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**INSTITUTIONAL REFORM AND GRAIN MARKETS  
IN POST-1990 NICARAGUA  
THE IMPACT OF STRUCTURAL ADJUSTMENT**

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I. INTRODUCTION

With the slogan 'everything will be better' (todo será mejor) the Sandinistas lost the February 1990 elections to a majority electorate which hoped to obtain a better future by voting for the UNO-coalition. More than two years of wide-ranging changes have since passed. While 1990 was economically disastrous with the failure of the first monetary stabilization programme, known as the Mayorga-plan<sup>1</sup>, the year 1991 and early 1992 were marked by widespread political and social unrest, expressed in strikes, occupations and the movement of the revueltos.<sup>2</sup> It is still difficult to judge whether the economic situation improved. On the one hand consumer goods supply has substantially grown (basically through imports) and inflation virtually stopped after

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<sup>1</sup> The plan bore the name of Francisco Mayorga, who became the first President of the Central Bank. During the elections (when he was economic advisor of the opposition candidate Violeta Barrios de Chamorro) he had promised that inflation would be controlled within 100 days. He introduced the Córdoba Oro, as the Dollar standard in the economy, parallel to the heavily devalued old Córdoba (chanchero). For many reasons, which discussion is outside the scope of this paper, the programme failed and inflation boosted to nearly 7,000 per cent in 1990.

<sup>2</sup> Revueltos is the term used for the movement in which recontras (re-armed former contras) and recompas (re-armed former government soldiers) joined together. They were sometimes labelled as no more than armed rural gangs, by both government as well as FSLN-newspapers. However, as the author found in Jalapa, at least part of the movement was a legitimate expression of profound peasant dissatisfaction with the limited access to land and credit (See also Pensamiento Propio, Vol X (91), 1992:19).

the introduction of the March 1991 economic reforms.<sup>3</sup> On the other hand a severe economic contraction in several sectors, lack of private and public investment, a growing trade deficit and rapidly widening income gaps reveal profound structural problems. It is even harder to measure the impact the stabilization and structural adjustment programme has on different strata of the population. Nevertheless, it is possible to draw at least some conclusions from the first consequences of market liberalization, deregulation and privatization which the UNO-government has introduced. Within this perspective the paper attempts to analyze the structural and institutional changes affecting agricultural markets, which occurred during the period after the change of government in April 1990. The following discussion does reflect primarily the particularities of the Nicaraguan case, but there are striking similarities with contemporary processes of the type of transition observed in many LDCs, namely that of 'interventionism' to 'laissez-faire' policies and even that of command or planned to market economies as is taking place in Eastern Europe and the former Soviet Union.

In the remaining part of the paper, the second section will shortly review the market intervention strategy of the Sandinista period, which, although implemented in the 1980s, reflected the persistent 'interventionist' tendencies that existed in many newly independent LDCs during the 1960s and 1970s and some aspects of the Soviet-model for the developing world (FitzGerald and Wuyts (1988). It will indicate the clearly existing 'limits

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<sup>3</sup> The Córdoba Oro became formally the domestic currency (while only for some time the old Córdoba still circulated), and was devalued from 1 US\$= 1 C\$ to 5 C\$.

of state intervention' and the crisis to which it contributed. In the third section the macro-economic policies affecting agricultural markets, as implemented by the UNO-government since 1990, are critically reviewed. The discussion will concentrate on the policy of 'credit squeeze', the liberalization of crop markets, and the monetary stabilization. In the fourth section I will analyze the process of state compression and privatization that occurred during the first period of UNO-reign, while the fifth section will look into the changing pattern of market agents and their relation to producers, concentrating on the basic grain market.<sup>4</sup> Finally, I will draw some conclusions about the role of the state within the rapidly changing spectrum of market conditions, providing arguments for re-regulation.

## II. FROM INTERVENTIONISM TO PARTIAL REFORM UNDER SANDINISTA RULE

A detailed analysis of the form and impact of state intervention in domestic agricultural markets has been presented elsewhere (Spoor & Mendoza, 1988; Spoor, 1991; 1992). However, it is useful to review the experience in short, particularly with the hindsight available after more than two years of transition to a market economy based on 'laissez-faire' policies by the UNO-government. The Sandinista economic policies towards agricultural markets, which have to be understood within the complex context of a revolution committed to social transformation and a growing tension caused by the contra-war and economic blockade, can be summarized as follows.

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<sup>4</sup> The basic grain market in Nicaragua is considered to include maize, beans, rice and sorghum. Beans is obviously not a grain but a vegetable, but this is generally ignored.

The policy of centrally and administratively established guaranteed producer prices (precios de garantía) and the legal monopoly of the parastatal ENABAS (Empresa Nacional de Alimentos Básicos) in the grain market profoundly changed the organization and operation of the grain market in Nicaragua during the 1980s. Price policy was implemented with an urban consumer and possibly even an anti-peasant bias, as during the first four agricultural seasons after the 1979 revolution producer prices of maize, rainfed rice and edible sorghum (mostly produced with traditional technology) were very low indeed (Dévé and Grenier, 1984; Spoor, 1991). Through a combination of existing peasant support for the Sandinista revolution (particularly during the first years), the organization of peasant cooperatives, the supply of subsidized credit and simply the use of economic and political pressure on the peasantry to remain within the state circuit, ENABAS was capable to convert the legally existing monopoly into a quasi-monopoly in the maize and beans market. Through an economic policy which was very favourable for large producers (subsidized credit, overvalued exchange rates providing cheap imported capital goods and regular restructuring of debts) ENABAS also dominated, partly through commercial contracts, the markets of irrigated rice and industrial sorghum. If the grain imports and food donations are taken into account, this position was even stronger. Nevertheless, towards the mid-1980s ENABAS encountered more and more problems to sustain domestic procurement (Table 1 in p.12). The main reason was that grain prices remained low side by side with increasing parallel market prices for consumer goods in rural areas. Therefore, price control, or as Lipton (1991)

calls it, 'price suppression', did not lead to income stabilization for the peasantry.<sup>5</sup> Shortages of consumer goods and agricultural implements led to a 'goods famine' for the peasantry.<sup>6</sup> While in urban areas ENABAS already had great difficulties to sustain the large-scale distribution of basic consumer goods, in rural areas the company had insufficient capacity to reach the peasants.

With the partial liberalization of grain markets in 1985, when previously repressed inflation became open and rapidly increasing its rate, the strongly increased guaranteed prices soon lagged behind the Consumer Price Index (CPI). In some cases the gap between official and parallel market prices became staggering, but the new opening in the grain market was particularly profitable for the medium or large farmer, while most peasants had little access. Furthermore, the production cooperatives, considered sometimes by the state as cheap food producers, were entangled in the parastatal network of credit, inputs and crop purchasing, in which government price policy (that should have supported the peasantry) was undermining the cooperative movement. Only during 1987 it seems that more peasant producers entered in parallel markets for maize, rice and beans, when the final remains of movement restrictions were lifted. It is worth noting that by the following season output of maize responded in a spectacular way (see Table 1 in p.12).

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<sup>5</sup> According to Paul Streeten (1987), price stabilization normally does not lead to income stabilization. In fact, the larger the marketed surplus of the producer the more he can benefit.

<sup>6</sup> Goods famine is a phenomenon well known from early Soviet economic history.

The Sandinista policy of restraining and in some cases eliminating the activities of private traders in the grain market (as in other sectors of the economy) was somewhat adapted during the period 1986-88, when a great number of formerly illegal traders received licences. However, the use of uniform or pan-territorial prices, transport subsidies, movement restrictions and other legal measures all contributed to a rather problematic development of private trade. Rural traders disappeared, particularly those who reached the outward zones, selling the peasantry necessary consumer goods. Although commerce 'before' was dominated by large merchant-landlords, rural trade was providing an essential form of articulation for the peasant producer. The intention of ENABAS was to substitute for this market segment, but in spite of the effort in 1985-86 to redirect part of the state distribution network to rural areas, supply of consumer goods and agricultural implements remained problematic. Only the rural peasant stores (tiendas campesinas), founded by the UNAG (Unión Nacional de Agricultores y Ganaderos) in 1986-87 were filling part of latter gap, albeit for years operating with substantial management and marketing problems.<sup>7</sup> With the economic reforms of 1988-89 implemented by the Sandinista government in response to the economic crisis and the mounting distortions in relative prices, while taking advantage of the success in the peace talks with the contra-forces, a further price liberalization and deregulation was introduced. In fact,

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<sup>7</sup> Interview by the author with Miguel Barrios, General Manager of ECODEPA (Empresa Cooperativa de Productos Agropecuarios) that provides the supplies for the peasant stores and the outlet for crop purchases, Managua, 15 July 1992.

the idea was that the parastatal ENABAS would become 'one more agent' in the market, competing with the private sector. Obviously, with a weakened traditional trading sector, a very segmented new urban based network of traders, and its advantages of economies of scale and preferential access to finance, ENABAS could still survive quite well in the 'market'. The close relation between the repayment of credit and crop purchase by ENABAS (paid with cheques that could only be cashed at the bank where the debt was held) remained in existence or was even strengthened as default payment had become a wide-spread economic disease of agricultural producers.<sup>8</sup> With the economic reforms, hyper-inflation was released that strengthened speculative activities. Furthermore, credit subsidies remained for an essential period during the reform, providing benefits for the more entrepreneurial strata of agricultural producers, while the peasantry seemed to have been worse off than before (Spoor, 1991: Chapter VII).

To conclude, by the end of 1989, the economic reforms did indeed lead to a reconstitution of relative prices, which had been heavily distorted. The government, in spite of the previous 'interventionist' presence in the economy, in fact regained some real control over the economic process which it had practically lost. However, the reforms came too late, they were implemented without coherence and there was a lack of access to the necessary financial means to implement them successfully.

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<sup>8</sup> Interview by the author with Noel Perez, Deputy Manager of the Jalapa office of the BND (Banco Nacional de Desarrollo), Jalapa, 20 July 1992.

### III. MACRO-ECONOMIC POLICIES IN POST-1990 NICARAGUA

With the coming to power of the new UNO-government in April 1990, a number of economic policies have strongly influenced the dynamics of the grain market. Attention is focused on changes in credit policy, the liberalization and deregulation of the market and the impact of monetary stabilization, although it is realized that the following discussion is not exhaustive.

#### a) Credit Policy: from 'Piñata' to Commercial Lending

After a decade of subsidized credit, with strongly negative real interest rates as nominal rates lagged behind inflation and default payments were normally accepted without any sanction, in May 1990 the UNO-government took measures which indicated a transition to a commercial lending system. However, the impact was only noticeable when agricultural credit was provided by the BND at the beginning of the new agricultural season. This coincided with the second stabilization programme launched in March 1991. The number of peasant families which received agricultural credit decreased from 97,217 at the end of 1990 to only 34,682 families during the 1991/92 season.<sup>9</sup> This drastic drop in clientele was particularly felt by peasant producers of maize and beans, as the new commercial criteria of money lending by the BND practically excluded them. The expectation is that during the agricultural season 1992/93 these criteria will be further sharpened as the UNO-government has ordered the BND to 'clean' its portfolio at the end of the fiscal year (30 June 1992), providing it with new capital and pressuring it to become a commercially operating bank. It is possibly the first step to

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<sup>9</sup> Data provided by the BND, July 1992.

privatization of the BND.

The bank has introduced new procedures for selection of clients. Firstly, a legally accepted land title is necessary in order to provide collateral. Secondly, a lawyer must be hired to prepare the application. This service will have to be paid by the farmer or cooperative. Finally, financial solvency and sufficient production prospects are required. Peasants with a land area less than 2 manzanas cannot apply. In case of default payment, the bank will take legal measures which can lead to expropriation.<sup>10</sup> The consequence of the new credit policy is that particularly producer cooperatives have limited access to credit, even if they are financially solvent and have no history of default payments.

The main problem for producer cooperatives and even some private farmers and peasants is the lack of formally recognized land titles. During the Sandinista Agrarian Reform legalization of land titles for its beneficiaries was not seen as important. In fact, only by August 1989 a programme was started to provide the cooperatives with official land titles.<sup>11</sup> This problem is now a major obstacle for producer cooperatives to obtain credit. In some cases I have witnessed increasing activity of grassroot peasant organizations, expressed in an armed occupation of the BND office in Jalapa and the blocking of access roads, in order to change the rigid position of the government. Some producer

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<sup>10</sup> In an interview by the author with Leonidas Valdes, Agricultural Credit Manager of the BND, Managua, 7 July 1992, he noted that the bank was already proceeding in 20-30 cases in order to set 'an example for others'.

<sup>11</sup> Some production cooperatives (CAS) only had a letter signed by Commander Jaime Wheelock Roman, the then Minister of Agricultural Development and Land Reform, to indicate that the land was theirs.

cooperatives have received help from private legal advisers to reconstitute their organization and become formally recognized.

Nevertheless, many producer cooperatives did not have access to credit anymore during the 1991/92 season and the general tendency for the 1992/93 season is a further reduction of formal agricultural credit. According to the BND, during the primera (April-October) only 47,000 manzanas of grain production were financed in comparison with 120,000 manzanas during the same period in 1991. In interviews during July 1992 agricultural producers generally mentioned the lack of credit as an important limitation, together with the very low harvest prices of the 1991/92 season.

#### b) Liberalization and Deregulation of the Grain Market

It is worth noting that during the first agricultural season under the new UNO-government (1990/91) the parastatal ENABAS continued to play an 'interventionist' role in the market, partly because within the Mayorga-plan import parity levels were used to establish guaranteed prices to be paid by ENABAS, and partly because of the remaining monopoly of import and distribution of food donations. Although market prices during the primera harvest remained below the official ones, ENABAS -supported by Central Bank finance- still bought substantial quantities of grain in the domestic market, particularly maize.<sup>12</sup> Although it has been claimed that prices dropped because of the withdrawal of ENABAS (ENVIO, February 1991), it seems that this was more a combination of various factors, like the price impact on the domestic market

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<sup>12</sup> Interview by the author with the Deputy Manager of ENABAS, Ruth Ramirez, Managua, 10 July 1992. She also provided the most recent data on procurement volumes.

of food donations and the diminishing 'premium of illegality' with the disappearance of parallel circuits. Furthermore, in the case of beans, an additional number of possibly more than 10,000 new peasant producers provoked a boost in production and marketed output, as a consequence of the land distribution programme to demobilized members of the contra and the government army. In Table 1 it is noticeable that ENABAS reduced domestic procurement to minimal levels in 1991. Credit restrictions for the company were strongly limiting its operations, and within the liberalization approach of the UNO-government ENABAS had basically lost its role as domestic marketing agent. As the distribution and sales apparatus of ENABAS was already privatized during that year, the parastatal was crippled in its operations. Furthermore, strong pressures from worker's trade unions induced the management of ENABAS to privatize much of its transport capacity.

Table 1. ENABAS' Domestic Procurement of Basic Grains (x 1,000 Quintals).

	Maize		Beans		Rice		Sorghum	
	ENABAS	Nat. Prod.	ENABAS	Nat. Prod.	ENABAS	Nat. Prod.	ENABAS	Nat. Prod.
1980	556.1	3,995.3	197.7	624.7	441.2	1,376.8	1,105.5	1,939.6
1981	851.9	4,199.5	394.0	904.9	1,358.6	1,947.0	1,453.2	1,951.4
1982	891.5	3,602.6	611.9	1,030.1	1,529.3	2,134.0	865.0	1,150.6
1983	1,148.7	4,516.7	537.9	1,226.1	1,671.6	2,233.0	1,257.5	2,224.2
1984	1,111.2	4,581.2	304.9	1,259.8	1,224.4	1,942.9	1,281.0	2,354.4
1985	957.7	4,241.4	135.5	1,007.8	852.0	1,774.4	1,998.8	3,346.3
1986	712.3	4,703.6	187.6	1,290.0	1,381.8	1,725.0	1,713.2	3,769.2
1987	1,543.6	6,160.9	50.1	740.0	251.1	1,502.4	1,110.1	2,408.0
1988	843.6	6,572.1	109.5	1,228.1	221.1	1,405.9	773.1	2,407.0
1989	1,009.8	6,370.2	44.9	1,360.2	270.1	1,629.4	673.3	1,680.1
1990	486.5	4,851.5	176.1	1,550.2	89.8	1,614.8	593.5	1,605.8
1991	189.4	5,162.7	49.2	1,561.4	90.2	1,638.0	4.5	1,532.8

Sources: ENABAS, MAG (Department of Information).

Notes : The data for 1980-86 for rice are overestimating the procurement of ENABAS. In fact substantial parts did not pass through ENABAS, but formed part of a commercial agreement with large private producers, organized in ANAR. The data for National Production is per 'agricultural year', while procurement is measured per 'calender year'.

The main storage and processing plant in the grain producing regions, located in San Isidro, was occupied for quite some time by workers who demanded that it should be turned over to their property and control. Violent clashes with the (Sandinista controlled!) police and army followed. These problems caused a withdrawal from producers who would otherwise have sold to ENABAS.<sup>13</sup>

Another measure taken by the UNO-government was the reduction of import tariffs. Mid-1991 the Central American governments decided to have an open market of basic grains (with the exception of yellow maize in the case of Costa Rica). For Nicaragua this decision meant that rice (as there were substantial domestic shortages) became an attractive commodity to import, not only for the traditionally existing commercial houses (strengthened through their relation with the new government), but also for new economic groups which have been formed around former officials of the Sandinista government.<sup>14</sup> In 1992 the imports from within the Central American region were exempted from tariffs, while for imports outside the region certain price bands (bandas de precios) were established, for rice, yellow and white maize and sorghum. This system is comparable with that implemented in El Salvador and Chile. If the actual CIF-price is lower than the bottom price of the band, the existing import tariff (of around 15 per cent) is increased with a variable premium, and if the actual CIF-price is higher than

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<sup>13</sup> Interview with Ruth Ramirez, Managua, 10 July 1992.

<sup>14</sup> Like those who used to direct ENABAS and MICOIN (Ministry of Internal Trade), now emerging with a strong economic mercantile group, named Santo y Seña.

the maximum (techo) of the price band, a reduction of the tariff is provided to the importer. It remained unclear how donations would be included in this, when this new system was introduced in early 1992. Furthermore, it turned out that the government apparatus lacked the capacity to provide and manage the fluent information necessary for this intricate system. Exports of most grains were liberalized with the exception of beans, as this food crop was considered to be crucial in the basic needs package of the population and domestic shortages could have strong effects on inflation. However, with increased production the government decided to open (at least temporarily) the market for beans, after strong pressures of foreign donors such as the USAID and domestic producer organizations such as the UNAG.

#### c) The Impact of Monetary Stabilization

After the disaster of the first stabilization package ('Mayorga-Plan') during 1990, the UNO-government introduced in March 1991 a new- more coherent and orthodox- set of measures to combat the galloping inflation, known as the 'Lacayo-Plan'. The Cordoba was devalued by 400 per cent, and through a rigid restriction of the money supply ('money squeeze') its new value remained very stable, as it was strongly supported by new funding from the AID and other international donors. Nevertheless, keeping the value of the Cordoba constant became a primary objective instead of being an instrument of stabilization, while the growing overvaluation gradually led to cheaper imports and disincentives for exporters, particularly during 1992. The monetary stabilization was partly successful because it diminished inflation to very low levels, creating new confidence in the

national currency, which had been practically lost during the last decade. It also diminished the very high transaction costs which confronted agricultural producers, having to cope with galloping inflation in a dual market system.<sup>15</sup> Nevertheless, the monetary stability is highly artificial, as it is guaranteed in the short-run by external funding and the manipulation of food donations for anti-inflationary purposes. The radical opening of markets, in combination with the substantial overvaluation of the Cordoba<sup>16</sup>, is leading to a situation in which Nicaragua will enter with increasing disadvantages the rapidly developing Central American market, disadvantages that already existed before, in terms of labour productivity, land yields and know-how in marketing.

#### IV. STATE COMPRESSION AND THE PRIVATIZATION PROCESS

During the economic reform under Sandinista rule (1988-89) a process of state compression (compactación) had already been initiated. Although there was a need to reduce the bureaucracy in areas such as domestic and external trade, it also led to a severe cut in the state's capacity to assemble and process statistical information and a weakening of agricultural extension

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<sup>15</sup> Interview with Mario Hannón Jr., Chairman of the National Commission for Basic Grains, Managua, 23 July 1992. He is a representative of the group of large 'entrepreneurial' rice producers in Nicaragua and made the comment that during the Sandinista epoch it was difficult to lose in agricultural production (because of subsidies), but also very difficult to gain (because of inflation, foreign exchange restrictions and bureaucratic regulations). However, this opinion ignores the fact that large producers were able to dispose of their (often undeclared) grain surplus on black markets.

<sup>16</sup> CARANA (1992) concluded that the market equilibrium rate of the Cordoba early 1992 was around 1 US\$ = 8 C\$ (instead of 1:5).

services. With the transition to a government of the UNO, this process of state compression has been strongly stimulated. Many competent officials of the Sandinista government left (forcefully or voluntarily) their posts. With the so-called plan ocupacional thousands of civil servants left the state apparatus.<sup>17</sup> For example, the BND reduced its personnel from 4,300 in 1990 to 1,700 in 1992, while ENABAS dropped from 2,000 to 400. Although the intention was to increase the efficiency of the state apparatus, it has dealt a severe blow to the directive capacity, like the case of the Ministry of Agriculture and Livestock that remained practically paralysed.<sup>18</sup> While during the Sandinista epoch the state interference in the productive and commercial spheres of the agricultural sector was omnipresent, it seems that the UNO-government followed the most orthodox recipe of neo-liberalism, the combination of market relaxation 'closely pent' with state compression (Lipton, 1991:26). The weakness in governmental institutions is so obvious that a joint mission of the World Bank, the IDB and FAO has proposed the formation on a coordinating committee responsible for agricultural policies.<sup>19</sup>

The process of privatization has led to a much more complex structure in the private sector, and obviously a reconstitution of articulation between some traditional capital groups and the

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<sup>17</sup> It offered some form of compensation to the outgoing officials, on condition that the person would not re-enter the state apparatus for the next three years.

<sup>18</sup> An interesting detail is that the new Minister Rondón is one of the biggest landowners in Nicaragua (Barricada, 27 July 1992:11).

<sup>19</sup> This commission is called CONAGRO and will include top-representatives of the MAG (Ministry of Agriculture), IRENA (Institute for Natural Resources) and INRA (Land Reform Institute), trying to overcome the generally existing administrative paralysis.

UNO-state. As I mentioned before, new economic groups have been formed around influential former government officials (comparable to the so-called nomenklatura privatization in Eastern Europe), but also workers and workers syndicates have gained some control in the agricultural sector. For example, until August 1991, when around 80 per cent of state owned assets in agricultural had been privatized, 26 per cent had been given back to former owners, 22 per cent to ex-contras, 17 per cent to the EPS and 35 per cent to agricultural workers (CARANA/AID, 1992). More recent data provided by the Rural Worker's Association (ATC) confirm this tendency. This form of privatization and division of assets between interest groups is based on the 1991 agreements (concertación) between the government and the opposition.<sup>20</sup>

The property which was acquired by agricultural workers is now being defined as APT (Area de Propriedad de los Trabajadores). Nevertheless, the forms of workers' ownership of assets in former state farms or companies are very diverse, ranging from the acquisition of minority stocks to collective ownership. By mid-1992 negotiations were still continuing, with outcomes strongly depending on the strength and homogeneity of the particular syndicate. The banana sector was completely returned to former multinational owners, while in the rice and livestock sector greater worker influence was gained.<sup>21</sup>

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<sup>20</sup> This agreement specified that each of the four mentioned interest groups would be entitled to acquire 25 per cent of the state assets in agriculture.

<sup>21</sup> The UNAG was able to buy the largest meat processing plant of Nicaragua (CARNIC), while the ATC's rice syndicate gained a substantial share in some modern former rice state farms. This was revealed in an interview by the author with Domingo Gomez, Chairman of the latter organization, Managua, 16 July 1992.

The privatization process has produced various effects in the basic grain market which are still in a process of development at the time of writing (October 1992). Firstly, ENABAS has privatized the companies for distribution and transport. Workers of the company have benefitted from this process, like the lorry drivers who could purchase their trucks at favourable prices, while some officials have joined the piñata in appropriating capital assets to begin (or continue?) private commercial business activities. However, the main installations of ENABAS (silos, grain warehouses, drying plants) have been left untouched, including 5 large terminals and between 60-70 regional grain deposits, while domestic procurement has dropped to near nil, leaving only donations to be handled.<sup>22</sup> Apart from some small exceptions nothing of this capacity has been privatized, although external pressure was mounting. The Ministry of Economic Development (MEDE) was in fact prepared by mid-1992 to sell some of the regional deposits. However, ENABAS had no intention of privatizing, particularly not those plants in the most productive grain areas.<sup>23</sup> Undefined government policies combined with the noticeable private interests within ENABAS caused a slow-down in a process in which producers, merchants, capital groups and cooperatives were trying to improve their storage and processing capacity. In 1992, during the various missions of the World Bank

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<sup>22</sup> ENABAS owns the largest grain terminal of Central America, in the mid-1980s constructed just outside Managua. It has a capacity of 1,000,000 Quintals in silos and 600,000 Quintals in warehouses. Processing and dispatching is automatic and the whole plant is run by 5-8 persons (Field Visit Author, 23 July 1992, Los Brasiles, Managua).

<sup>23</sup> Exposition of Mario Hannón Jr., Chairman of the National Commission for Basic Grains, 8 July 1992, in a meeting of the Commission.

and IDB to assess the possibilities for Structural (and Sectoral) Adjustment Loans, and the conditions attached to them, the privatization of ENABAS has become a priority, although in practice no action was undertaken.

Secondly, the UNAG had a rather ambivalent position towards the privatization of the state's procurement and processing capacity in the grain market. On the one hand this could strengthen in particular the position of production cooperatives by acquiring more 'market power' in a liberalized market. On the other hand, UNAG still considered it as an obligation for the government to intervene in prices and markets. Also the cooperatives company ECODEPA (linked to UNAG) showed no interest to take any risks in this market, concentrating its efforts in the export of coffee and sesame and the import and distribution of a selected number of agricultural inputs. Its procurement of basic grains through the peasant stores will remain at a constant level which is estimated at around 50,000 Quintals/annum.<sup>24</sup> While in general the process of liberalization, deregulation and privatization has moved forward quite substantially, ENABAS presents a problem for the government. It still has a function in the reception and distribution of food donations, and has provided services of storage and drying to sorghum producers in the 1991/92 season. However, its enormous capacity remains under-utilized. Large producers of rice and sorghum have no problems with this status quo, although they might be interested in acquiring some of the storage and processing facilities. They

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<sup>24</sup> Follow-up interview with Miguel Barrios, General Manager of ECODEPA, Managua, 23 July 1992. This amount is much lower than the estimate presented in the CARANA/AID (1992) report.

have traditionally had and still have storage and processing capacity and private distribution channels. The problem is more urgent for peasants, small farmers, and cooperatives who have (in the presence of ENABAS) been discouraged to 'market' their crops and have no capacity to keep grain at the farm, waiting for better prices, or to add value by processing it.

## V. GRAIN MARKETING AGENTS AND AGRICULTURAL PRODUCERS

### a) The Withdrawal of State Intervention

During the Sandinista decade the grain market has been structurally changed in comparison with the period before 1979. From an indirect market intervention by INCEI (Instituto Nicaraquense de Comercio Exterior e Interior), with an emphasis on services for storage, drying and processing for medium and large farmers, the management of a national stock and the provision of information about external markets, the Sandinista government decided to intervene in a direct and forceful way, through its newly created parastatal ENABAS. This company seems to have functioned reasonably well during the first few years of existence (Saunders, 1987), although operational costs were rapidly rising (Dévé and Grenier, 1984) and rising consumer subsidies pressured the state budget and caused severe distortions in relative prices. Furthermore, the transport and credit subsidies for ENABAS, the uniform pan-territorial producer prices and a legal context which was basically 'anti-private trader', caused a structural transformation, albeit also a disarticulation of domestic grain markets. However, ENABAS was not the only parastatal agent which intervened in the grain market. Other parts of the public sector also entered more and

more in this market during the 1980s. Large state complexes of coffee, cotton and livestock, which before (when they were in private hands) had enough grain production to feed their workers, now purchased grain. Benefiting from consumer subsidies they preferably purchased grain from ENABAS, but also directly from producers in their surrounding 'territory'. Also the army developed itself as a large buyer in both the official and the parallel grain market. Finally, although its analysis is outside the scope of this paper, parastatals like ENIA and PROAGRO strongly intervened the market for agricultural inputs. This is also the field in which state intervention under the UNO-government has remained rather important.

In spite of numerous intents (using CAI's<sup>25</sup>) the parastatal ENABAS could never substitute for the previously operating middlemen who came at the farmgate, providing informal credit and selling consumer goods. Partly because of this, ENABAS steadily lost its market share in the beans and rice market, especially after 1985. Although the parastatal, through its distribution apparatus and the cooperative company ECODEPA directed more supplies to rural areas in the 1986-87 period, private (by then still partly illegal) traders took over. In terms of the share of total supply of marketed grain, however, ENABAS retained a strong position. In 1990, when domestic procurement decreased substantially, donations provided ENABAS in the rice, maize and beans market with 39.1, 27.7 and 13.0 per cent of total (domestic

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<sup>25</sup> The CAI (Centro de Acopio Intermedio) were small official outlets, but had no capacity to provide services, sell essential consumer goods or agricultural implements.

and external) supply.<sup>26</sup> From these data it can be observed that the UNO-government, at least temporarily, saw ENABAS as a useful instrument in its anti-inflationary programme. However, in 1991, when domestic procurement drastically dropped, the company confined itself to the sales of remaining stocks and the distribution (mostly to the private sector) of food donations.

b) The Private Sector in the Grain Market

In most rural areas of Nicaragua, the power of the merchant-landlord, who dominated agricultural markets for several decades, was practically eliminated after 1979. Only in the sector of irrigated rice and industrial sorghum, where large-scale producers dominated, a certain articulation between production, processing and privately owned marketing channels remained in existence, albeit heavily restricted through marketing agreements with the Sandinista government. During the first years of the revolution it was particularly the traditional middleman who withdrew from the grain market, only to be replaced in the second half of the 1980s by a new 'breed' of urban based traders who profited greatly from the huge price gaps between official and parallel circuits. After the partial liberalization of the grain market during 1985-86, also more traders of peasant origin entered the market, trying to sell their produce directly to consumers. Associations of small traders in urban markets made contracts with production cooperatives trying to avoid intermediate speculation at wholesale level. On the whole during the 1980s, as a consequence of state intervention but also in the

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<sup>26</sup> Data provided by the Ministry of Agriculture and Livestock, July 1992.

context of increasing war in grain producing areas, grain markets became very segmented and disarticulated, with ample possibilities for speculative activities. However, with the economic reform programme of the 1988-89 period, introducing more market relaxation and deregulation, a first step was made in the rearticulation of flows of crop produce, consumer goods and agricultural implements. Traditional middlemen reappeared, particularly in those areas which for years had been impenetrable because of the war. However, the impact of the Sandinista adjustment programme, low grain prices and galloping inflation for consumer goods and agricultural inputs like fertilizers and diesel, prevented the growth of rural trade.

After the UNO-government took power new marketing agents appeared. Not only a number of private commercial input agents (re)opened shops in the main grain producing areas (such as Gurdián and Rappacholi/MacGregor), also private banks were allowed to open, mostly linked to existing or reemerging agro-industrial capital groups (Pellas and Lacayo). The large rice and sorghum producers established, also supported by the privatization of state assets and the withdrawal of ENABAS, a major control over the processing of grains (rice mills and fodder producing plants). Furthermore, with the opening to external markets these same producers started to dominate imports as well, benefitting from a better knowledge, economies of scale and storage facilities they traditionally have. They are likely the ones who will survive in the new market conditions in which during 1991 and 1992 many new importers have tried their luck. It seems that the saturation point has already been reached and

during the first half of 1992 already quite a number of these traders went into bankruptcy. A great problem in Nicaragua is that hardly anybody in the market is investing in facilities, information or improvement of quality. The mentality of trading (and not only in the grain market) is directed exclusively towards quick profit. Profit margins are substantially higher in the Nicaraguan grain markets than in any of the other Central American countries, reflecting a trade with 'small quantities and high profits'.<sup>27</sup>

Finally, with the opening of the Nicaraguan market to foreign agents, merchants from all over Central America came in search for new markets. Cheap potatoes and tomatoes come from Guatemala, rice is imported from Costa Rica, but also comes from Thailand and Taiwan. The border with Honduras, formerly closed to most legal business because of the contra presence in the border area is beginning to open up as well. Even the trail between the Valley of Jalapa and Honduras, previously covered with mines, is likely to be opened officially soon. In 1991, during the primera harvest, Honduran merchants had already taken this risky road to Nicaragua, in order to buy grain. However, most of this business still failed because of non-existing arrangements on foreign exchange dealings and the absence of a customs office in the border town of Teotecacinte.

#### c) ECODEPA and the Peasant Stores

Since 1985 UNAG has stimulated the formation of peasant stores (tiendas campesinas) which are linked to a central cooperative

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<sup>27</sup> Intervention of Mario Hannón Jr., Chairman of the National Commission for Basic Grains, Managua, 9 July 1992, in a meeting of the Commission, where the author was present.

company ECODEPA. The objective was to create a 'two way' marketing channel controlled by producers, with grain procurement and the sales of agricultural implements and basic consumer goods. Although in the late 1980s ECODEPA reached around 60,000 cooperative members of 170 peasant stores, in practice most of them had enormous operational problems. During the first years ECODEPA imported more than a 100 different products with foreign funding and founded a 'sellers market' where consumer preference was hardly taken into consideration, the necessary products often came late or with the wrong quality. During the period of Sandinista economic adjustment (1988-89) even greater difficulties had to be confronted, as fiscal policies favoured the state sector above the cooperative sector, while the expanding market in consumer goods provided better quality at lower prices. Only because of long-term foreign support the (by now) 140 peasant stores could survive, although many had the impression that they were doing well under conditions of hyper-inflation, while in reality the contrary was true. Only during 1989 a shift towards the 'dollarization' of the accounts was implemented in order to improved cost accounting.<sup>28</sup>

One might say that the change of government has worked positively for ECODEPA and the peasant stores. During 1990 the company took important steps towards a more commercially sound policy, namely to diversify its marketing operations and drastically cut in the cost structure. During the last two years ECODEPA has managed to cut operation cost by half (in particular

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<sup>28</sup> Interview with Miguel Barrios, General Manager of ECODEPA, Managua, 15 July 1992.

by reducing personnel!) and has diversified its operation towards the export markets of coffee and sesame seed. During the 1991/92 season ECODEPA has handled 15 per cent of the total coffee of Nicaragua and around 40 per cent of sesame seed. The company has undertaken investments in processing plants for coffee and sesame in order to consolidate its position in these export markets. In the basic grain markets, as I have mentioned above, participation is minimal. In fact, the procurement over 1991/92 represented the equivalent of less than 1 per cent of total national production. While ENABAS does not want to sell its storage and processing capacity, ECODEPA has no interest whatsoever to buy, as it does not want to enter in this rather risky market or become too big with enormous overhead costs.<sup>29</sup> As exception ECODEPA will invest in some smaller processing plants (such as a rice mill in Jalapa), using a combination of own and donor funds.

d) Other New Marketing Agents: FENACOOP

During the Sandinista epoch, the agricultural producer cooperatives (CAS) never gave priority to develop marketing strategies. They were entangled in different parastatal circuits of credit, inputs and crop purchase, often their crop-mix was established by ministerial directives and the wage-levels predetermined. In spite, or maybe because, of the state interference in the cooperatives, hardly any of them developed efficient cost accounting systems. Therefore, when they were suddenly 'thrown into the market' many of them did not survive, particularly because of the discriminating new credit policy which I have discussed above. Although until now the new

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<sup>29</sup> Interview with Miguel Barrios, Managua, 15 July 1992.

cooperative census has not yet been completed, preliminary studies and personal interviews all seem to indicate one development, namely a progressive disintegration of the cooperative movement. In a region nearby Managua I found that of the previously 57 existing cooperatives only one still had collective property, while the others had vanished, or had parcelized their land under different forms of private ownership.<sup>30</sup> Nevertheless, the national federation of cooperatives (FENACOOP) which was founded in 1990 is trying to consolidate and strengthen the position of the existing producer and credit & service cooperatives in Nicaragua, for example by improving the marketing strategy of the grain producing CAS cooperatives. Since the beginning of 1992, FENACOOP has been providing commercial contacts between the wholesale traders of the main Managua market (mercado oriental) and those cooperatives who wish to market their grains. The system functions through an informal broker of FENACOOP, who does not sell or buy grains, but facilitates the contacts and information necessary to buyers and sellers. Through this system FENACOOP hopes to improve the market power of the member producer cooperatives. Furthermore, a new organization of private small producers has been formed in Central America (ASOCODE) of which UNAG is the representative in Nicaragua. Through a foreign funded training programme new forms of cooperative marketing are being promoted in order to improve the rather shaky position of the peasantry.

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<sup>30</sup> Interview with Dolores Tablada, Member of the National Directorate of UNAG and of FENACOOP, San Benito/Tipitapa, 28 July 1992.

## VI. CONCLUSION

The Nicaraguan case provides a great number of elements to analyze the real impact of state intervention in agricultural markets, in spite of the particular conditions of war and economic blockade the country encountered during the 1980s. In a relatively short time-span the economy was transformed structurally, while the state strongly intervened in agricultural markets. The paper has indicated briefly the limits of this type of broad market intervention and pointed to some of policy-related causes of the economic crisis that emerged during the second half of the 1980s, trying to clarify the relation between 'well-intentioned policies' and 'perverse effects' (Timmer, 1991:5). The paper then proceeded to discuss the transition from the 'interventionist' to a 'laissez-faire' model, in part already initiated by the Sandinistas, but implemented with near-orthodox rigor by the new UNO-government who took power in April 1990.

Some of the outcomes of the neo-liberal policies towards agricultural markets are still uncertain, as just more than two years have passed. However, it is clear that restrictive monetary and credit policies have had an enormous impact particularly upon the grain market. While the largely negotiated privatization process has also brought some benefits to agricultural workers as an interest group, and the forced return of cooperative lands to former owners has been a limited phenomenon, the neo-liberal economic policies of the UNO-government are leading to a rapid parcelation of cooperatives, an increasing land market, and a concentration in land ownership. The grain market itself is in a process of restructuring. The parastatal ENABAS has withdrawn

from procurement, and only plays a role in handling and distributing food donations (which were important in the anti-inflationary policies of the UNO-government). Undefined government policies and the 'private' interest to hang on to the sizeable infrastructure of ENABAS have prevented a privatization process in which private farmers and cooperatives could benefit by increasing their storage and processing capacity, although pressure is now mounting to eliminate the parastatal. Old market agents are reappearing, in some cases even linked to the traditional existing merchant-landlord system, although they are of more entrepreneurial type. New agents also include capital groups which have been formed by former officials of the Sandinista government (in which some undeniably have followed the same pattern as the Eastern European nomenklatura privatization).

Interestingly enough, based on the organizational strength of existing peasants and agricultural workers organizations<sup>31</sup> like UNAG and ATC, new initiatives have developed that are directed to increase market power of the producer cooperatives and the peasantry. Although these initiatives are seen as useful, it is concluded that the new dynamics of the market have such dramatic consequences for the grain producing peasantry, that these alternative developments will prove to be insufficient. Furthermore, existing 'alternative' market agents like ECODEPA and the Peasant Stores, have established and specialized themselves in the import and distribution of agricultural inputs

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<sup>31</sup> The UNAG also formed a coordinating committee for 'peasant affairs' with the contra, which in spite of the history of war, appears to be working in reasonable harmony, indicating that apart from ideological differences there are many common material interests.

and the export of certain cash-crops, leaving the risky grain market aside.

The process of privatization, liberalization and deregulation which by now is in full force, has led to a rather chaotic market situation, the formation of new monopolies and the reemergence of previous ones. There is a definite need for selective, but directed state intervention that can regulate the formation and restructuring of markets (which did not exist or were very fragmented). However, until now, the Nicaraguan government had swallowed the most orthodox combination of neo-liberal medicine, namely the combination market liberalization and deregulation with state compression. In the Nicaraguan case this has led to paralysis in the state capacity to develop and implement policies, while a sort of 'jungle capitalism' is emerging in which short-term profit motives are dominant.

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