

# **(Re-)producing Neoliberal Hegemony?**

## **The Poverty Reduction Strategy in Nicaragua**

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**Introduction** Over the last two decades, the World Bank and the International Monetary Fund (IMF) have played an increasingly important role in structuring developing country societies and economies. Through linking concessional lending to structural conditionalities, these international financial institutions (IFIs) have in many cases exerted enormous influence over the ways in which developing countries have integrated themselves into the world economy. Moreover, the IFIs have been partly successful at amending the social and economic structures of developing countries through structural adjustment programs (SAPs). However, SAPs have lately come under heavy criticism for their disappointing development results, the inherent social costs associated with them, and the lack of country ownership of adjustment policies.<sup>1</sup>

In recent years, the IFIs themselves have acknowledged some of the shortcomings of SAPs<sup>2</sup>, and have expressed their intention to move away from the Washington Consensus based adjustment policies, allowing developing countries more freedom in choosing their own development policies and putting more emphasis on poverty reduction in their operational practice.<sup>3</sup> This move found expression in the Comprehensive Development Framework (CDF), first articulated in 1997 by former World Bank president James Wolfensohn, and the Poverty Reduction Strategy Paper (PRSP) approach, introduced to the development community in 1999 at the G8 summit in Cologne. According to the IFIs, the CDF represents the realization that “[d]eveloping countries need to develop their own mix of policies to reduce poverty, reflecting national priorities and local realities” (World Bank 2000: 7). In this context, the PRSP approach ostensibly prioritizes country ownership of development policies and civil society participation in the formulation of national poverty reduction strategies (World Bank 2002b: 3), distinguishing this approach from former SAPs.

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<sup>1</sup> The social costs of SAPs are well-documented by SAPRIN 2003. For a discussion of the disappointing development results of SAPs, see Stiglitz 2002, Bienefeld 2000, and Bird 2001. For the lack of country ownership of SAPs, see Pender 2000.

<sup>2</sup> As the *World Development Report 1999/2000* points out, “some countries followed policies of liberalization, stabilization and privatization, but failed to grow as expected” (World Bank 1999: 16). The lack of country ownership and participation of civil society was also acknowledged in this same report.

<sup>3</sup> In the often quoted definition of the Washington Consensus, Williamson incorporates ten points: fiscal discipline; a redirection of public expenditure priorities; tax reform; interest rate liberalization; a competitive exchange rate; trade liberalization; liberalization of FDI inflows; privatization of state companies; deregulation of labour markets; and secure property rights (Williamson 1990). These ten points can also be seen as representing the ‘hard core’ of neoliberalism.

This paper will examine the recent shift in the IFIs development approach and evaluate the degree to which the PRSP approach differs in process and content from earlier structural adjustment programs, by examining Nicaragua's experience with the PRSP process.<sup>4</sup> Moreover, it will attempt to throw some light on the intentions behind the introduction of the PRSP approach by applying a neo-Gramscian theoretical perspective to the PRSP process.<sup>5</sup> The paper argues that the introduction of the PRSP approach could be understood as an attempt by the IFIs to build hegemony around their highly contested neoliberal policy prescriptions for developing countries. By absorbing counter-hegemonic ideas into the mainstream policy dialogue and by engaging civil society actors in developing countries during the policy formulation process, the IFIs hope to create a consensus around their interventions into developing countries and the neoliberal adjustment policies that they promote. Furthermore, the linkage of debt relief to the implementation of a national PRSP provides a powerful incentive for developing countries to 'buy into' the IFIs policy prescriptions and to satisfy the expectations of these financial institutions.<sup>6</sup>

This paper proceeds in four parts. The first section provides a short theoretical discussion of the IFIs and situates the PRSP approach in the broader context of the neoliberal restructuring of global capitalism. The second part documents the recent shift in the rhetoric of the IFIs, highlighting some of the key assumptions of the PRSP approach and the ways in which this approach is expected to differ from earlier SAPs. The third section examines Nicaragua's experience with the PRSP process, focussing on the role of civil society organizations (CSOs) in the formulation of its national PRSP. While the main emphasis will be on the role that CSOs played in the PRSP process, this analysis will also provide insights into the nature of the development policies that are outlined in the PRSP of Nicaragua, and will shed some light on the similarities between former SAPs and the PRSP of Nicaragua. The final section of the paper will illustrate

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<sup>4</sup> While there has been little academic analysis of the PRSP approach from a critical perspective (except Cammack 2002 and 2004), some of the mainstream academic reviews of the PRSP process include Craig and Porter 2003 and Booth 2003. Civil society organizations (CSOs) have presented numerous critical evaluations of the PRSP process; see *e.g.* Abugre 2001, Bread for the World 2002, and World Vision 2002.

<sup>5</sup> The neo-Gramscian contributions on which this article is directly building, are Cox 1983 and 1987.

<sup>6</sup> In order to be eligible for debt relief under the Enhanced Heavily Indebted Poor Country (HIPC) Initiative, low-income countries are required to develop a PRSP that is endorsed by the IFIs.

how a neo-Gramscian reading of the PRSP approach can broaden our understanding of the IFIs' intentions behind the introduction of this new development approach.

**A Neo-Gramscian Understanding of the IFIs** The analysis in this paper builds upon a neo-Gramscian theoretical understanding of the IFIs, drawing on a vast body of literature that has accumulated over the last two decades.<sup>7</sup> From this theoretical perspective, the IFIs are seen as important actors in the neoliberal restructuring of the capitalist world economy towards a transnationally oriented regime of accumulation, leading to global circuits of capital accumulation (Robinson 2003: 45). This restructuring process began with the onset of the crisis of the fordist regime of accumulation in the early 1970s. Through structural adjustment lending, the IFIs have been able to put pressure on developing country governments to open up their economies to transnational capital and to direct their economies towards export-orientation.

There are numerous ways through which neoliberal hegemony (in a Gramscian sense) in the world economy is reproduced by the IFIs.<sup>8</sup> In his seminal article "Gramsci, Hegemony and International Relations", Robert Cox lists five elements that are vital to understanding the operation of hegemony through international institutions (Cox 1983). International institutions help to (re-)produce hegemony, because 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).

Cox's last two characteristics of how international institutions exercise hegemony are of particular importance for this paper. International institutions have the function of

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<sup>7</sup> The neo-Gramscian approach has been successfully applied to the international political economy in general (*e.g.* Cox 1986 and 1987; Robinson 1997 and 2003), and international institutions in particular (Cox 1983; Gill 1990). While a number of criticisms towards neo-Gramscian approaches have recently been raised from within and outside the neo-Gramscian camp (*e.g.* Germain and Kenny 1998; Macdonald 1994; Burnham 1991; Persaud 2001), a second generation of neo-Gramscian scholarship appeared in the late 1990s, directly engaging those criticisms and providing a more self-reflective account of the international political economy (Murphy 1998 and 2000; Rupert 1998; Bieler and Morton 2001; Gill 2003).

<sup>8</sup> Contrary to the realist understanding of hegemony, neo-Gramscians stress that "hegemony involves a political process based on a relatively inclusive set of relationships, where consent rather than coercion tends to predominate" (Gill 2003: 3) Consent is achieved through a combination of ideological legitimation and material concessions to subaltern classes (Neufeld 2001: 98).

co-opting elites from the periphery and absorbing counter-hegemonic ideas to ensure 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 into the development framework of the IFIs, and to give broader legitimization to the contested neoliberal policy reforms in 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. 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 pre-determined sets of policies.

**From the Washington to the Post-Washington Consensus** As pointed out earlier, the World Bank and the IMF have recently moved away from the Washington Consensus based structural adjustment lending, embracing the ‘Post-Washington Consensus’ and presenting the PRSP approach to the development community.<sup>9</sup> According to the World Bank, this PRSP approach emphasizes the interdependence of all elements of development – social, structural, human, economic, environmental, and financial – and advocates a holistic long-term development strategy, with the developing country government in the lead, both ‘owning’ and directing the strategy (World Bank 2002b: 2). The tool through which to achieve this goal is the PRSP, which has been officially

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<sup>9</sup> According to Joseph Stiglitz, the Post-Washington Consensus represents the realization that making markets work requires more than just low inflation and liberalization. Well-functioning markets also depend on sound financial regulation, competition policy, and policies to facilitate the transfer of technology, some important issues neglected by the Washington Consensus (Stiglitz 1998: 1). Therefore, Stiglitz acknowledges that “the state has an important role to play in appropriate regulation, social protection, and welfare. [...] The government should serve as a complements to markets, undertaking actions that make markets work better and correcting market failures” (Stiglitz 1998: 25ff.). It is however important to point out that many academics question the extent to which the policy prescriptions of the Post-Washington Consensus actually differ from the Washinton Consensus. For a detailed discussion of this question, see Fine 2001.

incorporated into all IFI development policies and programs and was endorsed in 1999 as the basis of all future concessional lending to low-income countries, as well as debt relief granted under the Enhanced Heavily Indebted Poor Country (HIPC) Initiative. The PRSP sets out a developing country's macroeconomic, structural and social policies and programs over a period of three years. The policy content of the document is expected to be formulated by the developing country itself, and to reflect the country's individual circumstances and characteristics.

Even though there are not supposed to be any blueprints for the PRSP since the policy content and priorities should reflect the developing country's particular circumstances, values and priorities, the IFIs have provided a detailed outline of the issues to be addressed in the PRSP, and have identified specific policy criteria for the ultimate approval of any and all PRSPs. Every developing country is expected to follow five key steps in the development of 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 mentoring of poverty trends and evaluating the government impact of programs and policies, and 5) describing the main aspects of the participatory process (World Bank 2002b: 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, therefore, have turned into conditions that have to be met before concessional lending for a PRSP can be approved. These include sound macroeconomic policies; structural reform policies, such as trade liberalization and banking sector reform; appropriate sectoral policies and programs; improved governance; and realistic costing and appropriate funding (World Bank 2002b: 4). This constitutes the framework for all discussions around the PRSP, which is elaborated in more detail in the *PRSP Sourcebook* (World Bank 2002b and 2002c).

In the *PRSP Sourcebook*, the IFIs moreover lay out their understanding of what constitutes 'sound macroeconomic policy'. They suggest that there exists a consensus in the development community, on what is 'good macroeconomic policy', and that this policy package should be applied in all developing countries. According to the IFIs, 'sound macroeconomic policies' consist of trade and financial liberalization, privatization, fiscal prudence and low inflation, civil service reform and deregulation of

labor markets (World Bank 2002c: 4).<sup>10</sup> A close look at the PRSP *Sourcebook* already suggests that the IFIs continue to push for the implementation of the same highly contested macroeconomic and structural policies in developing countries, which have been the centre of intense debate for more than two decades.

In describing the PRSP approach, the IFIs have also taken steps to identify their own role in the PRSP process. On the one hand, as development partners, the IFIs provide technical support, with the IMF advising on macroeconomic, exchange rate, and tax policies, and the World Bank advising on poverty assessments, sectoral strategies, institutional reform and social safety nets (IMF and World Bank 2000: 9). On the other hand, they are the ‘gatekeepers’ that decide who, when and under what conditions developing countries will receive financial assistance and debt relief. The Executive Boards of the IFIs consider each PRSP based on staff assessments, which include a detailed analysis of the PRSP and a recommendation of whether or not to endorse the PRSP. Thus, the IFIs have the final authority in deciding whether the PRSP demonstrates a ‘sound’ policy package, and whether or not it will be endorsed.

Similarly to the policy framework component, there is a process component in the *Sourcebook* that emphasizes the importance of participation. The idea of participation of civil society is a relatively new element in the discourse of the IFIs that has been operationalized with the introduction of the PRSP process. As noted earlier, one of the declared aims of the PRSP process is to broaden the participation of civil society, and especially of the poor themselves, in the design of the poverty reduction strategy. However, the term participation itself is highly ambiguous and means different things to different stakeholders. According to the *Sourcebook*, the mechanisms of participation can be participatory research (*i.e.* perceptions of the poor), information dissemination,

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<sup>10</sup> It is important to point out that, contrary to the IFIs’ claim, there is no current international consensus on what constitutes effective macroeconomic and structural development policy. To the contrary, it should be evident that this remains indeed a highly contentious subject. The IFIs’ approach has been under heavy criticism for more than two decades, and there is no ample support in the epistemic community for the IFI claim that ‘market fundamentalism’ and free trade are good for the poor, or that privatization and liberalization will reduce poverty and ultimately lead to economic growth and development in the periphery. The World Bank has been trying to create an ideological hegemony around their view for the past 20 years, but has (fortunately) not succeeded in convincing all parts of the epistemic community. This is not too surprising, given the lack of historical evidence for the neoliberal claim, and abundant evidence demonstrating that SAPs have, in fact, been harmful for most parts of society in developing countries. For a critique of the neoliberal position, see Bienefeld 1989 and 2000; Singh 1995; Wade 1992; Weisbrot *et. al.* 2001; UNCTAD 2000 and 2002; and Stiglitz 2002.

consultation – informal and structured – and the formation of committees and working groups on issues dealt with in the PRSP (World Bank 2002c: 238). Unlike with the policy component of the PRSP, there is no in-depth analysis of participation and the extent to which CSOs participated in the formulation of the full PRSP. The World Bank stresses that the participatory process itself will vary greatly from country to country because of each developing country’s unique set of political and social institutions, and an idiosyncratic history of civil society participation (World Bank 2002b: 5). According to the IFIs, this means that no blueprint for participation can be developed which could serve as a guide to the implementation of participation or for the evaluation of participation. As the World Bank states: “[T]here 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” (World Bank 2002c: 238).

**Nicaragua’s Experience with the PRSP Process** Nicaragua was one of the first countries to implement the new PRSP development approach. In December 2000, Nicaragua was approved by the IFIs for up to US\$4.5 billion in debt relief under the Enhanced HIPC Initiative, provided that it would develop a national PRSP, which would be endorsed by the IFIs. The following sub-sections will seek to assess the extent to which civil society participated in the formulation of Nicaragua’s PRSP. It discusses both governmental and civil society consultation processes, as well as the steps required in developing the national poverty reduction strategy.

***Government Consultation on the Interim-PRSP*** As set out in the PRSP *Sourcebook*, first on the agenda in the process of developing a national PRSP is the Interim-PRSP (or I-PRSP), of which the poverty diagnosis is a priority.<sup>11</sup> The actual design process of Nicaragua’s 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

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<sup>11</sup> Due to the varying capacities of developing countries, those unable to develop full PRSPs can begin with Interim-PRSPs. At a minimum, an I-PRSP must include a statement of commitment to poverty reduction, an outline of the nature of the poverty problem and of existing government strategies to tackle it, and a timeline and process for preparing the full PRSP. According to the *Sourcebook*, the IFIs do not expect extensive participation of CSOs in the formulation of the I-PRSP (World Bank 2002b: 4).

formation; and better protection for vulnerable groups. Civil society organizations did not participate in the formulation of this first draft but some selected groups were consulted on it within CONPES<sup>12</sup>, a space for dialogue between the government and numerous CSOs. In April 2000, the I-PRSP was presented to CONPES and to the international development community. As a response to criticism mainly from the IFIs (but also from CSOs), good governance was included into the revised document as a fourth pillar.<sup>13</sup> The consultations with CSOs within CONPES resulted in the elaboration of a proposal with 56 amendments to the I-PRSP draft. However, these amendments were not taken into consideration by the Nicaraguan government, and some parts of the final I-PRSP, such as the macroeconomic chapter of the I-PRSP, were not even presented to CONPES or CSOs outside of CONPES (Rasmussen 2003: 7).

In June 2000, an IMF mission visited Nicaragua, providing some feedback on the macroeconomic chapter of the I-PRSP. The IMF staff worked behind closed doors with government experts on the formulation of the macroeconomic chapter of the I-PRSP and refused any contact with CONPES or any other civil society groups.<sup>14</sup> 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” (Rasmussen 2003: 7). Outside of the government, little information was available on the I-PRSP, and no further presentations were made to civil society before the I-PRSP was submitted to the IFIs (Bradshaw and Linneker 2002: 5). In July 2000, the I-PRSP, called the Strengthened Poverty Reduction Strategy (SPRS) of Nicaragua (Government of Nicaragua 2000), was endorsed by the IFIs without further participation by or consultation with CSOs. Moreover, CSOs did not even receive a copy of the I-PRSP until three months later when the document was finally translated into Spanish and

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<sup>12</sup> CONPES (National Economic and Social Planning Council) was founded in 1999 as a counseling entity of civil society and a space of dialogue 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 as CCER, the Community-Based Movement (MCN), labor unions, and the Superior Business Council (COSEP). Other members of CONPES are the political parties and government representatives. The CSOs that are members of CONPES were selected by the government.

<sup>13</sup> At the time, the Alemán government was under heavy criticism from the international community for corruption and the lack of transparency in the privatization process.

<sup>14</sup> The important umbrella NGO CCER (*La Coordinadora Civil*), which represents more than 350 grassroots NGOs, asked for a meeting with the IMF mission to discuss macroeconomic issues, but unfortunately did not receive a reply from the IMF.

was made public by the government.<sup>15</sup> It is apparent that there was no fundamental input from civil society into the I-PRSP, despite the fact that the development of the I-PRSP is arguably the most important step in designing a national PRSP, because it sets the underlying assumptions about poverty and is the foundation upon which the full PRSP and its macroeconomic and structural policies are built.

***Government Consultation on the Full PRSP*** In March 2001, the Nicaraguan government forwarded the I-PRSP to be approved as the final PRSP without many changes and without further participation of or consultation with CSOs to the IFIs (Bradshaw and Linneker 2002). However, in January 2001, a number of CSOs sent a letter to the Boards of the IFIs, and to a number of bilateral donors, highlighting that the full PRSP of Nicaragua, called the Strengthened Growth and Poverty Reduction Strategy (SGPRS), that was going to be approved by the IFIs in March 2001 did not have the support of either CSOs or local governments, and that there had been absolutely no participation of civil society during the formulation process of Nicaragua's full PRSP. As a response to this criticism, the IFI raised concerns about the lack of consensus around the strategy and delayed the approval of the SGPRS, and demanded that the Nicaraguan government begin a consultation process on the document (Bradshaw and Linneker 2002: 6).

In the following month, the government organized workshops in eleven municipalities in which 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.<sup>16</sup> Only these programs and projects were open to discussion with CSOs because of the government belief that civil society has valuable expertise in certain project areas, such as health care, education, and good governance. Moreover, the government assumed that CSOs could help in the implementation of these programs and would be gladly willing to do so. Thus, the government provided material incentives for CSOs to support the poverty reduction strategy and to participate in its implementation. At these workshops, there were however

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<sup>15</sup> The official language of the PRSP process is English.

<sup>16</sup> The outcome of this consultation process on the SGPRS was published by CONPES in the document *Consulta Municipal sobre la ERCERP*, see CONPES 2002.

no discussions of the structural and macroeconomic issues, which ultimately framed the investment programs and the specific projects, and debate about the overall development and accumulation strategy was completely absent (Rasmussen 2003: 10). According to one participant, these workshops can best be described as information-dissemination sessions, rather than even consultation, since participants did not receive the SGPRS document before the workshop<sup>17</sup>, thus providing no time to read, reflect and prepare comments on the document prior to the workshop.<sup>18</sup>

***Parallel PRSP Consultation by Civil Society Organizations*** In early 2001, 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 input at all into the SGPRS, and would lend support and legitimization to the government poverty reduction strategy, or whether to develop a parallel PRSP consultation process, in which a participatory approach could be chosen and an alternative PRSP could be developed. The NGO network *La Coordinadora Civil* (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 CCER [...] was not to rule out discussion with the government on the official PRSP, nor to accept and work itself from their narrow economic conceptualization of poverty” (Bradshaw and Linneker 2002: 6). The idea to develop an alternative consultation on the PRSP was also informed by the fear that any involvement in the government process could be used by the government to legitimize the content of the poverty reduction strategy.

In January 2001, CCER began a parallel consultation process on the SGPRS of Nicaragua. The aim of this parallel PRSP 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*

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<sup>17</sup> It takes at least two hours to read the 100-page long document. Many critics of the government consultation process pointed out that the PRSP should have been distributed to the participants before the workshop in order to ensure that people can familiarize themselves with its content.

<sup>18</sup> Interview with NGO (Ibis Dinamarca) representative, 03.05.2003.

*Norte* and *Atlantico Sur*, in which almost 1000 people participated. During this process, CCER facilitated discussions with 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] 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 the government body that developed the I-PRSP, so that they would be taken into consideration in the formulation of the full PRSP. However, as a comparison between the official SGPRS and *La Nicaragua que Queremos* will reveal, CCER’s analysis of Nicaragua’s macroeconomic situations differs dramatically from the analysis in the PRSP, and the policy recommendations of CSOs presented in *La Nicaragua que Queremos* rarely found their way into the final SGPRS.

***Alternative Macroeconomic Framework*** While there exists 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. In this context, it is important to point out that there is no international consensus on what constitutes good (pro-growth) macroeconomic policy other than that which is claimed by the IFIs in the PRSP *Sourcebook*. According to the *Sourcebook*, PRSPs are expected to summarize priority public actions with respect to structural and macroeconomic policies already established by the IFIs. These include low inflation, privatization, trade and financial liberalization, fiscal restraint and good governance (largely oriented towards facilitating transparent privatization regimes) (World Bank 2002c). However, critics of the IFIs have shown that it is precisely those neoliberal development policies that have failed to deliver robust growth in developing countries over the last two decades, and have instead contributed to the growth of poverty and

financial instability (*e.g.* Weisbrot *et. al.* 2001; Stiglitz 2002; SAPRIN 2003; UNCTAD 2002; Bienefeld 2000). Despite the highly contested nature of their macroeconomic policies, the IFIs still seem to define the macroeconomic framework of the PRSP in a specific way before participation even takes place, leaving little room for the incorporation of any alternative understandings of economic growth that deviates from that of the IFIs.

In Nicaragua, CSOs have critically noted that the especially important area of macroeconomic issues has been totally excluded from discussions and consultations on the PRSP, and that the macroeconomic approach in the PRSP is informed by a strictly monetarist approach. Sound fiscal and macroeconomic management, including low inflation, restrictive budgets and high interest rates, are underlined as the key to economic development in the SGPRS (see Government of Nicaragua 2001: 17). Despite the apparent unwillingness of the IFIs to negotiate macroeconomic policies, CCER has undertaken discussions on macroeconomic questions in its parallel consultation process, and has come up with a detailed alternative development strategy.

***Domestic Market Vs. Export-Oriented*** Most Nicaraguan CSOs represented within CCER agree that what is needed to spur economic growth is quite different from what is put forward in the SGPRS. The economic pillar of the SGPRS focuses on the private sector as the engine of economic growth. 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 government of Nicaragua hopes to reach 5 per cent economic growth by the year 2004, and 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 coming from the private pension funds” (Government of Nicaragua 2001: 39).

The focus on export-orientation as the core of Nicaragua’s development strategy is harshly criticized by many CSOs. According to CCER, the backbone of the Nicaraguan economy is the army of small-scale producers in rural and urban areas that produce for

the local and national market. Therefore, the Nicaraguan government should make an attempt to support those small and medium sized farmers and business entrepreneurs. The state should also provide development funds to these target groups channeled through creative and diverse mechanisms. This however would demand a strong 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 small and medium businesses 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.

There is also a fundamental disagreement between CCER and the Nicaraguan government over what kind of infrastructure development is necessary to create the appropriate 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 foreign direct investment and to serve the interests of the most powerful national business groups aiming for export orientation. Indeed, according to 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 small and medium businesses should lie at the heart of any development strategy, and should receive 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 no access to financing over the last couple of years and lack adequate roads to get to the market. To solve these problems, CCER argues for the reinstallation of a state development bank that grants loans to

medium and small businesses at favorable interest rates (CCER 2001a: 20f).<sup>19</sup> These businesses do not have access to credit in a market-determined financial system due to the high interest rates that come along with it. The official PRSP recognizes that private producers need access to credit, and that in order to meet these needs it plans to modify existing banking regulations to increase access to credit for small business, but it fails to explain how and when.

***Liberalization of the Economy*** The liberalization of the Nicaraguan economy is another topic on which there is no consensus between the government and civil society groups. 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 made a determined effort to reach free trade agreements with the country's major trading partners (Government of Nicaragua 2001: 16). The liberalization of the Nicaraguan economy has led to a massive de-industrialization of the economy over the 1990s, with a decline in manufacturing production from 15 per cent of GDP in 1992 to 5 per cent of GDP in 2000, and to increased unemployment (Catalan Aravena 2000: 67).<sup>20</sup> Despite its questionable impact

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<sup>19</sup> The liberalization of financial markets and the dismantling of the state owned National Development Bank (BANADES) was one of the conditions in the first Enhanced Structural Adjustment Facility (ESAF) agreement between Nicaragua and the IFIs in 1997. Banades provided subsidized credit to farmers and small- and medium-scale businesses that could not afford to borrow money at market-determined levels of interest rates. After intensive debates in parliament, the government finally liquidated BANADES in 1999 after increasing pressure from the IFIs to do so. The IFIs consider the elimination of 'financial repression' and a move towards market-based interest rates as 'pro-poor policies', because they supposedly improve resource allocation, and the removal of 'market distortions' provide the poor with access to safer assets, incentives to save, and access to credit markets (World Bank 2002c: 18). However, UNCTAD has pointed out that this reasoning of the World Bank is not confirmed by the recent experience of liberalization of domestic financial markets in developing countries. According to UNCTAD, the dismantling of public credit institutions in agriculture has often resulted in reduced access of poor farmers to credit, has inflicted immense harm on the poor sectors of society, and has contributed to the stagnation of private investment. The redistribution of income from the productive segments of the society in favor of the rentier elements has, furthermore, tended to undermine the incentives to invest within the economy (UNCTAD 2002: 28).

<sup>20</sup> For a detailed discussion of the harmful effect of trade liberalization on the Nicaraguan economy, see Dijkstra 1996. In the PRSP *Sourcebook*, the IFIs maintain that trade liberalization is beneficial for the poor not only because it is essential for growth but also because it improves income distribution (World Bank 2002c: 30). However, recent studies on liberalization suggest that trade liberalization has often been accompanied by an increase in unemployment and a growing wage inequality within developing countries *and* worsening income distribution between developed and developing countries (UNCTAD 2000: 3). Furthermore, countries that have been successful in 'catching up' to the industrialized world have only

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).

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 producer from the United States or other Western countries, and the local food production will be destroyed if it is not protected from the outside. 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.

***Privatization*** The privatization of public utilities is another sensitive issue that has a long history of struggle and protest within Nicaraguan civil society. The process of privatizing public utilities started in Nicaragua in 1997, with private sector participation in the generation and distribution of electricity and the privatization of the telephone company (ENITEL). In 1999, the government privatized energy distribution and the government owned oil company (PETRONIC), and leased a number of ports to private companies. As a result of the downsizing of the state and the privatization of government-owned businesses, many Nicaraguans lost their jobs and public sector employment was reduced from 290,000 employees (24 per cent of the economically active population) in 1990 to 80,000 in 2000 (Government of Nicaragua 2001: 15).

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liberalized their trade after having created internationally competitive economies and when protection was no longer needed (see *e.g.* UNCTAD 2000 and Stiglitz 2002).

The SGPRS proposes to stimulate the participation of the private sector in a number of profitable basic social services that have not yet been privatized (Government of Nicaragua 2001: 45). 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 their own document, CCER harshly criticizes the privatization of public utilities and shows that privatization has not led to an improvement of the delivery of basic services to the people in Nicaragua. Prices have gone up, often out of reach of many poor people, while the service 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” (quoted in Bread for the World 2002: 13). This implies a serious increase of costs for the middle class and the poor who see their incomes diminishing as a result of higher prices for basic services.

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 the health services in Nicaragua (CCER 2001b: 13). The experience of other countries that have privatized parts of their health care system has shown 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 a large national workshop in 2001, the government provided a forum for discussion of the SGPRS. 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 process. 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 fully participate in macroeconomic policy making. According to the World Bank, this experience should be understood as a first step into the right direction, which will hopefully be followed by many others.<sup>21</sup> However, as the parallel PRSP consultation process in Nicaragua has shown, CSOs were able to come up with numerous alternative macroeconomic ideas, which could have been easily translated into development policy and incorporated into the PRSP. Therefore, what the IFIs most likely mean by lack of ‘know-how’ is the lack of CSOs that are in line with IFI thinking and willing to subscribe to the IFIs view on what constitutes ‘sound macroeconomic policy’.

**PRS – Public Relations or Poverty Reduction Strategy?** Numerous critics of the World Bank have recently argued that the PRSP approach is nothing more than a public relations exercise to silence some of the critics of SAPs in the North and the South (*e.g.* Abugre 2001), while the policies advocated by the IFIs have largely remained the same (UNCTAD 2002). According to this view, the IFIs have only changed the rhetoric of their operations without changing the actual policies or operational practices. However, it would be wrong to suggest that there are absolutely no differences between structural adjustment and the new PRSP approach. What is unique about the PRSP approach is the realization on behalf of the IFIs that a strong consensus around IFI policies in the

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<sup>21</sup> Interview with World Bank official in Managua, 29.04.2003.

developing world will make the implementation of adjustment policies less contentious. In this context, it is important to point out that developing countries have over the 1990s increasingly resisted the implementation of structural adjustment policies.<sup>22</sup> Moreover, the IFIs have recently acknowledged that the lack of ownership of policies might be an obstacle to the implementation of SAPs, and that new incentives might be necessary to guarantee the adoption of their (neoliberal) policies in developing countries (*e.g.* World Bank 2002b: 243).

A closer look at the IFIs' instrumental understanding of participation and country ownership shows that the PRSP approach cannot only be understood as a reaction to the harsh criticism of SAPs, but can also be seen as a 'managerial tool' to create a consensus around neoliberal development policies in the developing world in order to guarantee the adoption of these highly contested 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. Consequently, they will either only reluctantly implement the adjustment policies that they were asked to put in place, or they will simply not implement them at all.<sup>23</sup> It is thought by the IFIs that there must be government commitment to programs and policies, based on a broad consensus for effective and sustainable implementation. 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" (IMF 2001: 14).

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<sup>22</sup> One IMF study found that if a disbursement of 75 per cent or more of IMF loans is taken as a measure of compliance with Fund policy conditionality, then less than half of the Fund-supported programs met this test between 1973 and 1997. The same study also points out that the decline was particularly dramatic during the mid-1990s, where only 27.6 per cent of the 141 arrangements of the IMF could be considered in compliance (Mussa and Savastano 2000).

<sup>23</sup> The experience of Nicaragua with SAPs during the 1990s is a good example of the problem of lack of 'ownership' of development policies. In Nicaragua, intense negotiations between the IFIs and the Nicaraguan government lasted for three years before the first official Enhanced Structural Adjustment Facility (ESAF) agreement was signed in 1993. However, during the implementation period, SAPs still faced strong political opposition from NGOs, organized workers, unions, and even from the Nicaraguan parliament despite the official endorsement of SAPs by the Nicaraguan government. In fact, some of the conditions set out in the first ESAF agreement were not implemented until 1997, four years after the initial agreement, while others were not implemented at all (Catalan Aravena 2000).

In this context, the participation of a variety of development stakeholders is also understood to be essential if social structures are to change and adjustment policies are to be implemented (Stiglitz 2002: 242). It is thought by the IFIs that if civil society is engaged in programs and projects from the outset, then there is a greater likelihood that they will be accepted. As Wolfensohn points out in the proposal for the Comprehensive Development Framework, “[d]epending on local political 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, including more local ownership” (Wolfensohn 1999: 26). In this vein, the World Bank states in the PRSP *Sourcebook* that “[n]egotiation between stakeholders over priorities can lead to broader ownership and a more widely accepted consensus around development policies” (World Bank 2002c: 241). Thus, as neo-Gramscian theory would suggest, the main goal of participation seems not to be the incorporation of alternative ideas by civil society into the PRSP, but rather the creation of a consensus around the content of the PRSP, whose parameters have been defined by the IFIs before participation even begins.

**Conclusions** The experience of Nicaragua with the PRSP process has revealed the limited potential for CSOs to contribute in a meaningful way to formulating their country’s national poverty reduction strategy. In the case of Nicaragua, the space for ‘genuine participation’ by civil society has been extremely limited. Alternative ‘unorthodox’ ideas articulated by civil society during the parallel PRSP processes were not incorporated into Nicaragua’s PRSP. The CSO criticisms of the privatization and liberalization of the Nicaraguan economy seem to have been completely disregarded. This paper has suggested that the lack of real input from civil society comes as no surprise. From a neo-Gramscian perspective, the new PRSP approach can be understood as an attempt to create hegemony around the same neoliberal policies that the IFIs have been advocating for over two decades. The PRSP represents an attempt to incorporate some of the main concerns of IFI critics into the mainstream IFI discourse – such as civil society participation and country ownership – only to transform them into ‘policy instruments’ for creating a consensus around the policies of the PRSP and to ensure the

adoption and implementation of neoliberal policies. For the IFIs, civil society participation seems to have the objective of mobilizing greater popular and political support for their conventional adjustment and stabilization policies.

As some other commentators have recently suggested, the PRSP approach might actually have increased the role of the IFIs in shaping developing country policies, and consequently empowered the IFIs rather than developing countries. 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 2002). Moreover, the linkage of PRSPs to debt relief provide a powerful incentive for developing countries to ‘buy into’ macroeconomic and structural policies set out in the PRSP *Sourcebook*. With the PRSP approach, the IFIs continue to impose their thinking and their macroeconomic policies onto developing countries. Contrary to IFI rhetoric, developing country governments are not in the ‘driver’s seat’ of the policy process; they are hardly even in the car. However, it is unlikely that resistance from CSOs will disappear in the context of the PRSP approach. As the case of Nicaragua has shown, CSOs are often aware of ‘the dangers’ of cooperation with the IFIs and neoliberally minded political elites. In fact, it might be reasonable to conclude that the lack of real participation will lead to further disenchantment with the PRSP approach and the neoliberal policy prescriptions of the IFIs, and that this might, ultimately, translate into even stronger resistance to the neoliberal development model.

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## **Interviews**

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