

BTI 2012 | Nicaragua Country Report

Status Index	1-10	5.59	# 65 of 128	
Political Transformation	1-10	5.75	# 63 of 128	➔
Economic Transformation	1-10	5.43	# 67 of 128	➔
Management Index	1-10	4.74	# 71 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

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Key Indicators

Population	mn.	5.8	HDI	0.589	GDP p.c.	\$	2914
Pop. growth ¹	% p.a.	1.4	HDI rank of 187	129	Gini Index		52.3
Life expectancy	years	73	UN Education Index	0.525	Poverty ³	%	31.9
Urban population	%	57.3	Gender inequality ²	0.506	Aid per capita	\$	134.8

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Nicaragua's political and economic transformation stalled in many respects, and even suffered some setbacks. From the beginning of Daniel Ortega's second presidency in 2007, the administration generated both fears and expectations. The expectations centered on the topics of social policy and poverty reduction. Indeed, the expansion of social programs, the promotion of focused social policies, programs to aid the grassroots economy (economía popular), and the distribution of basic necessities via party-administrative organs all have managed to limit and even reduce poverty in the country. On the other hand, fears have centered on the dangers for democracy associated with the politicization of the country's public administration and justice system, the cooptation of institutions designed to control the executive, and the politicization of the Supreme Electoral Council. Alarm bells started ringing with the disastrous municipal elections in 2008 (which the opposition declared to be fraudulent), the harassment of journalists and NGOs that criticized the president, and the (legally dubious) decision made by the Supreme Court of Justice in 2010 to allow Ortega's "reelection" in the 2011 elections. The "cleanliness" of the presidential elections scheduled for November 2011 will be a critical test for democracy in Nicaragua. Despite Ortega's low approval rates, the electoral landscape remains unclear. On the one hand, the opposition is not united, both due to the Sandinista National Liberation Front's (Frente Sandinista de Liberación Nacional, FSLN) capacity to co-opt and come to agreements with elements of the Liberal Party (linked to ex-President Arnoldo Alemán) as well as due to internal divisions. Moreover, Ortega and his followers control all the resources of institutional power and many channels of media and economic influence.

In terms of the economy, although there has been continuity in terms of macroeconomic policy, the country's trade partners have undergone considerable change, with Venezuela gaining preeminence as Nicaragua's biggest investor and supplier of oil and energy. Likewise, there have been changes at the level of international relations. Although Ortega's administration has

maintained previously acquired commercial and financial commitments (such as the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), or the continuity of IMF programs) the president has strengthened political and commercial relations with the Bolivarian Republic of Venezuela and the countries of the Bolivarian Alliance for the Peoples of Our America (ALBA) group, as well as Iran, Libya and Russia. Meanwhile, relations with donor countries in the European Union and with the United States have deteriorated. Finally, border conflicts broke out (yet again) with Costa Rica in 2010 over management of the San Juan River.

History and Characteristics of Transformation

Following a period of civil war and foreign dominance, Nicaragua was governed by autocratic regimes under various members of the Somoza clan beginning in the 1930s. The rulers were backed by the United States, which maintained a strong influence over Nicaraguan politics during the subsequent four decades. Gross human rights violations perpetrated by the National Guard in response to mounting opposition and Sandinista National Liberation Front's (Frente Sandinista de Liberación Nacional, FSLN or Sandinistas) guerrilla attacks persuaded U.S. President Jimmy Carter's administration to end support for the Somoza kleptocracy. During the subsequent Nicaraguan Revolution, Anastasio Somoza waged a full-blown war against opposition forces. Having lost U.S. support and military aid, and facing a severe economic crisis and an FSLN growing in strength, Somoza went into exile in Miami on 17 July 1979. Three days later, the multiparty exile government entered Managua, marking the culmination of the Nicaraguan Revolution. Approximately 50,000 Nicaraguans died during the course of the insurrection.

Within a year of the Revolution's end, the FSLN had consolidated its leadership of the new government, of the military and police forces, and of organized interest groups. However, the new government faced a severe economic and social crisis. The Sandinistas introduced drastic economic measures and adjustment programs that culminated in internally and externally induced economic crisis at the end of the 1980s. Although most Nicaraguans were in favor of the revolution, the emerging dominance of the Sandinistas provoked dissent. The new U.S. administration under President Ronald Reagan suspended all aid to Nicaragua and instead funded the counterrevolutionary Contras – forces that included former National Guard members in exile, but also thousands of peasants from the countryside. Nicaragua became one of the most active stages for Cold War confrontation. The Contras' raids eroded the social revolutionary Sandinista regime's acceptance of political pluralism. Civil liberties were circumscribed and social spending reduced in order to fund the military budget. Still, the Sandinista government held and won elections in 1984 that were considered by international election observers to be for the most part free and fair. As part of the Central American peace process initiated in 1987, the government accelerated a process of political opening and sought a negotiated solution for the armed conflict with the Contras.

The elections of 1990 marked an important step in Nicaragua's history: The country's first peaceful and accepted transfer of power through free elections was achieved, and a civil government that had not earned its merits in armed conflict assumed office. Civilian presidents have been governing since, legitimized by means of competitive elections in 1990, 1996, 2001 and 2006. Nonetheless, Nicaragua's society has not overcome the strong polarization predominant since the end of Sandinista rule. As candidate of the opposition coalition Unión Nacional Opositora (UNO), Violeta Barrios de Chamorro won the 1990 election against incumbent Sandinista President Daniel Ortega. The difficult process of reintegrating the rebels, delays in the depoliticization of the armed and security forces, and fierce conflicts with parliament marked Chamorro's term of office (1990 – 1997).

By contrast, the succeeding Arnoldo Alemán government (1997 – 2002) of the Liberal Constitutional Party (PLC) had a secure parliamentary majority. However, Alemán's autocratic-populist style of governance, rampant corruption and power-sharing arrangements with the Sandinistas undermined the balance of power and impaired the functioning of state institutions. Once in power, the Enrique Bolaños government (2002 – 2007) initiated an anti-corruption campaign against Alemán that resulted in a stalemate between the different state powers. Although ultimately convicted of embezzlement, Alemán maintained his parliamentary power base and struck additional power-sharing agreements with Sandinista party leader Ortega. During the run-up to the 2006 elections, two new moderate, "anti-pact" parties established themselves – the Alianza Liberal Nicaragüense (ALN-PC) headed by Eduardo Montealegre, and the Movimiento de Renovación Sandinista (MRS), led by Herty Lewites. Lewites and the MRS clearly led the polls as the elections neared, but Lewites died of a heart attack and his successor, Edmundo Jarquín, could not hold the party's momentum. In the end, Ortega used this division to win the presidential elections with a simple majority, after three unsuccessful previous attempts.

The transfer of power in 1990 spelled the end of the mixed economy of the Sandinista era. The Chamorro government followed a rigorous program of stabilization and structural adjustment based on a strict market-economic and export-oriented development model. It abolished the foreign trade monopoly and most price controls, opened up the banking sector and privatized some 350 state-owned businesses. Succeeding governments remained faithful to this development model, and in collaboration with international lenders, continued to pursue transformation toward a market economy. However, corruption and nepotism during Alemán's term as president, and the parliament's partial paralysis during Chamorro's and Bolaños' presidential terms impeded transformation. Even today, three decades after the revolution, per capita income has just returned to the level of 1977 – and only in nominal terms. Nevertheless, the country's Human Development Index value has been increasing steadily since the end of the Somoza dynasty.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The state of Nicaragua has control of its territory practically throughout the country. The armed forces, police and public administration are present throughout Nicaragua, albeit with different degrees of intensity. In the Atlantic coast territory (on the Caribbean) the state's presence is weaker; in some cases, this means that the provision of services to citizens is limited. Furthermore, other actors such as networks of drug-traffickers or mafias challenge the state's legality and even compete with it for the monopoly on the use of force.

Nearly all of Nicaragua's inhabitants consider themselves to be Nicaraguan, and do not question national identity. Likewise, all citizens, without discrimination, have access to status as a "national" once they are registered as such in the civil registers. However, on the Atlantic coast are a variety of ethnic groups which – although considered Nicaraguan by others and generally by themselves as well – sometimes question the fact that the Nicaraguan identity is exclusively ladino, rejecting the population's indigenous (Mayagna, Miskito, Rama) and Afro-American (creole) roots. To date, despite the war that took place in the area in the 1980s, there have been no "secessionist" or "separatist" movements on the coast, but a different identity has become increasingly evident. This in turn has taken a political expression with the creation of an indigenous party (Yatama) and an Afro-American formation (Coastal Power). People born in remote areas of the Atlantic coast region (particularly in the north) are often not registered, and their existence is therefore not recognized by the state administration. As a result, these people lack access to public services and find it difficult to exercise their rights of citizenship.

Nicaragua's constitution proclaims its own non-religious nature, and specifies separation between state and church. Nevertheless, the Catholic Church is an institution with considerable political influence and a significant presence within Nicaraguan society. Throughout history, and especially over the last 30 years, the

Question
Score

Monopoly on the
use of force

8

State identity

8

No interference of
religious dogmas

9

political role of the Catholic Church has been very relevant, whether in support of or in opposition to measures proposed by state institutions.

From 1990 onward, the Catholic Church has had considerable influence in social and moral questions. From 2007 on (when Daniel Ortega became president for the second time), the church has maintained and increased its power. This is reflected by the fact that Ortega's administration (at the church's request) annulled Article 165 of the Penal Code, which had permitted "therapeutic abortion" in extreme cases. This created a conflict between the political elite and civil society groups, though the former never came into open conflict with the Catholic Church regardless of their ideological differences. This gesture by Ortega's government, along with religious rhetoric that administration figures (and the first lady) use, does not imply the loss of the state's secular status, but does indicate an increase in the church's capacity to intervene in political affairs.

The state's civil and military administration is in place throughout Nicaragua, although with lesser intensity on the Atlantic coast. However, the administration displays key deficiencies in the areas of providing goods and services to citizens, extending infrastructure throughout the country, assuring the rule of law, and obtaining direct fiscal resources.

With regard to goods and services, the state provides education and health care throughout the country, particularly in the capitals of departments and municipalities. However, in rural and jungle areas, access is more limited. The administration of justice suffers from the same difficulties. Provision of clean water and sanitation is clearly deficient in marginal urban neighborhoods and almost inexistent in rural areas. The transport network is adequate in the Pacific region; indeed, some improvements were made during the period under review. Access to regions in the interior of the country, especially the Caribbean region, is more difficult, and in the rainy season access routes to the Caribbean can be cut off entirely. The state's capacity to collect taxes is limited. Informal work and limited control over the generation of wealth in the formal sector means that fiscal revenues are almost exclusively indirect. The Ortega administration has created mechanisms to provide focused social policies via para-state mechanisms called Citizens Power Councils (Consejos del Poder Ciudadano, CPCs). These have a considerable presence throughout the country, although they often act according to party criteria and with little formality.

2 | Political Participation

Elections in Nicaragua from 1990 until 2006 were a legitimate and clean instrument of access to power for political representatives. However, there have been some "queried" cases as a result of problems with the electoral administration,

Basic
administration
6

Free and fair
elections
6

particularly associated with the registration of citizens as having the right to vote in instances when some were not identified and others lived outside the country. In the presidential and legislative elections of 1996 there were several errors and small irregularities in the vote-counting process. In the 2006 elections, the Supreme Electoral Council failed to make all the votes public on its Web page. Likewise, in the periodic elections to select local authorities in the North Atlantic and South Atlantic autonomous regions, there have been errors in the voting register and logistical difficulties leading to implementation problems, but never cases of alleged fraud or irregularities that threatened their legitimacy.

However, from the beginning of Daniel Ortega's second administration in 2007, several occurrences have given rise to electoral governance concerns. These fears are in part based on the precedent set by the 9 November 2008 local elections, when serious incidents were reported related to party registration, electoral campaigning, the vote count, the supervision of result sheets and complaints by opposing groups. Moreover, some fear that the FSLN will be able to co-opt a majority of the magistrates of the Supreme Electoral Court (CSE) and control the electoral administration in this way. This last question is made relevant by the fact that Nicaragua's electoral process is controlled entirely by the CSE, and the political parties of which it is composed. By controlling the CSE, the FSLN has a tight control over the electoral register, the voting tables, the scrutiny of the votes, and even over the legal status of parties themselves.

Nicaragua's elected authorities have the capacity to design, decide on and implement public policy programs, as well as to develop a national budget. The armed forces and national police are under the control of the civil authorities. Despite this, the authorities have some limitations when exercising power due to elite agreements made outside the formal political process, and due to pressure from some sectors of the elite in concrete policy areas. In this latter sense, it is worth highlighting the power of the Catholic Church over legislation on topics such as abortion, or specific groups of businessmen on questions related to banking, international commerce or certain investments. International donors and financial institutions, especially the IMF, also have strong influence in some political fields such as fiscal policies.

The constitution guarantees the right to political association, as well as other individual and collective rights and freedoms. However, from 2000 onwards, as a result of the "pact" made by the leaders of the two most powerful political groups at the time (Daniel Ortega and Arnoldo Alemán), the institutions in charge of oversight and accountability fell under the sway of these two parties. As a result, the judiciary and the Supreme Electoral Court (CSE) acquired an evident two-party bias, excluding other political formations. Furthermore, this bias has become increasingly inclined toward the Sandinistas to the extent that by 2007, the year in

Effective power to govern

8

Association / assembly rights

7

which Daniel Ortega became president for the second time, the FSLN had effectively gained control of these powers.

With the judiciary and the CSE under the control of the FSLN, the freedoms and rights enshrined in the constitution have not been eliminated as such, but their exercise has been limited on certain occasions. This situation has meant the “de facto” existence of control of dissidents. This control has been carried out in two ways: indirectly, via negotiations with leaders of the opposition, and directly, by suspending the juridical status of some parties (such as the Movimiento Renovador Sandinista), intervening in some oppositional civil associations (as was the case of the autonomous women’s movement), and threatening independent news groups. Moreover, political violence has also constricted these freedoms to some degree over the last few years.

The constitution enshrines the right to freedom of expression, although the control of the judiciary by a single political group can on occasion create a threat to independent news groups. This was the case in 2008 with the Center for Communication Research (CINCO), a group headed by journalist Carlos Fernando Chamorro, who was accused of money laundering.

Freedom of
expression

7

Nevertheless, the structure of the media in Nicaragua is pluralistic. With regard to audiovisual media, two private TV channels are politically allied with the FSLN and President Ortega, whereas the others, which attract a majority national audience share, are independent and critical of the government. The national radio news broadcasters are split into two groups: those in favor of and those against the Sandinistas. Pro-Sandinista stations include Radio Primerísima and Nueva Radio Ya, which is owned by the Sandinistas and attracts large listening audiences. In the print media, the La Prensa and El Nuevo Diario newspapers are both distant from and critical of the FSLN and Ortega’s administration.

According to the Nicaraguan Center for Human Rights, serious threats and violations of the freedom of expression have emerged in recent years. In several cases, they have manifested as acts of intimidation and defamation, often using the justice system as a conduit. The most outrageous case was during the local elections of November 2008. At this time, there were repeated instances of verbal and physical intimidation against leaders of civil society organizations, the directors of media companies critical of the government, and communications professionals. Over 30 incidents were noted, including verbal and physical aggression, destruction of mobile and broadcasting units, theft of equipment, interference with transmissions, defamation, investigations by state attorneys and even court trials. La Prensa, the daily newspaper, was one prominent victim of this type of aggression. Undoubtedly, the FSLN has used all means available to silence opinions different from the official line.

3 | Rule of Law

It seems that a political model is being consolidated in Nicaragua, in which the institutional mechanisms of controlling power (mainly of the executive) have eroded; in their place is emerging a type of regime that might be classified a delegative democracy, and which may even end up as an “electoral autocracy.” The main problems with respect to checks and balances in Nicaragua result from the control wielded by the political elite over the entire body of state institutions. As a consequence, the legislative and the judicial branches lack independence in carrying out their functions, and accountability mechanisms are difficult to install. A particular problem is the dependence of magistrates on other political agents – above all President Ortega himself, who plays a central role in nominating judges in exchange for loyalty. This leads to the external control of judicial decisions, which in turn generates impunity. The lack of mechanisms for accountability generates, consolidates and permits corrupt practices at all levels of the political system. This dependency is the result of numerous pacts between powerful individuals (or “caudillos,” as they are known in Nicaragua) as a mechanism to guarantee the cooptation of state institutions.

Separation of powers

4

The judicial branch is institutionally differentiated, formally independent and constitutionally guaranteed 4% of state expenditure. However, it is subject to strong political influence and corruption, does not adequately cover the entire country and demonstrates considerable functional deficiencies. Due to the political influence of the political pacts and the subsequent subordination of the judiciary, the credibility of the judiciary has been seriously harmed. Corrupt practices can be found at all levels within the system. It is difficult for a judge to remain independent if the institution to which he or she belongs is unable to offer protection from undue interference. In other words, there are no mechanisms of protection able to ensure the independence of judges.

Independent judiciary

3

Problems in the judiciary have long affected public acceptance of the system. In a survey carried out by INPRHU-CINASE for the Supreme Court of Justice in March 2005, users of the justice system were asked to what extent they felt that judges and magistrates were independent. Only 14.4% considered that they were very independent, whereas 57.4% said that they were only partially independent, and 19.4% felt that they were not independent at all. According to Latinobarómetro 2010, only 22% of Nicaraguans have confidence in the judiciary; approval rates are lower in only two Latin American countries (Guatemala and Peru).

Corruption is a fundamental problem in Nicaragua’s political culture. Moreover, the prosecution of corruption tends to be a political weapon rather than a matter of law.

Prosecution of office abuse

3

Deficiencies include a lack of transparency in budget management; the lack of monitoring of public entities; excessive exemptions given to procedures and requirements in state contracts; the decrease in the belligerence of watchdog organizations; the increase in the selective application of legal safeguards; and the limited application of the Law of Access to Information and other mechanisms. The media and a considerable number of civil society organizations have denounced the lack of transparency in the management of public resources, particularly those coming from the Venezuelan government. However, data from the 2010 LAPOP survey suggest that just 12% of interviewees had been victims of corruption, a rather low figure in the Latin American context.

In recent years, there have been many cases of corrupt civil servants being charged in the criminal courts. A number of cases have hit the headlines, including that of an ex-minister for transport and infrastructure; two ex-civil servants of the National Commission for Energy; an ex-director of the National Institute for Statistics and Censuses; and the ex-president of Nicaragua's central bank, who was accused of dealing with investment certificates. However, the case of Eduardo Montealegre, ex-minister of economy and public credit and currently leader of the opposition, demonstrates that allegations of corruption are often used as a political weapon. In June 2009, there were more than 30 cases against ex-civil servants of Enrique Bolaños' administration, as well as against the former president himself. As of the time of writing, there had been no investigations of or criminal trials against government workers serving under the Ortega administration.

Civil freedoms and protections for human rights are formally in place, and are largely respected. However, the weakness of the judiciary impedes the state's ability to respond to violations of those rights. In November 2008, the Human Rights Committee of the United Nations voiced its concern (echoing the preoccupation of several Nicaraguan NGOs that work on human rights, violence against women and children's rights, among other topics) on several issues, including:

- The persecution of human rights defenders as well as the “de facto restrictions on the enjoyment of the right to free association of human rights organizations”;
- The committee's call to the state of Nicaragua to fulfill the objectives pointed out in the Inter-American Court of Human Rights ruling in the case of YATAMA, in particular to carry out necessary reforms of the Electoral Law, establishing a simple legal remedy against the resolutions of the Supreme Electoral Court. With regard to indigenous peoples, the ruling recommended that the state continue and finalize the process of delimiting, marking and issuing title to the lands of the Awas Tingni community, while preventing the illegal activities of other groups.

Civil rights

6

- The increasing problem of violence within the family and sexual violence, especially the increase in murders of women (femicide);
- The need to meet the objectives of Nicaragua’s Law for Equal Opportunities, insuring the presence of women “in the highest levels of public service”;
- The widespread prohibition on abortion; and
- The increase in “the cases of mistreatment of those detained by the forces of order... when being arrested,” and calling for the state to “end these abuses” and to take measures to sanction those who commit them. Similarly, concern was shown about the poor living conditions in the country’s overcrowded prisons, particularly “the dirt, lack of drinking water, insufficient budget for food, lack of medical attention, shortage of staff, as well as the mixing of the accused with condemned.” On this last point, the committee asked Nicaragua to present a report within a year on the progress made in its penitentiary centers.

4 | Stability of Democratic Institutions

One of the biggest problems with Nicaraguan democracy since 1990 (and especially since the forging of the pact between Ortega and Alemán in 2000) has been the continuous modification of the rules of the game (particularly the constitution and Electoral Law) according to the interests of these “caudillos.” Since the pact was signed in 2000, the quality of the democratic system has been increasingly undermined by the politicization of the state administration, judiciary, and all of the state’s “autonomous” agencies. As a result, for the past decade it has been practically impossible to talk of horizontal accountability in Nicaragua. In addition, vertical accountability is hampered by the party bias of the Supreme Electoral Council. Three events have formed the latest set of developments in this move toward “delegative democracy”: 1) the so-called decretazo (presidential decrees) of 9 January 2010; 2) a series of wrongful firings of mayors and local civil servants during the month of January 2010; and 3) the decision of 30 September 2009 by the Supreme Court of Justice – meeting without the necessary quorum and therefore illegally – to modify Article 147 of the constitution, which prohibited the immediate reelection of the president. As a result, Ortega has opened up the path for his reelection despite the constitutional dispositions against it.

The decretazo was related to the extension of the mandates of 22 government civil servants whose terms had ended or were about to end, including magistrates of the Supreme Electoral Council and the Supreme Court of Justice, although decisions on this issue should have been made in the National Assembly with a qualified majority of 60% of the votes. In the face of this unilateral decision made by the executive, opposition deputies (who managed to gain a majority of votes) arranged

Performance of
democratic
institutions

4

a meeting in order to veto it. However, followers of the Sandinistas blocked access to the National Assembly as well as to the hotel where the opposition deputies had intended to meet, preventing the vote. This decree will have considerable impact over time, as it means that the FSLN will carry on controlling the key institutions tasked with organizing and monitoring the elections. The firing of mayors, vice-mayors and councilors of various municipalities – ostensibly on the basis of supposed irregularities – revealed the power that Ortega has to neutralize (or eliminate) the few institutional posts still available to the opposition. The departure of these officials gave the FSLN almost complete control of the country's municipalities.

Support for democratic institutions is strongly linked to political power interests and is therefore unstable. President Ortega's sudden shift from support for a stronger legislature to support for a stronger executive after his election as president is a very good example of this behavior. The executive and the two political parties of the "pacto" emerged as the political system's dominant institutions during Ortega's second term. There is very little horizontal accountability between different state powers. The politicization of the judiciary and other supposedly impartial institutions such as the SEC and the comptroller general are examples of the disregard shown for democratic institutions. It is actors from within the political sphere, not from the outside, that damage democratic institutions.

Commitment to democratic institutions

4

On certain occasions since 1990, instruments of horizontal accountability have worked in harmony with the media in order to counteract the force of Nicaragua's executive branch. However, this has not been the case during Ortega's second administration, since the president controls the legislature, the Supreme Court of Justice, the Supreme Electoral Council and the office of the nation's auditor. Together with his wife, Ortega also dominates the FSLN, the party that controls almost all local power and which since 2007 has been able to divide the opposition in order to pass laws. The great unknown, at least today, is whether vertical (or electoral) accountability continues to function. The municipal elections of 2008, after which claims of electoral fraud were made by opposition parties, and widespread protests were made in the street, have generated uncertainty about the state's neutrality with respect to elections.

5 | Political and Social Integration

From the elections of 1990 until 2006, there was a double electoral dynamic at work. On the one hand, there was extreme polarization between the FSLN and some anti-Sandinista group during the presidential elections, and on the other hand a clear division of the anti-Sandinista vote between the two traditional right-wing groups – the liberals and the conservatives – at other elections, generating a smaller concentration of the vote. However, the elections of 2006 were different from all

Party system

6

those previously held. During 2005 and the first half of 2006, Nicaraguan politics showed signs of transformation into a multiparty system, as two new parties entered the scene, both with origins in dissenting internal factions of one of the two dominant blocs. The two new groups reflected a reaction to the politics dominated by the “caudillos,” and to the pacts and vertical relationships that had been the norm in the “traditional” parties of Ortega and Alemán. Thus, on the left the FSLN ran with its eternal candidate, Daniel Ortega, while Herty Lewites (until his death on 2 July 2006) and later Edmundo Jarquín headed the Movimiento Renovador Sandinista. On the other side of the political spectrum, the orthodox expression of liberalism, the PLC, offered as candidate José Rizo (who had previously been vice president in the Bolaños administration), since its leader Arnoldo Alemán had been arrested and banned from participating in the elections due to several pending court cases. Finally, the dissident liberal formation was led by Eduardo Montealegre. This scenario, with its polarized dynamics and four-way split, had no precedent in the country’s recent history. Therefore, from 2006 onward there has been a possibility of change in the political logic that had been in place since the revolution.

Nicaragua has a plurality of interest groups, some of which have a long history. The oldest formally organized interest groups represent private businesses, the prime example of which is the Consejo Superior de la Empresa Privada (COSEP). Since 1990, COSEP has maintained contact and fluid communication with all governments. Another organization, primarily of importance to farmers, is the Unión Nacional de Agricultores y Ganaderos (UNAG). This group is relatively pluralist in its make-up and is Sandinista in origin. In sharp contrast to the 1980s, trade unions are comparatively autonomous, although there is still a sector with strong links to the FSLN (the Frente Nacional de Trabajadores, FNT). Nevertheless, the relationship between the FSLN and the trade unions is complex and in many cases based on corporative negotiations, particularly in the transport (buses and taxis) and informal sectors. There is a remarkable spectrum of non-Sandinista trade unions, though they tend to be of lesser importance. A number of other sectors also act as interest groups; although their relationship with the administration is less visible than that of trade unions, it is often no less effective. Such groups include the Catholic Church (which wields great influence over education, morality and social policy), press associations and banking groups, although in many cases these interests are defended via personal contacts.

Many negotiations of political and economic importance are carried out informally through networks of personal contacts. As a general rule, the interaction between public and private interests in Nicaragua’s economic sphere is mainly disorganized, informal and corresponds to personal, clientelistic and corporative logics.

Interest groups
6

Nicaragua's population shows solid support for the democratic system, but some resentment and discontent with regard to how the system operates in practice. Data from LAPOP 2010 suggest that support for democracy (e.g., agreement with the statement: "Democracy may have problems, but it is better than any other form of government") is at a medium level with a score of 71.3% (almost exactly meeting the regional average of 71.4%). Support for a military coup declined from 42.2% in 2008 to 35.4% in 2010 (the regional average dropped from 41.3% in 2008 to 37.2% in 2010). However, satisfaction with the real performance of democracy in the country is significantly lower than in surrounding countries, with a score of 48.6% (regional average 51.3%), despite improving slightly since 2008 (46.2%). According to Latinobarómetro 2010, support for "Churchillian" democracy is at 73%, slightly below the regional level of 77%, while 70% strictly reject a military government (Latin American average: 63%). Only 36%, however, are satisfied with the functioning of the democratic system (Latin America 44%), while 22% are considered to be "unsatisfied" democrats (Latin America: 17%).

Approval of
democracy
6

The strength of social self-organization and social capital construction varies in Nicaragua. There are a substantial number of cultural, environmental and social associations. However, in some respects these are not truly autonomous, but are instead aspects of clientelistic relationships. The Ortega government has promoted a new type of "participation" called the Consejos del Poder Ciudadano, which are similar to the Comités de Defensa Sandinista (CDS) of the revolutionary decade. When these are closely analyzed (particularly how they act), it becomes clear that they are para-state organizations organized hierarchically and controlled by the FSLN (the ultimate leader is Ortega's wife) with the objective of distributing social policy funds and resources and maintaining loyalties. This type of organization generates a top-down relationship, rather than generating bottom-up participation, since it aims to offer incentives and control followers' participation, thus generating political linkages of the patron-client type. In addition, civil society seems rather politicized, as many sectors (particularly feminist and civil rights movements) have progressively become more active and belligerent.

Social capital
6

Self-organization efforts within the general public often encounter socioeconomic barriers, and are therefore generally weak. Self-help organizations are active in combating the most pressing social ills, such as the prevalence of street children and drug abuse, but the lack of funds has thwarted major successes. Trust levels within the population are generally low. Wounds inflicted during the Somoza dictatorship, the Sandinista Revolution and the armed conflicts in the years after democratic transition have yet to heal. Nevertheless, the often-informal self-help networks have created some degree of social cohesion and social capital, which also helps explain the relatively low crime rate in comparison to Nicaragua's neighbors. Despite the difficulties mentioned, data from the 2010 LAPOP survey suggest that interpersonal trust is at a medium level in Latin America with 58.6% of respondents claiming

they trust people within their community (a level that falls in the middle of the pack, between Costa Rica with 70.2% and Peru with 46.2%).

II. Economic Transformation

6 | Level of Socioeconomic Development

The country's socioeconomic development status is rather low. According to the Human Development Report 2010, Nicaragua's Human Development Index (HDI) value was 0.565 in 2005 (compared to a regional average in Latin America and the Caribbean of 0.704), ranking Nicaragua 115th out of 169 countries, ahead of only Guatemala and Haiti. Furthermore, the Gender-related Development Index (GDI) – which operates using an inverted scale – shows a value of 0.674 (99th out of 138 countries), clearly worse than the Latin American average of 0.609 or the global average of 0.560. Social exclusion due to poverty and social hardship is quantitatively and qualitatively very pronounced, and is structurally entrenched. On an inequality-adjusted HDI, Nicaragua shows a value of 0.426 (regional average 0.527), representing a loss of 24.6%. However, as inequality is still more pronounced in other countries, Nicaragua surpasses Honduras (0.419) and Bolivia (0.398). On the HDI's Multidimensional Poverty Index, Nicaragua scores 0.211, ahead only of Haiti in Latin America, and falling behind even Guatemala. The majority of the country's almost 6 million inhabitants live in poverty. Life expectancy is relatively high (on average 73.8 years), but the population has only an average of 5.7 years of education, and per capita gross national income is just \$2,567 (as of 2008). Since 1993, the population share living in poverty has decreased slightly from 50% to 47.1% (2005) and again to 45.8% (2010), but improvement in recent years has been slow despite sound macroeconomic performance. Poverty is distributed unequally, with 29.9% of the urban population and 69.7% of the rural population classified as poor. In rural areas, 27% of the population lives in absolute poverty. With population growth taken into account, the stagnation of poverty indicators implies an increase in absolute numbers. Due to the increase of food prices during the evaluation period, some studies suggest that the number of people living in poverty may have increased by about 10%. The Gini coefficient concerning income distribution is 52.3 (based on 2010 UNPD data).

Question
Score

Socioeconomic
barriers

3

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	5662.1	6372.2	6213.7	6551.2
GDP growth	%	4.9	3.6	-3.2	7.6
Inflation (CPI)	%	11.1	19.8	3.7	5.5
Unemployment	%	5.0	-	-	-
Foreign direct investment	% of GDP	6.7	9.8	7.0	7.8
Export growth	%	9.0	2.3	6.8	13.2
Import growth	%	12.4	1.7	-5.9	10.8
Current account balance	\$ mn.	-1223.6	-1570.3	-827.9	-963.4
Public debt	% of GDP	84.6	77.4	82.9	82.3
External debt	\$ mn.	3701.2	4232.2	4671.9	4786.5
Total debt service	\$ mn.	405.8	415.6	517.0	521.2
Cash surplus or deficit	% of GDP	0.4	-1.3	-2.3	-
Tax revenue	% of GDP	18.2	17.6	17.5	-
Government consumption	% of GDP	10.4	11.8	10.8	9.6
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	9.2	9.4	9.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.7	0.7	0.7	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Since the 1990s, governments have pursued a strict market-economic and export-oriented development model, based on the private economy and oriented toward the principles of free-market competition. However, the rules of the game are not always followed. Apart from presidential decrees that have the ability to change those rules suddenly, the greatest threats to the market economy in Nicaragua are corruption and the weak legal system. Aside from utilities such as energy and water, the state controls the prices of only a few products. The minimum wage varies

Market-based
competition

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across different sectors of the economy, from \$70 per month in agriculture to \$170 per month in construction and finance. According to the central bank, the informal sector accounts for almost two-thirds of jobs. Profits can be used and transferred freely. There is no limitation on currency convertibility. Foreign and domestic investments are treated equally. However, in a cluster approach to development, a handful of sectors such as the tourism and maquila industries have been offered tax exemptions on profits, building materials and property. The World Bank's Doing Business Report 2011 ranks Nicaragua 117th out of 175 countries (12 places lower than the year before); the country scores most poorly in the areas of paying taxes, registering property, and construction permits. With regard to foreign direct investment (FDI), Nicaragua has the lowest levels of investment in Central America, with inflows concentrated on maquila operations, telecommunications and tourism projects. FDI inflows have been increasing steadily in recent years, reaching \$335 million or 5.8% of GDP in 2007 and about \$400 million in 2010, showing increasing trust on the part of international investors. Since Ortega came to power in 2007, the Venezuelan government has increased its investments via a mixed Nicaraguan-Venezuelan company called ALBANISA.

In September 2006, parliament approved with bipartisan support a competition-promotion law that had been discussed since the 1990s. The law came into effect in 2007, and was again modified by Law 688 in 2008. Before this point, Nicaragua had anti-monopoly laws in place only for specific sectors such as telecommunications and energy. The new law prohibits anti-competitive practices, and created a national institute for the promotion of competition (Pro Competencia), which is tasked with enforcing the law. Its role is to regulate the anti-competitive practices that are common in the Nicaraguan market, in order to prevent firms from being affected by monopolies or oligopolies. The Promotion of Competition Law establishes financial sanctions for companies that engage in anti-competition practices, varying between 1% and 10% of the company's net sales. The law also requires that certain mergers have to be preceded by ex-ante notification.

According to studies by international organizations and government entities, Nicaragua's market contains a number of oligopolies, common to small economies, in which two or three companies control the majority of a sector. Studies carried out by the Economic Commission for Latin America (CEPAL) and at the national level have found that Nicaragua has a very concentrated market in a number of sectors, but particularly in banking, telephone communications, electric energy, flour production, medicines, agricultural production and compressed air. It remains unclear whether the Institute for the Promotion of Competition will have the capacity and willingness to regulate in an effective and independent manner, since the appointment of its members has followed completely political criteria.

Anti-monopoly
policy
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Foreign trade has been liberalized since 1990. Trade openness as measured by the ratio of imports and exports to GDP is rather high. Nicaragua has abolished all non-tariff barriers inconsistent with WTO provisions, and does not have import prohibitions on commercial grounds. Since it is a low-income country, incentives for maquila operations and tourism are consistent with WTO standards. Aside from these, Nicaragua grants exporters a 1.5% tax benefit on exported goods, but does not provide export financing. The most-favored nation (MFN) duty rate declined sharply during the 1990s, and now stands at around 4%. Nicaragua is also a member of various regional and bilateral trade agreements. It is very well integrated in Central America and has strong trade ties with the United States. Integration has further improved due to Nicaragua's membership in the Dominican Republic-Central American Free-Trade Agreement (CAFTA-DR), which came into effect in April 2006.

Liberalization of
foreign trade

9

Since Ortega came to power in 2007, Nicaragua's commercial policy has been oriented toward strengthening or establishing agreements with its main business partners. The National Assembly has approved the agreement establishing the Central American Customs Union, and progress has been made in negotiating requirements and guidelines for the intraregional trade of farming products. Moreover, in January 2009 a bilateral protocol was signed with Panama, part of the free trade agreement between Central America and this country. Changes since 2007 have also included Nicaragua's incorporation into the Bolivarian Alliance for the Peoples of Our America (ALBA). Under this new commercial alliance, 16.7% of Nicaragua's exports in 2010 went to Venezuela. As a result, Nicaragua has become the third-largest importer to Venezuela (after the United States and El Salvador), and Venezuela has become the most significant investor in Nicaragua.

Negotiations to establish trade agreements with Canada and Chile continued through the period under review. Negotiations with Chile came to a conclusion in May 2010. In the context of a 2009 agreement between Central America and the European Union, significant advances were made in terms of access to markets and rules on intellectual origin and property, among other matters. Negotiations began again at the start of 2010, after a temporary suspension halfway through 2009 as a result of Honduras' political crisis. The agreement was finally signed in May, and as of the time of writing, the process of ratification remained pending.

Nicaragua's banking sector is underdeveloped; it is one of Latin America's smallest, accounting for about 5% of GDP. The banking sector expanded during the 1990s with the founding of 14 new private banks. State banks were closed or privatized between 1994 and 2000. In 2001, the last state-owned bank, Banco Nicaragiense de Industria y Comercio, was closed due to severe losses. Despite strong credit growth in recent years, financial intermediation remains very weak, a fact that seriously hinders economic growth. Banks' high exposure to the public sector due to their extensive investment in public debt bonds is also worrisome. The

Banking system

5

capital adequacy ratio is sufficient and the percentage of nonperforming loans is low. More than two-thirds of deposits and loans are denominated in U.S. dollars. Independent supervision of the banking sector has become stricter over time, especially following the banking crisis in 2000. The principles of the Basel Accords have been implemented, and Nicaragua has ratified its commitment to the 1997 WTO Financial Services Agreement.

Today, the banking sector consists of seven banks and two finance companies. Foreign ownership of banks has increased as a result of investments by Citigroup, HSBC and General Electric. Nevertheless, many households and businesses (especially in agriculture) have been left without access to credit from the formal banking sector since the closure of the state-owned national development bank BANADES in 1998, because the private banking sector has very little presence in rural areas. Microfinance institutions have partially filled this gap. The Ortega administration's Usura Cero program has supported the use of microfinance to increase financial intermediation. Four private insurance companies, which also offer policies from foreign insurers without additional regulation, have joined state-owned insurer INISER since the 1997 abolishment of the state insurance monopoly. Nicaragua's stock exchange, Bolsanic, is host mainly to the trading of government-issued bonds. Nicaragua's banking system was not directly exposed to the 2008 financial crisis, but secondary effects associated with the foreign ownership of banks have restrained credit growth.

8 | Currency and Price Stability

Though the central bank is not an autonomous institution, it has pursued a largely consistent inflation and exchange rate policy, even in the face of political fluctuations. By the beginning of the century, the country's previously persistent double-digit inflation had been overcome. However, in 2007 and 2008, inflation again rose to above 15% due to the rise in oil and food prices. For 2009 and 2010, average inflation figures respectively stood at about 3.7% and 5.4% (although consumer inflation had risen to an annualized rate of 9.2% by the end of 2010). This notable reduction was due to the reduction in internal demand and the fall in the international prices of food and fuel, despite country's falling exchange rate and the increase in salaries. Indeed, the food and drink sector showed negative annual price growth (-6.1%). The 2010 increase was in line with the reactivation of the economy and a new increase in the price of food and fuel.

The Nicaraguan currency (the córdoba) has been annually devalued by means of a crawling peg mechanism since 1993. The crawling peg stood at an annual rate of 12% until 1999, and is currently set at 5%. The sustainability of this peg and its continuous, stable decline are proof of the success of Nicaragua's exchange-driven monetary policy, which has improved currency and price stability and offered

Anti-inflation /
forex policy

8

greater certainty to economic actors. Due to the high inflation rate of the last few years, the appreciation of the córdoba in real terms has not yet established a serious threat to the crawling peg mechanism.

The government's fiscal and debt policies generally promote macroeconomic stability, but lack institutional safeguards and are prone to populist policy changes. Pushed by international lenders and their own commitments, Nicaraguan governments have pursued a policy of macroeconomic stability since the 1990s. At the beginning of the century, the fiscal deficit before grants still amounted to 9%. This fell to about 3% by 2007, and even turned into fiscal surplus after grants. This improvement was due to an increase in revenue and a stabilization of expenditures associated with IMF-related reforms, as well as strong economic growth. While a growth in state expenditures ahead of the 2008 elections allowed the fiscal deficit to swell to almost 5% of GDP in 2008, it fell again to 1.4% of GDP in 2010.

Debt relief programs in recent years through the Heavily Indebted Poor Countries (HIPC) initiative, the Multilateral Debt Relief Initiative (MDRI), and bilateral schemes have considerably reduced Nicaragua's overall external debt. This figure fell from 170% of GDP in 2003 to around 50% of GDP in 2008, about \$3.3 billion; however, by 2010 it had risen again to \$4.5 billion. Public debt including internal debt amounted to about 66.5 % of GDP in 2010; interest payments on internal debt were more than two times higher than those associated with external debt. The stability-oriented policy can be expected to remain largely intact – even though hardly any institutional safeguards exist – mainly due to the poverty reduction and growth facility currently being implemented under IMF auspices.

9 | Private Property

In principle, property rights are well defined. However, poorly enforced property rights and property disputes remain among the most serious barriers to economic development in Nicaragua. The Sandinista regime expropriated and collectivized many properties, residences and companies. These were subsequently redistributed to agrarian collectives; during the so-called “piñata” before power was handed over in 1990, many were also given to Sandinista leaders and top government officials. Because most of these transfers were carried out without due legal process or documentation that would insure the new owners' legal claim, there have been severe conflicts with former owners who have since then tried to reclaim their properties.

During the 1990s, the main problem was the agrarian sector, particularly in the rural interior areas of the country where the war had taken place. Data available from the 2001 Farming Census indicated that at least 218,000 farmers, the equivalent of 60% of all rural households, had direct access to land. Thus, of the households involved

Macrostability
8

Property rights
6

in farming activities, 79% has some access to land, whether as landowners or small-scale renters. In comparative terms, this high proportion of rural families with access to land is positive, particularly when considering that small and medium-scale farmers make up a considerable portion of Nicaragua's population.

Problems with property today are concentrated in three areas: urban peripheral zones, due to the continuous arrival of rural migrants who settle on the outskirts of towns and cities; areas where tourism is being promoted (the southern Pacific coast region); and in indigenous territories on the northern Atlantic coast. With regard to the promotion of tourism, large (national and international) firms assert intense pressure in order to take ownership of properties on the coast. In the case of the Atlantic coast, tensions are commonly related to disputes over the ownership of natural resources (forest, water and properties) between the legitimate owners (the indigenous communities) and those who – from the public or private sector – try to appropriate or sell them.

Since 1990, Nicaragua has privatized a significant number of its public utilities and disposed of more than 350 government-owned enterprises. The last large-scale privatization took place in December 2003, when the government sold its remaining 49% share in national telecommunications company Enitel. President Ortega has clearly positioned himself against further privatization, and opposes the introduction of private pension funds. Under the Ortega administration, relatively minor government shares in companies have been acquired. The relationship between private enterprises and the executive has sometimes been difficult, as illustrated by the intense conflict between the Unión Fenosa electricity company and the Ortega administration. While the government has blamed Unión Fenosa for not investing enough and thereby causing almost daily blackouts, Unión Fenosa has blamed the government for not allowing it to raise prices in line with higher fuel costs. Although privatization did not progress during the evaluation period, and even took some small steps backward, private companies remain the backbone of the economy and the appropriate legal framework has been established. In this sense, it is possible to state that the mechanisms of private enterprise are still valid in Nicaragua with a legal framework and ease of use similar to that which was in place before 2007. The only visible change is the increased presence of a group of businessmen who are explicitly linked to the government and the Sandinistas.

Private enterprise

7

10 | Welfare Regime

Nicaragua faces severe social problems. Large segments of the impoverished population, especially in rural areas, are beyond the reach of the country's social safety net. There is also a significant difference in the quality of education and health services, not only between urban and rural areas but even more so between private and public services. Systematic efforts to reduce poverty have been planned

Social safety nets

4

and implemented since 2001 within the framework of poverty reduction strategy papers (PRSPs). In addition to health and education services, special social protection programs range from food assistance, social infrastructure and programs for special target groups to rural development. The Ortega administration has begun to expand these programs further, but financial and organizational constraints have hampered initiatives such as Zero Hunger, as well as attempts to offer free health services and education. According to official figures, poverty-related expenditures account for more than half of the government's budget, reaching 13.3% of GDP in 2008, 13.5% in 2009 and 12.9% in 2010.

Although public spending on these services has increased considerably in absolute terms, it did not increase as a share of the state budget or GDP. It also has to be noted that most new funds slated for these sectors were used to finance higher wages. In some areas, such as reproductive health and education, some deterioration has even been observed in recent years. Moreover, the small number of workers employed in the formal sector limits participation in official social security schemes with determined entitlements for old age, disability and health. Only 16% of the economically active population is insured by the official system. This said, it is necessary to highlight the efforts made since 2007 to change the logic that had governed the education sector since 1990.

As a result of the damage caused by the war and the economic crisis at the end of the 1980s, along with the upheaval of the economic transition at the start of the 1990s, the ineffectiveness of policy to stimulate growth, and the lack of equality and welfare policies, poverty and inequality have become worse in Nicaragua over the last two decades. As a consequence, Nicaragua is a very vulnerable and highly stratified society. There is a vast social gulf between the many poor and the few rich, and a clear divide between urban and rural areas. The two formally autonomous Atlantic regions are culturally very different from the rest of Nicaragua, and are economically disadvantaged and neglected by the state. These regions' minority communities, both those of African and of indigenous descent, face extreme poverty and discrimination, both administrative and political, and it is likely that many inhabitants are not included in censuses. Public services are not able to redress the existing imbalances in order to create equality of opportunity. The increase in poverty-related spending over the last several years has had some minor positive effects, but poverty levels have merely stagnated. Although school education has been expanded to include more individuals, the quality and duration of education must be increased further by a considerable extent if social inequalities are to be significantly ameliorated. Women's literacy and school enrollment rates are as high as those of men, but on average women earn less than half as much as men. In this context, equality of opportunity is almost inexistent.

Equal opportunity

4

11 | Economic Performance

Despite macroeconomic recovery since the 1990s, the Nicaraguan economy is weak and vulnerable to external shocks. Per capita GDP has only recently surpassed the level of \$1,000, the level reached before the Nicaraguan Revolution, reaching \$1,083 in 2009 and \$1,126 in 2010. The economy is extremely vulnerable given its large current-account deficit, dependency on a small number of export products, and vulnerability to natural disasters such as hurricanes and volcanic activity. Economic growth was moderate at over 3% per year until 2009, when it shrunk by 1.5% due to the international crisis. In 2010, however, growth picked up again to 4.5%. Due to the high import dependency, inflation returned to double digits in 2007 and 2008, but fell again to 3.7% in 2009 and 5.4% in 2010. In addition, Nicaragua is highly dependent on foreign aid. The period's reduction in gross investment, consumption and export demand, as well as the withdrawal of international aid (particularly from Europe and the United States), was partially compensated for by the increase in the export of services and international aid from the Bolivarian Republic of Venezuela.

Other problems include low per capita GDP and productivity growth. Nicaragua's economy lacks a sizable industrial base and the country therefore has to import many goods from abroad. Nicaragua's export base is narrow, but under the recent free trade agreements, export growth has developed dynamically and diversification has also increased. The current account deficit decreased considerably (from 24.6% of GDP in 2008 to 14.8% in 2010) but still remains high. More positive has been the reduction of the trade deficit to 25% (though this remains significant). In 2010, the budget deficit decreased to 1.4%, and unemployment stood at 7.7%, but underemployment is much higher.

12 | Sustainability

Environmental consciousness is underdeveloped in Nicaragua, and is subordinate to the push for growth. As a result of intense armed conflict, the region's economic impoverishment and uncontrolled activity by extractive companies, the state of the environment in Nicaragua is increasingly worrisome in terms of the coverage of flora, the loss of forest area, and the pollution of land, air and water. This is reflected in the fact that the agricultural boundary has moved towards the east, and is now at the edge of the main natural reserves in the jungle. Furthermore, Nicaragua has been affected by a variety of destructive natural phenomena in its recent history. Apart from plagues, droughts and the floods caused by the El Niño and La Niña weather patterns, Nicaragua is also subject to earthquakes, tsunamis and hurricanes (such as Hurricane Mitch in 1998). According to data from the Civil Defense, natural disasters have directly affected over half of the population in

Output strength
6

Environmental
policy
5

recent years, with over 2 million people suffering material damage, more than half a million people evacuated, and more than 117,000 people dead or missing. In 1999, Hurricane Mitch and its aftermath rendered the region's vulnerability in the face of natural disasters painfully evident. One of the key elements of this vulnerability was pre-existing environmental damage as well as the presence of settlements in high-risk areas populated by the most impoverished sectors of society, due to the lack of resources to obtain decent housing in a safe place.

Economic growth usually stems from expanding the use of resources rather than from productivity gains, especially in the agricultural sector. Therefore, Nicaragua's environmental sustainability is at risk if the economy continues to grow without necessary changes made to ensure such sustainability. The country has an institutional and legal framework capable of addressing environmental matters, has signed all relevant international treaties and has collaborated internationally on environmental matters. However, the lack of financial resources and the social patterns of skills and attitudes pose serious obstacles to an effective approach to environmental challenges.

Education is a constitutional right. However, human capital levels remain very low. About one out of five Nicaraguans is still illiterate, with the same proportion having not completed even a single school year. The average level of adult schooling is 4.6 years. State and private educational institutions exist in all educational segments, from preschool to higher education, but their quality varies greatly. According to official data, public expenditures rose by about 79% between 2006 (\$221 million) and 2011 (\$368 million, as planned in the 2011 budget) implying an increase from 20.1% to 23% of the public budget or from 4.8% to 5.5% of GDP. These figures include subsidies to religious and private schools. Universities are entitled to an additional 6% share of public expenditure under the constitution. There is hardly any expenditure on research and development. There is no basic research performed, and there are only a few centers of "applied research" linked to development and financed by international institutions. There is no teaching career as such in higher education, and there is a brain-drain of those with the highest levels of education to foreign centers or toward the international consulting sector.

Primary education is supposed to be the main focus of educational spending. However, if per-student spending is considered, the focus is clearly on tertiary students, who receive about 10 times as much per-head funding as do primary or secondary students. Net enrollment rates for primary school increased to 90% in 2006, while gross enrollment rates have even exceeded 100%. The completion rate for primary school (through sixth grade) is 50%, and the net enrollment ratio for secondary school is about 43%. One reason for the low completion rate is the high incidence of dropouts for economic reasons; another is the poor teaching conditions. Teachers in Nicaragua are often poorly qualified, and despite recent wage increases earn just half the average income of Nicaraguan workers, the lowest such teacher

Education policy /
R&D
4

salary in Latin America. Likewise, there are no mechanisms of selection and recruitment, there is no job stability, and there is no monitoring or evaluation of teachers.

Transformation Management

I. Level of Difficulty

There are significant structural constraints that have a negative impact on the effectiveness of the government. The country's infrastructure presents serious shortcomings, despite the improvements made in the main road network in the Pacific region. Public transport by road is of a very poor quality, and the rail network leading to the interior and the Atlantic coast does not function in the rainy season. Despite Nicaragua's great ecological wealth (with biosphere reserves and the Caribbean coast), it is not exploited in a mindful or respectful way, and there is significant danger that environmental damage will soon exceed political management capacities. In addition, natural disasters are common. It is also worth noting that it is very difficult to carry out a normal policy cycle (design, budgeting, implementation and evaluation) in a coherent manner in Nicaragua. Budgeting constraints are extreme in an economy that depends on external agents (either for its balance of payments or the structural necessity for financial help), has a population that is both poor and poorly educated, and is highly vulnerable to external economic, political and climatic shocks.

Structural
constraints
6

On a positive note, despite chronic unemployment/underemployment, poverty, unsatisfactory social conditions and the poor performance of the authorities, organized violence has not penetrated Nicaragua to the level seen in neighboring countries to the north. Neither drug traffickers nor the mara gangs have yet been a cause for concern. Likewise, HIV/AIDS has not reached alarming infection rates among the adult population.

Nicaragua has been characterized by a significant level of social mobilization since the 1970s. During the 1980s, mobilization was very intense as a result of the revolutionary regime, social polarization and the civil war. The mobilization that took place in the course of this decade generated a culture and tradition of mobilization, debate and protest that has lasted until the present day, although during the 1980s the conflict was essentially political and led by opposing political groups: the FSLN in power and the "counterrevolutionary" forces in opposition. Mobilization continued though the 1990s, but the political logic changed, with demands taking on a more socially orientated character. During the government of

Civil society
traditions
5

Violeta Barrios de Chamorro (1990 – 1996), mobilizations were very intense both in rural and urban areas due to the privatization and adjustment policies. In rural areas, demands were based on land claims by those involved in the war (on both sides), while demands in urban areas were more labor-orientated.

Through the end of the 1990s and the start of the 2000s, mobilization levels have declined, but without ever disappearing altogether. Three sectors retain significant mobilizing capacity: 1) trade union sectors linked mainly to the FSLN; 2) civil society sectors concerned about specific issues, including the feminist movement and the citizen movements against corruption; and 3) the politicized pro- and anti-Sandinista movements that protest against measures taken by the various governments. Finally, associative networks in poorer neighborhoods create another layer of social capital. These networks are difficult to detect from the outside, but are crucial in maintaining social peace and assuring that the country's poor can survive.

In terms of religion, the country is mainly Catholic, despite the increasing presence of Evangelical churches. There is no tension or conflict over religion as such, although some sectors (largely among the middle class and minorities) have mobilized to denounce the Catholic Church's intervention in political life, particularly on issues such as abortion. The society is mainly of mestizo and ladino origin (94%), although populations of ethnic minorities (Miskitos, Mayagnas, Ramas and creoles) live in the Atlantic coast region. In the effort to manage ethnic differences with respect, the Autonomous Region of the North Atlantic (RAAN) and the Autonomous Region of the South Atlantic (RAAS) were created in 1988, each as regional governments with a multicultural vocation. In both regions, the ladino population remains a majority. A relatively large population of Miskitos, Mayagnas and Ramas live in the RAAN, and there are periodic episodes of tension due to the national government's neglect, infringements on the autonomous region's competences, or matters relating to the concession of the area's natural resources (forests, water and fishing) to foreign companies by the national government. In the RAAS, there are few indigenous peoples, and the primary ethnic difference is between ladinos and Afro-Caribbeans. Since the war of the 1980s, ethnicity has not been a substantial cause for conflict. Nevertheless, the state's weak presence, the increasing prevalence of drug trafficking, and the fact that the national parties present on the coast do not represent local interests well may generate new tensions in the medium term.

On the social and political level, Nicaragua is experiencing appreciable tension. Society is politically polarized between pro- and anti-Sandinistas. This fact, together with the profound social inequality, means that large groups can be mobilized politically in order to pressure or intimidate some sectors of society. Certain episodes such as the outcome of the local elections in 2008 (when there were numerous clashes between those in favor of the government and the

Conflict intensity
4

opposition) have become a major concern as the 2011 presidential and National Assembly elections draw near.

II. Management Performance

14 | Steering Capability

Question
Score

The government claims to be setting strategic priorities, but regularly substitutes short-term interests associated with political bargaining and office seeking. During the period under review, the Ortega administration's primary goals in the international sphere were twofold. On the one hand, the government sought to retain investor and donor confidence, in order to avoid putting economic development and stability at risk. On the other hand, Ortega pushed for integration with the new leftist governments of Latin America, as well as with former allies such as Russia. In the national sphere, Ortega's main goals were to enhance anti-poverty measures and strengthen his administration's power. These goals were pursued within the context of a coherent framework. However, other important goals for the country's long-term development were missing from the agenda, such as enhancing the rule of law, depoliticizing the administration and fighting corruption. The opposition too failed to maintain a long-term vision of democratic and market-oriented reforms, instead giving up those goals in favor of short-term personal gains when the Ortega administration was in need of support.

Prioritization
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Nominally, the issue of development and poverty reduction has been consistently present on Nicaragua's political agenda since the 1980s, though this has taken the form of completely different policies. The three governments in charge of the country between 1990 and 2006 abandoned the "statist" approach of the first Sandinista government, and focused on generating economic growth and waiting for benefits to "filter" into society. Since 2007, with the return of Daniel Ortega, there has been no substantive change in policy despite the election campaign of 2006. However, there has been an interest in developing focused social policies via three programs (Hambre Cero, Usura Cero and Desempleo Cero), and by strengthening the universal-service policy in the areas of health and education. However, the implementation of these policies has been very limited due to the reduced budget and the general incapacity in carrying out new programs. More broadly, Ortega's government has continued the macroeconomic policy developed in the 1990s (including participation in the CAFTA-DR). The administration's early years did not represent a real change in this sense.

The Nicaraguan state exhibits notable shortcomings in implementing government policy. The lack of monetary resources presents one hurdle; however, the public administration shows a serious lack of capacity and professionalism (as well as an intense politicization), due to the absence of career-oriented civil servants who are difficult to fire and have been hired and promoted on merit-based grounds. This situation has long characterized Nicaragua's public life, and has led to frequent turnover in administrative circles, paired with a very limited capacity to change reality. Ortega perpetuated the pattern when taking office in 2007, expelling civil servants in a variety of ministries and filling their positions with politically loyal individuals.

Implementation
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In terms of changes in policy, two important entities have been created since 2007: the Citizens Power Councils (CPCs) and the ALBANISA company. The CPCs form a pyramid structure (from the neighborhood level to the national level) aimed at facilitating participation, mobilization and the distribution of basic necessary goods. In theory, these organizations are designed to process people's demands and respond to their needs, but in many cases they act as para-state, party (Sandinista) instruments that distribute rewards to sympathizers and serve to consolidate loyalties. The ALBANISA company, on the other hand, is of mixed public and private ownership, and manages the financial aid from Venezuela with complete discretion, without control by the National Assembly or national agencies. These two instruments offer Ortega's government the capacity to implement certain policies swiftly, avoiding the red tape established by the state administration. However, there is also a danger that with a change of government, these policies will be neither consolidated nor institutionalized.

Nicaragua's political elite – particularly the leaders of the main parties – show little capacity (or willingness) to learn, particularly with regard to strengthening the rule of law and constructing a professional and neutral public administration. This presumably has no association with a lack of intellectual capacity or a lack of understanding, but is rather tied to a prevailing short-term, clientelist, “zero-sum” and patrimonial way of understanding politics. In this sense, leaders such as Ortega and Alemán have avoided offering explanations for their actions, for as long as possible. Offering explanations – known as “accountability” – has only taken place when leaders lack sufficient support or strength to impose their will on other political actors. Therefore, the interests and efforts of these leaders have indeed worked against the creation of a responsible and effective state. During Ortega's second term at the head of the government, the president's power has focused on controlling the legislature, the courts, the electoral authority and the Controller General's office (the nation's auditor). Moreover, he and his wife together dominate the FSLN. Policy learning thus happens coincidentally if at all; there are no institutionalized mechanisms that facilitate innovation and flexibility in policy-

Policy learning
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making. Instead, the most important and successful politicians have deinstitutionalized their own parties as well as state institutions.

15 | Resource Efficiency

The use of public resources in Nicaragua is not particularly efficient, for three main reasons. The first, which is endemic, is the politicized nature of the public administration and the lack of career-oriented civil servants. This means that public workers have low levels of commitment, and that there is a loss of human capital every time there is a change in government. The second reason is structural, and relates to the minimal presence of the state in some areas of the country, and the lack of coordination between ministries when implementing government policy in rural municipalities and communities. The third reason is more circumstantial and is related to the style of Ortega's administration, in which a cabinet led by the secretary of the presidency and its advisors is guided by decisions made by the president and first lady. This centralization means that policy is carried out very slowly, since it allows ministers little autonomous decision-making power. As a result, the organs responsible for various policy areas have little flexibility when carrying out, agreeing to and – when necessary – adjusting policy. This is illustrated in Nicaragua's percentile rank score of 14.3 for government effectiveness in the World Bank's 2009 World Governance Indicators report.

Efficient use of assets

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Policies designed by Nicaragua's government are coordinated by the presidency and the secretary of the presidency. As of 2007, there has been an attempt to centralize political power and decision-making, largely with two goals in mind: to concentrate political power in Ortega's hands, and to create more effective and consistent policies. The price of centralization, however, has been slowness, inflexibility, a lack of autonomy and debate, and on occasion even paralysis. Over time Ortega's government has generated a variety of policies that lack coherence. On the one hand it has maintained continuity with earlier macroeconomic policies (negotiated with the IMF and World Bank). On the other, it has distorted prices in basic goods as a result of the focused poverty-reduction policies, while enabling new import and trading monopolies to develop as a result of preferential agreements established with Venezuela.

Policy coordination

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Corruption is an acute and endemic problem in Nicaragua, particularly within its political culture. Legal, political and administrative accounting structures and procurement systems may in theory enable administrative transparency and integrity and punish criminal conduct, but enforcement lags in most instances. A series of laws are in place to fight against the practice of bribery. Article 429 of the Penal Code published in May 2008 (Law 641) contains sanctions against bribery equal to those associated with crimes against freedom of expression. Article 449, titled "International Bribery," sanctions foreigners resident in Nicaragua who offer,

Anti-corruption policy

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promise, give or concede money to any authority, civil servant or public worker in order to carry out or omit to carry out functions inherent to their role. Article 475 holds that bribery (Article 476), bribing witnesses (Article 478) and making evasion easier (Article 482) carries the same sanctions as producing false testimony or reports. Article 5 of Decree No. 124-99 mandates that public servants referred to in Article 1 of the decree must refrain from receiving gifts, perks or payments in cash by anyone who has any interest in the outcome of their decisions. Likewise, the public function should not be used for the benefit of any political party. However, these mechanisms lack effectiveness and credibility, in part due to the political exploitation of corruption trials. As an example, former President Arnoldo Alemán, who was accused of and tried for several crimes of corruption, is today a free man as a result of political pacts, and is one of the leaders of the liberal party.

16 | Consensus-Building

All important political actors publicly agree on the goals of developing democracy and the market economy. However, this fragile consensus does not translate into agreement on the impartial institutionalization of democracy and market economic principles so as to create a level playing field. In their electoral platforms, parties demonstrate a reasonable spectrum of difference on issues such as redistribution of wealth and the appropriate emphasis on social policy. But influential political leaders, though claiming to support democracy and the market economy, craft these institutions in such a way as to pursue their own economic interests and personal ambitions. This often proves detrimental to democracy, the functional capabilities of political institutions and the broader population's welfare. Over the last decade, particularly after the pact between the country's two most important political leaders (Arnoldo Alemán and Daniel Ortega) in the year 2000, it has become evident that agreements between the two parties (the PLC and the FSLN) had the aim of benefiting these "caudillos" and their party machines rather than the common good.

Anti-democratic veto powers were largely integrated before the opening of the present evaluation period. Today's danger rather rests with political actors who, within the democratic framework, undermine Nicaragua's democracy to further their personal aims. During the evaluation period, reformers within the opposition failed to prevent the Ortega administration and the other parties to the pacto político from undermining democratic institutions, through means such as the establishment of the CPCs and the continued politicization of the judiciary. The main risk for democracy in Nicaragua is the erosion of mechanisms of horizontal accountability (due to the politicization of the judiciary and other agencies of control) and vertical accountability (due to the politicization of the Supreme Electoral Council).

Consensus on goals

6

Anti-democratic actors

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While the Sandinista movement still polarizes society, violence is no longer a way of engaging in politics in Nicaragua. However, since 1990 there have been numerous violent confrontations between the government and university students over financing, and between the government and bus and taxi owners over the price of petrol and regulation on the roads. The Ortega government has harassed the opposition with street protests (as in the municipal elections of November 2008), and has engaged in other measures such as retracting opposing parties' legal status (in the case of the MRS). Furthermore, the government has also targeted NGOs critical of its actions, such as the Center of Communication Research (CINCO) in October 2008, as well as two other non-governmental organizations (Oxfam UK and the Autonomous Women's Movement, MAM). The 2011 presidential and legislative elections are widely seen as a crucial "test" in which the state of democracy and polarization in the country can be evaluated.

Cleavage /
conflict
management
5

The Ortega government has decreased opportunities for civil society participation during its term. Even organizations typically aligned with the Sandinistas have been excluded. Instead, the Ortega administration introduced the CPCs, which are tasked with implementing direct democracy functions, although primarily on behalf of Ortega's own loyalists. In a related move, the previously relatively influential presidential advisory body on economic and social programs (CONPES), which had been made up of a variety of interest groups and organizations, was subsumed in the CPC hierarchy headed by Ortega's wife. CPCs are in fact para-state organizations organized in a hierarchic way and controlled by the FSLN, with the objective of ensuring loyalty and distributing funds and resources associated with tightly focused social policies. This type of organization creates a top-down relationship rather than generating bottom-up participation, since it offers incentives and seeks to control the participation of followers; in this way, it generates what are essentially patron-client political linkages. Nevertheless, a fairly vibrant, active and critical civil society still exists in public life, particularly in comparison to other countries in the region.

Civil society
participation
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Political leaders have little incentive to redress historical injustices of the revolutionary era (whether on the part of the Contras or Sandinistas) in any serious manner, because they provide a useful issue with which to mobilize the population for their respective causes. However, President Ortega ran on a platform of reconciliation in 2006, and has made some achievements in this regard. A reconciliation commission headed by a former cardinal was created. This commission has primarily focused on solutions to the unresolved land claims by demobilized former rebels, but has made only minor progress to date. Other forms of reconciliation affecting the broader population have not yet been sufficiently addressed. However, the process of reconciliation that has taken place as a result of grassroots efforts has prospered in recent years, particularly in rural areas where the fighting of the civil war took place.

Reconciliation
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17 | International Cooperation

Nicaragua is extremely dependent upon support from abroad. International aid has since the 1980s been a vital element in the country's economy. Nicaragua is one of the developing countries with the greatest volume of international aid per capita in the world. In 2007, official development aid (ODA) accounted for almost 20% of GDP, or \$200 per capita. Given its chronic trade deficit and low levels of direct foreign investment, it is evident that Nicaragua is dependent on international aid to close its fiscal deficit. Nicaragua's dependence on international aid affects its political capability to set and maintain strategic priorities.

Effective use of support

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Efforts to attract international assistance and to reduce the external debt have been central foreign policy themes since the beginning of the 1990s. The Ortega administration has been able to diversify its donor landscape through cooperation with Venezuela and Iran, giving it more leeway in its decisions and increasing competition between donors. This has led to agreements with the large multilateral financial institutions which do little to press for institutional reforms furthering democracy and the market economy. Yet the Ortega administration's authoritarian tendencies alienated some donors even before the municipal elections in 2008. At the end of 2008, several donors – including Sweden, Switzerland and the EU Commission – decided to freeze their budget aid. Denmark, the Netherlands, Norway and Austria decided to abandon aid cooperation completely. However, aid from Venezuela is currently so abundant and readily available that the government has not calculated the possible consequences of relying on it.

Until the election crisis in 2008, the international donor community generally regarded the Ortega administration as credible and reliable, with the U.S. administration serving as the most outspoken critic. However, many more donors began voicing concerns after the events surrounding the elections, with many donors holding back or even canceling funds. Due to its strong dependence on external assistance, the government must regain the donor community's trust. As donors did not want to risk a major economic crisis by completely canceling aid flows, which would have had a very negative impact on the poor population, they channeled funds away from budgetary into project aid. FDI inflows fell from \$626 million in 2008 to \$434 million in 2009, but recovered to \$508 million in 2010, thus confirming some trust on the part of international investors. However, negative commercial risk ratings illustrate the problems and risks of Nicaragua's economic and political development.

Credibility

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The government has actively sought to develop and consolidate cooperative international relationships. Nicaragua is a member of all important international organizations. The country has actively furthered Central American integration efforts, and has taken part in the CAFTA-DR and the EU-Central America

Regional cooperation

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association agreement negotiations. Seeking closer ties with the new leftist governments in Latin America, Nicaragua has also joined the Latin American Bolivarian Alternative (ALBA). Two cases remain pending before the International Court of Justice (ICJ), with Colombia and Costa Rica. Nicaragua's most tense episode with its neighbors was the late-2010 dispute with Costa Rica over control of the banks of the San Juan River. This conflict is not new, but has intensified in recent years due to the fact that although Nicaragua holds jurisdiction over the river itself, Costa Rican police have the power to patrol it in order to control drug-trafficking and the illegal transit of immigrants.

Strategic Outlook

On the institutional level, the most troublesome problem in Nicaragua is the lack of horizontal accountability. Ortega controls the judiciary, the Supreme Court of Justice and the Supreme Electoral Court. He has also neutralized some audiovisual media (though not the print press) and has co-opted and politicized the public administration.

With regard to vertical accountability, it appears that Daniel Ortega and his administration can still be held accountable by voters. However, the municipal elections of 2008, when the FSLN gained control of practically all of Nicaragua's municipalities, represent a setback in this sense. The combination of accusations of fraud by opposing parties and the street protests led by the FSLN suggest that the electoral competition rules have changed. If this is indeed the case, we must once again ask the question: To whom are the leaders of Nicaragua responsible? The presidential and legislative elections scheduled for November 2011, when it is likely that Daniel Ortega will stand for reelection (despite strong doubts as to the constitutionality of the attempt), will be decisive. The role of the international community and domestic opposition (which may or may not offer a united front against him) will be critical.

From a policy perspective, two contrasting threads have affected social development. On the one hand, focused social policies to reduce poverty, measures to offer free healthcare and education, and the distribution of provisions and goods via the CPCs have addressed and even reduced the levels of homelessness and poverty in the country. On the other, the concentration of foreign investment and trade on one preferred country (Venezuela), channeled through ALBANISA, has further limited the opportunity of large segments of the population to participate successfully in the economy, and has increased the number of people resorting to migration as a strategy of survival.

Finally, on the international level, although Ortega has been able to create a diversified and wide-ranging strategy of foreign relations (keeping Nicaragua in the CAFTA-DR, acknowledging Taiwan and maintaining talks with the European Union and the United States), the government has increased tensions with Costa Rica and linked the country's economic survival to Venezuela's capacity to offer it assistance. The dependence on oil and electricity is troublesome, as it increases vulnerability to the price of crude oil and the stability of Venezuelan President Hugo Chávez.