



CHEMONICS INTERNATIONAL INC.



USAID/NICARAGUA RURAL ECONOMIC GROWTH STRATEGY:  
PROGRAM CONCEPTUAL FOUNDATION AND COMPLEMENTARY COMPONENTS

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## ACRONYMS

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BIDE	Boston Institute for Development Economies
CGIAR	Consultative Group on International Agricultural Research
CIAT	Centro Internacional de Agricultura Tropical
CIMMYT	Centro Internacional de Mejoramiento de Maiz y Trigo
FTAA	Free Trade Agreement of the Americas
GON	Government of Nicaragua
ICT	Information Communications Technology
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
INTA	National Agricultural Technology Institute
LAC	Latin America and Caribbean
ME	Management Entity
PRSP	Poverty Reduction Strategy Paper
PVO	Private Voluntary Organization
RUEGS	Rural Economic Growth Strategy
SAL	Structural Adjustment Lending program
SCAA	Specialty Coffee Association of the Americas
USG	United States Government



# USAID/Nicaragua Rural Economic Growth Strategy

## I. Introduction

Nicaragua's rural sector has long fallen short of its potential for broad-based economic growth. At a particularly important crossroads, with a new president to be inaugurated, USAID/Nicaragua has chosen to review the Nicaraguan rural poverty situation, and from this, to assess its portfolio in the context of dramatically changing economic and trade forces. The new economic era, forged by economic liberalism and tariff reduction plus, the increased interdependence of world labor, product and financial markets, provides special opportunities and challenges for Nicaragua's rural sector. In this new context, the improvement of rural economic performance becomes a matter of national importance. The 2005 launch of the Free Trade Area of the Americas (FTAA) will have particular significance for rural economic growth in this hemisphere, and it is in anticipation of this transition that the question of how to prepare Nicaragua for a new era of global competitiveness moves to the forefront of Nicaraguan policy discussion.

The following report provides a conceptual foundation and strategic framework for the Draft Rural Economic Growth Strategy, prepared for the consideration of the Government of Nicaragua (GON) and the U.S. Agency for International Development (USAID). The report begins with a synopsis of relevant history, includes a description of Nicaragua's current situation in light of past rural economic policy approaches, and leads into a discussion of a proposed Rural Economic Growth Strategy (RUEGS) and its implications for current and future USAID and USG policies and program activities. The report concludes with a series of programmatic recommendations on future USAID and multilateral donor interventions designed to reduce rural poverty in Nicaragua.

## II. Historical Background

### A. Dynamics of Nicaragua

Nicaragua has seldom had a cohesive national strategic plan for rural economic development. Instead, unsustainable pendulum-like, strategic shifts have evolved creating independent large and small farm sectors. During a period from 1950 to 1964, Nicaragua's agricultural sector and farm investments grew faster than any other in LAC. These contributed directly to mid-1960 GNP growth rates of 9.5 percent as the agricultural sector grew 14 percent per annum and exports expanded (Bathrick 1981). However, these growth rates began to decrease during the early 1970s when vast numbers of small farmers, mostly in poorly endowed areas, began to see their growth stagnate as a result of limited attention to their needs.

In the mid-1970s, a comprehensive GON/USAID rural sector analysis concluded that a broader-based "growth with equity" strategy was essential. Forthcoming recommendations called for a comprehensive, government-assisted, rural development effort. So pervasive were the observed structural impediments that particular GON focus had to be directed to the vast numbers of bean,

maize, and sorghum producers that comprised the bulk of Nicaragua's rural poor. As a result, extraordinary GON/USAID efforts were set in motion in 1975.

However, these efforts were rendered ineffectual by the rural unrest and civil war activities that ensued and intensified massive rural sector de-capitalization. Over 1.8 million hectares of Nicaragua's most productive arable and pasturelands passed through expropriation with no appropriate replacement support structure to provide essential farm services. The expropriation dealt a fatal blow to the rural economy and further exacerbated the heavy state control of the agricultural sector. These events culminated in the creation of one of the most de-capitalized rural sectors in LAC. Nicaragua's rural sector was deprived of investment capital, human capital, technology, and infrastructure. The loss of human capital was particularly devastating as human capital plays a pivotal role in rural economies where access to technical and farm management skills is limited.

In 1990, nascent democratic governments confronted the important challenges related to fostering country reunification and peace. They controlled LAC's highest inflation rates, and established a macro framework to stimulate economic reactivation. Each of these governments has been notably consistent within this policy framework. Although each confronted an incredibly large undertaking and numerous unexpected hurdles along the way, important progress has been observed. Several key characteristics of the successful economic framework which aimed to support the transformation from command-based to market-based, private sector-led economy include: 1) downsizing and restructuring of the public sector, 2) re-establishment of a private financial sector, 3) opening up the economy and elimination of trade barriers, 4) elimination of price controls, and 5) deregulation of the economy. A second wave of reforms followed at the end of the 1990s aimed at continuing and intensifying financial sector reform and improving the environment for private sector development, and a series of bilateral trade agreements were signed with Mexico, Canada, the Dominican Republic and Chile.

As a result of these policies, agriculture became the dominant economic sector as GDP grew at a rate of 9 percent per annum, and even non-traditional exports began to demonstrate growth (USAID 1995). However, broad-based economic benefits were not achieved. Today, Nicaragua's rural poverty is among the most pervasive in LAC. Hurricane Mitch, historically low coffee prices, massive commercial banks failures, and recent droughts have only served to compound Nicaragua's already systemic rural development challenges.

According to the IDA/IMF, since 1997, Nicaragua has strengthened its economic reform efforts to further hasten economic recovery and reduce poverty (World Bank 2001). By 1999-2000, Nicaragua's "macroeconomic performance had improved substantially" (World Bank 2001a). Based on this improved base, the World Bank projected a 5 percent growth rate by 2005. This is to be accomplished through exports with special attention on a "revitalized" agricultural sector (World Bank 2001a). This projection will prove an insufficient goal when compared to the robust rates of at least 6-7 percent required to generate permanent and meaningful reductions in poverty. Agricultural re-vitalization will require much more accelerated growth than projected.

## B. World-wide Economic Shifts

Strategies for Nicaragua's development must be placed in the context of complementary structural shifts. Beginning in the mid-1980s under efforts by the International Monetary Fund (IMF), new macro economic reforms were launched under the Structural Adjustment Lending (SAL) Program. SAL was an effort to wean countries away from decades of increasingly inefficient, inward-focused and non-competitive import substitution policies. These policies favored urban-based manufacturing and industrial efforts that in effect generated considerable negative terms-of-trade toward the rural sector. Under SAL, the IMF, participating governments, and donors concluded that market forces across all economic sectors would respond rationally thereby "lifting all boats" as appropriate. Consequently, within this new policy setting, developing country and donor support toward agriculture declined notably. However, as in the case of Nicaragua's agriculture sector, the still prevailing import substitution legacies continued such that little systemic support was developed to replace the now out-dated "production-driven" agricultural support programs geared generally to respond to national markets.

Highly complementary trade liberalization initiatives for agriculture began under the Uruguay Rounds and were finalized in 1994. This treaty embraced the globally sensitive issue of agriculture and systematic trade liberalization that called for tariffs for tropical crops and cereals to be reduced 42 percent and 36 respectively. The recent WTO Doha Meeting advanced trade liberalization in agriculture further while also the FTAA for 34 Western Hemisphere countries will be launched, both in 2005.

## III. Current Situation of Rural Poverty in Nicaragua

In its first ever attempt to conduct a comprehensive analysis of Nicaraguan poverty, and to acquire data for the comparison of rural and urban realities, the GON completed the IMF-required Poverty Reduction Strategy Paper – PRSP (*Estrategia Reforzada de Crecimiento y Reducción de Pobreza*). While the PRSP does indicate some minor reduction in rural poverty in recent years, these reductions are measured more as percentages and less as the decrease of poverty in absolute terms. Currently two-thirds of the rural residents are poor when contrasted with one third in urban areas (ERCRP 2001). Most of this rural poor population is directly associated with production agriculture with limited or no access to land (less than 5 manzanas). Stated differently, today 75 percent of the extreme poor are producers. Some 250,000 of Nicaraguan producers are basic grain farmers and they form the largest group of poor. Even after considerable efforts from GON and donor-supported GON efforts over the past 25 years, prospects for this group are limited. In terms of the overall national economy, the agricultural sector is responsible for generating 30 percent of GDP and 50-70 percent of exports, and it employs 40 percent of the employed workforce (World Bank 2001). While the PRSP and its subsequent approval by the IDA/IMF was instrumental in the liquidation of a large GON public debt, thereby creating a much-improved national fiscal situation, the lack of specificity of strategic responses therein, hinders the report's usefulness as a guide for GON policy in confronting Nicaragua's vexing, rural poverty problems.

#### **IV. Why Now? Nicaragua's New Administration**

For structural change to be successful, an appropriate strategic plan must find a conducive political and economic environment in which to develop. Such an environment seems finally to be arising in Nicaragua. The recent presidential campaign was a highly visible contest which generated considerable attention, particularly to the rural platforms of the two candidates. President-elect Bolaños devoted considerable effort toward pointing out his commitment to positive change for the rural sector and the creation of jobs. He outlined an extensive agriculture program for small, medium and large producers, and proposed a number of constructive changes, some of which are discussed in this report. Economic growth and trade have also garnered much attention and seem to be of great importance to the president-elect, as he included in his presentation a proposal for a bilateral trade agreement with the United States.

In addition to the anticipated collaboration with the United States, it appears that the new Nicaraguan administration is also planning joint programming with multilateral donor organizations. The Minister of Agriculture and Forestry designate and the World Bank have held several important strategic planning sessions regarding their Stimulating Broad-Based Growth in Agriculture: A World Bank Policy Note. The sessions have also included PROVIA/IICA, a USAID-sponsored advisory group, which has been asked to give initial recommendations for broader sector contributions. Given the increasingly interwoven political and economic issues associated with rural sector and also the newness of FTAA and WTO, limited attention was paid in these meetings to competitiveness and the realities of globalization.

##### **A. U.S. Government Agenda and Increased Compatibility**

Similarly, the United States continues to have considerable interest in Nicaragua. The U.S.'s influence has been long and significant, particularly in areas of economic policy, commerce, and politics. One of President Bush's most important foreign and economic policy objectives is to ensure a successful FTAA. This desire was expressed clearly during the Ottawa meetings this past spring and subsequently reinforced by Secretary of State Powell. The U.S. Trade Representative, Ambassador Zoellick, has spoken increasingly of the essential need for developing economies to become effective partners in this U.S.-led, free trade effort.

Ambassador Zoellick has also been in discussion with USAID Administrator Natsios about the need to provide assistance to the U.S.'s trade partners in positioning themselves to adapt, compete, and gain. Administrator Natsios has organized strategic workgroups to articulate programs for trade and development complementarities. He has created a new program pillar around agriculture and economic growth. As a direct result of the rapidly changing panorama, and after long departure from rural sector economic development, USAID/LAC has launched a "Rural Prosperity White Paper" from which a new action strategy will be implemented beginning in 2002.

The resurrection of agriculture comes at the time when both the Nicaraguan national, regional and international settings are prepared to address its most fundamental needs. With the backing of the new Nicaraguan administration, the U.S. Government, the World Bank and Inter-American Development Bank, which is also completing a rural strategy exercise with the new GON, it would seem that the time has come for a strategic plan for rural economic development.

## **B. USAID/Nicaragua: Reservoir of Relevant Experiences**

Over the last 25 years, USAID/Nicaragua's rural development portfolio has embodied a wide variety of responses to differing institutional and strategic focuses. Traditionally, USAID/Nicaragua has focused on small farm efforts to improve productivity streams for basic grain producers. In response to changing political and economic situations, this focus has evolved from institutional initiatives concentrating initially on a predominately state-supported institutional base, and then redirecting on PVOs, NGOs and private sector firms. Some farm enterprise shifts sparked a new focus to introduce innovative institutional arrangements supportive of producers desirous of crop diversification. These interventions have usually been short-term efforts, seldom operating beyond three years.

The current portfolio was unveiled in 1995 and evolved from the macro-economic stabilization program beginning in 1994. The change in focus reflected prevailing Washington consensus reservations regarding economic, sector-specific support, placing much greater assistance on social services and democratization support. According to the Mission, macro reforms permit Nicaragua's expanded exports to grow the economy, with small farmers serving as major actors, if not the main generators of Nicaraguan growth (USAID 1995). Agricultural support generally centered around a variety of production/marketing services geared toward a wide range of producers (much emphasis on basic grains), natural resource and watershed management, and micro-enterprise support. Except for the seed promotion and rural credit union projects, no broader institutional support activities were introduced. Mid-way through implementation of this strategy, the Hurricane Mitch Reconstruction and Recovery Program was launched. Due to its two-year finite duration, USAID's staff expanded management responsibilities to implement this highly visible effort.

## **C. Current USAID/Nicaragua Portfolio and Strategic Recommendations**

Today the USAID/Nicaragua portfolio is comprised principally of a broad range of small farm-focused, outreach programs implemented by PVO and NGO partners. In addition, U.S. contractors are implementing projects aimed at strengthening the seed sector and analyzing land-titling issues. The Mission is also implementing a series of highly effective Drought Response PL-480 Title II activities, a massive Hurricane Mitch rural and farm rehabilitation effort over a two-year period generally implemented by a variety of NGOs and PVOs, and smaller natural resource management, small business and micro-credit portfolios. The current portfolio totals \$61 million.

In 2000, a review of the PVO program under the agricultural component of the Mitch Recovery and Reconstruction Project was conducted (Chemonics 2000). The review proved an important reference for this present-day review of the USAID/Nicaragua portfolio. In addition, for the purposes of this latest review, a brief questionnaire was sent to major implementers and follow-up interview sessions were held with some. In the context of this author's review of this material plus a related report completed by senior rural strategist James Riordan from Chemonics International, a generally positive view of these diverse activities is obtained. However, tasked to ascertain from this rich portfolio what might be the most appropriate means to best shape this experience for the future, the consultant analyzed the questionnaire and selected interviews and

placed these in the context of the systemic problems described above. From this review two strategic recommendations were developed to guide USAID in its activities during the remaining period with its current partners.

***Recommendation #1: Maximize experiences for economic potential, best practices, and marketing and credit systems to best assess future direction***

An impressive array of activities is underway — the largest injection of improved small farmer-focused technologies and support services in recent memory. Much needed production, soil conservation, irrigation, post harvest, marketing and credit activities across the board were provided. All of these, albeit through different approaches, dealt with basic grains and horticulture or garden crops, and most also with crop diversification, coffee, fruits and agroforestry. A few opined that market and credit systems could be improved through examining the success of other partner projects.

The analysis of income potential and the establishment of best practices, which lend the greatest contribution to farm growth and job creation, are essential. Furthermore, given the urgent need for strategizing in the face of rural poverty realities and potential economic gains, comparative farm-budget studies are needed across the portfolio. These reviews should be aimed to guide future strategic and program direction to encourage selection of potential institutional partners to best formulate the next phases of program development.

***Recommendation #2: Maximize efforts to develop institutional sustainability capacities***

As new era programs will require serious market and business relationships than currently required, USAID's current Partners should now be encouraged to undertake efforts to introduce institutional sustainability approaches. This emphasis has received little attention in the past but increasingly becomes essential due to limited donor funds and new business opportunities. In this context, these strategies could incorporate private sector linkages, business plan development analyses, cost/benefit analyses, management training skills development, technical certification of collaborating NGOs, and market analyses that drive all aspects of project design. It is critical that the current and future portfolios consider much-needed, locally based facilitation skills so that small farm participation in the new era of market-driven rural development becomes more common.

## **V. Structural Constraints to Rural Economic Growth in Nicaragua**

Nicaragua's proposed Strategic Plan must have the capacity to address a wide variety of economic, political, and social issues while responding to rapid external change. At present, most of LAC is observing a period of unanticipated and significant political and economic structural shifts. Countries are confronted with the difficulties of poorly equipped rural sectors responding to major challenge and opportunities and to uncertain changes. For meaningful responses these dynamics must be understood.

Increasingly, country-level experiences under post-SAL conditions demonstrate that when appropriately supported, land, labor and agro-climatic endowments generate unprecedented economic improvements. When new era, market-driven agriculture systems are linked to rural

areas that absorb increasingly farm and off-farm labor, increased jobs and incomes occur, while exports expand. This new, valued added system functions at many levels. For example, in comparison with traditional food crops, more farm-level labor is required to produce and harvest. Based on a comparative labor intensity review of 19 export crops a remarkable range from lows of 75 person-days per hectare per growing season year for broccoli and melon to highs of 600 person-days per season for snow peas was shown with the average export requiring 123 person-days per hectare. This surpasses considerably the lower labor requirements for staples such as yucca where only 50 person days per hectare are provided (Carter, Barham, Mesbah, and Stanley 1955). When agriculture is redefined to include other value-added agriculture-related manufacturing and service sectors, such as off-farm employment generation activities associated with non-cereals, the corresponding redefined GDP is increased three to four times above that associated with more traditionally defined agriculture (Pryor and Holt 1998). Research by the International Food Policy Research Institute (IFPRI) demonstrates that under this new environment, for every \$1 increase in agricultural production output in LAC, overall economic output was increased by almost \$4 (Pinstrup-Andersen, Lundberg, and Garrett 1995).

Alain de Janvry and Elisabeth Sadoulet, two of LAC's most highly regarded rural growth strategists, summarize these contributions in the context of country-level economic sector growth potential when they explain that: "In many areas, the promotion of agricultural growth should be the first priority in support of rural development, particularly the higher value added crops produced for agro-industry, non-traditional exports and labeled products for niche markets" (de Janvry and Sadoulet 2001). As will be observed, Nicaragua's agriculture sector (including crops, livestock, forestry and agro forestry and aquaculture and related value-added linkages), must not only grow but must follow a dramatically different path to compete for market shares with an ever-increasing number of competitors. The analysis that follows provides a global perspective to help establish the rationale and appropriate focus for Nicaragua's RUEGS.

### **A. Sub-optimal Land Utilization**

In 1997 as part of a major USAID/LAC study conducted by Chemonics International a comparative study of LAC member countries' responses to economic reforms during the late period of import substitution and the early period of the SAL, 1981-1994 was completed (Bathrick, Byrnes, and Stovall 1996). The study revealed that those countries demonstrating the greatest sector and national GDP growth experienced distinguishable and substantive agricultural land use shifts. These countries shifted from growth in the cereal sub-sector to more remunerative, labor intensive, valued-added sub-sectors such as meat, fruits and vegetables, and oilseeds). When compared to other countries whose agricultural economies relied on food staples, these economies grew more, not only as a result of the higher remuneration brought by the new sub-sectors into which their agricultural producers moved, but also due to employment generation multipliers inherent in the new commodities.

In contrast with the rest of LAC, Nicaragua shifted to the *least favorable* land use category. While land expansion occurred in the 1990s at twice the historically high rates observed in the 1970s, 80 percent of the cultivated land is still in lower value food crops such as rice, corn, beans, and sorghum (PROVIA 2001). Nicaraguan producers did not elect to pursue the more favorable enterprise shifts, while their new LAC *competitors* did. These examples document the severity of Nicaragua's structural constraints, for these *preferable* sub-sector shifts required

financial and technical capital, which were either not available or not employed. The perpetuation of this trend leads to 1) the obstruction of broad-based economic growth, 2) the reduction of market shares penetration, 3) the expansion of the agricultural frontier and resulting increase in deforestation and watershed degradation.

## **B. Low Levels of Land Productivity**

Throughout LAC, and to varying degrees in the more competitive economies, increasing land productivity drives agricultural growth. In a comparative review of the LAC region, IICA found that while Nicaragua's agriculture grew at one of the fastest rates in the region during the period 1990-1997, it ranked lowest in land productivity (IICA 2001). Apart from having limited access to improved plant and seed varieties, the most notable explanation was that Nicaragua also ranked among the lowest in the use of fertilizer across the region. Between the periods 1979-1981 and 1995-1997 application rates declined by an alarming 62 percent (IICA 2001), and although productivity has declined for all economic sectors during the past decade, agricultural labor productivity is the lowest (PROVIA 2001).

## **C. High Transaction Costs**

High transaction costs also pose a major hindrance to rural economic development. Rural agricultural practitioners in Nicaragua are subject to a number of inequitable realities, among them an overvalued exchange rate that tends to favor imports as opposed to exports and increased port and transportation costs of \$800 per container for exports to the United States. compared with other Central American countries. Furthermore, they often experience considerable meteorological and environmental risks and may have limited experience in crop diversification, which might afford some protection against blights or unusual weather patterns. And, on top of all of these, there also exists the ever-present problem of limited access to credit. In the worst case scenario, rural agriculturists have one product, which is under-valued in national currency, expensive to transport to the market, non-diversified and therefore more susceptible to complete destruction by variable weather and climatic conditions, and irreplaceable if lost due to the inaccessibility of credit.

## **D. Limited Investment in Agriculture**

Stemming from high transaction costs are the anti-agriculture attitudes that pervade moneyed circles. In general, investments are increasingly viewed as modes of achieving short-term, high returns. At a time when it is more favorable for private banks and other financial institutions to invest in the sector, these attitudes, combined with real or perceived lower margins for agriculture to hinder investments.

## **VI. Draft Strategy for Guiding Rural Economic Growth**

Nicaragua is blessed with excellent soils, hard working farmers, a favorable macro economic framework, and an increasingly favorable political environment. Economic forces are changing such that the main hope for successfully confronting Nicaragua's difficult objectives, reducing rural poverty significantly via job creation and economic growth while expanding exports, requires the quick formation of a reformulated agricultural strategy. While initially economists

from donor organizations the world over were critical of sector-specific assistance, second generation, real-world experiences now demonstrate that essential complementary adjustments are required to regain earlier momentum. Based on sluggish economic performance in the wake of an earlier boom period and the fragility of democratic institutions, the possibility for political backsliding is ever present.

We now know that in light of severe structural imperfections and the unique devastating power of man, and in some cases natural disasters, long-standing fundamental impediments will just not be easily overcome, but will require sustained strategic attention and broader support over an extended period for them to dissipate. A comparison of Central American per capita GDP growth rates over the last two decades demonstrates that Nicaragua's performance has been consistently the lowest when compared to GDP rates of its neighbors. Even during the growth period of the nineties, Nicaragua's GDP trend was flat by comparison, further demonstrating its economic decline (Laureano 2001). Furthermore, in a recent visit to Managua, USAID/Nicaragua's former rural development officer contrasted the universal enthusiasm throughout the sector from the mid-1990s with 2001: "The biggest change one can observe in Nicaragua today is the increased pessimism, decapitalization, and attitude of dependency in the agricultural sector. In the nineties despite all the problems and challenges, there was a certain degree of optimism in the country and the agricultural sector" (Rudert 2001).

Confrontation of these serious impediments calls for a bold national strategy. If real improvements are going to begin to take shape, and sooner rather than later, major constraints will need to be addressed at all institutional levels. In a major break from past experience, trade, economic growth, and agriculture have become increasingly interconnected and prerequisite for national survival. With the advent of the fast emerging FTAA and WTO, Nicaragua must begin to build its competitiveness in the new era of agriculture, to avoid a more entrenched struggle in the near future. The most notable challenge is to be confronted by the large number of Nicaragua's staple food producers, most of who recognize that they will likely not compete with cheaper commodity suppliers as tariffs are further reduced.

National ownership of structural change in the rural sector becomes essential. RUEGS, therefore has not been cast in the setting of a traditional project by project response. Rather, it must be developed as one integrated support function within the broad framework of a National Rural Sector Revitalization Program. USAID and USG can fill key roles in helping to frame, orient, and assist the complex transformation process around this new national initiative.

### **A. Initial Steps for the Development of RUEGS**

Unconventional policy initiatives are needed to address today's political, economic, and trade-related development issues. Under a new, GON-initiated and facilitated National Rural Sector Revitalization Program, one being vigorously assisted by USG commitments (including targeted USAID and multilateral bank resources), a capable but hesitant private sector can begin to mobilize essential enterprise shifts. For this to occur, any strategy will have to be backed by a sincere governmental commitment and it will have to endure beyond the current presidential term.

The RUEGS proposal incorporates the recent World Bank strategy recommendation which indicated that current externally-funded public sector and grant activities lack effective coordination, and even generate:

“...conflicting signals and incentives to various economic agents. The erratic nature of funding undermines proper planning and efficient implementation. Programs are inefficient in terms of inadequate design, duplication, and fragmentation of activities. Projects are donor-driven rather than target group driven, undermining project effectiveness.” (World Bank 2001)

The policy implications of effective donor and government coordination are seminal. Coordination is critical for the development of a unified, nationally backed rural prosperity strategy, and it is through a coordinated approach that a sustainable policy may be achieved. Three interrelated activities have been developed to nurture this initiative.

### *Step 1. Commitment by Leadership*

Broad-based societal commitments are most frequently set in motion by demonstrated dedication on the part of high profile political and national leaders. In the case of RUEGS, respected political and business leaders will serve the principal role in cultivating and maintaining the necessary long-term structural changes. Not only has the effectiveness of such sponsorship been underestimated, in some cases disparagingly counterproductive dependency themes have been internalized. Producers and investors will have to be convinced of the government’s commitment to the new policy and will have to feel that a supportive enabling environment is being created, if the GON is ever to be successful in reversing this malaise. A coherent and cohesive national response and sense of mission will be required, one which transcends single-man or single-party sponsorship, such that decisions are made on the basis of a national economic priority to enhance Nicaragua’s competitiveness. While admittedly difficult, this national consensus is needed to begin to break from traditional approaches. The keystone of this plan is the shaping of new attitudes around a dynamic rural sector essential for Nicaragua’s future economic, social, and political wellbeing.

The USG may play a significant supporting role in the initial sponsorship of the RUEGS. Several activities would be well-suited for USG contribution:

- 1) Preparation of a technical briefing and broader seminar for senior officials on a reformulated agriculture as a national strategic imperative;
- 2) Development of a well-structured workshop for political, business, and national leaders with international expert presentations focusing on these new dynamics;
- 3) Efforts by key U.S. political leaders to promote and reinforce this new message become critical.

While USAID could play a pivotal role in advancing and nurturing this activity, the success of RUEGS commands higher-level political implications. The depth of Nicaraguan national commitment required makes broader USG support essential.

### *Step 2. Restructuring of Roles*

To stimulate broad-based growth contributions in the rural sector, “competent and active government was required” (Timmer 1995). The restructuring of roles and responsibilities for efficiency will bring out a decrease in transaction costs, an impediment discussed earlier. Successful entrance into the new era requires that the GON focus on macro and sector-specific policy, rural infrastructure, health and education services, and judicial transparency and integrity. As trade and commerce increase in importance, the ability to negotiate national interests and to ensure compliance with new scientifically based food and plant safety regulations assumes a particularly vital role. USAID may play a complementary role by monitoring the activities and initiatives of GON public sector officials and identifying opportunities to fill supporting roles in these essential areas. Areas in which USAID might contribute include:

- 1) The provision of an agricultural trade negotiator to conduct a review of potential raw and finished products and the current legal and policy directives related to expansion of agricultural exportations (including compliance with WTO regulations); based on observations made, the negotiator would advise Nicaraguan officials on strategic implications, highlighting the seriousness of the new era and the areas of inquiry that must be pursued to maximize new opportunities;
- 2) The implementation of workshop for GON officials, producer and agribusiness representatives on the most appropriate frame for new era roles and responsibilities; industry leaders might provide strategic suggestions on specific commodity sectors, such as specialty coffee, cacao, and dairy;
- 3) The implementation of an assessment of current NGO vision and attitudes, and technical capacities as they relate to enhancing rural competitiveness; a workshop might be conducted to stimulate strategic change and institutional adjustments, and regular monitoring and evaluation of NGO activities might be carried out;
- 4) The provision of targeted technical assistance to key governmental units, producer and agribusiness groups, and NGOs in special new skills areas needed to carry out new roles;

The private sector will also play an invaluable role in this initiative. Private sector players become essential for mobilizing financial investments to generate jobs, especially in as poor a country as Nicaragua. For the plan to work, private sector investors will have to participate in and review the new national program and seize upon the rural opportunities created. The proposed national strategy is designed to assist private sector partners by facilitating risk-taking. It is hoped that such a national plan will encourage investors and producers to consider more long-term investments, thereby bolstering the sustainability of the program.

During the opening phase of the RUEGS plan, appropriately trained NGOs may serve as facilitators for higher risk activities that bring larger numbers of producers to buyers/contractors. Such organizations may offer incubator services to provide support for entrants into new sectors and sub-sectors. The anticipated result is that businessmen and investors will have an impetus to participate directly in sub-project investments, such as the development of new commodities or the broadening of agricultural activities to include off-farm endeavors. Responding to the World Bank's concern regarding inadequate strategic coordination mentioned earlier and the growing prevalence of donor dependency, institution-specific roles and responsibilities will enable institutions to operate in a more coordinated manner.

### *Step 3. Program Matrix*

IFPRI has identified seven support elements essential for enhancing rural competitiveness: 1) identification of national comparative advantages and competitiveness; 2) policy framework and supportive linkages to facilitate impacts; 3) management and marketing skills and support; 4) market-related road and support infrastructure; 5) rural financial markets; 6) market-driven technology development and outreach; 7) natural resource management practices; and 8) rural development alternatives to agriculture strategies to include safety nets (Bathrick 1998). The World Bank's latest Policy Note for the GON's agricultural transition team embraces many of these same themes (World Bank 2001).

An in-depth review of current and projected program investments would allow for the elaboration of a program matrix. The GON would thereby have a tool to track national, USAID and multilateral program initiatives, and would be able to better guide development work within Nicaragua. Moreover, it would be able to determine if development programming in Nicaragua covers all sector areas, as in the scheme illustrated by IFPRI. Even before this review it is evident that significant work is needed in the development of market skills and support and rural financial markets. The proposed program matrix would help identify those areas which are receiving GON attention and donor assistance, and those which remain to be addressed. Proposed areas for USAID programming assistance include:

- 1) The implementation of an informal review of ongoing and projected GON, World Bank, IDB, USAID programs;
- 2) The development of a program matrix which lists current and projected GON and donor assistance by sector, thereby allowing for the monitoring of present and future initiatives;
- 3) The facilitation of Washington-based program coordination, including donor, USAID, U.S. Department of State, U.S. Trade Representative, U.S. Department of Agriculture, and Nicaraguan Embassy representation.

All of these action items are geared toward the establishment of a systematic coordination effort on the part of the GON and donor organizations working in Nicaragua. Once the tracking system is in place, the GON will be able to monitor donor activities within the country to make sure that 1) all sectors are addressed equally, and 2) efforts are not duplicative.

## **B. Sectors-specific Attention Under RUEGS**

It must be noted that it will take some time for all of the “initial steps” to be completed. They all will not occur concurrently and therefore certain steps must be taken to ensure that the Nicaraguan rural economy continues to grow even during this initial period. Priority lies in developing a Nicaraguan national plan, but this will not happen over night. In the meantime, some programming frameworks may be put into place so that as the national agenda is firmly established, the mechanism for carrying it out will be well in place. It is in establishing this framework that USAID and other donor organizations may play elemental roles.

## **VII. Component Parts of RUEGS**

The RUEGS strategy is laid forth below as a series of over-arching areas for consideration and development. Among them are: 1) a competitive grants program for export promotion; 2) introduction of market-driven technologies through: a) improved seed and b) development of Rural Knowledge Centers; 3) policy and regulatory guidance; 4) alternative strategy development for vulnerable producers; 5) the facilitation of capital base establishment through access to land titles; 6) the development of specialty coffee; and 7) the expansion of professional and vocational skills opportunities. Each of these components is introduced on the premise that it may be developed into a key programmatic and contracting mechanism by the GON for USAID and other donor organizations, and will complement the essential elements of the National Plan. While the components are not drawn into full blown detail herein, they form the basis of a coordinated Rural Economic Growth Strategy, and could be elaborated further for the development of specific programming activities.

### *Component 1. Competitive Grants for Export Promotion*

At present there are very few successful, non-traditional export promotion enterprises in which producers and investors can become involved. The well-known motto that “success breeds success” inspired the proposal of a pump-priming mechanism whose objective is to mobilize potential product line farmers and to assist them in developing sustainable non-traditional export operations. Product-specific technical assistance and marketing services will be necessary to ensure that new investments will flourish and continue after project completion.

Over the course of the last two or three years, USAID’s NGO, PVO, and contractor partners have established a broad range of viable prospects. However, time and focus have been insufficient to translate the most promising of these into sustainable enterprises. The most appropriate approach would be to determine which of these product-line experiences present the greatest export and value-added opportunities, and to build upon them. There is a veritable plethora of potential product lines now being exported from Nicaragua to El Salvador and Costa Rica, including particularly promising lines of dairy, tropical fruits, shrimp, cacao, tilapia, tropical plants, tropical roots and tubers. To take advantage of these potentially lucrative sub-sectors, an initial survey should be carried out and followed by a competitive award process to designate management of the implementation and facilitation of sub-project operations. The selected management entity (ME) would then focus on enhancing visibility, generating sales, motivating replication of successful endeavors, breaking into niche markets, and the growth of confidence in local producers.

The ME could be made responsible for managing competitive grant programs designed to fund the most well-designed product-line development proposals for business development, mobilizing credit, development of business incubators, or design of other support structures. The ME could provide promotional support, technical and sales assistance and could nurture appropriate institutional sustainability plans to help steer the implementers toward sustainability.

In addition to technical and product-related support, the ME could provide accounting and auditing oversight, assistance in specialized business development and plan skills and be a critical disseminator of appropriate policy guidance and advocacy services to the GON and business community, as needed. The ME would provide periodic monitoring and evaluation of grantees, and could use best practices and lessons learned for program promotion and duplication of positive rural investment experiences/opportunities. Success could be measured in terms of incomes and jobs generated and institutional dynamics that result in sustainable operations during the next decade.

### *Component 2. Introduction of Market-driven Technologies*

Nicaragua suffers alarmingly low access to and use of market-driven technologies, which severely limits Nicaragua's productivity and competitiveness, particularly in agriculture. The dearth in access to technological information and implementation abilities ranges from production and post harvest requirements in highly specialized crop and livestock areas of opportunity, to improved varieties and practices for food subsistence purposes. In one attempt to address the lack of access to information, the World Bank has launched a large multi-faceted loan program with the Ministry of Agriculture and Forestry's National Agricultural Technology Institute (INTA). The loan program will address some of the technology-delivery constraints, particularly those faced by the small farmer, through a competitive grants program and support to extension workers.

Progress, however, has not been as substantial as anticipated and efforts are underway to broaden market-driven approaches. Complementary activities are being explored under USAID's Seed Policy and Promotion Project implemented by DAI. Likewise, one component of the Hurricane Mitch Rehabilitation and Reconstruction Program was the introduction of thousands of producers to improved and hybrid seeds by NGO implementers. The introduction to new seed sparked farmer interest in new technologies and this momentum must be maintained and increased. In addition, the absence of improved production and soil management and post-harvest practices is ever present. Application of new Information Communications Technology (ICT) approaches for applied technical information needs and rapid market information is available in many parts of the world, but observed only in one isolated case in Nicaragua. Exposure to market-driven technologies is one of the best uses of technical assistance, as it provides rural agriculturists with new information for systems with which they are already familiar, thereby increasing the likelihood that new technologies will be adopted and incorporated into existing production activities. Two areas for consideration are the expanded use of improved seed, and the development of rural knowledge centers.

## **A. Expanded Use of Improved Seed**

The availability of improved, high-quality seed is one of the most cost-effective means for advancing farm productivity. However, there are several regulatory control and policy requirements, which do not permit the broad multiplication and distribution of improved seed. The new GON administration will be looking closely at improved seed systems for access in basic commodities, but also into oil seeds and more value-added species to explore development potential. Seed producers could be mobilized to participate in a variety of domestic and export opportunities, but this highly sophisticated sector requires the best information available from business and industry leaders. USAID is in an enviable position to have a hand in influencing this vital input at an early stage. A consulting team might be contracted to provide the best strategic recommendations for broadening seed use in the most cost-effective way. The team could scrutinize policy issues and provide suggestions as to improved seed multiplication and distribution systems, and marketing and product outreach promotion.

From this initial work, a better strategy and guidance as to the comparative advantages of public/private sector areas could be developed such that international and domestic seed could have broader use. Recommendations regarding additional project activities could also be developed. The strategy-development team could include representatives from national and international seed associations. A LAC-based seed specialist with considerable international experience could also play a role in the team to help assess and design appropriate project support activity. The team's report could help GON policy efforts assess adjustments to USAID's projects, and serve as a basis for expanding seed use.

## **B. Development of Rural Knowledge Centers**

USAID's PVO/NGO and contractor partners have implemented extensive small farmer support projects in most of Nicaragua's production areas. Based on recent technical support provided, some of these areas demonstrate great potential for expansion, potential which is reflected in interest generated by other producers and also by ancillary value-added services for the products produced. In addition, when appropriate information is available in a timely manner, and at lower cost, opportunities for improving market efficiencies abound.

Provision of technical support information has become increasingly important. At the same time, ICT, the Internet and electronic commerce applications are adapting to the needs of farmers in isolated areas. For example, the Food and Agricultural Organization (FAO) reports that some producers value the information to such an extent that they now independently cover operational costs. Outreach systems that access the Consultative Group on International Agricultural Research (CGIAR), other information providers, and market news services are generating demand. The information services are widely applicable and result in notable reductions in transaction costs, particularly for small producers.

To propagate the diffusion of information, promising market town centers might be selected for the establishment of Rural Knowledge Centers. Staffed by agricultural specialists, these centers could provide key agronomic and post harvest guidance, as well as current product price listings, latest information on product import food safety standards, buyer databases and other matters of urgency not easily accessible or user friendly through more traditional channels. In addition, the

centers could be charged with the packaging and distribution of *best practices* from ongoing USAID programs geared toward farmer accepted production, natural resource management, and post harvest technologies. The service centers could also develop and provide farm budget/management information systems, which are essential for facilitating key enterprise decisions.

### *Component 3. Policy and Regulatory Guidance*

Today's high stakes rural transformation process requires the best possible policy and regulatory guidance. Complex, sector-specific policy and regulatory issues form significant structural and institutional barriers which hamper macro reforms from generating their intended impacts. For example, over valued exchange rates tend to promote more imports than sell exports and the absence of appropriate bio-tech safety controls, eliminate the introduction of biologically engineered cotton capable of generating multiple, high impact economic contributions. In some cases, special regulatory incentives may be considered and introduced in particularly crucial areas to facilitate program objectives. The link between agriculture and jobs to exports to GDP breaks significantly from the traditional view of *production agriculture*. Broader GON policy and institutional visions that link economics, trade, and agriculture become essential for mobilizing investment and program support. The new era's agenda also requires more rigorous attention to policy analysis, regulatory, and legislative reviews, to help ensure that maximum contribution to PRSP objectives are achieved.

Paramount to understanding this new setting is the need for policy analysis by a team of seasoned technical advisors. Such a team could conduct research into development issues, assess similar experiences in other countries, and perform selective monitoring. Moreover, the team could collaborate closely with the ministers and senior staff of agriculture, economy, and trade. Priority consideration should be afforded to forestry policy and regulations, water use and fee structure legislation, trade negotiation strategies that better reflect agriculture and broader national interests. Given the major policy and structural constraints observed, during this initial phase the availability to the GON of an expert advisory team to interact with producer and business communities, becomes essential. A detailed needs assessment might be conducted by a joint team of veteran USAID and World Bank policy specialists.

### *Component 4. Alternative Strategies for Vulnerable Producers*

While market-driven development strategies do have their benefits, one of the main challenges is that serious consideration must be given to the most vulnerable residents in any given social sector. In the case of Nicaragua, this sizeable population is comprised mainly of smaller maize, bean and sorghum producers who will find it difficult, if not impossible to compete in the new market-driven economy. They will face particularly daunting challenges as tariff reductions open the markets to cheaper foreign suppliers. Competitiveness issues become evident for those who may not yet be situated to reap the benefits of the new stream of anticipated jobs. For many of the farmers, subsistence is the priority, and only after satisfying their most basic needs for survival will they diversify into other land use endeavors, such as livestock, tree crops or mixed farm/non-farm activities. One of the foremost focuses of the national strategy must then be directed toward the introduction of production technologies which will permit the reduction of

per-unit costs production and as appropriate, reduce production areas currently allocated for staple crops. As a result of such technological shifts, additional land is provided for the pursuit of more remunerative activities over time.

As trade liberalization negotiations expand, there develops an urgent need to assess the status of current varieties and outreach capacities and make tentative farm budgets as a base for determining the appropriate seed varieties and distribution plan. Perhaps the Centro Internacional de Agricultura Tropical (CIAT), Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT), INTA and some of USAID's NGO and contractor partners would provide appropriate mechanisms by which to conduct the assessment. For example, perhaps a CIMMYT-developed or NGO imported maize variety shows tremendous promise in one agro-ecological region. The identification of this variety and testing could be followed by broader access through local seed growers or other means such that initial impacts begin to be realized. Specific seed outreach projects could be developed for those producers transitioning themselves out of basic grains; and the plan would include appropriate outreach activities based on producer dialogue and preparation between farmer and seed suppliers.

#### *Component 5. Establishing a Capital Base Through Access to Land Titles*

The absence of land title automatically excludes potential borrowers from access to institutional credit sources. Leading international development strategists, such as Hernando de Soto, agree that the lack of land title not only prevents the rural poor from accumulating a financial capital base, it also impedes their ability to achieve labor intensive land improvements. The lack of title also constrains the land user's ability to undertake critically needed, labor-intensive land and farm enterprise improvements, ranging from bench terraces to fencing essential for sustainable natural resource management. In a country such as Nicaragua, where financial capital is limited, the resolution of this long-standing constraint becomes essential. According to the World Bank, poor and small producers are disproportionately affected by the lack of registration and consequent tenure insecurity (World Bank 2001).

In addition to highly innovative legal mechanisms for the acquisition of land titles such as those employed by some Nicaraguan mayors, GPS technologies permit cost-effective precision, which becomes particularly important in cases where there is no ongoing legislation. Appropriately trained NGOs could serve as facilitators for expediting this critical land titling documents for a broad number of producers. One current USAID initiative, being implemented by the Boston Institute for Development Economics (BIDE), under the Rural Land Markets unit with MAG-FOR may provide useful suggestions. A collaborative approach with the World Bank project also underway might be useful.

#### *Component 6. Development of Specialty Coffee*

Specialty coffee proves a sector with great potential for economic growth. Several organizations, the World Bank, the IDB, and USAID/Washington LAC Bureau, are undertaking a number of crash response efforts in Nicaragua and Central America in an attempt to quickly assess the extremely bleak coffee situation caused by excessive production of lower quality coffee worldwide. The coffee problem will not be solved easily, and its implications will be felt for

some time to come. This reality is devastating to Nicaragua and the RUEGS proposal due to the large number of producers affected. Thirty-one (31 percent) percent of Nicaragua's rural workforce depends on coffee for seasonal employment, and coffee is Nicaragua's number one export.

Although not a resolution for the worldwide coffee crisis, the specialty coffee industry is booming at 15 percent annual growth. Inroads are being made in the United States, in Japan, and in Europe. The growing niche market for specialty coffee provides one of the most noticeable challenges and opportunities. Signals and responses in the sector must be derived from and geared to the increasing demand of a market-drawn industry.

The Specialty Coffee Association of America (SCAA) is particularly concerned about product quality and special consumer interests (i.e., organic, shade, bird-friendly, free trade varieties). The SCAA realizes that an appropriate incentive structure must be developed to encourage the production of coffee to meet the standards of the increasingly demanding consumers. SCAA is presently developing new price differential marketing strategies. To ensure that the most appropriate strategic focus and potential response is provided at this critical juncture, USAID might meet this extraordinary challenge by inviting the SCAA executive board to Nicaragua.

The SCAA could conduct an informal visit of production and post-harvest systems and provide recommendations, particularly in light of the new area of product differentiation, for improved marketing programs and strengthening of the fledgling Nicaraguan Specialty Coffee group. USAID might collaborate with the SCAA in providing its own in-house coffee specialists, alongside independent specialists who have garnered extensive experience in the field.

#### *Component 7. Improving Professional and Vocational Skills*

While much attention has been focused on NGO/PVO institutional bases, a wide range of key skill areas is found lacking across institutional lines. Apart from the expanded knowledge and skill base needs mentioned earlier, there is a general dearth of nationally trained experts with advanced degrees in agribusiness and product marketing, post-harvest technology, international trade, rural sociology, and public policy reform. There are ongoing educational and research exchange programs with the University of Florida and Texas A&M University that may offer useful services. A broader need for mid-level technical managerial personnel is evident, due in part to limited opportunities in the past and the outdated nature of Nicaraguan curricula. Perhaps undergraduate or short-course programs could be provided at regional centers of excellence in areas of particular timeliness and importance. As some NGOs will likely be called to expand their activities, their staff will also need to acquire expanded managerial, marketing and technical skills particularly in the post-harvest field. A training needs assessment might be performed by an institutional development specialist and accompanied by a university vocational agriculture instructor conducting a complementary survey as a next step.

### **VIII. Conclusion**

Nicaragua faces a long, uphill climb if it is to meet the challenge of preparing for the burgeoning era of international market-driven competitiveness. And while the climb will require a concerted effort from the new Nicaraguan Administration, the USG and USAID/Nicaragua and other donor

organizations, the challenge is not insurmountable. Past rural growth strategies have been insufficient and experts have speculated that at least three decades have been lost, as Nicaragua's rural sector trailed behind its regional counterparts.

There must be a new vision for rural economic growth in Nicaragua. When framed in the context of dramatically changing national, regional and global economic and trade dynamics, market-driven strategic links with the rural and national economy become essential. Responsiveness to the market and the adoption of an export-driven agricultural approach (including crops, livestock, forestry and agro forestry, aquaculture and related value-added linkages) will serve best to generate the urgently needed national economic growth.

Agriculture is unlike any other economic sector in that it possesses tremendous potential for growth in the short to medium terms, potential that may be achieved at relatively low cost. Agriculture's comparative advantages is due primarily to the sector's powerful multiplier capacity for job and income generation, which evolve from production and post-harvest and extensive value-added sorting, process, handling, transportation, assembly, manufacturing and shipping activities observed in the food and agro-industrial systems worldwide. Nicaragua's current low level of competitiveness dictates that special attention be paid to the structural overhaul process which should be one of the GON's highest priorities if Nicaragua is to successfully navigate the new era of free trade in 2005.

The rural transformation becomes possible only after the Government of Nicaragua commits its support to a coherent national rural economic growth campaign and sustainable national commitment. Building upon President-elect Bolaños' campaign commitments, the RUEGS proposal details the formation of a National Rural Sector Revitalization Program, which would provide the broad, long-term national support base, required for success in the new economic era.

RUEGS proposes immediate activities to spark 1) creation of a long-term National Rural Sector Revitalization Program, 2) mobilization of a mutually supportive, multi-faceted institutional base, and 3) framing of the essential component support base. While this report is geared toward USAID, the high stakes importance and direct diplomatic linkages with FTAA objectives and the essential role of focused MDB support, a much broader USG support base forms an essential element of this initiative.

Proposed USAID/Nicaragua component activities include: 1) a competitive grants program for export promotion; 2) introduction of market-driven technologies through a) improved seed and b) development of Rural Knowledge Centers; 3) policy and regulatory guidance; 4) alternative strategy development for vulnerable producers; 5) the facilitation of capital base establishment through access to land titles; 6) the development of specialty coffee and 7) the expansion of professional and vocational skills opportunities.

President Bush has stated his concern that benefits under FTAA be mutually beneficial. Indeed, trade partnerships require that both sides prosper under the agreements reached. As other LAC countries begin to aggressively confront similar constraints, it is important that essential complementary learning experiences be generated to assist Nicaragua's vulnerable rural sector in

preparing for the FTAA in ways that facilitate the broadest possible wellbeing. High level and high profile strategy discussions about Nicaragua's comparative advantages and particular challenges should be the first step in the long road toward regional and international competitiveness.

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