that additional fiscal revenues to fight poverty could be generated through substantial tax increases. In this context, it is important to remind the reader that both income and business taxes actually decreased steeply during the 1990s, with the marginal tax rate on income declining from 42 to 25 per cent, while sales taxes were raised significantly (from 7 to 12 per cent), making the Honduran tax system much more regressive, and thus arguably contributing to the deepening of income inequality and the rise of poverty. There would be plenty of opportunity to reverse this trend and contribute to a more equal income distribution through the introduction of a more progressive tax regime. However, the PRSP concludes

that current rates of taxation are competitive and that “tax increases could have a negative impact on economic growth, thereby resulting in greater poverty in the medium- and long-term” (Government of Honduras 2001: 55). The main way to raise tax revenue is perceived to lie in the improvement of tax administration and collection, to make sure that income and business taxes are dutifully paid by all citizens and corporations (ibid.: 61). What is even more surprising is that the PRSP suggests to enlarge the base for applying the sales tax, thus removing articles which had been previously excluded from the sales tax as they were considered to be of particular importance to the poor (ibid.). This has the potential to significantly worsen the situation of the poor as consumer prices on previously exempted goods will shoot up, thus directly undermining a more inclusively oriented fiscal policy. The deeply contradictory tendencies within inclusive-neoliberal policy are again revealed in the policy stance on taxation.

Liberalization of Trade and Finance

Regarding trade liberalization, the IFIs note in the HIPC decision point document that “there is a need for further trade liberalization (reduce dispersion of rates and rationalize protection in the agricultural sector)” as dispersion of tariffs translates into high effective protection rates (IMF and IDA 2000a: 47), while acknowledging the achievements made during the 1990s, the decade of intense structural adjustment in Honduras. These achievements include, as discussed in more depth earlier, the liberalization of export restrictions and the steep reduction of average simple tariffs (see also Government of Honduras 2001: 32). The intention to further promote trade liberalization is not surprising, given the PRSPs’ suggestion that “the process of trade liberalization has had

generally positive effects on poverty”, especially “through its contribution to the expansion of exports, many of which are labor-intensive, and the drop in the price of imports [...]” (Government of Honduras 2000: 64). In line with this thinking, Honduras expects in the PRSP “to enlarge and improve Honduran trade relations, with a view toward effective inclusion in the Free Trade Agreement of the Americas” (Government of Honduras 2002: 66), and is eager to pursue bilateral free trade negotiations with Mexico, Canada, Panama, and Chile (*ibid.*). In 2004, Honduras signed the DR-CAFTA free trade agreement with the US, and it continues to aggressively pursue bilateral free trade agreements. Thus, much in line with previous SAPs, the PRSP continues to promote free trade policies, without acknowledging the trade-offs between trade liberalization and poverty reduction, and the potentially harmful effects of trade liberalization on the poor, as widely documented in the literature (*e.g.* UNCTAD 1998; UNDP 1997).

In the realm of finance, liberalization has been largely achieved in the mid-1990s with immensely negative side effects for small producers, in particular, punitive real interest rates and the attendant lack of access to credit (Conroy *et al* 1996). The PRSP (in line with the Post-Washington Consensus) focuses on the adequate regulation of liberalized financial markets and highlights the need for prudent oversight of financial markets, largely disregarding the negative social side-effects of financial liberalization. The reform proposals include the implementation of new regulations on banks’ connected lending, risk-weighted capital, external indebtedness, and open foreign exchange positions (IMF and IDA 1999b: 52). Thus, the PRSP completely disregards the well-documented effects of financial liberalization and fails to effectively develop a strategy to counter them; in particular, there is no serious attempt to deal with the lack of access to

credit by the rural sector, one of the key factors responsible for the lack of dynamisms in the rural economy (Trocaire 2002b: 12).

Privatization

Regarding privatization, the PRSP notes that the government aims to promote greater participation of the private sector in the provision of public services in order to increase the efficiency of state operations (Government of Honduras 2001: iv, 49, and 65), without even as much as acknowledging the possible negative side-effects of this policy on the poor. This is in line with expectations from the IMF articulated in the PRGF and the decision point document of the HIPC initiative, in which a number of performance criteria are linked to the privatization of state utilities (IMF and IDA 2000a). These include the privatization of the state telecommunication company (HONDUTEL), the privatization of electricity distribution (ENEE), the privatization of water and sewer management, and the privatization of port facilities and the issuance of airport concessions (ibid.: 10). These privatizations are politically very sensitive as both Congress and civil society representatives have in the past raised concerns regarding their social impacts. In fact, many NGOs argue that poverty and social impact analyses should be conducted prior to any further privatization effort (Interview Interforos, Tegucigalpa, 21.07.2005). In the past, the privatization of various state utilities has been promoted largely unsuccessfully due to popular resistance and the Congress' hesitant approach to public utility privatization. In particular, previous IFI agreements contained conditions regarding the privatization of the telecommunications and electricity sector (IMF 1994: 5), but were never fully implemented and thus returned to the IFI's attention in the PRSP

process.

Given the enduring lack of support for IFI-supported reforms, a series of strikes and protests hit the country in 2000. In May, 8,000 hospital workers went on strike to demand a pay-raise, affecting 28 hospitals and 500 clinics, and riot police were deployed in and around public hospitals to maintain order. On July 27, 2000, thousands of secondary school teachers went on strike over unpaid wages, affecting about one million pupils. A 24-hour general strike on August 24, 2000, directly opposed many of the IMF-backed privatizations. Organized by the union Popular Bloc, and comprising farmers, workers and students, the protest ultimately led to the closure of universities, affecting 60,000 students, and protesters blocked services at hospitals and major highways (Woodroffe and Ellis Jones 2000).

However, linking privatizations to debt relief has been a successful move by the IFIs, as various government representatives have noted that the hands of the Honduran government are tied because Honduras desperately needs access to debt relief funds and is therefore in no position to oppose the demands of the IFIs (as in previous years) (FOSDEH 2004; Interview Interforos, Tegucigalpa, 21.07.2005). Thus, the IFIs' attempt to sell their neoliberal reforms and stifle opposition by sweetening them with financial incentives linked to debt relief has been successful in the case of Honduras. Nevertheless, while privatization remains at the heart of the inclusive-neoliberal development model, the PRSP also stipulates that the proceeds from all privatizations are expected to be channeled into poverty reduction programs (Government of Honduras 2001: 6), particularly to subsidize those that cannot afford privatized services. The policy of accumulation by dispossession (*i.e.* privatization) is thus complemented by accumulation

by subsidization, *i.e.* social compensation for those unable to afford social services provided through the market place.

5.4.4 Social Inclusion through Increased and More Effective Social Investments

As demonstrated thus far, the macroeconomic framework of the PRSP deviates little from Washington Consensus-informed SAPs in terms of monetary and fiscal targets, and continues to promote policies that have been related to growing poverty and inequality, such as private sector participation in the provision of social services, trade liberalization and ‘sound’ (read: neoliberal) fiscal policy, policies that not only crippled the economies of the developing world but also increased inequality and poverty over the last two decades. Yet, while the paramount goal of fiscal policy is to facilitate macroeconomic stability and produce balanced budgets, the Honduran PRSP nevertheless acknowledges that the state should be playing a more active role in poverty reduction efforts. This is linked to the insight that “although structural adjustment seeks to establish long-term positive effects on production growth rates and therefore on poverty reduction, in the short-term, while the economy is being reoriented, some measures can have negative effects on vulnerable groups” (Government of Honduras 2001: 30). Thus, the government acknowledges that it has to counter-act these tendencies through strengthening social safety nets focusing especially on groups and sectors with the greatest social vulnerability (*ibid.*: 56).

This concern for social inclusion is also evident in various IFI agreements in which conditionalities do not only focus on macroeconomic policy, but increasingly intrude into the realm of social policy, including measures such as the erection of social

safety nets and increased social investments in education and health. As the following discussion will highlight, the Honduran PRSP and IFI conditionalities indeed contain a number of initiatives that fit well with the inclusive-neoliberal policy paradigm that is emerging in the world development order. In fact, there are a number of conditionalities attached to the granting of debt relief that explicitly aim at pro-poor spending targets and social investments. For example, to achieve completion point of the HIPC initiative, the IFIs expect the Honduran government to strengthen its basic health services for the poor by improving access to services, through focusing on the neediest and delivering a package of basic health services to at least 100.000 beneficiaries in poor communities through CCTs (IMF and IDA 2000a: 13). Also, the social safety net that was erected in response to the social dislocations caused by adjustment measures in the early 1990s is expected to be expanded and better targeted at the most needy, with greater participation by the poor in project planning (*ibid.*). Moreover, all proceeds from privatizations must be channeled into poverty reduction projects and programs, while education is expected to be improved through the implementation of community participation in the management of schools in at least 1,350 schools (*ibid.*: 14). Finally, a number of other social conditionalities to reach decision point include the implementation of an anti-corruption strategy, the strengthening of the government fiduciary and audit control mechanisms, and the reform of the social security system, in particular the separation of the health and investment plans (*ibid.*).

Those specific social goals are to be achieved through significant increases in investments into the health and education sector, which will not only help lift the poor out of poverty, but will also contribute to augmenting the human capital of Honduran

workers, and thus contribute to addressing the productivity malaise of the Honduran economy (Government of Honduras 2001: 35). In fact, almost 60 per cent of all resources allocated through the PRSP in the period from 2001 to 2006 have been recorded as human capital investments, with 70 per cent of these investments flowing into the education and 30 per cent into the health sector (Government of Honduras 2006: 6). What is more, as noted earlier, social spending has increased noticeably with the introduction of the PRSP.

While poverty spending as per cent of GDP also initially rose steeply from 7.0 per cent of GDP in 2000 to 8.8 per cent in 2001, it fell back to 7.5 per cent in 2002, and then grew to 7.8 per cent in 2003 and 8.4 per cent in 2004 (Government of Honduras 2005: 31). However, this is arguably an outcome of the lack of donor funding to fully implement the PRSP, given Honduras' status as being 'off track' with the IMF. In response, in 2004, the IMF incorporated a target for poverty spending into the PRGF agreement which stipulates that poverty spending is expected to increase at 0.6% of GDP in each year of the program (ibid.: 31). Through this, the IMF wanted to ensure that government spending cuts would always be poverty-sensitive in nature, and that poverty spending would continue to increase. However, as in Nicaragua, the key to achieving significant poverty reduction is perceived to lie in a number of CCTs that were also expected to be expanded with the use of debt relief funds (IMF and IDA 2000a).

The *Programa de Asignación Familiar* (PRAF), or Family Assistance Program, is a CCT program that was initiated in 1990, as a social safety net to compensate the poor for lost purchasing power and to ease the burden of macroeconomic adjustments, with financial support from USAID and the IDB (IDB 1998: 1). However, the PRAF was

restructured in 1998, and with the introduction of the PRSP, it was renamed PRAF-IDB Phase II. The program was expected to be significantly expanded through the PRSP process so as to better address the educational and health needs of poor households (IMF and IDA 2000a: 14). Similar to Nicaragua's CCT, the stated goal of Honduras' program is to "to increase the accumulation of human capital among children of the very poorest families and thereby help to break the cycle of poverty" (IDB 1998: 1). Moreover, in the case of Honduras, the objective of CCTs is to compensate the poorest families for their immediate costs related to the use of educational and health services, including both direct costs linked to health clinic visits and school attendance but also opportunity costs (representing the lost income under the best possible alternative scenario).

As in the case of Nicaragua, the PRAF contains a number of cash transfers in the area of education and health to families living in extreme poverty, subject to observance of certain rules and conditions. For the educational voucher, the implementation proposal of the PRAF-IDB II pegs the direct costs of attending school at 501 *Lempiras* per year (US\$ 35), while it calculates that the opportunity cost (of losing children's work) is 326 *Lempiras* per child per year (US\$ 23). Thus, the PRAF stipulates an educational cash subsidy of 827 *Lempiras* per year for each child (US\$ 58) (IFPRI 2000: 9). The Nutrition and Health voucher consists of the calculation of opportunity costs exclusively as it was deemed that the direct costs of visiting health centres were minimal (ibid.: 10). The amount given to families through the health and nutrition voucher was set at 660 *Lempiras* per year (US\$ 46.30). There is also a supply side element that forms part of the PRAF which aims at improving service delivery through a cash infusion into health clinics (US\$ 6020 per clinic) and schools (US\$ 4000 per school) participating in the

program. Geographically, the PRAF focuses on the 80 poorest municipalities of the country, identified using the School Height Census of 1997.

The same criticisms raised against Nicaragua's CCTs also apply to Honduras' program, where roughly 50,000 beneficiaries have been receiving CCTs out of a total of more than 3 million Hondurans living under conditions of extreme poverty. Thus, the CCT reaches barely even 2 per cent of people living in extreme poverty. At the same time, the program has the same problematic gender bias build into its program implementation as women are approached as the head of the household and entrusted with the responsibility (and added work burden) to oversee the children's school attendance and to make regular visits to health clinics, while also participating in workshops on health and nutrition. Another subsidy program outlined in the PRSP is the transfer payment program to senior citizens above the age of 60, to be implemented by the Honduran Institute of Senior Citizen Assistance (IHAM). At the heart of this program are monthly subsidies for seniors in order to provide them with support for food and medicines (Government of Honduras 2001: iv). These inclusion measures, however, are unlikely to achieve their desired social results in light of the neoliberal macroeconomic policies that accompany them, especially the continued push for utility privatization.

5.4.5 Social Impacts of the PRSP

In 2005, Honduras reached the completion point of the HIPC initiative after complying with all but one conditionality, financial sector reform, in particular the application of the Basle Core Principles to the banking sector (IMF ad IDA 2005: 17). Thus, where previous agreements between the IFIs and Honduras failed to convince the government to

implement the most fiercely contested neoliberal policies, such as utility privatizations, the HIPC initiative and the PRSP process succeeded. Finally, while certain elements of pro-poor spending can be identified in the Honduran PRSP and some progress has been made in poverty reduction, various social goals articulated in the PRSP have not been achieved. Nevertheless, in the HIPC completion point document, the IFIs welcome the “broadly successful implementation of the PRSP, both in terms of poverty-reducing spending and of improvements in the PRSP indicators” in the decision point document (IMF and IDA 2005: 10), and note that three out of four monitorable goals have been met in 2004. Also, overall PRSP spending has been on the rise and the education and health sectors received desperately needed injections of new money, as highlighted earlier, bringing the level of total social spending up from 44 per cent of total government expenditure in 2000 to 49 per cent of GDP in 2002. Moreover, many poverty alleviation programs received new funding as a rising share of GDP has been devoted to poverty reduction, increasing from 7.0 per cent of GDP in 2000 to 8.4 per cent in 2004 (Government of Honduras 2005: 27). These figures provide support for the thesis that an inclusive-neoliberal development model is emerging in Honduras through the implementation of the PRSP.

However, aggregate data can be deceiving and have to be disaggregated to paint a more meaningful picture. In a more recent poverty analysis the IFIs do just this and argue that only 54 per cent of all PRSP spending actually ended up directly supporting the poor, and complain that PRSP spending has a relatively low level of targeting in Honduras (World Bank 2006b: 76). This is an astonishing finding that shows that almost half of the money freed up through debt relief, which was expected to directly benefit the poor, was

allocated to the non-poor, a situation very similar to the one in Nicaragua where debt relief was used to bail out financial capitalists in the aftermath of the banking crisis. Thus, it is no wonder that actual poverty reduction has been somewhat disappointing between 2000 and 2004. Extreme poverty decreased mildly from 49 to 44.6 per cent, while poverty decreased even less significantly from 66 to 64.2 per cent (IMF and IDA 2005: 11). Again, this might be linked to the fact that little funding was available to implement the PRSP during 2002 and 2003; a fully funded PRSP that better targeted the poor might have been much more successful in reducing poverty. However, perhaps more surprisingly, poverty levels also barely changed between 2004 and 2006, when the PRSP implementation was finally in full swing. In fact, levels of poverty again modestly declined from 64.2 to 61.8 per cent, while extreme poverty fell from 44.6 to 42.5 per cent. Thus while income poverty decreased mildly, the targets set in the PRSP of reducing the incidence of poverty to 42 per cent, and extreme poverty to 25 per cent by 2005, were widely missed. What is more, as discussed earlier, measuring poverty solely based on income statistics can be very deceiving.

In fact, the postulated reduction in poverty critically depends on the way in which poverty is measured. CEPAL, for example, using the UBN method, suggests that the incidence of poverty in Honduras has barely changed from the SAP period (1990-98) during which it averaged 79.9 per cent to the PRSP period (2001-05) during which it averaged 77.3 per cent. Similarly, extreme poverty barely fell from 57.4 in the SAP period per cent to 54.4 per cent in the PRSP period. This shows that consumption subsidies do not necessarily help the poor, especially if basic social services, such as water and electricity provision, are simultaneously being privatized. This led the Swedish

International Development Agency (SIDA) to conclude in its evaluation of Honduras' PRSP that "it is now clear that the PRS process has not yet generated significant poverty reduction in Honduras" (SIDA 2007: 4). What is more, levels of income inequality have been subject to a noticeable increase since 2001, as the GINI coefficient moved upwards from 56.1 to 59.2, signifying a higher concentration of income in the hands of the rich (Government of Honduras 2006: 19ff.; SIDA 2007: 4).

As pointed out earlier, it is the IFIs themselves that are largely responsible for the lack of resources in the early implementation phase of the PRSP, a reality that most commentators on the PRSP process in Honduras have remained awkwardly silent about (*e.g.* Cuesta 2007). The IFIs predisposition to ultimately privilege macroeconomic over social concerns, despite their strong rhetoric to the contrary, clearly demonstrates the continuity between inclusive neoliberalism and earlier orthodox neoliberal thinking. It is reasonable to suggest that inclusive neoliberalism will most likely be unsuccessful in significantly reducing poverty in Honduras, given the insurmountable contradictions and tensions between neoliberal macroeconomic and pro-poor social policy and the failure of the export-oriented neoliberal accumulation model to induce economic growth in the past. However, neoliberal political elites in Honduras that show little interest in poverty reduction and might even use the pressure from the IFIs as an excuse to implement unpopular structural adjustments are equally to be blamed for the failure of PRSPs to make a dent into the intolerably high levels of poverty.

5.5 Civil Society Participation in the PRSP Process

Honduras had little experience with civil society participation in the formulation of

government policy prior to Hurricane Mitch in October 1998, as the participation of civil society in the formulation of economic and social policy has been historically relatively weak, despite the existence of a vibrant civil society and the proliferation of professional issue-oriented NGOs in the 1990s (Civicus 2008: 21). However, in the aftermath of Hurricane Mitch, CSOs stated to play a more prominent role in Honduran politics, through their coordination effort to provide emergency relief to the affected population and to rebuild the country. This was directly related to the multilateral and bilateral donors' pressure to establish more collaborative relationships with civil society and integrate CSO perspectives into reconstruction plans (Dijkstra 2005: 450). In fact, the government created a new permanent forum for exchange to facilitate CSO participation in the reconstruction process, the Commission for Civil Society Participation. Thus, Hurricane Mitch marked a new era in the participation of CSOs with national CSO coalitions emerging, such as *Interforos*, which also became a key player in the PRSP process (as discussed in more depth later). Initially, these coalitions attempted to influence the Plan for National Reconstruction and Transformation by lobbying their government as well as the wider donor community in an *ad hoc* manner (Possing 2003: 23). However, this participation was somewhat institutionalized through the founding of the *Foro Nacional de Convergencia* (FONAC), an institutional space where NGOs and the government come together to discuss, and whose main goal is to engender a consensus surrounding national development initiatives, reached by CSO participation and dialogue between civil society and the government.

Part of this emerging participatory culture was a social audit process that involved the installation of a Support and Supervision Commission that would include three civil

society representatives whose main task was to ensure “that there is no corruption in the contracting and performance of reconstruction work” (Government of Honduras 2000: 85). Finally, the Honduran government has also promoted local government participation in the process of reconstruction, above all in community projects, so that communities can adjust the content of the projects to their idiosyncratic needs (*ibid.*). During this process, the social investment fund FHIS was restructured to allow more input from local stakeholders.

As Dijkstra points out, the growing role of CSOs in Honduran political life is partly related to the pressure that donor countries and the IFIs put on the Honduran government to include civil society groups in the coordination of emergency relief and the reconstruction of the country in the aftermath of Hurricane Mitch (Dijkstra 2005: 450). This donor pressure must be placed in the context of concerns about rampant corruption inside the Honduran bureaucracy, on the one hand, and the strong discontent with neoliberal policies and the lack of legitimacy of SAPs within civil society, on the other hand. As discussed in chapter 3, integrating CSOs into the policy-making process is seen by the IFIs as an important step towards building a national consensus surrounding the neoliberal accumulation model, and enhancing transparency of the political process, both assumed to be contributing to the successful implementation of neoliberal adjustment policies.

5.5.1 Government Consultation on the Interim-PRSP

The complete consultation on the PRSP took approximately 20 month, lasting from the preliminary meetings with civil society representatives in early 2000 until the PRSP was

finalized in August of 2001. As mentioned earlier, according to the *Sourcebook*, developing countries are not expected to consult civil society organizations extensively in the elaboration of an I-PRSP due to time constraints in the preparation of the document. In the case of Honduras, CSOs were nevertheless consulted on the I-PRSP through a series of meetings with selected CSO, encompassing representatives from NGOs, trade unions, confederations of farmers, women's groups, private enterprises, and political parties (Interview Interforos, Tegucigalpa, 21.07.2005). Most observers agree that the government made an attempt to invite a wide variety of stakeholders to these meetings, and did not deliberately exclude any segments of civil society (SIDA 2003: 11). At the same time, though, SIDA notes that, unsurprisingly, unorganized citizens, in particular the rural poor, were not included directly in consultation meetings (ibid.). All in all, out of the 5 meetings where CSO members were present, only two were designed to allow for feedback from CSOs through working groups that were set up during the meetings. An estimated 382 CSO representatives were present at both meetings (Government of Honduras 2000: 89).

Both meetings can best be characterized as top-down in nature, and the methodology used during the consultation was criticized by various NGOs for not allowing enough bottom-up feedback and for being imposed onto participants (FOSDEH 2004: 4). Both meetings contained long lecture-type presentations, outlining the I-PRSP and the relationship between debt relief and the PRSP process, after which working groups were set up to discuss specific sectoral issues. One of the main concerns of NGOs regarding the I-PRSP was the poverty diagnostic that was contained in the I-PRSP. The disagreement between the government and NGOs in the case of Honduras was, however,

not mainly over the extent to which poverty continues to persist in Honduras (as in the case of Nicaragua), but rather over the root causes of poverty.

As discussed earlier, the I-PRSP suggests that poverty is closely related to low productivity of the labor force and poor competitiveness of the Honduran economy, largely disregarding the nature of the neoliberal accumulation model and exclusionary macroeconomic policies pursued in Honduras since the implementation of SAPs in the early 1990s. As will become clear later in the chapter, in the discussion of the alternative PRSP process, large segments of civil society, especially those critical of the IFIs, disagreed with this view and emphasized that the neoliberal accumulation model itself is partly responsible for the worrisome levels of poverty. What is more, NGOs criticized that the poverty diagnostic was based on earlier World Bank studies and was prepared by external consultants paid for by USAID, and that the analysis was taken to Washington to be 'fact-checked', before it surfaced in Honduras (Dijkstra 2005: 451).

Another concern was the method used in the consultation process in which the working groups were assisted by experts from UNAT and the Social Cabinet in the presentation of the findings. Various CSOs complained about the fact that these experts filtered and edited the comments provided by CSOs, before presenting the findings to the workshop participants. Indeed, most interviewees suggested that the ideas that were collected and consolidated by UNAT generally did not find their way into the I-PRSP (Interview Interforos, Tegucigalpa, 21.07.2005). This raised concerns amongst CSO actors about the sincerity of the Honduran government with regards to the participation of civil society. Moreover, many NGOs have commented on their disappointment about the fact that the macroeconomic chapter of the I-PRSP was never up for discussion

(Interview FOSDEH, Tegucigalpa, 19.07.2005), and was negotiated behind closed doors between the IFIs and the government. In fact, the macroeconomic chapter only surfaced in April 2001, and was quickly included into the draft of the PRSP without ever having been seen by civil society representatives. What is more, the framework was taken straight from the 1999 ESAF agreement, and thus had never been discussed publicly (Cuesta and del Cid 2003). Similarly, Bertelsen and Jensen conclude in their analysis of the PRSP process in Honduras that the PRGF agreement with the IMF was driving the I-PRSP, and in particular the macroeconomic chapter in it (Bertelsen and Jensen 2002). Finally, as was the case in Nicaragua, the I-PRSP was submitted to the IFIs without informing CSOs in April 2000 (Dijkstra 2005).

The I-PRSP does, however, acknowledge that more substantial participation is required in the development of the full PRSP, and many NGOs were hopeful that the government would hold its promise to more deeply involve CSOs in the preparation of a full PRSP. In particular, the I-PRSP raises hopes that NGOs can contribute their knowledge and expertise to identify key projects and programs. The I-PRSP states that “[t]he government believes that organizations and the institutions that represent them should make specific proposals for policies, programs and projects, indicating the actual costs and ensuring that they are consistent with the macroeconomic program” (Government of Honduras 2000: 91). This already alludes to how the government wants to incorporate NGOs into the planning and execution of anti-poverty programs, without however providing space for participation in the macroeconomic decisions that frame these projects.

5.5.2 Government Consultation on the Full PRSP

While the full PRSP was developed over the period from October 2000 until April 2001, when the Honduran government presented it for the first time to the public, the consultation process lasted from December 2000 until July 2001 (Government of Honduras 2001). The organization of the participatory process was in the hands of the Social Cabinet in collaboration with the Commission for Civil Society Participation (Government of Honduras 2001: 3). This Commission included representatives of the national convergence forum FONAC, the local umbrella NGOs *Interforos* and FOSDEH, the Association of Honduran Municipalities (AMHON), the Federation of Private Development Organizations of Honduras (FOPRIDEH), and the chambers of Commerce and Industry of Tegucigalpa and Cortes.

However, due to donor pressure, a new forum for civil society and government interaction was created, the 'Democracy Forum' (*Foro de la Fortelacimientto de la Democracia*), which UNDP has identified as a best practice model in the region (Dijkstra 2005: 451). According to UNDP, the main task of the Democracy Forum is "to strengthen democracy in Honduras by providing a consensus-building forum for dialogue and discussion between various social sectors on issues of national importance, with the goal of influencing national policies in the long term" (UNDP 2001: 3). What is more, UNDP claims that this new forum has allowed "civil society to participate in a variety of areas, including: significantly augmented participation in PRSP formulation and implementation; unprecedented public dialogue with the presidential candidates and the five political parties; first-ever monitoring by civil society of the electoral process" (UNDP 2002: 5).

As part of this new dialogue between the government and CSOs, the Honduran government organized a total of 11 consultations on the PRSP in Tegucigalpa and 19 at the regional level (Government of Honduras 2001: 3). At these meetings, a total of 3500 people entered the direct consultation process through civil society organizations. The government claims that the participants were largely representative of Honduran society:

This figure [3500 people, A.R.] includes representatives of various types of organizations at the local, regional, and national level, such as: small farmers, blue-collar workers, market and ambulatory salespeople, teachers, media representatives, businessman and women, farmers and ranchers, ethnic groups and women's organizations (ibid.: 4).

Moreover, NGOs, churches, universities, employer's associations, unions, and community organization were also present at these meetings. Thus, most sectors of Honduran civil society were invited to the table, a fact that deserves mentioning, as previously there was a noticeable divide between the government and many CSOs. This suggests that the Honduran state really made an effort to engage critical voices during the PRSP process, arguably hoping to create a domestic consensus surrounding the content of the PRSP.

The comments provided by CSO members at these meetings were collected and recorded in form of matrices according to the topics discussed. The same procedure was applied to the written proposals submitted by CSOs. Afterwards, the government incorporated the comments it deemed appropriate "evaluating them according to technical criteria related to economic and social viability, for later consideration for incorporation into the PRSP" (ibid.: 5). The Honduran government lists a number of CSO ideas that it claims were integrated into the PRSP, such as: the inclusion of poverty estimates at the local and regional level; the identification of vulnerable groups with a

high incidence of poverty; the determinants of poverty related to adjustment and stabilization measures; the adjustment of policy measures in the educational field to reflect the consensus on the issue reached in FONAC; access to the means of production and to markets for rural farmers; expansion of the list of specific groups to be targeted to include people with disabilities; and finally strengthening the fiscal sustainability of the strategy (*ibid.*).

However, what is particularly noteworthy is that the government acknowledges that many CSO ideas were left out of the PRSP due to their ‘contested nature’ and a ‘lack of consensus’ around them. This applies to agrarian reform, which according to many NGOs is the key policy to fight poverty in Latin America (Trocaire 2004b), but also includes proposals surrounding agricultural insurance and electoral reform. Moreover, policies that in the opinion of the government have a track record of failure were also excluded, such as subsidized-credit programs, price controls, and artificial non-market fiscal stimuli (Government of Honduras 2001: 6). Thus, the government arguably excluded those suggestions that were not in line with the neoliberal macroeconomic framework present in the PRSP, as will be further substantiated later in the chapter through my interrogation of the alternative civil society PRSP.

Finally, the government acknowledges in the PRSP that to achieve a universal consensus on the document is simply unrealistic and that the goal of the participation process was rather to “identify amongst the various opinions the broadest possible accord, taking into account not only the interests of specific groups and individuals, but amongst all the national interest” (*ibid.*). Thus, the government simply turns around the criticism of many NGOs that the neoliberal model lacks universal support amongst the

population and does not best reflect the national interest of a developing country, claiming instead that NGO proposals criticizing the neoliberal model are lacking broad domestic support.

What is more, the macroeconomic framework was kept out of the consultation process and was not even presented to the public before incorporation into the PRSP. As Dijkstra notes, “the sudden inclusion [of the macroeconomic chapter in 2001] at the instigation of the IMF and the World Bank even seemed to come as a surprise the government and UNAT” (Dijkstra 2005: 451). Given the absence of meaningful participation, FOSDEH and *Interforos*, representing a significant segment of Honduran civil society, and in particular those voices critical of the neoliberal accumulation model, completely withdrew from the participatory process towards the end of it in 2001, as they felt that their opinions were not taken into consideration, and were concerned that their on-going participation in the PRSP process would provide legitimacy to the neoliberal policies set out in the PRSP (Interview FOSDEH, Tegucigalpa, 19.07.2005). Instead both NGOs organized an alternative consultation process out of which an alternative PRSP document emerged that will be discussed below.

The IFI’s evaluation of the participation of civil society in the formulation of Honduras’ PRSP is surprisingly positive, given that two of the most prominent NGOs with a broad support base withdrew from the process in April 2001, and many dissenting voices surfaced within the Honduran civil society landscape. The IFIs conclude, in the Joint Staff Assessment (JSA) of the participatory process that the process, was very broadly based and that the dialogue and consultation process was extensive, although recognizing that results were mixed as some groups have criticized elements of the PRSP

while endorsing the process (IMF and IDA 2001: 3). Surprisingly, the JSA does not mention that two important NGOs withdrew from the participation process due to their perceived lack of space to meaningfully participate in the policy formulation.

In my interviews, most NGO representatives disagreed with the rosy picture of CSO involvement painted by the Honduran government and the IFIs. In fact, one could argue that a split emerged in Honduran civil society between those voices close to the government and financially dependent either directly on the central government or on resource-rich international donors, such as FOPRIDEH, and those more organically connected to the base of Honduran society and more independent from external funding, such as *Interforos* and FOSDEH. While representatives of FOPRIDEH and FONAC seemed content with the participation process (Interview FONAC, Tegucigalpa, 20.07.2005; Interview FOPRIDEH, Tegucigalpa, 26.07.2005), *Interforos* and FOSDEH were extremely disappointed by the nature of the process, and thus completely withdrew from the Commission for Civil Society Participation and the Democratic Forum, to make sure that the PRSP would not be perceived as a legitimate document with broad CSO support, particularly given the exclusionary nature of the macroeconomic policies promoted in the strategy. In an analysis of the process and experience of the preparation of the PRSP in Honduras, FOSDEH explains that the PRSP “does not incorporate the suggestions from civil society” and that “considering the flaws of the governmental approach, Interforos is beginning the process to generate a PRSP from within civil society” (FOSDEH 2001: 6). Arguably, the lack of a united front and the inability to obtain a consensus on a common agenda among all NGOs made it more difficult to lobby the government, and worked against a more substantial inclusion of NGO voices into the

PRSP (SIDA 2003: 12).

Given the distrust for the government and concerns that the government would not be open to the suggestions made by critical NGOs, *Interforos* thought from the beginning that a parallel PRSP consultation process might be necessary. This process would allow the voices of civil society to be articulated more clearly, without being filtered or censored by UNAT experts (Interview Interforos, Tegucigalpa, 21.07.2005). The pronounced differences between the official PRSP and the alternative PRSP will come to the fore in the following discussion of the alternative poverty reduction strategy.

5.5.3 The Parallel Poverty Reduction Strategy Process

Interforos began the parallel PRSP consultation process, which it organized in close collaboration with the umbrella NGO Association of Non-governmental Organizations (ASONOG), in March 2000. In preparation for an alternative PRSP document, a series of regional workshops was held and five regional reports were elaborated between April and December 2000, covering the regions of Aguan, Copan, Lempira, Ocotepeque, and Olancho. According to *Interforos*, participants included local *Interforos* representatives, trade unions, churches, community leaders, popular organizations, small farmers associations and local development committees (Interview Interforos, Tegucigalpa, 21.07.2005). The alternative PRSP brought together the ideas expressed in five regional PRSPs and represents the voices of more than 1000 participants from all walks of life (Interforos 2000).

Poverty Diagnostic

The overall message emerging from the alternative PRSP differs substantially from the policies articulated in the official PRSP.²⁹ Similar to NGO criticism in Nicaragua, the poverty diagnostic provided in the official PRSP is criticized for failing to highlight the exclusionary nature of the macroeconomic model that has been pursued in Honduras over the last two decades. The alternative PRSP notes that neither of the previous development models has worked in favor of the poor and excluded. In particular, the neoliberal model “has rapidly accelerated the process of social exclusion which translated into the accumulation of a massive social deficits”, and “with the application of SAPs beginning in 1990, social exclusion has intensified” (Interforos 2000: 29-31).³⁰ Moreover, *Interforos* argues that while social investment funds might alleviate severe suffering, they do nothing to break the cycle of poverty because they do not adequately address the root causes of poverty. These root causes are perceived to lie in the exclusion of the poor from the productive process, the unequal distribution of wealth, and the exclusionary nature of the political process (ibid.: 7 and 32).

The immense inequality in wealth distribution is singled out as a key factor for explaining rampant poverty. While the pronounced inequality in wealth distribution is acknowledged in the official PRSP, the government contends that economic growth will be more effective than wealth redistribution in fighting poverty. *Interforos* disagrees with this argument and suggests that an important component of any poverty reduction strategy must be addressing the issue of wealth distribution, and even more importantly the unequal distribution of productive resources, including land (ibid.: 32). Indeed, one of

²⁹ The alternative poverty reduction strategy is called Estrategia de Combate a la Pobreza (Interforos 2000).

³⁰ All translations of Spanish documents are my own.

the key reform proposals in the alternative PRSP is the call for a land reform, a policy the government claimed lacks a broad enough support base to be introduced into the official PRSP.

Economic Growth Strategy

Another area of disagreement is the question of how to generate economic growth that will help those traditionally excluded from the accumulation process to prosper. In contrast with the official PRSP, which focuses on the role of large export-oriented corporations, the economic strategy advocated in the alternative PRSP starts from the assumption that the rural economy and the SME sector are at the heart of the Honduran economy, and that the rejuvenation of those sectors must be the driving force behind any effort to reduce poverty through economic growth (Interforos 2000: 57). This is evidenced by the startling size of the informal sector of the economy, which represents approximately 70 per cent of the employed population, or 2.3 million Hondurans, mostly located in rural areas (Possing 2003: 25).

The alternative PRSP proposes a strategy that supports farmers' cooperatives' and small producers' entry into the formal market, promotes their access to credit and saving banks, and ensures land titles. These ideas are concretized in an agricultural reform proposal, and in the suggestion to decentralize government control to the municipal levels (Interforos 2000: 33). This focus on the informal sector and small scale producers deviates significantly from the official PRSP, which seeks investments by multinational corporations in an attempt to turn Honduras into a successful hub of export production in manufacturing and non-traditional agricultural products. While the official PRSP

acknowledges the needs of the rural economy and SMEs, it does not allocate significant amounts of resources to this sector (Trocaire 2004a).

Moreover, the alternative PRSP highlights the need for the re-regulation of the financial sector, as this would allow small producers and farmers to be reconnected to financial markets. The liberalization of finance and the cessation of state-supported credit to small entrepreneurs have created tremendous entrance barriers for the majority of Honduran small scale producers to participate in the productive economy. The alternative PRSP notes that these imperfections created by deregulation must be addressed or else the productive needs of the population cannot be met (Interforos 2000: 61). Part of a change, of course, would be the introduction of interest rates ceilings so as to avoid a situation where astronomical interest rates prevent investments into the productive sector of the economy, and the promotion of an alternative financial system that operates under a social rather than a profit-driven logic and connects small scale producers to credit markets (*ibid.*). It is interesting to note that such alternative financial systems existed across Latin America prior to the deregulation of financial markets, encouraged by the IFIs through conditionalities attached to concessional finance.

The privatization of state enterprises has been subject to fierce CSO criticism in Honduras, without, however, creating the same kind of protest culture as in Nicaragua. For example, the privatization of the state-owned telecommunications company, HONDUTEL, has been criticized by many NGO representatives as HONDUTEL has the potential to become a key player in the Central American telecommunications market and remains highly profitable (Interviews CNT, Tegucigalpa,). What is more, HONDUTEL usually plays a key role in covering the fiscal deficit, and thus substantially contributes to

the financial health of the Honduran government. Another highly contentious topic in Honduras is the privatization of the electricity sector. Led by *El Bloque Popular*, a number of unions have been at the forefront of the fight against the privatization of Empresa Nacional de Energia Electrica, the national electricity producing company, a fight which bore fruit in 2001, when the Honduran Congress decided not to follow through with the privatization of ENEE and put the framework law for the electricity sector on ice. As corruption allegations have been surfacing in many privatization processes throughout the Latin American region, NGOs are concerned that public wealth is going to disappear into the pockets of private investors through illegal channels (Interview Interforos, Tegucigalpa, 21.07.2005). While different NGOs in Honduras disagree over the extent to which privatization might be useful, all are extremely concerned about rampant corruption and henceforth have been at the forefront of dissent over the privatization of profitable state enterprises promoted by the IFIs. *Interforos* and the union *Bloque Popular* both maintained in interviews that the good intention that might lie behind the privatization of public utilities may be lost in a political environment of corruption (Interview Interforos, Tegucigalpa, 21.07.2005; Interview *Bloque Popular*, Tegucigalpa, 27.07.2005). Thus, there is considerable disagreement over whether privatization is in the interest of the majority of Hondurans, with NGOs heavily criticizing the continuation of privatization policies in the era of poverty reduction; this criticism however did not find its way into the official PRSP where privatizations are touted as a way to enhance the efficiency of the Honduran productive apparatus and to bring services closer to where they are needed.

Additionally, the alternative PRSP document highlights the imbalances and

injustices in the international trade system where the developing world is pressured to open its markets to the products of industrial countries, while the developed world continues to protect its own markets through subsidies and tariffs (Interforos 2000: 31). At the same time, the alternative PRSP laments the declining terms of trade of Honduran export products, in particular coffee and bananas, which signify that year after year Honduras has to expend more resources for the same basket of industrial goods, making it difficult to keep a balanced trade account. This criticism of the international trade structure is completely absent in the official PRSP, where in line with the Post-Washington Consensus international factors responsible for the lack of progress made in Honduras during the reign of neoliberalism are disregarded.

There is, moreover, a concern with the way in which an increase in tax revenue as suggested in the official PRSP might affect the poor, translating into higher tax burdens for the poor while the rich continue to circumvent paying their fair share of taxes. This was the case in Honduras in the 1990s, where income tax rates were reduced dramatically at the higher end while general sales taxes (GSTs) and value added taxes (VATs) were jacked up (from 7 per cent to 12 per cent) so as to make up for the loss of revenue, essentially shifting the tax burden from the rich to the poor, with dire social consequences. This shift was moreover accompanied by another shift in the tax burden from corporations to consumers. In 1990, corporations contributed with 31.5 per cent to the overall government income while consumption taxes were responsible for 56 per cent, leaving income taxes responsible for 9.4 per cent and property taxes for 3.1 per cent. In 1998, the corporations' share declined to 18 per cent, while consumption taxes were responsible for 72.6 per cent of government income, a reality that is linked to the

steep reduction of the corporate tax rate from 40 to 25 per cent, in line with the IMF and World Bank advice given to the Honduran government in the 1990s, so as to increase the competitiveness of the Honduran economy. *Interforos* argues that this situation is intolerable and unsustainable and that growing poverty is linked to the increasingly regressive tax regime that was installed during the 1990s (Interforos 2000: 37). Yet, this discussion of Honduras' regressive tax regime did not surface in the official PRSP. At the same time, the idea of reducing import taxes was criticized for further undermining the tax base of the state and thus negatively impacting on government revenues (ibid.: 37). It is important to remember that the budgets of most Latin American countries are heavily dependent on revenues generated through import taxes.

Finally, there are major differences between the official PRSP and the alternative PRSP regarding the issue of what areas of the country the PRSP should focus on. The alternative PRSP highlights the need to concentrate on more than the 80 municipalities identified in the official PRSP. In fact, *Interforos* believes that regional poverty reduction strategies are necessary to successfully eradicate poverty, as these will be more focused on the needs and priorities identified at the grass roots level (Interview Interforos, Tegucigalpa, 21.07.2005). Moreover, this regional focus would allow the government to define policies closely related to the microeconomic opportunities of rural farmers and SMEs.

Points of Agreements

While there are numerous differences between the official PRSP and the alternative PRSP, there are also points of convergence and agreement between both documents. For

example, the official PRSP acknowledges the need to increase investments into the formation of human capital, and to make primary and secondary education affordable to all Hondurans, also a key demand of many CSOs in the PRSP process (Interforos 2000). Human capital and investments into the health infrastructure are key ingredients of the Post-Washington Consensus, and consequently have been heavily promoted by the IFIs. Thus, it is not surprising that most developing countries have included a promise to substantially increase education and health spending in their poverty reduction strategies. Other areas where the concerns of NGOs did not fall on deaf ears are anti-corruption and good governance. However, these cases of 'successful participation' have been restricted to CSO recommendations that were actually already in-line with IFI thinking, such as measures to promote human capital and good governance.

All in all, there is little evidence that CSO ideas that do not fit with the IFI's inclusive-neoliberal model have been included into the PRSP, and that civil society participation has been more than information-sharing and consultation on previously established documents (see also Cuesta 2007 and Dijkstra 2005). While the IFIs have indeed engaged a large sector of civil society through the participatory process, the government and the IFIs were, however, unwilling to incorporate macroeconomic ideas into the PRSP that lie outside of the parameters of the inclusive-neoliberal model. This supports the neo-Gramscian view that the notion of participation has been co-opted by the IFIs, only to be transformed and adjusted to serve their interests in the attempt to produce agreements amongst civil society actors regarding the content of the PRSP. Of course, this attempt to engender consensus will remain unsuccessful as long as critical and counter-hegemonic voices are left behind, and no serious attempt is made to

consensually integrate CSO views not in line with the neoliberal orthodoxy. For neoliberal hegemony to be restored, a much deeper 'social compromise' would be necessary to achieve more inclusive and legitimate social relationships.

Table 6: Comparison of Official and Alternative PRSP of Honduras

Sphere	Policy Aspirations of CSOs	Policy Recipes of SGPRS
Macroeconomic Policies	Strong criticism of neoliberal macroeconomic policies; Need for expansionary fiscal policies	Continue with neoliberal macroeconomic policies; Single digit inflation rates
Economic Development	Promote domestic market, with a particular focus on the needs of the rural economy	Export-orientation and private sector-led development; Little focus on rural economy
Trade policies	Acknowledge impacts of free trade on the poor and provide compensation; Cutting of import taxes could undermine revenue base of the state; Certain sectors require protection	Further trade liberalization Reduce import taxes
Education	Increase education funding and provide free primary and secondary education	Decentralize education and increase funding; Eliminate primary school fees; Apply user fees at higher levels; Provide targeted subsidies
Health Care	Provide free health care at all levels	Improve efficiencies in health system and provide targeted subsidies to poor
Access to credit	Put interest rate ceilings in place and allocate subsidized credit to rural sector	Let markets determine interest rates but provide better access to credit
Income distribution	Redistribute income through progressive taxation	Income redistribution seen as unsustainable solution to poverty reduction
Land distribution	Redistribute land to poor farmers through major land reform	Develop markets for land and clarify property rights; Land reform lacks

		consensus
Labor market	Provide employment; Eliminate measures that increase unemployment	Further deregulate labor markets
Privatization	Stop privatization of public utilities until Poverty Impact Assessments have been conducted	Further privatize public utilities

Sources: **Interforos 2000** and **Government of Honduras 2000 and 2001**

5.6 Conclusion

Honduras' experience with the PRSP process provides further support for a neo-Gramscian reading of the recent transformations of IFI policy and the introduction of the PRSP approach. The macroeconomic policy content of the PRSP deviates little from previous SAP agreements, as most of the well-known 'sound macroeconomic policies' promoted during the Washington Consensus era have resurfaced in Honduras' PRSP. Highly contested elements of neoliberal reforms, in particular utility privatizations, were finally completed, after having been successfully resisted by the Honduran Congress and counter-hegemonic civil society actors for years. The promise of debt relief served as an incentive to finally implement policies that were only partially implemented in the past. At the same time, the IFIs were willing to derail the PRSP process in order to force the Honduran government to cut its government wage bill and reduce the fiscal deficit. The IFIs ended their cooperation with Honduras, knowing that this would make it impossible for Honduras to access the resources necessary to properly implement the PRSP and thus would affect poverty reduction goals. This clearly demonstrates that orthodox monetary management is privileged over poverty reduction and other social goals, and that the IFIs have used the PRSP process to further entrench neoliberal practices in Honduran society.

Nevertheless, as in the case of Nicaragua, there are also important differences

between previous SAP agreements and the PRSP, which substantiates the claim that neoliberal development policy is increasingly displaying inclusive tendencies. Social expenditure soared significantly with the introduction of the PRSP process as various social conditions have been attached to the PRSP. In particular, Honduras was expected to more effectively provide social services to the poor in the areas of health care and education, by using resources freed up through debt relief. This intrusion of conditionality into the social sphere is a novelty as previous agreements did not contain spending targets in the area of poverty reduction and social expenditure. Even more surprisingly, the 2004 PRGF agreement stipulates that poverty expenditure has to increase by 0.6 per cent of GDP on an annual basis for Honduras to remain in good standing with the IFIs (IMF 2004: 21). This is supposed to guarantee that government spending cuts, if necessary, do not harm the poor. Finally, the expansion of the social safety net in Honduras through targeted subsidies in the form of CCTs further demonstrates that the IFIs are making an effort to more seriously address the negative social side-effects of neoliberal adjustments so as to make their interventions less controversial and more hegemonic.

The expansion of conditionality suggests that policy ownership been further undermined through the PRSP process. In fact, there is a clear tension between the proliferation of trigger conditions associated with the HIPC initiative and national ownership of policies, even when conditionality is expected to improve local participation and thus enhance ownership. In Honduras, more than 200 conditions were attached to the PRSC that the World Bank granted Honduras in the period from 2001 to 2004 (Dijkstra 2005: 457). Given this expansion of conditionality (into previously

uncolonized areas), Honduras' experience also substantiates the claim that the IFIs have taken on an even more prominent role in the policy-making process in developing countries, and have become tremendously powerful transnational structures of authority in the context of the PRSP approach.

However, despite the new-found attention to social issues, the PRSP of Honduras has been largely unsuccessful at achieving both of its main goals: reducing poverty and engendering a consensus amongst a wide variety of stakeholders surrounding the neoliberal policies promoted in the PRSP. The lack of support from numerous NGOs is not surprising, given that the development strategy which emerged out of the PRSP process is built on a fundamentally flawed neoliberal economic model that was severely criticized by local NGOs in the past and neither delivered substantive economic growth nor poverty reduction results during its implementation in the 1990s (Cuesta 2007: 336). What is more, as critical NGO perspectives were completely left out of the PRSP, and participation was considered to be a meaningless exercise by many NGOs, a broad-based consensus on the PRSP has not been forthcoming. At the same time, though, the PRSP process has arguably consolidated the political space for citizen and civil society participation that was opened up in the aftermath of Hurricane Mitch through institutionalizing an on-going dialogue between the government, civil society, and the international community, even if this participation was severely limited in substance and consequently failed to create a true sense of ownership among the NGO sector. As noted above, while the Honduran government did not intentionally exclude specific voices from the consultative process and made an effort to build a broad consensus surrounding the PRSP, suggestions by NGOs not in line with the inclusive-neoliberal framework outlined

in the PRSP were largely disregarded, such as land reform, expansionary macroeconomic policies and the allocation of subsidized credit. In the end, a strong consensus failed to materialize as a range of critical civil society voices was excluded during the decision-making process, which was restricted to a small number of key stakeholders, most importantly the World Bank, the IMF, the Technical Secretariat of the President, the Central Bank and the Ministry of Finance, while other key stakeholder remained excluded; not even Congress participated in the elaboration of the PRSP which further highlights that country ownership of the PRSP was largely absent in the case of Honduras.

At the same time, the case of Honduras demonstrates the severe limitations and multiple contradictions of inclusive-neoliberal policies as the attempt to redress poverty from within a neoliberal macroeconomic framework is likely doomed to failure. A successful poverty reduction strategy would require a different poverty analysis than the liberal emphasis on the paucity of human capital provided in the PRSP. Rather, what would be needed is an analysis that acknowledges other structural, class, and global politico-economic factors as determinants of poverty, and suggests ways to overcome these, in particular, the redistribution of land, productive resources and wealth at the domestic level, and the reshaping of the global governance landscape through institutional reforms at the transnational level.

Nonetheless, the PRSP has maintained its position as a central point of reference in national policy dialogue, and most stakeholders remain committed to the implementation of the PRSP, despite deep disagreements over the content of the strategy. Thus, the PRSP demonstrates that even without generating a policy consensus, it has

been effective in keeping poverty reduction goals high on the priority list of the government. However, while many civil society actors demonstrate a clear interest in the continuity of the strategy, they also articulate the need to significantly revise the PRSP in line with suggestions from CSOs, in order to break more meaningfully with the neoliberal policies that continue to be at the heart of the PRSP (SIDA 2007: 4).

Chapter 6

Conclusion: PRSPs – Producing Neoliberal Hegemony?

Despite the uncertain outlook for the 1990s, a measure of optimism is justified now that more and more countries are opting for a market-friendly approach. With strong international cooperation, the opportunities for development will be brighter (World Bank 1991: 157).

Introduction

Since the beginning of the 1980s, the World Bank and the IMF have attempted to impose their market-friendly development approach onto developing countries, using structural adjustment loans to restructure developing country economies in line with neoliberal principles. In the 1990s, more developing countries than ever before implemented elements of structural adjustment policies and ‘unleashed the market’ in their territories. As the UN *Global Report on Human Settlements* notes, by the 1990s “under what where almost perfect economic conditions according to the dominant neoliberal doctrine, one might have imagined the decade would have been one of unrivalled prosperity and social justice” (UN-Habitat 2003: 2).

Yet, the decade of the 1990s has seen poor economic performance and a dramatic deterioration of social indicators in most parts of the developing world. As the UN *Human Development Report* of 2003 highlights, “[s]ome 54 countries are now poorer than in 1990. In 21, a larger portion of people is going hungry. In 14, more children are dying before age 5. In 12, primary school enrollments are shrinking. In 34, life expectancy has fallen” (UNDP 2003a: 2). Some have compared the brutal tectonics of neoliberal globalization to the catastrophic processes that shaped the developing world

during the era of Victorian imperialism (Davis 2004: 23). Others simply deplore the fact that the modest social and economic gains made during the first decades of independence were wiped out and that GDP per capita is today lower in many sub-Saharan African countries than it was at independence (Berman 2006: 11). Even the World Bank had to eventually concede its own disappointment with the results of neoliberal reform processes in many developing countries:

At times, however, reform programs have failed to deliver as much as expected – and at times reforms have failed entirely. Consider what went wrong in East Asia, countries of the former Soviet Union, and Africa. The grim lessons of these failures, and the heavy burdens they placed on poor people, underline the importance of a measured and realistic approach to reforms to ensure that their objectives are attained (World Bank 2001: 64).

This acknowledgement is qualified, however, by the claim that the failure of neoliberal reform policies is not related to their flawed nature. In the Bank's view, the "[l]ack of supporting institutions, mistakes in sequencing reforms, and the capture of the reform process by powerful individuals or groups lie at the bottom of most failed reforms" (World bank 2001: 64). In fact, despite ample empirical evidence to the contrary, the Bank and the Fund continue to suggest that when implemented correctly, "on average they [neoliberal reforms] have delivered lower inflation and higher growth, both powerful forces for reducing income poverty" (ibid.).

At the same time, neoliberal policies inside the core of the capitalist world economy have also recently come under sustained criticism, as they have not produced desirable social results and have undermined social cohesion, and a new emphasis on attacking poverty has been placed high on the priority list of many developed country governments. In other words, the limits of neoliberal policy became increasingly visible

in the developed world as well, and the promise that increased wealth would eventually trickle down to the lower strata of society was exposed as neoliberal fiction. In the European Union, poverty and social exclusion were identified as important social issues to be addressed collaboratively through the method of open coordination, and “are now the object of common objectives and guidelines, operationalized with common indicators, benchmarks and timetables” (Noël 2006: 322).

The abject failure of the neoliberal model to bring prosperity to the majority of world citizens translated into sustained opposition to IFI-led structural adjustment programs around the world, as yearly World Bank and IMF gatherings turned into significant protest sites in the 1990s. However, protests against neoliberal adjustment policies have for a long time been most pronounced in the developing world. As highlighted in previous chapters, counter-hegemonic social forces and actors have played and continue to play an important role in the struggles against the deepening of neoliberalization processes. This is validated by the experiences of both Nicaragua and Honduras where various elements of SAPs were not implemented as envisioned by the IFIs, especially in the realm of utility privatization, and where civil society opposition was arguably one of the key factors contributing to the lack of progress in implementing various elements of SAPs.

The key question that this dissertation attempted to address is to what extent the emergence of the PRSP approach signifies a real change in the way in which the IFIs operate in the developing world and in the types of development policies that the IFIs promote. Have the IFIs transformed their lending practices so as to promote policies truly geared towards poverty reduction, or have the changes remained rhetorical in nature?

This concluding chapter begins by evaluating the claims about the emergence of inclusive-neoliberal development policy in light of Nicaragua's and Honduras' experience with the PRSP process. It next reiterates some of the most pertinent contradictions of the inclusive-neoliberal development policy mix, before assessing what the transformation in IFI policy can tell us about neo-Gramscian theory and the ways in which some neo-Gramscians have conceptualized the IFIs as tools of an emerging transnational capitalist class. Finally, the chapter provides a gaze into the future of both institutions, speculating about what changes would be necessary to promote policies truly aimed at reducing poverty and inequality in the world development order.

Inclusive Neoliberalism and its Multiple Antinomies

This study has suggested that the introduction of the PRSP approach brought about some important changes in the IFIs' development approach, without, however, representing a significant rupture with the neoliberal reform trajectory. It has argued that an inclusive-neoliberal world development order is currently in the making, linked to the introduction of the Post-Washington Consensus and the implementation of national PRSPs, the most visible policy tool of this new consensus. As part of this new model, the overall logic of 'sound macroeconomic management' is not questioned, as evidenced by the fact that macroeconomic policies changed little in Honduras and Nicaragua with the introduction of the PRSP approach. Rather neoliberal reforms that were not completed during the SAP era resurfaced in the PRSP process, especially utility privatization. Nevertheless, there is important discontinuity in the social sphere as the inclusive-neoliberal development model promotes policies aimed at poverty alleviation, and attempts to compensate the

masses of people disfavored and impoverished by structural adjustment processes in a more serious manner than through the social investment funds created in the earlier phases of restructuring.

Examples for this are the erection of social safety nets through CCT programs, such as the unprecedented attempt to implement a pilot social safety net in Nicaragua, and the rapid expansion of the already existing compensation programs in Honduras, especially the Family Assistance Program. Further evidence is the growing share of government expenditure being allocated to social spending and poverty reduction programs in the PRSP era in both Nicaragua and Honduras. The linking of PRSPs to debt relief is key in this effort to shore up social investments, as additional resources are freed up to increase social spending which since the emergence of the debt crisis in the early 1980s have been diverted to interest payments in many developing countries. As documented earlier, in both Nicaragua and Honduras, debt service payments dropped significantly due to the HIPC initiative which allowed both governments to increase spending in key social sectors.

Thus, the dissertation takes issue with the bifurcation in the literature on IFI policy transformation where institutional reforms linked to the introduction of the PRSP approach are either understood to be insignificant (Soederberg 2005; Cammack 2002 and 2004), or to signify a radical transformation in the IFI's policy stance (Booth 2003). The concept of inclusive neoliberalism allows us to better capture the discontinuity within continuity in the IFIs' approach, and thus be responsive to the subtleties of institutional transformation inside TSAs ignored by many critical commentators. However, in Polanyian terms, inclusive neoliberalism represents a rather shallow re-embedding of the

market following the (on-going) disembedding process through neoliberal restructuring (Craig and Porter 2006: 12). Most country experiences, including the countries interrogated in this dissertation, confirm that, while some social indicators have been improving due to cash subsidies to the poor, little overall poverty reduction has been achieved since the inception of the PRSP approach, if measured by the more meaningful UBN method (see also Cheru 2006). This is arguably linked to the ways in which the IFIs' focus on poverty and social exclusion is firmly embedded within a general policy commitment to the same economic orthodoxy that predominated within the IFIs throughout the Washington Consensus era. The targeted inclusion of the poor into capitalist market structures through investments in their human capital is a fragmented and partial response to neoliberal dislocations that falls far short of a meaningful re-embedding of the market. This would imply a more radical break with the main ingredients of the neoliberal recipe, especially the policies of privatization, liberalization and deregulation of labor markets, and a move towards the decommodification of large aspects of social life (Esping-Anderson 1990).

Moreover, it is unlikely that the gentler market expansion agenda at the heart of inclusive neoliberalism will positively affect poverty trends in the future as various contradictions remain deeply embedded within the inclusive-neoliberal development model. The most blatant contradiction lies in the tension between expansive social policy and restrictive fiscal policy as the IMF continues to impose its mentality of inflation-targeting and promotes tight fiscal policy as an end in itself, even when no macroeconomic disequilibrium exists. This is evidenced by the IMF's operational guidelines on inflation which have not been adapted since PRSPs entered the

development scene: if developing countries' inflation rates climb above 5 per cent, the Fund continues to force developing country governments to forgo social spending and to devote all additional development assistance to either paying down domestic debts or increasing the stock of US-denominated currency reserves (Wade 2007).

Both Nicaragua and Honduras again confirm this trend: the fiscal guidelines emanating from the IMF and articulated in the PRGFs of both countries remain extremely orthodox. In the case of Honduras, failure to comply with stringent fiscal targets completely derailed the PRSP process, while the Nicaraguan government complained that fiscal ceilings effectively limited the extent to which government resources could be expended. Moreover, due to cross-conditionality, IMF fiscal guidelines also affect World Bank lending and the contributions of many of the most important bilateral donors. This on-going practice has recently been subject to immense criticism by civil society actors and academics who point to empirical findings which indicate that inflation is not negatively correlated to growth, as long as inflation rates stay below 20 per cent, and that expansive fiscal policy is a necessary ingredient in the fight against poverty (Stiglitz 1998a). However, these insights which have finally reached the mainstream of the economics profession have not yet left an imprint on the IFIs' monetary stance.

IFI Policy Transformation through a Neo-Gramscian Lens

In this dissertation, I have also suggested that neo-Gramscian theory represents a useful theoretical tool to make sense of the recent transformations in the development approach of the IFIs and the arrival of inclusive neoliberalism. The promotion of the inclusive-neoliberal world development order must be historically located in the context of the

ascendancy of powerful transnational social forces, the political project of neoliberal globalization advocated by such forces, and the different forms of counter-hegemonic struggles and social resistance that it engendered, both at the level of word order and in developing countries on the ground through opposition to SAPs. While the IFIs are only two agents amongst a host of transnational authority structures that in a complementary manner have participated in the promotion of a neoliberal world development order, they nevertheless played a key role, especially in developing countries (Woods 2006).

This neoliberal project has recently run into serious trouble and counter-hegemonic policies have been articulated and counter-practices carried out at a number of levels, first within civil society, later by those UN institutions that are not fully subservient to the neoliberal project, and more recently by post-neoliberal political regimes in developing countries. Some of the progressive ideas articulated by counter-hegemonic forces have been absorbed and co-opted by the IFIs with the introduction of the PRSP approach and turned into tools of hegemony building in an effort to engender an inclusive-neoliberal policy consensus. The notion of co-optation, or *transformismo*, is useful in understanding this process. As neo-Gramscian theory suggests, counter-hegemonic ideas, such as civil society participation, debt relief, country ownership, and poverty reduction have all been co-opted by the IFIs and 'adjusted' to serve as tools to further embed neoliberal practices.

To this effect, debt relief, initially promoted by a coalition of counter-hegemonic social forces in developed and developing countries, has been instrumentalized by the IFIs in the PRSP process, to be employed as an incentive for developing country governments to implement neoliberal reforms that were previously opposed. In both

Nicaragua and Honduras, debt relief served in various ways to embed neoliberal practices, as in both countries tight fiscal policy, trade liberalization, and the privatization of public utilities were ‘trigger conditions’ for HIPC debt relief. What is more, reviews of the HIPC initiative suggest that the experiences of Nicaragua and Honduras are not an exception but rather the rule, as most HIPC decision point documents contain conditions linked to utility privatization and trade liberalization, and other contested elements of neoliberal reform processes (Pearce 2006).

The concept of civil society participation has similarly been undergoing a process of redefinition and transformation after its inclusion into the PRSP process. As various NGOs have highlighted, meaningful participation would include giving people a real voice in the consultation process on national PRSPs, including in areas such as macroeconomic and privatization policy (Bread for the World 2002). However, in the PRSP process, in both Nicaragua and Honduras, participation has been limited to information-sharing and consultation on largely pre-formulated policies. The macroeconomic chapters of both PRSPs were written behind closed doors by technocrats insulated even from their own national assemblies and in close collaboration and coordination with the IMF. The lack of input into the PRSP by critical voices is also evidenced by the fact that key umbrella NGOs withdrew from the official PRSP process in both countries, and felt the need to establish parallel PRSP consultation processes.

While NGOs have long claimed that participation has been limited to a selective group of organizations and a limited number of policy issues that sharply restrict thinking ‘outside the box’ (*e.g.* Bread for the World 2002), in a recent IFI progress report, the IFIs themselves recognize that “participation has been broad rather than deep”, with a number

of stakeholders engaged, but only to a limited extent (IMF and World Bank 2005: 12). In particular, the exclusion of macroeconomic issues is openly acknowledged as “the PRSP process has had a limited impact in generating open public discussions of alternative macroeconomic policy options and related structural reforms [...]” (ibid.: 12). As a result, a continuing criticism from NGOs has been that they are asked to react to existing programs, rather than contribute to an overall rethink of the IFIs’ and their government’s priorities (IMF and IDA 2004: 3).

Nevertheless, it is also clear that civil society participation experienced a new level of institutionalization through the PRSP process, as the establishment of CONPES in Nicaragua and the institutionalization of civil society consultations through the ‘Democracy Forum’ in Honduras illustrate. However, due to the shallow nature of participation exercises and the failure to incorporate, to at least some extent, the interests and ideas of counter-hegemonic social forces, civil society participation in the PRSP process has not produced the hoped for effect of engendering a broader consensus on neoliberal reform policies. This is best evidenced by the emergence of various parallel consultation processes, culminating in the elaboration of alternative PRSPs in both Honduras and Nicaragua, and the on-going criticism of many civil society actors regarding various elements of the PRSP.

Similarly, while country ownership has officially been a cornerstone of the PRSP approach, ownership has arguably been hollowed out further with the implementation of PRSPs, as conditionalities have been proliferating and intruded into new areas. As various NGOs have observed, the number of conditions attached to IFI funding have not significantly decreased since the introduction of the PRSP approach (Pearce 2006),

despite IFI claims about the ‘streamlining of conditionality’. This is, again, confirmed by both country experiences: in the case of Nicaragua 141 conditions were attached to the Bank’s PRSC, while 213 conditions were attached to the PRSC of Honduras (Dijkstra 2005: 457), and in both cases conditionalities entered new previously uncolonized areas, such as levels of poverty spending and social expenditure.

Thus, contrary to IFI claims, the introduction of PRSPs has significantly extended the scope and depth of IFI interventions into the internal affairs of the developing world, and thus further undermined their ability to determine their own development priorities. While SAPs pioneered new modes of interventions into developing countries, by moving the focus of the IFIs from project- to policy-based lending, under the PRSP approach conditionalities have increasingly been stretched to encompass previously uncolonized areas. Conditionalities have started to reach beyond the economic sphere, the traditional realm of IFI conditionality, increasingly entering into the sphere of social reproduction and addressing issues of institutional restructuring and the governance of the poor. This is again supported by Nicaragua’s and Honduras’ experience with the PRSP process, as novel conditions regarding poverty spending and social expenditure were part of various IFI agreements. Consequently, inclusive neoliberalism might appear more like ‘intrusive neoliberalism’ (Macdonald and Mahon, forthcoming), representing deeper forms of intervention to consolidate and further entrench the neoliberal project.

Yet, while the PRSP process in both Nicaragua and Honduras has arguably been donor-driven, and country ownership and civil society participation were instrumentalized so as to serve the goals of the IFIs, one nevertheless has to acknowledge that the IFIs put pressure on both governments to increase poverty-related budgetary

outlets. As highlighted earlier, protection (and increase over time) of poverty-related spending is itself a conditionality attached to Nicaragua's and Honduras' PRSC, and as such a precondition of further collaboration with the IFIs and access to concessional finance (Dijkstra 2005: 456). As argued earlier, this could be interpreted as an attempt to further legitimate neoliberal adjustment policies, by providing (albeit meager) incentives to those subaltern social forces which have suffered the most from IFI adjustment policies, and by improving the social track record of neoliberal reforms.

However, this attempt to make neoliberalism more hegemonic through various forms of co-optation, materially by providing incentives to the poor, and ideationally by absorbing counter-hegemonic concepts so as to employ them strategically in the PRSP process, has remained largely unsuccessful. As long as counter-hegemonic ideas remain unacknowledged in the PRSP process, and the IFIs are unwilling to make real sacrifices of a 'corporate-economic kind', through making the neoliberal order truly more inclusive, this hegemony building effort will not succeed. Nonetheless, coercive elements of the PRSP process, namely the linking of debt relief to neoliberal conditionalities, have ensured that previously opposed neoliberal reforms were finally implemented. Thus, while neoliberalization processes have deepened in both Nicaragua and Honduras, the PRSP process did not significantly contribute to making neoliberal policy more hegemonic and IFI operations more legitimate.

The process of *transformismo* attests to the tremendous power of the IFIs, and their capacity to react to and absorb critical ideas, only to transform and employ them towards neoliberal ends. In a similar vein, some academics have convincingly argued that the PRSP approach has actually increased the (coercive) power and the role of the IFIs in

shaping developing country policies, and consequently empowered the IFIs rather than developing countries (Fraser 2005; Cammack 2004). The PRSP itself provides a comprehensive tool for the IFIs to see ‘what is going on in the developing country’ and to monitor macroeconomic and structural government policies across the board, against objectives and programs ‘agreed upon’ with the IFIs (Cammack 2004). Moreover, the linkage of PRSPs to debt relief provides a powerful incentive for developing countries to ‘buy into’ macroeconomic and structural policies set out in the *Sourcebook*. In the PRSP process, the IFIs have become tremendously powerful transnational governance institutions that are involved in the promotion of an inclusive-neoliberal world order.

Rethinking International Institutions

At the same time, though, the recent re-articulation of the IFIs development approach in reaction to the severe social dislocations brought about by first- and second-generation neoliberal reforms also demonstrates the limitations of the IFIs’ power. In fact, the empirical findings in this study allow us to rethink the way in which some neo-Gramscian scholars have conceptualized the IFIs as tools of an emerging transnational capitalist class. The World Bank and the IMF are without doubt extraordinary transnational governance institutions in the international organizational landscape as they are endowed with tremendous resources, prestige, and expertise. The fact that the IFIs are automatically funded by member countries and earn income from their lending practices and investments markedly distinguish the IFIs from other TSAs, bestowing upon them a degree of independence unrivaled by other transnational institutions (Woods 2006: 179).

This, however, does not translate into the functional autonomy, omnipotence, and omniscience ascribed to the IFIs by some neo-Gramscians (e.g. Engel 2006), which have arguably overestimated the degree to which the World Bank and the IMF are homogenous instruments of an emerging transnational capitalist class and have remained insulated from the severe social struggles linked to the failures of neoliberalism. Such a position fails to recognize the highly contested nature of IFI policy making, and assumes an organizational homogeneity that simply does not exist. The experience with the PRSP process amply demonstrates that the IFIs are not all-powerful homogenous organizational structures. Societal contradictions are deeply embedded within both institutions, and social struggles, particularly in the developing world where SAPs have been fiercely contested, have had a lasting impact on IFI policy direction. The introduction of the PRSP process must first and foremost be understood as a reaction to counter-hegemonic struggles and the legitimacy crisis of neoliberalism. Thus, it would be a crude misrepresentation to grant the IFIs the status of complete policy autonomy as implied by some neo-Gramscians, and also recently suggested by constructivist scholars (Barnett and Finnemore 2004). At the same time, it would be equally problematic to assume that the IFIs can be reduced to the agency of (powerful) nation states and lack any autonomy from both governments and counter-hegemonic social forces within civil society, as suggested by neo-realist and neo-institutionalist approaches.

Rather, I have proposed to conceptualize the IFIs in social relationist terms as transnational authority structures, which represent the temporary material condensation of antagonistic social relationships and forces at the transnational level, and exist side by side with other national public and private authority structures. Moreover, I have argued

that the IFIs are variably autonomous: during moments of hegemony, they command significant autonomy and can largely operate without interference from outside social forces. However, in times of a crisis of hegemony or in non-hegemonic times, there is a stronger need to respond to both developing country governments and the ideas of counter-hegemonic social forces and engage them so as to restore the legitimacy of IFI policy interventions and build hegemony.

However, while the IFIs are not simply instruments of transnational capital, it is also clear that transnational elites are attempting to *instrumentalize* the PRSP process so as to engender the hegemony of a somewhat modified inclusive-neoliberal development regime. But there is no guarantee that this process will be successful. As has been demonstrated, inclusive-neoliberal development policy represents a partial and fragmented reconfiguration of neoliberal development policy with its own inherent contradictions and constraints. This brings us back to Gramsci's ideas about hegemony and the ways in which some neo-Gramscians have totalized hegemony in their work (Kenny and Germain 1998). As noted in chapter 2, Gramsci highlighted in his own work that hegemony is never absolute, but rather in a constant state of flux. This explains the need for a historicist ontology that does not attempt to artificially arrest the constant flow of political life but captures the perpetual motion of transnational governance structures.

This also implies an acknowledgement of the contradictions and unevenness that surround the ascendance of transnational authority structures. There is no guarantee that transnational social forces 'have it their way' in the international political arena. The transnationalization of political authority is a highly contested process with no fixed outcome and is possibly reversible (Egan 1997: 92). In other words, the IFIs do not lie

outside of the realm of ongoing social and political struggles but are part of a social reality that is permanently contested and as Gramsci notes “a relation of forces in continuous motion and shift of equilibrium” (Gramsci 1971: 172). The recent re-articulation of the development regime by the IFIs in the form of a more inclusively oriented neoliberal world development order is but one example of the (open) negotiation process during which social forces struggle over the form and content of transnational authority structures. Transnationalization processes might come to a halt, or might be completely reversed in the future, for example, if neoliberalism is transcended by a more nationally controlled and regulated form of capitalism.

The social relationist strand of neo-Gramscian theory also allows for agency besides that of the emerging transnational social forces. Neo-Gramscians have traditionally ignored the impact of social actors other than the transnational capitalist class on the IFIs, in particular the agency of counter-hegemonic forces that make up what has been labeled ‘global civil society’ and counter-hegemonic forces in the developing world (for an exception, see Persaud 2001 and Davies and Ryner 2006). This oversight has arguably been the key blind spot of neo-Gramscian theory, where social struggles have been reduced to the level of inter-capitalist rivalries (Taylor n.d.: 159; see also Burnham 1991), and little agency has been located in the periphery. Highlighting the agency of counter-hegemonic social forces in the developing world is only a first step towards overcoming the exclusion of the vast majority of the world population from the analysis of world politics. Fundamentally broadening the ontology of international relations will require a Herculean effort to move beyond the focus on conflict in interstate relations, the privileged object of analysis of realism, acknowledging conflict between

social forces and social cleavages and antagonisms at all levels of world order, not just in interstate relations.

Moreover, there are pronounced differences between the Bank and the Fund in regards to poverty policy, which speak to the lack of coherence and unity amongst different TSAs. These differences came to light in Nicaragua through the reaction of both institutions to the misappropriation of debt relief funds. While the World Bank was rather critical of the use of debt relief funds for the servicing of illegitimate (and as some argue according to the Nicaraguan constitution illegal) domestic debt related to the banking crisis of early 2000, the IMF welcomed this move as a pro-poor macroeconomic policy choice, which eventually will bestow more financial freedom onto the Nicaragua state and allow it to invest more effectively into the poor. Reducing the IFIs to homogenous instruments of transnational social forces does not bode well in light of these differences over policy direction.

Despite its various shortcomings, neo-Gramscian theory has helped to uncover some insights that are firmly repressed by mainstream theories of international organizations. For neo-realist, neoliberal institutionalist and constructivist accounts of international institutions, there is little room for the types of social struggles identified in this study as the engine of institutional transformation. At the heart of these mainstream perspectives lies the Weberian foundational myth of modern political science that the state is the sole 'power container' of modern life, representing 'the will of the people'. Neo-Gramscian theory (re)focuses our attention on the conflictual tendencies inherent to capitalist social relations, which have necessarily heightened during market-driven restructuring processes, and relates the reinvention of IFI policy to the failure of

restructuring to achieve the cohesion necessary for the sustained reproduction of stable capitalist social relations. It also reminds us that, especially in developing countries, competing transnational 'power containers', such as the international financial institutions, are becoming increasingly important in framing and articulating development policy. This transnationalization of public authority is, however, not uncontested as recent social struggles to transform the content of IFI policy demonstrate, and is thus potentially a reversible process.

Where Do We Go From Here?

While neoliberalism remains hegemonic inside the corridors of power of capitalist accumulation, transnational elites have increasingly expressed concerns with the lack of hegemony of market fundamentalism in the global periphery (Sorros 2007). With the recent leftwards movement of the centre of political gravity in Latin America, including the re-election of Ortega in Nicaragua, this concern is most likely to heighten further. In this context, it is likely that the IFIs will take further steps to attempt to halt the counter-hegemonic tide through offering more serious versions of inclusive neoliberalism, and allow more significant input into PRSPs by developing country governments and civil societies. The emergence of post-neoliberal 'New Left' administrations all over Latin America will likely increase the pressure on the IFIs to further reorient their approach towards a more meaningful re-embedding of markets. This is even more likely in light of the creation of a Latin American development bank, *El Banco del Sur*, which was recently inaugurated with the financial backing of Hugo Chavez, as this puts further pressure on the IFIs to either operationally reorient their lending practices or face

irrelevancy. However, real social challenges to this reinvented inclusive form of neoliberalism will derive from those among the 'included' who find inclusive neoliberalism does not represent their interests in substantive ways and therefore continue to challenge IFI policies on the ground (Craig and Porter 2005).

This dissertation confirms that the IFIs still have a long way to go: the PRSP approach does not break with the belief that the IFIs 'know best' how to achieve social and economic development in the periphery. Even worse, with the PRSP approach, the IFIs are attempting to convince the last critics that 'there is no alternative' to 'prudent macroeconomic policies', and that privatization and liberalization are the only path to development. Yet, although capital does have the power to punish those developing country governments who do not implement neoliberal policies, the neoliberal ideology continues to be far from hegemonic outside the corridors of power. The opinion of civil society organizations is not likely to be changed by the IFIs' shallow attempt to build consensus around neoliberal policies through participation. To the contrary, it will likely fuel further criticism of the power asymmetries and social costs of neoliberal macroeconomic policies. The very fact that many poor people, through discussing and debating poverty in the PRSP process, are becoming aware of the impacts of the debt burden on their individual lives and the global political framework in which their poverty is being reproduced, might spark new debates, lead to new efforts to mobilize, and to new attempts to change the current orthodoxy. Thus, the attempt by the IFIs to instill their neoliberal ideology in the developing world might indeed backfire, helping to raise awareness about the global political economic structures of the current world order and ultimately challenge it.

To challenge the existing international power structure, a first step in the right direction would arguably be the democratization of the most important financial institutions themselves, which currently represent undoubtedly more the interests of the developed world and transnational capital than the interests of developing countries. However, this democratization is not part of the discussions surrounding the Post-Washington Consensus as issues concerning the democratic accountability and transparency of the IFIs receive only cursory attention from proponents of the Post-Washington Consensus. Another important step will be to expose the gap between rhetoric and reality, and deconstruct the underlying interests and motivations of the IFIs with the introduction of the PRSP, namely the interests of transnational capital in constructing neoliberal hegemony.

These are, however, only the first steps in the protracted task of building a counter-hegemonic ideology with the potential of articulating alternative views and influencing the policy-making process. Such a counter-hegemonic ideology must provide people with a radically different (common-sense) understanding of globalization and the world order in which they live for it to raise consciousness and truly foster the necessary structural changes for achieving successful poverty reduction and economic growth (Bienefeld 2002). It must show how the process of neoliberal globalization, with its emphasis on trade and financial liberalization, deregulation and privatization as the key to economic development, serves the interest of certain (capital) fractions in the industrialized West, and is not a 'natural phenomena' without alternatives. There do exist policy alternatives to the deep deprivation and suffering that continues to take place in developing countries in the context of neoliberal restructuring, and alternatives will be

more likely to materialize if the space for policy making is genuinely opened up to developing countries through meaningful government and civil society participation in the setting of development priorities and goals.

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Appendix

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