

BTI 2016 | Nicaragua Country Report

Status Index	1-10	5.53	# 68 of 129	
Political Transformation	1-10	5.60	# 66 of 129	➔
Economic Transformation	1-10	5.46	# 68 of 129	➔
Management Index	1-10	4.92	# 66 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	6.0	HDI	0.614	GDP p.c., PPP \$	4918.3
Pop. growth ¹	% p.a.	1.1	HDI rank of 187	132	Gini Index	45.7
Life expectancy	years	74.8	UN Education Index	0.484	Poverty ³	% 25.2
Urban population	%	58.5	Gender inequality ²	0.458	Aid per capita \$	83.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

During the period under review, the Ortega government has maintained notable continuity at both the economic and political level. Ortega's third administration (2011 – 2016) is characterized by both the continuity of neoliberal macroeconomic policy and the expansion of social programs aiming to reduce poverty. It is also characterized by the ongoing politicization of public administration, the justice system and the Supreme Electoral Court and the discretionary use of public resources for the benefit of the governing party. The reduction of Venezuelan aid following Hugo Chavez's death and the decline of oil prices has motivated the government to find new allies such as the Chinese enterprise Hong Kong Nicaragua Canal Development Group (HKND) and the Russian government. A major milestone was the launching of the Gran Canal project, an inter-oceanic canal running through Cocibolca Lake. In June 2013, the National Congress voted for a 50-year concession (once renewable) for the HKND to build the Nicaraguan Interoceanic Canal, intended as an alternative to the Panama Canal. The construction of the canal began in December 2014.

At the political level, the country continues to be dominated by the Sandinista National Liberation Front (FSLN or Sandinistas). The 2011 presidential and legislative elections as well as the 2012 municipal elections gave the Sandinista party control of the country at all political levels. The opposition in Nicaragua has been weakening since 2008 and is largely fragmented between different liberal parties. Consequently, the Sandinista party has become a hegemonic actor, closely controlled by Daniel Ortega and his wife. In this sense, the third Ortega administration has come close to establishing an "electoral authoritarianism" (or a hybrid regime) with very few counterweights in the political sphere. In February 2014, constitutional reforms went into effect, substantially altering the rules of the democratic game. The reforms removed presidential term limits (allowing Ortega to run for the 2016 and further presidential elections), introduced the plurality rule for presidential elections (by eliminating the minimum of votes required for becoming president in the first round), enabled the president to issue decrees with force of law,

and allowed the appointment of active military officers and police officials to public office. In addition, the new Article 102 authorized the state to conclude a contract or grant a concession for the construction of a canal. Combined with the elimination of the state's explicit obligation to preserve the environment from Article 6 of the constitution, this implies that potential environmental damage caused by the construction of the canal does not necessarily indicate a constitutional violation.

In terms of the economy, there has been much continuity in terms of macroeconomic policies. The country's trade partners are supposed to change considerably with the launching of the Gran Canal, but there is no current information about who the investors will be. The other major change is the drastic diminution of Venezuela's investments in Nicaragua. 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 American Free Trade Agreement, or CAFTA-DR), 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 with Iran, Libya and Russia.

History and Characteristics of Transformation

The 1979 "Sandinista revolution" ended the era of authoritarian rule of the Somoza clan beginning in the 1930s. 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. Although most Nicaraguans were in favor of the revolution, the emerging dominance of the Sandinistas provoked dissent. The U.S. administration under President Reagan suspended all aid to Nicaragua and instead funded the counterrevolutionary Contras. 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. 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 transfer of power through free elections was achieved, and a civil government that had not earned its merits in armed conflict assumed office. As candidate of the opposition coalition Unión Nacional Opositora (UNO), Violeta Barrios de Chamorro won the 1990 election. Civilian presidents governed since, legitimized by means of competitive elections in 1990, 1996, 2001 and 2006. 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 adjustments based on a strict market-economy 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 have remained faithful to this development model, and in collaboration with international lenders, continued to pursue transformation toward a market economy.

The 1996 elections gave victory to Arnaldo Alemán, who governed from 1997 until 2002 as leader of the Liberal Constitutional Party (PLC) with a broad 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. Although ultimately convicted of embezzlement, Alemán maintained his parliamentary power base and struck additional power-sharing agreements with Sandinista party leader Ortega – with the most famous agreement being “El Pacto” in 2000. As a result of this pact, the institutions in charge of oversight and accountability have fallen under the sway of both PLC and FSLN. As a result, the judiciary and the Supreme Electoral Court (CSE) acquired an evident two-party bias, excluding other political formations. The pact had also strong consequences on the electoral process: it modified the electoral system allowing the first party obtaining more than 35% and with a 5% difference with the second party to win the election in the first round. This reform of the electoral process helped the FSLN to return to power in 2006. However, since the FSLN won all elections and dominates all public administration, the two-party logic of control created by the pact turned into a hegemonic order in favor of the FSLN.

The second and third Ortega administrations (2007 – 2011, 2011 – 2016) continued with the market-economic and export-oriented development model, but also implemented new social programs that were financed with resources from the Venezuelan government and targeted the fight against poverty. Ortega's governments, as well as showing a greater concern for historically abandoned sectors of the population, carried out a voracious strategy of co-opting and politicizing the state, which allowed him to influence the design of institutions and thus favor FSLN electoral victories.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state of Nicaragua maintains control practically throughout the country. The armed forces, police and public administration are present throughout the territory, albeit with different degrees of intensity. However, areas with an increasing presence of drug trafficking, Maras and mafias groups have been progressively out of control.

Monopoly on the
use of force

7

The development of different kinds of illegal groups has manifested itself as a result of drug trafficking, the smuggling of immigrants and money laundering. From 2007 onward, this phenomenon has been driven by the spillover effect of the “war on drugs” in Mexico (although to a lesser extent than with its neighbors, Honduras and Guatemala). In May 2014, the Nicaraguan and Honduran armies dismantled a logistics support base along their common borders, including three clandestine airstrips operating international drug trafficking.

However, it is mostly on the Caribbean side, where the state’s presence is traditionally weaker and the provision of services to citizens limited, that the implementation of different groups is the most challenging. International drug trafficking groups, mostly Mexican drug mafias, are primarily located on the east coast. For instance, in the Caribbean Sea, the geographically isolated Corn Islands are used as transit points.

Since 2006, different groups challenging the Sandinista government and inspired by the 1980s contra insurgency have reappeared as the “Nueva contra.” The Fuerzas Democráticas Comandante 380 (FDC 380), for instance, has organized different armed attacks on national police and Nicaraguan army, especially in Jinotega and on the Atlantic Coast. Both national police and army have rejected the existence of political armed groups, but “rearmed groups” such as the Coordinadora Guerrillera Nicaragüense (CGN) have claimed different attacks on both institutions during 2013 and 2014. The Fuerzas Armadas de Salvación Nacional (FASN-EP) is also claiming

authorship of the attack on Sandinistas activists that took place on 19 July 2014; the attack left 5 dead and about twenty wounded.

Territorial disputes in Nicaragua include a maritime dispute with Honduras in the Caribbean Sea and with Costa Rica over the Rio San Juan.

As is the case in almost all of the countries in the region, 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.

State identity
8

However, on the Atlantic coast there 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 (Mayangna, Miskito and 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).

The 1987 Law on Autonomy of the Pacific Coast created conditions for a more inclusive and multicultural definition of national identity. However, the lack of resources and weak implementation of this constitutional law has not facilitated a real consideration of Pacific specificities. Furthermore, 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. On the other hand, over the last decade, there has also been a process of "ethnogenesis" of groups reclaiming their indigenous identity in the country's geographical center and northern regions. Specifically, the cases of the Chontales (in the north) and the Subtiavas (in the west) who are reclaiming land and resources are worth pointing out.

In theory, and according to the law, Nicaragua is a lay country. Furthermore, 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 political role of the Catholic Church has been relevant.

No interference of
religious dogmas
9

From 1990s until the present day, and after the alliance between Ortega and Mgr. Ovando y Bravo, the conservative Catholic Church has gained considerable influence over social and moral issues. This is reflected in 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 ideological differences. This gesture, along with religious rhetoric and rituals that administration figures 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. This tendency has even grown stronger during Ortega’s mandates, in which traditional-religious imagery has been fomented with greater intensity (to a large extent by the first lady) and has gained increasing public visibility. In 2014, tensions between the government and the Catholic hierarchy again increased when the Conferencia Episcopal de Nicaragua (CEN) delivered a document to President Ortega demanding a “national dialogue,” as well as electoral reforms and transparency guarantees for the 2016 elections.

The structures of state administration (both civilian and military) are present throughout the country. However, the intensity of the presence of the administration varies: there is a greater presence in the urban zones of the Pacific compared to the rural zones, and it is lesser still in the Caribbean zone. 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.

Basic
administration
6

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 regions, access is more limited. In general, the quality of services is very low and, as a result, the sectors of the population that can acquire services in the open market do not rely on the state. The provision of clean water, sanitation and the access to electricity are clearly deficient in marginal urban neighborhoods and almost non-existent in rural areas.

The transport network is adequate in the Pacific region; indeed, in 2015 some improvements are planned to extend Managua’s roads. Access to regions in the country’s interior, especially the Caribbean region, is more difficult, and in the rainy season access routes to the Caribbean can be cut off entirely. The Central American Bank for Economic Integration as well as Inter-American Development Bank have approved major credits to ameliorate the Caribbean roads and connect the Atlantic better to the Pacific. Others main roads are projected along the Gran Canal path.

Judicial administration also suffers from very low quality of services. 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.

In 2007, the Ortega administration has created mechanisms to provide focused social policies via parastatal mechanisms called Citizens’ Power Councils (Consejos del

Poder Ciudadano, CPCs). These councils have a considerable presence throughout the country, although they often act according to party criteria and with little formality. The deployment of the CPCs throughout the country can also entail the creation of a parallel system of institutions, which is parastatal and run by the governing party. This situation had created numerous conflicts at the municipal level when local elected politicians must confront the positions of the Gabinete de Poder Ciudadano (GPC) members.

2 | Political Participation

Political participation during elections is high in Nicaragua (with 80.1% of voters – 4% higher than the average for the Americas), but there are obvious problems with free and fair elections in Nicaragua since 2006. There were no new elections during the period under review. However, a major concern has been that the 2014 constitutional amendments abolished presidential term limits (allowing Ortega to run for the 2016 and further presidential elections) and introduced the plurality rule for presidential elections, thus eliminating a possible run-off.

Since the early 2000s, there has been a subsequent deterioration concerning free and fair elections. Beginning with the 2000 pact, the FSLN was progressively able to co-opt a majority of the magistrates of the Supreme Electoral Court (CSE) and thus control the electoral administration, including control over the electoral register, the voting tables, the scrutiny of the votes, and even over the legal status of parties themselves. In addition, there are more and more complaints about partisan distribution of registration cards. For the last presidential elections, the CSE was accused of delegating the card distribution to the CPCs, which are known to follow the directives of the ruling party.

In sum, the FSLN has increased its control over the electoral administration, despite trying to maintain a degree of legality. As a result of this dynamic, many associations at the national and international level (such as the Carter Center) have stressed that the elections of 2008, 2011 and 2012 cannot be considered as fairly run, as was previously expected. According to the Ética y Transparencia Foundation, of the nearly 13,000 polling tables across the country, 10% are most likely to be the victim of fraud, nullified, unpublished or otherwise removed from counts to favor the ruling party and change the winner of several mayors and councils. Notwithstanding, even if Ortega did not play fair and blocked the opposition, it is also important to note that Nicaraguans wanted to elect Ortega, and opinion polls indicate again and again that they might do so in future elections.

Free and fair
elections

6

In principle, elected rulers have the effective power to govern without undue hindrance by the classical veto actors. The armed forces and national police are under the control of the civil authorities. Despite this, authorities have some limitations when exercising power due to elite agreements made outside the formal political process. Examples are the influence of the Catholic Church concerning legislation on topics such as abortion, or specific groups of businessmen on questions related to banking, international commerce or certain investments.

Effective power to govern

8

International donors and financial institutions, especially the IMF, also have a strong influence in some political fields such as fiscal policy. In addition, the Nicaraguan government is dependent on foreign financial resources to implement its social policies (Hambre cero, Techo para todos, Usura cero). While Venezuela's influence diminished due to the dramatic reduction of aid following Hugo Chavez's death and the fall of oil prices, the role of China and Russia has become more important. In principle, however, the Nicaraguan government controls the administration and, therefore, the capacity to establish priorities, design policies and implement them.

The constitution guarantees the right to political association, as well as other individual and collective rights and freedoms. Generally, there is no outright prohibition of independent political or civic groups. However, assembly rights are occasionally – and increasingly – subject to interference or government restriction. 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. Examples are the intervening in some oppositional civil associations (as was the case of the autonomous women's movement or the peasant movement against the Gran Canal) and the threatening of independent news groups. In addition, some degree of violence has been increasingly employed against oppositional forces. Even if state violence is sporadic, it began with some disputes in electoral periods (deadly clashes erupted after the announcement of the results of the 2011 election) and with recent conflicts around the inter-oceanic canal between peasants and the army. The protests against the inter-oceanic canal at the end of 2014 were accompanied by various attempts from the CPCs, the ruling party, local institutions or the army to limit the freedom of assembly.

Association / assembly rights

7

Though there are some limits on freedom of expression, as well as attempts by the Ortega government to expand its control and influence on public opinion, there is no outright prohibition of the media. The media landscape is still sufficiently pluralistic with about 100 radio stations, which are the most used news media, several daily newspapers and nine free-to-air TV stations. However, since Ortega was elected president, the majority of television channels have been bought or co-opted by the government. Besides controlling the public channel Canal 6, the Ortega family bought TV channels Canal 4 and Canal 8, and also launched the new Canal 13. Ortega's sons also directed radio stations, magazines and Internet portals, going against constitutional Article 68, which prohibits the possession of various media by

Freedom of expression

7

a unique economic group. The family control of important media gives the government a powerful tool for the dissemination of party propaganda. According to the Nicaraguan Center for Human Rights, media concentration is accompanied by occasional threats and violations of the freedom of expression. Nevertheless, radio and newspapers, such as the widely read *La Prensa* or *El Nuevo Diario*, still represent a space for the freedom of expression in Nicaragua. Access to the Internet is not restricted and has become an important source of information, along with social networking sites.

3 | Rule of Law

The separation of powers is formally recognized, but since the 2000 Ortega-Alemán Pact and its two-party logic of control, it began to erode. With Ortega's election to the presidency in 2006 and the Sandinista party's absolute majority of deputies in the National Assembly in 2011, the two-party bias turned into a hegemonic order in favor of the FSLN. Since then, the main problem with respect to checks and balances in Nicaragua results from the control wielded by the political elite over all state institutions. During the actual mandate, Ortega consolidated the domination of the executive over other powers. Consequently, the legislative and the judicial branches lack independence, and accountability mechanisms are difficult to install. Ortega used the large FSLN majority in the National Assembly to push the 2014 constitutional reforms through, concentrating even more power in the executive branch. The role of the president has been strengthened, as the constitutional amendment allows him to issue decrees with force of law. The electoral process has also been modified through the removal of presidential term limits and the introduction of a plurality rule for presidential elections.

Separation of powers
4

The judicial branch is institutionally differentiated, formally independent and constitutionally guaranteed 4% of state expenditures. However, it is subject to strong political influence and corruption, does not adequately cover the entire country and demonstrates considerable functional deficiencies. Corrupt practices can be found at all levels and there are no mechanisms of protection that ensure judicial independence. Due to the influence of the political pacts and the judiciary's subsequent subordination, the credibility of the judiciary has been seriously harmed. The electoral victories of FSLN have subsequently led to a hegemonic control of the judiciary institutions. By a 2010 decree, Ortega extended the appointment of the 16 judges of the Supreme Court of Justice (CSJ), who have to be elected by Congress. The National Assembly only in April 2014 finally realized the according election of the 16 justices, most of whom were aligned with the FSLN.

Independent judiciary
3

Concerning the question as to what extent the judiciary is independent from influences of members of government, citizens or firms, the Global Competitiveness Report (2014 – 2015) ranked Nicaragua 131st out of 144 countries – in the region only ahead of Haiti, Paraguay and Venezuela.

Corruption is a fundamental problem in Nicaragua's political culture. The political opposition complains that corruption is accompanied by impunity, which directly affects the business climate in the country. The newspapers and a considerable number of civil society organizations have also denounced the lack of transparency in the management of public resources, particularly those coming from the Venezuelan government via ALBANISA, a private company that helps manage investment funds from the Bolivarian Alliance for the Peoples of Our America (ALBA) group. These resources have been controlled by the president's close family in a discretionary way without any control from the Ministry of Finance. Furthermore, over the last few years judicial scandals related to illegal business deals (drug trafficking) that were resolved in secrecy have been revealed. According to the U.S. State Department's 2014 Country Report on Human Rights Practices, "the government did not enforce the law effectively, and officials frequently engaged in corrupt practices with impunity."

Prosecution of
office abuse
3

Civil freedoms and protection for human rights are formally in place. However, the weakness of the judiciary impedes the state's ability to respond to violations of these rights, whose exercise is further hampered by extended poverty. International human rights associations such as Amnesty International as well as the CENIDH have lamented the decline of human rights Nicaragua in recent years. Among the principal human rights abuses have been societal violence, particularly against women and lesbian, gay, bisexual, and transgender (LGBT) persons; discrimination against ethnic minorities and indigenous persons and communities; and societal discrimination against persons with disabilities or with HIV/AIDS. According to the U.S. State Department's 2014 Country Reports on Human Rights Practices, other problems include police abuse of suspects during arrest and detention; harsh and life threatening prison conditions; and arbitrary and lengthy pretrial detention. In recent years, the problem of violence against women has increased. Women also earn only 66% of what men earn for the same job. Law 603 forbids abortion on health grounds, and for this reason, dozens of Nicaraguan women are facing legal proceedings.

Civil rights
6

4 | Stability of Democratic Institutions

Since President Ortega returned to power in 2007, the stability and effectiveness of democratic institutions have increasingly diminished. This includes politicized courts and a powerful president (and a powerful first lady) who dominates his political party (FSLN), controls the legislature and directs the electoral commission and the judiciary. As a result, the rule of law is compromised and both vertical and horizontal accountability are undermined. Yet at the same time, the economy is stable, poverty is declining, and there is still some measure of political freedom. Free and competitive elections however are in doubt. The national elections of 2011 and the local elections of 2008 and 2012 have generated fears of democratic involution due to the way in

Performance of
democratic
institutions
4

which the FSLN has used (to its own benefit) the electoral administration and state resources. In addition, opposition parties are weak, fragmented and hold little credibility. The fact that the FSLN holds an absolute majority in the National Assembly and controls nearly all local administration has given rise to fears of a hegemonic and discretionary use of power.

The Nicaraguan elites' commitment to democratic institutions appears to be rather instrumental in pursuing their power strategies. Two factors are critical for the legitimacy of Nicaraguan institutions: one is the Ortega government's control over the courts and the second is its control of the Supreme Electoral Court (CSE). The first gives the administration the tools to harass and hamstring its opponents. The second is notable, as it confirms the evolution of mistrust toward the CSE. Data from the Americas Barometer (1999 – 2010) show that the percentage of people showing trust in the CSE steadily declined from 2006 to 2010 to only 40.3%. Though rising to 49.6% in 2012, trust in the CSE has to be considered as rather meager and dependent on party preferences in a context of ruling party hegemony.

Commitment to
democratic
institutions

4

5 | Political and Social Integration

From the 1984 elections until 2005, Nicaragua maintained a unique, two-party system. One party was the FSLN, and the other was whichever party led the anti-Sandinista forces. Movement away from the two-party model became clear in 2005, when splits in both major parties appeared. It was confirmed in 2006 when three parties, the PLC, the ALN and the FSLN took 27%, 28% and 38%, respectively, of the presidential vote. This three-party system did not last, however. The 2008 municipal vote was again a two-party affair, between the FSLN and the PLC, with the Sandinistas taking over 60% of the municipalities. By 2011, the PLC was reduced to an afterthought (winning 6% of the vote), while the second-place PLI managed 31%, and the FSLN garnered 62.5%. With these elections, the FSLN and its leader, Daniel Ortega, won the presidency once again, as well as a broad majority in the National Assembly, with 62 Sandinista deputies out of a total of 90. With this domination of national politics, the FSLN won another victory (with 75% of the vote) in the local elections of 2012 and now controls 127 of the 153 municipalities and all 17 departments. With such a result, a hegemonic party system has developed in Nicaragua, where the FSLN not only wins repeatedly electoral contests but also adapts and modifies electoral rules and the administration as it pleases.

Party system

5

Nicaragua has a plurality of interest groups, some of which have a long history in the country. The oldest, formally organized interest groups represent private businesses; a prime example is the Consejo Superior de la Empresa Privada (COSEP). Since 1990, COSEP has maintained contact and 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

Interest groups

6

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 trade unions is complex and in many cases based on corporative negotiations, particularly in 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 and informal, and corresponds to personal, clientelistic and corporative logics. Over the last few years, and much more intensely since 2011 (with the reelection of Daniel Ortega), many interest groups have increased a relationship of favors and subordination to government power in spite of their ideological or normative leanings, such as the powerful COSEP, which is even said to have privileged access to the president.

Despite the questionable actions and results of the government, the legitimacy of democracy seems to have increased gradually since 1990. In general, most Nicaraguans agree with the idea that democracy is the best form of government. According to a report by the Latin American Public Opinion Project (LAPOP) 2012, 73.8% of Nicaraguans openly support democracy, a figure that is lower than the Costa Rican average (75.1%) but higher than in Guatemala (61.5%), El Salvador (65.6%) and Honduras (52.6%). However, Nicaraguans' satisfaction with the way democracy works is not high.

According to Latinobarómetro 2013, the number of citizens supporting democracy was only 50%, three points lower than the average for the period between 1995 and 2013, nine points lower than 1995 and six points below the regional average of 56% – though still ranging in the mid-range. According to research, the main causes of this lack of support are not socio-demographic variables such as class, education or age, but rather the perception of the economic performance and political support, mainly for the FSLN and Ortega's government. That is to say, the majority of individuals dissatisfied with how democracy works are also opposed to the Sandinista government. In addition, according to the Americas Barometer 2012, only 13.8% of those who report voting for the FSLN perceived irregularities, compared to 30.4% of those who voted for no party, 41.4% of PLC voters and 67.2% of PLI voters. This seems consistent with Latinobarómetro 2015 data, which reveal a relatively high approval rate of the government of 60%.

Approval of
democracy
6

Self-organization among the population often faces socioeconomic barriers and is 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 a lack of funds has prevented any major successes. Levels of trust among the population are generally low. Nevertheless, the often informal self-help networks have created some degree of social cohesion and social capital, which also helps explain the country's relatively low crime rate in comparison to Nicaragua's neighbors.

Alongside party politics, unconventional forms of political participation have played a significant role in Nicaragua during the last two decades. In fact, political conflict has often taken a disruptive form. It is therefore important to understand the emergence and dynamics of popular movements. Over time, various sectors of civil society – especially feminist and civil liberties movements – have become more active and combative. Three types of mobilizations have occurred in this context. First, there have been those formed in reaction to the morally and socially conservative policies on reproductive health promoted by the FSLN. Second, street demonstrations organized to protest the erosion of freedom and rights caused by the politicization of the judicial system, electoral administration and the state in general. Third, peasants' movements have emerged with the help of ecological organizations to address the Gran Canal project. Street demonstrations and roadblocks were organized in all of the regions affected by the construction.

Finally, the Ortega administration has created a new, so-called participatory mechanism known as Citizens' Power Councils (CPCs). This type of organization generates a top-down relationship rather than bottom-up participation, since it attempts to motivate and control the participation of the faithful as well as latecomers to the cause, generating policies of patronage. The CPCs are very well implemented in the barrios (the popular neighborhoods) throughout the country, forming a strong network of local participation that is extremely active in electoral periods.

Social capital

5

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
3

Nicaragua's socioeconomic development status is low. According to the 2014 Human Development Report, the country's Human Development Index (HDI) value was 0.614 (compared to a regional average in Latin America and the Caribbean of 0.740), with Nicaragua ranking 132nd out of 187 countries, only ahead of Haiti (168) in Latin America. The country's Gender Inequality Index shows a value of 0.458, clearly worse than the Latin American average, though ahead of Honduras (0.482), Panama (0.506) and Guatemala (0.523) in the Central American region.

Social exclusion due to poverty and hardship is quantitatively and qualitatively very pronounced, and is structurally entrenched. According to official data, inequality diminished during the 2000s from a Gini Index value of about 0.58 in 2001 to 0.47 in 2011. However, the majority of the country's almost 6 million inhabitants live in poverty. According to the most recent Comisión Económica para América Latina y el Caribe (CEPAL) data available, poverty diminished from 69.4% in 2001 to 58.3% in 2009, and extreme poverty from 42.5% to 29.5%. According to a survey by the Fundación Internacional para el Desafío Económico Global, poverty rates stagnated until 2013 with about 40% living on less than \$2 per day and about 10% with less than \$1 per day. Life expectancy is relatively high (on average 74.8 years). According to The U.N. Education Index, the mean years of schooling has been 5.8, the lowest in the region (with the exception of Haiti) together with Guatemala and Honduras. The literacy rate was of 78% of the population in 2013, according to World Bank data. Per capita gross national income is just \$4,266 (as of 2013).

Economic indicators		2005	2010	2013	2014
GDP	\$ M	6321.3	8741.3	10850.7	11805.6
GDP growth	%	4.3	3.2	4.5	4.7
Inflation (CPI)	%	9.6	5.5	7.1	6.0
Unemployment	%	5.6	8.0	7.2	-

Economic indicators		2005	2010	2013	2014
Foreign direct investment	% of GDP	3.8	5.6	7.5	7.1
Export growth	%	7.7	19.9	3.5	7.5
Import growth	%	8.6	21.7	1.4	2.4
Current account balance	\$ M	-783.6	-780.3	-1199.9	-838.1
Public debt	% of GDP	71.4	30.9	29.8	29.5
External debt	\$ M	5000.1	6957.3	9601.3	-
Total debt service	\$ M	173.9	584.6	635.1	-
Cash surplus or deficit	% of GDP	-1.4	-0.7	-	-
Tax revenue	% of GDP	12.9	13.7	-	-
Government consumption	% of GDP	9.4	7.8	7.0	6.7
Public expnd. on education	% of GDP	-	4.4	-	-
Public expnd. on health	% of GDP	3.5	4.2	4.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.5	0.5	0.8	0.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The market in Nicaragua operates under a weak institutional framework with weak judicial independence, high levels of corruption and an inefficient regulatory framework. Since the 1990s, all governments have pursued a strict market- 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, and presidential decrees have the ability to change rules suddenly. The World Bank's 2015 Doing Business Report ranks Nicaragua 119 out of 185 countries; the country scores poorest in the areas of paying taxes (164), dealing with construction permits (134) and starting a business (120). The 2014 to 2015 Global Competitiveness Report ranks Nicaragua 99 out of 144 countries, scoring poorly concerning taxation (133), the burden of customs procedures (130), the extent of market dominance (115) and judicial independence (131).

Market-based
competition

5

There is an increasing presence of a group of businessmen who are explicitly linked to the Sandinista government. It has progressively become consolidated via the proximity with the president and due to the access to resources coming from Venezuela, which are managed via ALBANISA, a huge financial conglomerate. This situation has resulted in discrimination based on size. Large firms have not had problems with the government and its policies, since they maintain fluid communication. Medium-sized and small businesses, which do not have the capacity for direct communication with the government, suffer from greater juridical uncertainty when their interests clash with those of larger firms or those of the administration itself.

According to the Central Bank, the informal sector accounts for almost two-thirds of jobs in Nicaragua. Profits can be used and transferred freely. Aside from utilities such as energy and water, the state controls the prices of only a few products. There is no limitation on currency convertibility. Foreign and domestic investments are treated equally. However, a handful of sectors such as the tourism and “maquila” industries have been offered tax exemptions on profits, building materials and property. Finally, private investments in the Interoceanic Canal have obtained a special law, Law 840, giving a special status to foreign investments and modifying property laws to facilitate land expropriations.

In September 2006, parliament approved with bipartisan support a competition-promotion and anti-monopoly law that had been discussed since the 1990s. The law came into effect in 2007, and was again modified in 2008. The law prohibits anti-competitive practices, and created a national institute for the promotion of competition (Pro Competencia), which is tasked with enforcing the law. 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.

Anti-monopoly
policy
5

However, anti-monopoly practices exist on paper but not always in practice. 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 CEPAL and at the national level have found that Nicaragua has a very concentrated market in a number of sectors, but particularly in banking, telecommunications, electricity, flour production, medicines, agricultural production and compressed air. It also has a high level of economic concentration in markets such as rice, sugar and cement. These economic structures facilitate the development of parallel conduct among economic agents and encourage the abuse of the purchase and sale power of multinational firms. The 2014 to 2015 Global Competitiveness Report ranks Nicaragua 119th out of 144 countries concerning the extent of market dominance by a few business groups, and 130th concerning the intensity of local competition.

Since its creation, Pro-Competencia did not really have the capacity (the institute has a small budget and has not produced a new report since 2011) or willingness to regulate in an effective and independent manner, since the political appointment of its members. Undoubtedly, the issue of corruption is not only related to the necessity of paying quotas to the authorities to carry out commercial activities, but also the possibility that lawmakers create biased laws in favor of certain economic groups, or that the executive foments patrimonial economic projects that entail the economic control of strategic sectors by the president's close allies or friends. The 2014 to 2015 Global Competitiveness Report ranks Nicaragua 108th out of 144 countries concerning the effectiveness of anti-monopoly policy, with a score of 3.6 – somewhat in the middle between top-scorer Finland (5.6) and lowest-scoring Angola (2.0).

Foreign trade has been liberalized since 1990. Trade openness as measured by the ratio of imports and exports to GDP is rather high. The sum of exports and imports of goods and services as a share of GDP has been at around 100% since 2010. Nicaragua has abolished all non-tariff barriers inconsistent with WTO provisions, and does not have import prohibitions on commercial grounds. Export growth in 2014 was driven by demand from key partners and improving export prices. According to CEPAL, the export of goods and services reached \$5.5 billion in 2014, while imports amounted to \$7.46 billion.

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 Plan Puebla Panama launched in 2001 (re-launched as Proyecto Mesoamerica in 2008) and the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR), which came into effect in April 2006. Nicaragua is also member of the EU-Central America Association Agreement, signed on 29 June 2012.

Since 2007, Nicaragua's commercial policy has been oriented towards 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 ALBA, making Nicaragua the third-largest importer to Venezuela (after the United States and El Salvador) and Venezuela the most significant investor in Nicaragua. However, Venezuela's role diminished during the period under review, due to the fall of oil prices among other factors.

Liberalization of
foreign trade

9

Nicaragua's banking sector is underdeveloped; it is one of Latin America's smallest, accounting for about 5% of GDP. 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 worrying. The 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. Nicaragua has ratified its commitment to the 1997 WTO Financial Services Agreement.

Banking system
6

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 as it has 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. Nicaragua's stock exchange, Bolsanic, is host mainly to the trading of government-issued bonds. In 2014, ALBA Nicaragua entered into the national banking business, as the Superintendence of Banks and Other Financial Institutions of Nicaragua (SIBOIF) authorized Banco Corporativo to carry out financial intermediation activities in the country. La Prensa reported that there was no information about the identity of the shareholders of the new entity. The only information indicated that Bancorp would manage the resources of the Venezuelan cooperation, which is currently in the hands of commercial banks. News developments in banking services are expected with the Gran Canal.

According to the World Bank's 2011 Report on the Observance of Standards and Codes, current accounting and auditing rules for the entities regulated by SIBOIF have been adequate for supervisory purposes, though improvements were demanded in the mid-term.

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. Since then, the exchange system and inflation have been more stable; in 2014, this stability was caused in part by lower oil prices.

Anti-inflation /
forex policy
8

The accumulated inflation rate, according to data from Nicaragua's central bank, has stabilized around 7% since 2012 (7.4% in 2013, 7.2% in 2012). A bit over half of the

inflation rate was due to the increase in prices of food, transport, hotels and restaurants. Yet the credibility of statistical data offered by the government is questioned, given that the figures have been queried and debated since 2007.

The Nicaraguan currency (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.

Pushed by international lenders and their own commitments, Nicaraguan governments have pursued a policy of macroeconomic stability since the 1990s. The government's fiscal and debt policies generally promote macroeconomic stability, but lack institutional safeguards and are prone to populist policy changes. According to a 2014 IMF report, in recent years Nicaragua's economy grew at a relatively high rate while macroeconomic stability was strengthened. Though the deficit of the current account balance remains high, it dropped from \$1,347 million in 2012 and \$1,280 million in 2013 to \$837 million in 2014. Despite a slowdown in tax revenue, the deficit of the consolidated public sector (1.4% of GDP after grants) was in line with the budget and public debt has continued to decline (from 90.1% in 2004, to 33.7% in 2010 and 30.9% in 2013). In recent years, debt relief programs through the Heavily Indebted Poor Countries (HIPC) initiative, the Multilateral Debt Relief Initiative (MDRI) and bilateral schemes have considerably reduced Nicaragua's public debt.

However, the government's budget excludes expenses financed by Venezuela, a large amount of resources without any fiscal control, while the effect of falling oil prices on Nicaragua's debt with Venezuela is unknown due to a lack of transparency.

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. Expropriations and redistribution of properties, residences and companies during the 1980s were mostly carried out without due legal process or documentation that would insure the new owners' legal claim, leading to severe conflicts with former owners who have since tried to reclaim their properties. Problems with property today are concentrated in four 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 by national and international firms (the southern Pacific coast region); indigenous territories on the northern Atlantic

Macrostability

7

Property rights

5

coast and the north; and peasants' and indigenous lands on the Interoceanic Canal road on both sides of the country.

In 2012, Law 800 established the Authority of the Gran Canal. In 2013, Law 840 – written in English in the Official Journal of the Nicaraguan Republic – permitted a state commission to expropriate land. HKND, the Chinese concessionaire of the Interoceanic Canal, will prevail in any case on these expropriations. As Law 840 gives all use rights of the land, air, water, maritime spaces and natural resources to the project benefice, it enters in conflict with previous laws on private property and has provoked many mobilizations on issues of property rights.

Though governed by a “leftist-populist” president, private companies remain the backbone of the economy and the appropriate legal framework has been established. However, structural, bureaucratic and legal hurdles hamper private activity, resulting in a mediocre overall ranking of 119 among 189 countries in the World Bank’s 2015 Doing Business report. This is comparable to Nicaragua’s rank of 99 out of 144 countries in the Global Competitiveness Report from 2014 to 2015, the most problematic factors for doing business being inefficient government bureaucracy, an inadequately educated workforce, inadequate supply of infrastructure and corruption.

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.

10 | Welfare Regime

Basic social safety nets exist, but are plagued with severe structural deficits. Due to the large size of the informal sector and high rate of underemployment, large parts of the population are excluded from the social security system and have to rely on special social programs or family support.

The Nicaraguan Institute of Social Security (INSS) is said to cover about 675,000 workers, providing for pension insurance in a pay-as-you-go scheme, basic health as well as illness insurances. Consequently, about 70% of workers have no social security coverage at all. Furthermore, the INSS has increasingly become underfunded, urging the government to initiate reforms, which were finally released by decree in December 2013. The reforms raised the fees of workers and employees, and will lead to a 5% cut of future pensions.

Private enterprise

7

Social safety nets

5

Since 1990, Nicaragua has witnessed positive changes in both levels of social spending and a timid but more inclusive design in its policy architecture. During the Sandinista government, public expenditure on health was growing from 3.5% in 2006 to 4.5% of GDP in 2012. The Ortega administration also expanded social programs, including free health services and education. The FSLN currently has three signature social policies: Zero Hunger (Hambre Cero), Zero Unemployment (Desempleo Cero) and Zero Usury (Usura Cero). They form part of a poverty-reduction strategy that has had some success. However, these social policies are also considered to be clientelistic in favor of Sandinista votes.

Finally, the tax system in Nicaragua – particularly crucial to lifting people out of poverty – tends to be regressive, often penalizing the poor. According to Oxfam's 2014 Report on World Inequality, the poorest 20% of Nicaraguans pay 31% of their income in tax, while the richest 20% contribute less than 13%.

Income inequality is generally high in Central America when compared to the rest of the world. In 1990, Nicaragua had the highest levels of inequality in the region. Income inequality in Nicaragua is highest because education is badly distributed, and because rural-urban wage gaps are higher than in the rest of Central America. The Sandinista governments had a major commitment to providing education, health, and public infrastructure (building health centers or schools) to even the most remote rural areas, but these necessities are still scarce.

During the first decade of the 21st century, inequality in Nicaragua decreased. One important source of the fall in income inequality in Nicaragua can be identified: declining returns (or wage premia) to education in those countries. Falling returns to education in Nicaragua were not due to a more rapid educational expansion, but rather to a decline in the relative demand for more-educated workers, which led to a fall in the real earnings of workers with secondary and higher education in those countries.

As a result of this limited access to education, 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 to create equal opportunities.

Equal opportunity
5

11 | Economic Performance

Being the second-poorest country in the hemisphere, Nicaragua's social and economic policies must fight poverty and promote growth simultaneously, while the economy is weak and vulnerable to external shocks at the same time. The economy is extremely vulnerable given its large current-account deficit, dependency on a small number of export products, and exposition to natural disasters such as hurricanes, earthquakes, volcanic activity and more recently drought.

Notwithstanding, according to the IMF Nicaragua continued with relatively high growth rates in a context of macroeconomic stability. In 2014, GDP grew by 4.5% while inflation was 6.5%. The budget deficit was 1.9% of GDP. Gross international reserves of the central bank increased by \$273 million in 2014, expanding reserves coverage to 4.9 months of imports.

In the middle of 2014, the government had to recognize the economic slowdown that was observed in the first quarter of the year. The slowdown was the result of the effects of drought in the early months of 2014, the decrease of Venezuelan aid, falling prices of major export products and the slow recovery of the global economy. According to the Central Bank, food prices rose nearly 20% between January and July 2014.

On the other hand, remittances amounted to about \$1.1 billion in 2014, 5.3% more than in 2013, mainly due to the increase in remittances from Panama, Spain and the United States. The current account deficit has decreased slightly since 2012, reaching \$1.28 billion in 2013, but still remains high. In 2013, the public debt was 30.9% of GDP. According to the central bank, the unemployment rate decreased to 5.9% in 2013 from 7.4% in 2012, but underemployment is much higher.

12 | Sustainability

Environmental concerns receive only sporadic consideration and are subordinate to the push for economic growth. The country's main ecological problems are the degradation and erosion of land, pesticide use, deforestation, water access, maritime protection, and uncontrolled logging. 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 adjustments. The country has an institutional and legal framework capable of addressing some of the environmental matters mentioned above, 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 law enforcement and to an effective approach to environmental challenges.

Output strength
6

Environmental
policy
4

Due to its geological characteristics and geographic location, Nicaragua has been exposed to a wide range of natural disasters, including earthquakes, hurricanes, floods, landslides and droughts (as in the first half of 2014), all of which have serious economic and social impacts. In addition, in 2012 only 68% of the population had access to an improved water source and 52.1% of the population to sanitation facilities. This environmental situation may become even worse if the impact of the Interoceanic Canal is as negative as most environmental scientists maintain. Lake Nicaragua, also called Cocibolca Lake, is considered to be the main drinking water reservoir of the country and could be dramatically affected by the dragging for canal construction. National environmentalist organizations, coordinated into the Cocibolca Group, have addressed the environmental threats and oppose the Interoceanic Canal project. However, the government's rather obscure proceeding concerning decision-making, concessions and environmental impact studies seems to prove again the subordination of environmental concerns. The same holds for the elimination of the state's explicit obligation to preserve the environment from Article 6 of the constitution in 2014, despite the government's otherwise pronounced environmental rhetoric.

Though education is a constitutional right, human capital levels remain very low in practice. According to the World Bank, the adult literacy rate was 78% of the population in 2013, equally distributed between women and men. According to the U.N. Education Index, the mean years of schooling has been 5.8 (versus 10.5 years of expected schooling), the lowest in the region (with the exception of Haiti) together with Guatemala and Honduras. According to CENIDH, access to education is still limited: in 2013, about 25% or half a million children and teenagers have not been attending school. At the secondary level, participation rate is only about 50%. The most underdeveloped are secondary and pre-school education. State and private educational institutions exist at all levels, but state education is known to have low quality. There is hardly any expenditure on research and development.

Data on Nicaraguan education expenditures are somewhat contradictory, but they seem to be between 3% and 5% of GDP. According to World Bank staff estimates, expenditures rose steadily between 1994 and 2010, remaining at 4.2% of GDP since. According to statistics for Central America provided by the Costa Rica-based Programa Estado Nación and relying on data from Nicaragua's central bank (BCN), public expenditure was at 5.4% of GDP in 2010 and 5.0% in 2011, while per capita expenditure was by far the lowest in the region with only \$69 in 2013. According to the Ministerio de Hacienda y Crédito Público (MHCP) in the mid-term budget framework from 2013 to 2016, the budget for the Ministry of Education (MINED) will grow 0.1% annually to reach only 3.1% of GDP in 2016. The BCN's Nicaragua in figures 2014 reports government spending on education as 2.6% of GDP in 2013 and 2.8% in 2014.

Education policy /
R&D
5

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 improvements made in the main road network in the Pacific region. Public transport by road is very poor, and the rail network leading to the interior and the Atlantic coast does not function during the rainy season. Despite Nicaragua's great ecological wealth (with biosphere reserves and the Caribbean coast), there is significant danger that environmental damage will soon exceed political management capacities. In addition, natural disasters are common, the last to date being a considerable drought in 2014. 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 government performance, organized violence has not penetrated Nicaragua to the level seen in neighboring countries to the north. 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. Mobilization continued though the 1990s, but the political logic changed, with demands taking on a more socially oriented character. During the government of Violeta Barrios de Chamorro (1990 – 1996), mobilizations were very intense both in rural and urban areas due to 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-oriented.

Civil society
traditions

5

Through the end of the 1990s and the start of the 2000s, mobilization levels have declined, but without disappearing altogether. Three sectors retain significant mobilizing capacity: trade union sectors linked mainly to the FSLN; civil society sectors concerned about specific issues, including the feminist movement and the citizen movements against corruption; and the politicized pro- and anti-Sandinista movements that protest against measures taken by the various governments. Social movements continued to be active in the period of review, including when the concession on the Gran Canal was voted by the National Assembly in 2013 and around lands reclaims, which reached a new peak of mobilization since September 2014.

Since Daniel Ortega came to power in 2007, the government has made efforts to organize society (above all popular sectors) via party networks (Citizens' Power Councils, CPCs), which are used to hand out resources, implement social policies, establish slogans and maintain a degree of social control.

Nicaragua is mainly Catholic, despite the increasing presence of Evangelical churches, but there is no tension or conflict over religion as such. 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 respectfully manage ethnic differences, the Autonomous Region of the North Atlantic (RAAN) and the Autonomous Region of the South Atlantic (RAAS) were created by the Autonomous Law of 1987, each as regional governments with a multicultural vocation. Since the war of the 1980s, ethnicity has not been a substantial cause for conflict. However, 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 may well generate other new tensions.

During the review period, social and political relations in Nicaragua have remained tense. Society is politically polarized between pro- and anti-Sandinistas. Together with profound social inequality, this means that large groups can be mobilized politically to pressure or intimidate some sectors of society. Since 2006, it has been the FSLN, on many occasions with the support of institutional mechanisms that has mobilized its supporters to neutralize or intimidate opponents. Such was the case with the local elections of 2008 and 2012, and the national elections of 2011, which were all accompanied by violent clashes between supporters and opponents of President Ortega. In addition, politically driven armed groups in different areas of the country are still present.

Social-environmental conflicts have also been on the rise, such as the protests in 2014 against the Pavón open-pit gold mining project by the Canadian company B2Gold, which enjoys clear support by the Ortega government. The most important new conflict has been sparked by the Interoceanic Canal megaproject by the HKND Group, which threatens landowners along the route with expropriation (about 30,000

Conflict intensity

4

peasants and indigenous will be re-allocated). By the end of November 2014, more than 20,000 people across diverse social and political groups held more than 15 demonstrations in the municipalities affected. A national demonstration in December 2014 in Managua followed and marches of the Anti-Canal protesters continued in 2015.

II. Management Performance

14 | Steering Capability

The government claims to be setting strategic priorities, but regularly substitutes short-term interests associated with political bargaining and office seeking. 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 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. In the national sphere, Ortega's main goals were to enhance anti-poverty measures and strengthen his administration's power. 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, which is extremely divided, also failed to maintain a long-term vision of democratic and market-oriented reforms.

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. Since 2007, during Ortega mandates, 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 somewhat limited due to a reduced budget and clientelistic practices. More broadly, Ortega's government has continued the macroeconomic policy developed in the 1990s, but has emphasized pro-poor policies more so than previous governments. With the construction of the Gran Canal, the government is expecting huge changes to the country's role in the international economy, but also at the national level: new jobs, infrastructure and tourism development.

Question
Score

Prioritization
6

The Nicaraguan state exhibits notable shortcomings in implementing government policy. A 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 limited capacity to change the political reality. President Ortega perpetuated the pattern when taking office in 2007, when he began expelling civil servants in a variety of ministries and filling their positions with politically loyal individuals. The first lady, who is in charge of the communication of the government, has played a growing role in distributing high-ranking jobs in public service, doing and undoing ministries and diplomatic careers according to their proximity to the FSLN's official political positions.

Implementation
7

The government's ambiguous implementation capacity is reflected in the CPCs and the ALBANISA company. The CPCs form a pyramid structure 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 parastatal, party (Sandinista) instruments that distribute rewards to sympathizers and serve to consolidate loyalties. The CPCs have been playing an increasing role during the electoral processes. ALBANISA, on the other hand, is of mixed public and private ownership and manages financial aid from Venezuela with complete discretion. These two instruments offer Ortega's government the capacity to implement certain policies swiftly, avoiding 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, clientelistic, “zero-sum” and patrimonial way of understanding politics. Policies have increasingly been rigidly enforced and the routines of policy-making do not enable innovative approaches. In this sense, leaders such as Daniel Ortega have avoided offering explanations for their actions for as long as possible.

Policy learning
4

During Ortega's second and third term, the president's power has focused on controlling the legislature, the courts, the electoral authority, the controller general's office (the nation's auditor) and even modifying the constitution to increase the executive power. Moreover, the president and his wife together dominate the FSLN, with the party headquarters housed in their family home. Policy learning thus happens coincidentally if at all, as there are no institutionalized mechanisms that

facilitate innovation and flexibility in policy-making. Instead, the most important and successful politicians have deinstitutionalized their own parties as well as state institutions.

In addition, important international aid that was present in Nicaragua since the 1990s also decreased (even if major donors such as the European Union and United States are still present). International consultancy has been declining in recent years after the ruling party alienated donors' support.

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. During the last two mandates of the FSLN, the party bias was generalized to all levels of the administration. The second reason is structural, and relates to the minimal presence of the state in some areas of the country, mostly in the Pacific region, 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 the first lady. This centralization means that 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. For instance, the Ministry of Tourism is totally under the control of the minister, who is receiving direct instructions from the presidency. Employees have little possibility to take initiative and lack transparent information. As of late 2014, there has been no information about how tourism will be included in the Gran Canal project. According to the 2015 update of the Worldwide Governance Indicators, Nicaragua had a low performance in government effectiveness; the country ranked 169th out of 209 countries, and 129th in regulatory quality.

No attempt to reform public administration has been made in the recent years. On the contrary, the centralized and highly politicized control of the government has also meant that some specific policies that are of “strategic interest” for the president or the party (such as some focalized social policies, financed by Venezuelan aid) are implemented and monitored with great secrecy. In recent years, the level of public debt has been stabilized, but this does not include a portion of the external debt with Venezuela, which is not included in the state budget.

Efficient use of
assets

4

Policies designed by the government are coordinated by the presidency and the secretary of the presidency and First Lady Rosario Murillo. From 2007 onwards, there has been an attempt to centralize political power and decision-making largely with two goals in mind: to concentrate political power in President Ortega's hands and to create more effective and consistent policies, particularly with regard to social policies implemented through the Citizens' Power Councils (CPCs). The price of centralization, however, has been inflexibility, a lack of autonomy and debate, and even, on occasion, paralysis.

Policy
coordination
7

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. On the other, it has distorted prices of basic goods as a result of its focused poverty-reduction policies, while enabling new import and trading monopolies to develop as a result of preferential agreements established with Venezuela. The relative effectiveness of targeted social policies to combat poverty is undermined by clientelism. To name one example, the apparent contradiction between the Gran Canal construction and the state's environmental responsibility, which was leveled by simply reforming Article 60 of the constitution in 2014.

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.

Anti-corruption
policy
4

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 residing in Nicaragua who offer, 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. According to the *Ética y Transparencia* Foundation, the judicial framework does not contribute to anti-corruption policies and to an effective prosecution of corruption. 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 for citizens and media. As some media have addressed the corruption problem, the government has increased limitations on the freedom of speech and media, obliging different radio and television stations to close due to economic pressure (usually a decrease in governmental advertisement).

16 | Consensus-Building

All important political actors publicly agree on the goals of developing democracy. However, this consensus does not translate into an agreement on the impartial institutionalization of democratic principles so as to create a level playing field. Although all parties declare themselves to be pro-democracy, they have all tried (when in power) to change the rules and institutions in their favor. Since 2006, the FSLN has seized all of the state's institutions and, consequently, has had the capacity to modify rules and use institutions as and when it pleases. In practice, Nicaraguan democracy approaches an electoral autocracy without any horizontal accountability mechanisms.

Consensus on goals

6

In the case of the economy, both opposition groups (PLI and PLC) and the government openly affirm that they are in favor of a market-based economy. However, those that have held power since 1990 have not hesitated in using privileged information, legal instruments and networks of favors to benefit themselves, either directly or via friends. Currently, the Ortega administration combines a market-based economy with sectors under a monopoly, related to the Venezuelan government (and ALBA member countries) to favor a political elite that is politically like-minded and therefore uninterested in the laws of competition and the free market. This new situation, together with Ortega's capacity to make pacts with the country's traditional large economic groups, has brought about a consensus among incumbents, the wealthy and new economic elites born out of the commercial agreements within the ALBA group, to the detriment of workers and businessmen who are politically opposed to the FSLN.

While democratically elected, the Ortega government has increasingly become an anti-democratic actor itself "à la Chávez." With the 2000 pact, Ortega and Alemán aimed to create a political dynamic in the hands of a duopoly under the control of two strongmen, signaling the erosion of mechanisms of horizontal and vertical accountability. Since 2006, the FSLN has managed to control the electoral administration and judicial powers. As the role of the ruling party is now central in all public administrations and also very well established in all sectors of Nicaraguan population (with the help of very active CPCs), the FSLN has become a hegemonic party. The 2014 constitutional reforms have been a further step in this direction.

Anti-democratic actors

5

The Ortega government presents a somewhat contradictory picture concerning cleavage and conflict management – on the one hand, it prevents cleavage-based conflicts (social and ethnic) from escalating, but on the other hand, it does not hesitate to exacerbate them occasionally in order to strengthen its power. While the Sandinista movement still polarizes society, thus adding a certain “political” cleavage, violence that was no longer a way of engaging in politics in Nicaragua during the 2000s is coming back as a confrontation instrument between Sandinistas and non-Sandinistas. The “recontras” have been organizing different attacks in the country, mostly in the north and in the Pacific region, escalating in the years 2013 and 2014. Even if the Sandinista government is not addressing the problem as a political cleavage, accusing the “recontras” of being “delinquents,” the fact is that the political cleavages from the war period are partially reappearing in Nicaraguan society.

Cleavage /
conflict
management
5

The Gran Canal is another major symbol of increasing cleavages in society. On the one hand, the opponents of the HKND project are accusing Ortega of selling the country to a Chinese entrepreneur; on the other hand, the government is answering with repression and a political silence to the protesters’ demands. Since September 2014, massive protests of peasants against HKND land expropriations have resulted in a return of violent mobilizations and civil disobedience. Roadblocks and violent clashes between the army and protesters characterized the last three months of 2014.

The Ortega government has decreased opportunities for civil society participation during its two terms. 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 hierarchical 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. Women’s groups and indigenous organizations, as well as human rights NGOs, universities, intellectuals and the press are expressions of a noticeably active society. Another issue to take into account is the fact that many international NGOs that once operated in Nicaragua have left the country, leaving those civil society actors critical of the government with a diminished capacity to obtain resources.

Civil society
participation
4

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 in 2011, 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 unresolved land claims by demobilized former rebels, but has made only minor progress at the time of writing. 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 fighting during the civil war took place. Furthermore, the war during the 1980s is now securely in the past. Nicaraguan society, which is mainly young, has little memory of this armed conflict. For that reason, the issue of reconciliation is not in the current political agenda. Furthermore, the majority of the elites that were protagonists in the conflict – if they are still in power – have set aside their conflicts to establish pacts of mutual benefit.

Reconciliation
5

17 | International Cooperation

The Ortega government is rather virtuoso in attracting international support from any side, but it is doubtful if it has a long-term development strategy or even a clear roadmap apart from strengthening its position of power. Nicaragua is extremely dependent upon support from abroad. Though some important donors withdrew support after the flawed 2008 elections, important players such as the United States and European Union did not. International aid has since the 1980s been a vital element in the country's economy, but official development assistance (ODA) fell by half from 2002 to 2011, from \$144.9 million to \$71.9 million. In 2012, all institutions of international cooperation and aid changed their position (or at least their tone). The IMF and the U.S. government have put more pressure on Nicaragua. The German government has cancelled parts of development initiatives in Nicaragua, for instance its "good governance" program in 2013, as the Ortega government did not use the support effectively.

Effective use of
support
6

While capable of maintaining some part of the "traditional" cooperation, the government was able to expand new forms of international cooperation. Between 2006 and 2013, the Ortega administration relied on abundant and readily available aid from Venezuela. However, in 2014 Venezuela's economic and political crisis became a source of worry for the Ortega government as Venezuela started to cut its expenses, thus directly affecting its cooperation with Nicaragua.

However, the Ortega government has found new foreign investments from the Chinese HKND Group. If the Gran Canal is effectively built (construction began in

December 2014), this cooperation could represent a \$50 billion investment. It is supposed to stimulate employment, foreign investments, foreign exchange, infrastructure, tourism, etc. Due to its scale alone, the Gran Canal project represents a long-term strategy of economic and social development with the support of a Chinese partner. However, doubts are abundant if it is sustainable.

The Ortega administration has been perceived as an ambivalent partner. In the economic sphere, on the one hand, the Ortega administration is regarded as credible and reliable. The fact that the government maintains fiscal discipline as demanded by the World Bank and the International Monetary Fund means that investors have not stopped considering the country to be a credible partner, despite not being particularly appealing. In the political sphere, however, as of the local elections of 2008, the international community perceives the Nicaraguan political regime to be a hybrid regime rather than a state that honors the democratic rule of law. The presidential elections of 2011 and the local elections of 2012 have shown how the FSLN has controlled most institutional resources and that the opposition has been unable to offer a credible alternative. The new constitution of 2014 has accentuated the limited credibility of the regime. In addition, the government's somewhat opaque collaboration with China and Russia has added new doubts about Nicaragua's credibility.

Credibility
5

The government has actively sought to develop and consolidate a cooperative regional relationship, but conflicts and irritations remain. The country has actively furthered Central American integration efforts, and has taken part in the CAFTA-DR and the EU-Central America association agreement negotiations. Seeking closer ties with leftist governments in Latin America, Nicaragua has also joined the Bolivarian Alliance for the Peoples of Our America (ALBA) group. Nicaragua also has intense relations of cooperation with Central American countries. Institutional cooperation (mostly on trade measures) has increased in recent years through the System of Integration of Central America (SICA) and the Proyecto Mesoamérica. Political cooperation experienced some difficulties after the ruling party in Nicaragua won most of the seats in the PARLACEN, the Central American Parliament.

Regional
cooperation
7

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. Though not resolved (even worsening with Costa Rican fears growing about the environmental impact of the Interoceanic Canal), in 2014 the construction of the Puente Santa Fe on the San Juan River created a new road (and new expectations of trade) between Nicaragua and Costa Rica. Border conflicts with Colombia decreased after a resolution from The Hague's International Court of Justice in 2012 over the case dealing with the sovereignty of the San Andrés Islands, which was favorable to some of Nicaragua's demands.

Strategic Outlook

Nicaragua is on the road to an electoral autocracy with a lack of horizontal and vertical accountability. President Daniel Ortega controls the judiciary, the Supreme Court of Justice and the Supreme Electoral Court. He also has influence on the police and the armed forces and has co-opted and politicized the public administration. He finally neutralized the political independence of some television and radio outlets (though not the printed media). In the face of this situation, the question is of how to guarantee the rule of law and political pluralism in Nicaragua. Given the dominance of the executive and of the FSLN countrywide, as well as the weakness of the opposition, true reform actors are not visible.

Though the Ortega government has maintained the essentials of a market economy, it runs the danger of weakening prospects for long-term growth, furthering poverty reduction and building a more resilient economy. Focused social policies to reduce poverty, measures to offer free healthcare and education, and the distribution of provisions and goods via CPCs have addressed and even reduced the levels of homelessness and poverty in the country. If the Gran Canal project is completed, it could create new jobs, attract foreign investment, develop infrastructure and tourism, and more generally help the country in its long-term economic development. However, the social, environmental and even the economic impact of the project is unclear.

Even if the constellation of possible reform actors remains unclear, to avoid a further decline or even to strengthen democracy, several reforms should be envisioned and insisted upon. The politicization of the judiciary has to be reversed and the fight against corruption resumed. The electoral commission has to be staffed by representatives of all parties. Although this would be better than the current situation, it would still be far from true neutrality, in which civil servants would act without their party affiliation in mind. The participation of civil society in decision-making must once again be fostered, and Citizens' Power Councils (CPCs) should – if they persist – broaden their membership and complement instead of bypass existing institutions. Needed reforms concern not only the country's weak institutions and governance, but also the scarcity of human capital, poor infrastructure, underdeveloped financial markets, the pension system and the low level of private sector development.