
NOTES ET DOCUMENTS

NICARAGUA NEEDS AN INSTITUTIONAL REFORM TO BUILD A BROAD-BASED, SUSTAINABLE ECONOMIC AND SOCIAL DEVELOPMENT

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Nicaragua has experienced 20 years of profound socioeconomic and political dislocations. This has been accompanied by widespread destruction and deterioration of the country's physical infrastructure and productive capacity. Since the accession of the Chamorro government in 1990, major attention has been focused on macroeconomic stabilization and industrial sector privatization programs. With the help of international donors these efforts have achieved notable success. Related programs to promote exports and foreign private investment, especially in non-traditional subsectors of the economy, have accomplished little to date. This can be attributed in large part to international perception of the country's mid-term political stability, the lack of an adequate institutional base to facilitate cooperation among various actors and stakeholders, changes in bilateral priorities by important donor countries, and uncertainty about Nicaragua's comparative economic advantages at the regional and global levels.

Nicaragua needs an institutional reform to overcome these types of roadblocks to develop, specifically the weakness of Nicaragua's organizational capability to initiate cooperative decision-making and implementation processes, and the absence of demonstrable competitive cost advantages in transport and handling, globally-mobile manufacturing subsectors, and the high-return agricultural export activities. Working toward these objectives, in turn, can help

change the reality and international conception of Nicaragua's political situation.

The centerpiece of the reform proposed in this paper is a national-level network of public-private partnerships, meant to bring together various important economic actors, government ministries, non-governmental and private voluntary organizations, and the country's major universities in a concerted civil effort to achieve a new trajectory of broad-based, sustainable economic and social development.

The reform's main objectives are to: (1) help create a civil culture of economic and political cooperation among key sectors of Nicaraguan society, through (2) establishment of an institutional framework for developmental decision-making and action, to (3) implement a crucial set of economic development projects focused on private entrepreneurial investments and governmental infrastructure improvements.

1. A BRIEF HISTORY OF DEVELOPMENT INSTITUTIONS

Probably the first Nicaraguan developmental institutions, in the modern sense, were founded by President Jose Santos Zelaya at the turn of the twentieth century. Zelaya surveyed and opened new lands, fostered the collection and storage of information by creating the National Archives and Museum, and organizing the general statistics office. His government conducted a national census, and invested in necessary infrastructure, especially transportation and communications. In other words, the Zelaya government created the rudiment of a modern public administration and transport system. The export of bananas, timber and gold boomed during his twelve-year term in office (Walker, 1991, p. 16-72).

During the presidencies of Adolfo Diaz, Emiliano Chamorro and other conservatives (1912-27), unwanted foreign control of the railroad and customs, as well as creation of High Commission (two Americans and the Nicaraguan Ministry of Finance) to control the country's revenues, rationalized the country's expenditures. This amounted mainly to cutting back government spending to US\$ 96,000, and using other income to service Nicaragua's foreign debt (Walker, 1991, p. 20; Moreno, 1994, p. 11-12; Embassy of Nicaragua, 1992, p. 6). This situation continued until departure of Americans and Somoza's consolidation of power (1933-36).

By the late 1940s the Somoza regime had adopted a developmental outlook and began to create the necessary public institutions, including the Central Bank (1950), the Institute for National Development and the National Housing Institute

(Walker, 1991, p. 28). The government developmental policies emphasized the creation of economic infrastructure and the growth of exports. However, there was little economic trickle-down to improve the living standards of average Nicaraguans.

In the spirit of Alliance for Progress and the Central American Common Market, Somoza (1957-67) appeared to be committed to "modernization" and the technical and economic development of Nicaragua (Walker, 1991, p. 29). This includes exports expansion, as well as programs such as public housing and education, social security, and modest agrarian reform. Internationally prominent ideas about technology, foreign investment, and "development"—defined in terms of growth of gross national product—were adopted. Highly trained development technocrats were given high responsibility. Organized around the Central Bank, the technocrats turned out feasibility studies and annual national economic reports. Foreign investment was sought and joint ventures were promoted. Many of the new development technocrats were trained by the newly founded Central American Institute of Business Administration (INCAE), supported by the Harvard Business School. Economic growth rates during this period, were often the highest in Latin America. There was little broadening of the population base which benefitted from this growth, however, and under the last Somoza the developmental apparatus was gutted.

The statist approach to development adopted by the post-revolutionary the Sandinista National Liberation Front (FSLN) government produced a plethora of public sector organizations and activities. After publication of *the 1980 Program for Economic Reactivation in Benefit of the People*. A series of public and voluntary programs in the social service sector followed, literacy and public health programs being the most notable. Nationalization of productive activities and bureaucratic growth ran out of control, until the public sector was responsible for 30 percent of the Gross Domestic Product. As a result, economic growth during the 1980s became strongly negative by the end of the decade, accompanied by hyperinflation, and external debt something over US\$ 1.1 billion.

Beginning in April 1990, the Chamorro Government began to reorient development priorities and institutions. Here the focus is on development organization and processes, as well as development outcomes. Traditional Nicaraguan economic and development institutions have been largely retained, including the Central Bank, the Nicaraguan Development Bank, the Social security Institute, and the Nicaraguan Development Institute. Decree-law N° 190, crating

the new Ministries of State, established the Ministry of Finance, and a new lead developmental organization, the Ministry of Economy and Development (MEDE). The Sandinista Planning and Budgeting Secretariat was dissolved, and the General Directorate of Public Investment was transferred to the Ministry of Economy and Development (Consultative Group for Nicaragua, 1993, p. 67). Other 1990 laws dealing with free trade zones, foreign investment, and export promotion have already be mentioned. To recapitulate, private sector-led export expansion has been disappointing, primarily because of political uncertainties, lack of private-sector investment, and infrastructure bottlenecks.

2. THE PUBLIC-PRIVATE PARTNERSHIP AS A REFORM

Public-private partnerships (PPPs) are an institutional mechanism to bring various actors and stakeholders together to work out problems in the public domain which have been traditionally left to government. As such they are a vehicle to increase democratic participation in public decision making, and they also increase the efficiency of implementation process through the introduction of market forces and voluntary action. By bringing actors from different sectors of society together to work on concrete problems, partnerships create a progress of policy dialogue which often leads to conflict resolution and consensus. Public-private partnerships thus can promote democratization, economic liberalization, and political reconciliation. Needless to say, this is the ideal outcome, but the process itself can create its own momentum and can bring about notable results (e.g., Mitchell-Weaver, 1987). An institutional process which leads to such ends is without any doubt reformist, in the best sense of the word. And this is exactly the type of reform which is so badly needed in Nicaragua, to dampen political conflict and spur broad-based sustainable economic development.

Partnerships can be divided into four general types (Mitchell-Weaver and Morning, 1992). The first are *Elite or Blue-Ribbon Committees*, which bring together top-level decision-makers from different social sectors to decide on important policy matters. This has been normally referred to as a process of concertation, much like the approach adopted on political issues by the Chamorro Government. But the Blue-Ribbon Committee provides a specific, legitimized context for such bargaining and reconciliation. The Blue-Ribbon Committee has no responsibility as such for policy implementation or action. Its prestige, however, because of its membership, can go a long way influencing outcomes. When consensus is reached, the Blue-Ribbon Committee can help mobilize resources and motivate operational actors.

The second type of membership is the *Working Group or Task Force*. This

is an operational public-private partnership meant to get things done. It is frequently temporary in nature, problem-oriented, has no formal institutional "personality", and is made up largely of technical experts and closely-defined special interest representatives. Working Groups often look into particularly sticky problems, or investigate the possible solutions to problems identified by Blue-Ribbon Committees or others. They can also deal with "one-time" real-world issues such as land assembly, putting together financial packages, deciding on special stakeholder claims, etc.

The third set of public-private partnerships are Non-Governmental Organizations (NGOs) and Private Voluntary Organizations (PVOs). These are also implementing agencies, frequently doing traditional governmental jobs, but outside the institutional structure of the state. They tend to be more or less permanent in nature and have a formal constitutional identity. They can do anything from operating ports to airports to providing public services. They may be subcontractors to government, but that relationship is primarily a contractual one. There is no ironical distinction between non-governmental organizations and private voluntary organizations, but non-governmental organizations merely means not-a-public-sector-organization, which can even include profit-making businesses. Private voluntary organizations can be non-governmental organizations, but they are definitely non-public and not-for-profit. Traditionally private voluntary organizations have been identified with religious and charitable organizations. They can also include such organizations as lobbying and political action groups, as well as professional associations and economic production sector associations.

The last type of partnership is a *Quasi-Governmental Organization*. This is a permanent-type implementing agency which is more intimately associated with the government, although to be a Public-private partnership it must have private-sector involvement, and it can be a profit-making organization. This partnership can perform any sort of routine operational task, such as service delivery to businesses or individuals or operating public facilities under contract. This is done on a fee-for-profit basis, unlike most non-governmental organizations and private voluntary organizations. Private-sector market efficiency is one of the supposed characteristics of quasi-governmental organizations.

Each of these types of public-private partnership organizations can serve different functions at different geographic level, such as the local community, region or nation. This reform is concerned only with how public-private partnerships might be applied to democratization and economic liberalization at the

national level in Nicaragua. The major concern for those who take a position against the introduction of partnerships into traditional state role is the problem of accountability (O'Looney, 1992), or otherwise stated, the fear of "third party government", meaning government by private actors in their own interests. These issues certainly cannot be dismissed, but in Nicaragua the basic problem is one of *empowering the private sector*, not vice versa. So the danger of the private sector accountability in public domain is a problem which can be dealt with if and when it arise. Public-private partnerships as an institutional development mechanism are enjoying wide applications in the mi-1990s (e.g., Bremer; The U.S.-Thai Development Partnership; U.S. Agency for International Development, Office of Private Voluntary Cooperation).

During the Chamorro Government there has been one highly visible public-private partnership in operation for a little over two years in Nicaragua, the Center for Exports and Investment (CEI). The Center for Exports and Investment is a non-profit non-governmental organization which was funded for fifteen months by USAID, as a partnership between the Ministry of Economic and Development (MED) and the Superior Council of Private Enterprise (COSEP). The Center for Exports and Investment was to become a "business center", providing a one-stop-shop for exports and would-be foreign investors. It was also to gain the expertise necessary to do business management consulting and the promotion of individual production associations. The crucial international donor contributions for business center development, producer association promotion, and loan guarantees, was not forthcoming, however. Only the Center for Exports and Investment, the "business center" received funding, and because of fears of political instability and property rights protection, as well as the weakness of local banks, there were never loan guarantees for local venture capital. Therefore, funding was not adequate to build up the Center for Exports and Investment's professional capabilities to a professional standard.

The Center for Exports and Investment is said to have been further weakened by a lack of development policy guidance from its parent institution, and the inherent conflict between the Ministry of Economic and Development's and the Superior Council of Private Enterprise's political positions on development priorities. The Center for Exports and Investment has also lost its public-private partnership status through semi-absorption into the Ministry of Economic and Development. The ambitious program the Center for Exports and Investment proposed to a consortium of donors for a total cost of US\$ 750 mn ??? over a three year period did not receive favorable consideration. Today the Center for Exports and Investment languishes without a clearly defined mission or future. This reform reintegrates the Center for Exports and Investment into a network of national-level

public-private partnerships with a clear policy mandate and operational role.

3. INSTITUTIONAL FRAMEWORK FOR THE SECTORS

Nicaragua's key development institution is the Ministry of Economy and Development, established by Decree-Law N° 1-90. A brief rundown of the pertinent sections of the law shows that the Ministry of Economy and Development has all the necessary legal powers to coordinate and guide the reform proposed here. The most important features for this proposed reform are (1) that development policies are formulated directly under the supervision of the Minister in collaboration with the rest of the Economic Cabinet and the Ministry of the Presidency, and (2) that there are existing line agencies responsible for Exports and Investments, Public Investments, Industry, Small- and Micro-Enterprises, and Science and Technology. These organisms, plus the bodies created in the trade, investment and free zone legislation, all partially managed by the Ministry of Economy and Development, provide all the public-sector foundations necessary to build the public-private partnerships proposed here.

4. THE NICARAGUA DEVELOPMENT PARTNERSHIP

The public-private partnership network proposed by this reform consists of five partnership organizations, plus an economic policy document called "The Nicaragua 2015 Strategy". The most important innovations are the Blue-Ribbon Committee, entitled "The Nicaragua Development Partnership" (NDP), and its initial policy document, "The Nicaragua 2015 Strategy". The Nicaragua Development Partnership will be made up of some of the nation's most important economic actors. Its purpose will be to promote democratization of the economic development process, promote further economic liberalization, and give Nicaragua the strategy-level guidance it currently lacks for derivative developmental decision-making. It is here that political consensus and reconciliation can begin.

The members of the Partnership will be selected by the President of the Republic, from among such actors as the:

- Minister of the Presidency'
- Economic Cabinet,
- Chairperson of the Chamber of Commerce,
- Branch managers from the Private Banking Sector,
- Executive Directors of the Industrial Free Zone(s) Corporation(s),

- Directors of Major Producers Associations,
- Mangers of Multinational Companies, and
- Rectors of the Major Universities.

The Nicaragua Development Partnership's task will be to give development policy advice, help set priorities and goals, and propose strategy guidelines for the country over the next ten years. It will be helped in its work by a Task Force staff, made up of the Center for Exports and Development employees and employees seconded from the Ministry of Economy and Development and other participating organizations. The first job of the Nicaragua Development Partnership will be completion of the Nicaragua 2015 Strategy during the first year of its corporate existence.

5. THE NICARAGUA 2015 STRATEGY

The Nicaragua 2015 Strategy will be a statement of informed public consensus about the country's long-term development needs, not a traditional economic development plan. It will paint a scenario about what Nicaragua can become, and its substantive contents will depend upon the vision and commitment of the members of the Nicaragua Development Partnership. Creation of the Strategy will be through a process of dialogue and mutual learning; what might be called a "transactive" style of decision making. The challenges which face the country today will be seen from different perspectives by various members of the Nicaragua Development Partnership. They will need to reconcile their different views to arrive at a consensus for action. They will be helped in this work by the Nicaragua Development Partnership Task Force, which will act as a technical secretariat.

A host of matters will have to be taken into consideration and recommendations made, including improving the physical infrastructure for development, diversification of agriculture exports, improving producers associations, development of public-private partnerships such as those outlined in this paper, free-trade zones, land claim settlements, investment financing and many others.

6. THE CENTER FOR EXPORTS AND DEVELOPMENT

The new Center for Exports and Development will be a vital non-governmental organization in the service of Nicaragua. It will provide part of the Task Force for the Nicaragua Development Partnership, and thus will be involved at the staff level in policy analysis and recommendations. The Center for Exports

and Development will be made up of a paid core staff, including an executive director, accountable to the Chairperson of the Nicaragua Development Partnership and the Minister of Economy and Development. Additional staff will be provided on a semi-permanent basis through rotating seconded employees from the Minister of Economy and Development and other participating organizations, such as non-governmental organizations, private voluntary organizations, and university sectors. Paid contractors and consultants will also be hired for special jobs.

The Center for Exports and Development's main job will be operational in nature, management and implementation. This will be completed with some research, training and organizational development. In this operational role, the Center for Exports and Development will promote industrial investment in Nicaragua in a professional, well-managed fashion. It will provide a one stop-shop for both potential investors and exporters. It will develop marketing and brokerage capabilities. The Center for Exports and Development will also take a prominent place in helping existing and new producers associations. It will help and strengthen them by providing organizational assistance and networking. Finally, it, with the help of consultants and paid contractors, will do research and provide technical assistance, on request, about specific producer-sector problems. Producers associations, the Free Zones/industrial Development Corporations, and the Small- and Mid-Size Business Incubator will all be important operational collaborators with the Center for Exports and Development in the Nicaraguan Public-Private Partnership network.

7. SMALL- AND MID-SIZE BUSINESS INCUBATOR

The Small- and Mid-Size Business Incubator will be a no-governmental organization, operating with a small paid core staff, including a director. Other staff will be seconded by the Minister of Economy and Development and participating private sector companies. Help will also be provided by the Central American Institute for Business Administration, and paid contractors and consultants for specific jobs. The Incubator's role will be a matter of organizing, management, training, implementing and other operational jobs. It will provide practical business training in management, accounting, production and sales. Through cooperation with the Center for Exports and Development, the Incubator will also help seek venture capital for clients; including going to private-sector and state banks, and relevant international donor programs. Help will also be given in domestic and export marketing, in cooperation with the Center for Exports and Development.

8. FREE TRADE ZONES/INDUSTRIAL DEVELOPMENT CORPORATION

The Free trade Zone/industrial Development Corporation (FTZIDC) will be a Quasi-Public Authority (QPA). The Free trade Zone/industrial Development Corporation will operate the existing Free Trade Zone and manage the move toward privatization. It will oversee the creation, tenanting and management of other private-sector free trade zones away from Managua to encourage regional comparative advantage in processed and semi-processed primary sector exports, as well as domestic petrochemical processing. Other zones will be established according to the private initiative, in agricultural production regions, to encourage Agro-Towns and Special Agricultural Zones. The new authority will also act as a facilitator and manager for development of new free trade zones and industrial parks.

9. THE PRODUCERS ASSOCIATIONS

Producers Associations are private voluntary organizations; many exist in Nicaragua at the present time. The producers association grouping proposed here will be represented by prominent members of existing and new producers groups. It will have a staff provided by producer's organizations, seconded by active and interested members of the associations, and on a minimal scale by the Center for Exports and development. This will be supplemented by

volunteers from cooperating associations and Nicaraguan and foreign universities.

The main job of the producers Associations will be to identify production and marketing problems in their perspective sectors, initiate research on these issues, and do extension work based on this research to expand sectorial production. Ventures capital for association members may also be provided through the Center for Exports and Development Enterprise Development Fund. Much of the associations' time will be spent in organizing their members and promoting their products.

CONCLUSION

Nicaragua's long history of political "scattering" and strife has resulted institutional disarray and weakness. Even though progress has been made toward national reconciliation since the Chamorro government came to power, still serious problems facing the creation of an overriding national political consensus impinge upon various sectors of the population. The two major problems facing Nicaragua is democratization and economic liberalization. A central issue for the all Nicaraguans is how to "jump start" the economy so that the general life will improve and economic matters addresses the two central problems facing Nicaragua today. What is needed is a focused institutional basis for developmental decision making, which can help create policy dialogue among competing actors, increase institutional capacity, and lead to reconciliation around concrete development issues and a vision of broad-based, sustainable development in the country over the next decade. Nicaragua's real economic future is at stake. The only feasibility approach to securing Nicaragua's future is political reconciliation through a concerted civic effort to achieve a new trajectory of broad-based, sustainable economic and social development, as proposed in this paper.

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