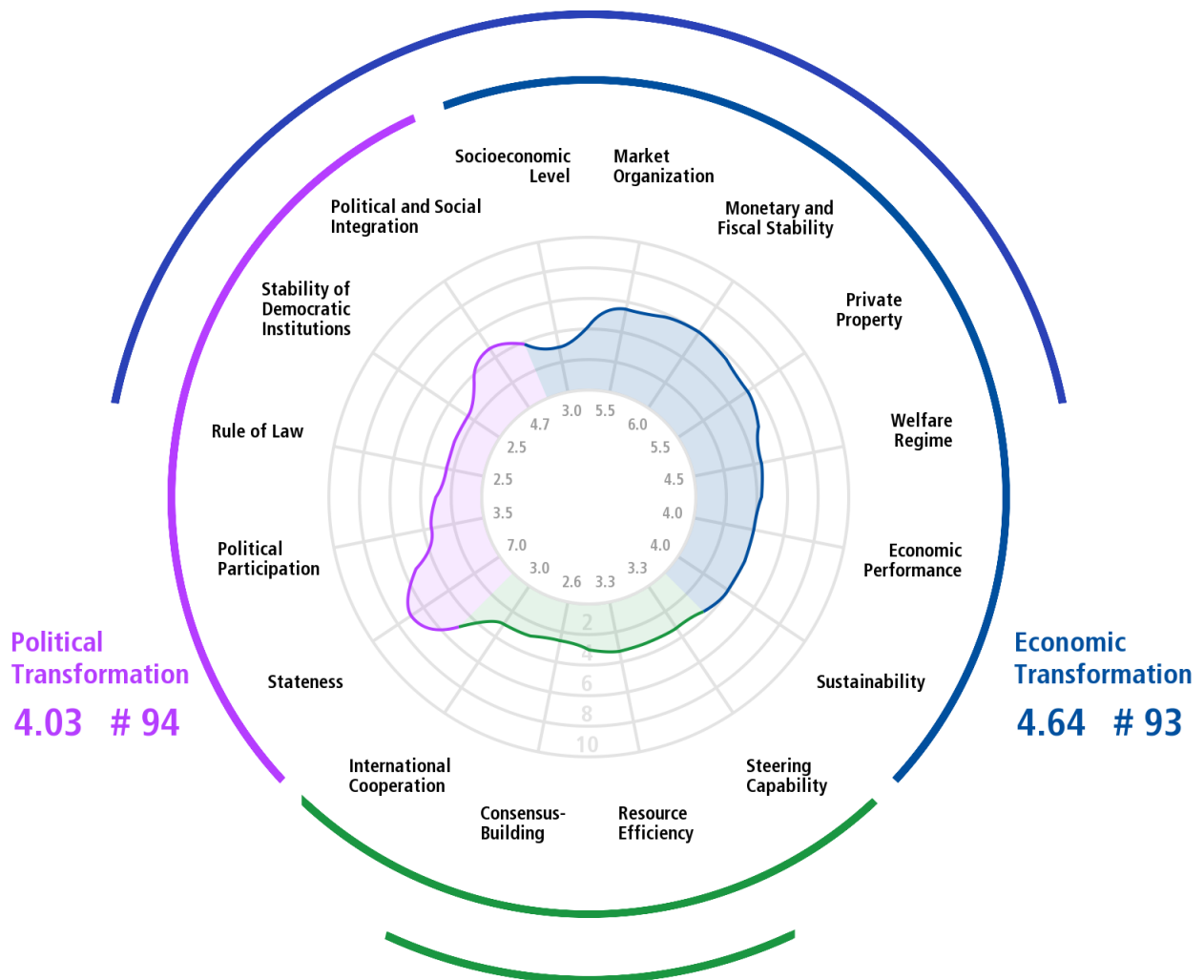


# Nicaragua

## Status Index

**4.34 # 98**

on 1-10 scale out of 137



**Political Transformation**  
**4.03 # 94**

**Economic Transformation**  
**4.64 # 93**

## Governance Index

**2.77 # 124**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>6.5</b>	HDI	<b>0.651</b>	GDP p.c., PPP \$	<b>5524</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.3</b>	HDI rank of 189	<b>126</b>	Gini Index	<b>46.2</b>
Life expectancy	years	<b>74.1</b>	UN Education Index	<b>0.566</b>	Poverty <sup>3</sup>	% <b>12.8</b>
Urban population	%	<b>58.5</b>	Gender inequality <sup>2</sup>	<b>0.455</b>	Aid per capita \$	<b>88.1</b>

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

During the review period, the country entered its gravest crisis since the 1980s. In April 2018, the government of Nicaragua, under the presidency of Daniel Ortega, announced a reform in the Nicaraguan Institute of Social Security (INSS), which included an increase in contributions made by workers to the institution. The response was the beginning of major protests in opposition to the Ortega's government.

The government's response included many repressive actions led by police and paramilitaries that led to a break with different sectors, including students, the peasants' anti-canal faction, feminist organizations and the business sector that initially supported the Ortega government. A situation that started as a protest generated additional protests and has become generalized chaos that has deepened over time. Human rights organizations declared that government repression has caused between 320 and 500 deaths, 2000 injured and many hundreds of prisoners. The United Nations, the Organization of American States (OAS) and other international organizations, such as IACHRD, have denounced the Ortega government. On December 21, 2018, the Grupo Interdisciplinario de Expertos Independientes (Interdisciplinary Group of Independent Experts, GIEI) published a report on the 2018 Nicaraguan protests, focusing on the period between April 18 and May 30. Its report concluded that "the Nicaraguan state committed crimes against humanity" in its repression of the protests.

Since then, the population's anger is not only over the pension issue, but that was the trigger that brought to light the people's discontent toward a corrupt and authoritarian government whose president and the vice-president are from the same family. Since negotiation roundtables held in May and June 2018, the population is demanding early elections for March 2019. However, Ortega, who is supported by the governments of Bolivia and Venezuela, does not intend to resign. He rejected the anticipated elections and accused the protesters of organizing a coup against the

government while the judiciary accused opponents to the government of “terrorism,” allowing them to be persecuted and jailed.

The crisis had dramatic consequences on the social and economic situation of the country, as thousands of people have been fired and many other thousands are leaving the country, particularly to Costa Rica. According to the U.N. Refugee Agency (UNHCR), more than 40,000 people have arrived there since April 2018 to find a better economic situation or to avoid political repression. Since then, the Ortega’s government has begun to implement a state of terror, employing paramilitary forces towards this end.

## 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 Sandinista National Liberation Front (Frente Sandinista de Liberación Nacional, 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. In the meanwhile, 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, though not entirely 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 turning point 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, headed by Violeta Barrios de Chamorro. 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. 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 Arnoldo Alemán (1997-2002) 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. 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, third and fourth Ortega administrations (2007-2012, 2012-2017 and 2017-present) 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. In the 2016 presidential elections, the FSLN was able to control the entire political system reinforcing “electoral authoritarianism.”

Since April 2018, the country entered in its first major crisis since the civil war in the 1980s, when demonstrations against the reform of the national social security system expanded into more general protest against the Ortega government with the ultimate demand of early elections.

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

The 2018 political crisis profoundly changed the nature of the use of force throughout the national territory. The state's monopoly on the use of force is in principle established nationwide, but typically faces three major problems: drug-trafficking, illegal migration and increasing violence in the Caribbean region. However, since the crisis, these problems seem to be limited by the expansion of the police forces and paramilitaries throughout the country.

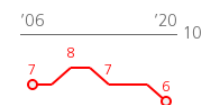
Since April 2018, the presence of police and paramilitaries have been expanded to all areas, including the Caribbean region. Police have actively participated in the repression of the protesters. Furthermore, the presence of paramilitary forces defending Ortega's interests have been confirmed throughout the country. The very existence of these parallel forces poses a major challenge to the state's legitimate monopoly on the use of force. In these conditions, the use of force has changed in the direction of major and increasing state violence.

In the last years, Mexican drug mafias have penetrated deep into Nicaragua, although to a lesser extent than in El Salvador, Guatemala and Honduras. The area most vulnerable to drug-trafficking is the south Caribbean region where the state's presence is very weak and where the rainforest facilitates drug-trafficking activities. There has also been an increase of violence between indigenous people and Ladino peasants in the north Caribbean region. Many demands have been presented by indigenous organizations and human rights NGOs to demand government support for indigenous people during the conflict. To date, the government has not reacted to these demands. The issue of violence in indigenous territories has also been discussed by the Inter-American Commission on Human Rights (CIDH) without action. The government has also not responded to the allegations by the Center for Justice and Human Rights of the Nicaraguan Atlantic Coast (CEJUDHCAN).

Question  
Score

Monopoly on the  
use of force

6



1

Though there are rumors of the presence of re-armed groups, the “Nueva Contra,” such as Fuerza Democrática Comandante 380 (FDC 380), the Coordinadora Guerrillera Nicaraguense (CGN) or the Fuerzas Armadas de Salvación Nacional (FASN-EP), there is no clear information on their current impact.

In theory, Nicaragua has no problem with access to citizenship. As in almost all countries in the region, almost all Nicaraguans feel they are Nicaraguans and do not question their national identity. Similarly, all citizens, without discrimination, have access to the status of “citizens” as soon as they are registered as such in the civil registers.

Recently, how one defines national Nicaraguan identity has been called into question and reinforced by protests. Incidentally, in the current situation of the divided country, national identity is an element of the conflict, as the demonstrators reclaim a real Nicaraguan identity against a state identity stolen by the current regime, including the president and vice-president.

In this moving context, the Caribbean region is in a similar situation as before the crisis. There, the protests against the Ortegas were limited, and there is repression, but without major repercussions, as on the west side of the country. As a result, the state identity in the Caribbean is not changing so much. With a variety of ethnic groups, although considered Nicaraguan by others and generally by themselves, the Caribbean people sometimes question the fact that Nicaraguan identity is exclusively Ladino and reject the indigenous (Mayangna, Miskito and Rama) and Afro-American (Creole) roots of the population. The 1987 Autonomy Law, which gave political autonomy to the two regions of the Caribbean (creating the RAAN and the RAAS) and revealed the multicultural identity of Nicaragua, has not really changed the negative perception of and discrimination experienced by Caribbean Nicaraguans. Despite this situation and the war that took place in that 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).

According to the law, Nicaragua is a lay country. Furthermore, Nicaragua’s constitution proclaims its own nonreligious nature, and specifies separation between state and church. Nevertheless, the Catholic Church has regained political influence since 2007 when the Ortega administration, responding to church requests, annulled Article 165 of the penal code, which had permitted “therapeutic abortion” in extreme cases. Up to 2018, the Catholic Church was represented at official government events by Cardinal Obando y Bravo, a visible figure of the conservative church’s increasing power and rhetoric.

In 2009, Bishop Silvio Baez was appointed by Pope Francisco and in 2014, Archbishop Brenes was appointed a cardinal too. Since then, part of the Catholic

State identity

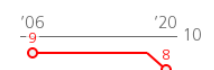
8



1

No interference of religious dogmas

8



1

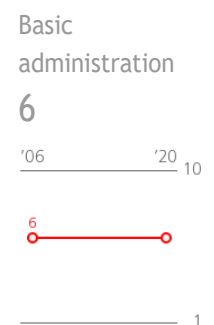
Church around Cardinal Brenes has regularly demanded greater democracy and asked for a transparent democratic process. In May 2018, Cardinal Baez led negotiations between the Ortega government and the opposition. During these negotiations, the Catholic Church demonstrated its considerable political influence and its significant presence in the Nicaraguan society even if the negotiations failed after the government decided to abandon the dialog and accuse the opposition of being “terrorists,” or coup leaders.

In early 2019, Bishop Silvio Baez and the Episcopal Conference of Nicaragua (CEN) were persecuted by the government, reiterating its intention to undermine the Catholic Church as a key player in resolving the current crisis in the country. Nevertheless, the crisis helped the Catholic Church to restore part of its lost influence inside the Nicaraguan society, as in the last decades, mostly in rural regions, evangelical churches have been growing in importance.

Basic administration (both civilian and military) is present throughout the country, but there is a greater presence in the urban zones of the Pacific compared to rural zones, and it is lesser still in the Caribbean zone. With regard to goods and services, the state provides education and health care throughout the country, particularly in the capitals of departments and municipalities, and with a better attention since the Ortega administration. In rural and jungle regions, access is much more limited. In general, the quality of services is very low. Judicial administration suffers similar difficulties.

According to the World Bank development indicators, only 68% of the population has access to sanitation and 87% to a water source. Access to both sanitation and clean water is clearly deficient in marginal urban neighborhoods, almost inexistent in rural areas, and even worse in the Caribbean region. The state capacity to collect taxes is limited. Informal work and limited control over the generation of wealth in the formal sector means that fiscal revenues are almost exclusively indirect.

The political crisis will probably have dramatic consequences on basic administrative structures, already fragile to economic recession and a limitation of state expenses. Due to the withdrawal of international aid, resources to finance basic administrative structures and supply have further declined. As there has been a high politization of the administration during the Ortega administration, through the Citizen’s Power Councils (CPCs), the state administration is strongly dependent on Ortega’s political situation.





## 2 | Political Participation

Daniel Ortega is currently holding his third consecutive term. He amended the constitution in 2014 to allow himself to run indefinitely in all future elections. The most recent 2016 presidential elections were the last in a series of restricted elections and were no longer free and fair.

The presidential and legislative elections of November 2011 were carried out essentially under the dominance of the FSLN, which won with 62%. Election monitors from the European Union and the Organization of American States (OAS) acknowledged irregularities in the contest but did not claim systematic fraud. Also, the 2008, 2011 and 2012 elections cannot be considered to have been fairly run according to many associations in Nicaragua (such as *Ética y Transparencia*) and at the international level (such as the Carter Center).

However, the 2016 general elections created a precedent: for the first time in the democratic history of Nicaragua (since 1990), a presidential election was run without a real party competition. During the summer before the election day, the most important opposition party at the time (the Independent Liberation Party, PLI) was sabotaged. The Ortega-controlled High Court interfered in internal party disputes before the election and suspended those party leaders that were widely recognized to be a threat to Ortega. In these conditions, the PLI ran without the support of most of its electoral base and won only 6.6% of the votes and two seats in the current parliament. In the context of a hegemonic FSLN and lack of real opposition parties, the FSLN was able to win 72% of the votes. According to the Electoral Integrity Project, the perceived electoral integrity of these elections is one of the world's lowest, and the second lowest in the region just ahead of Haiti and behind the 2017 Honduras elections.

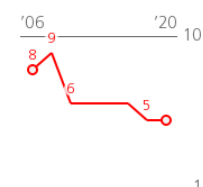
The crisis of 2018 has further impaired the democratic process in Nicaragua. During the peace negotiations in May 2018, opponents asked for early elections in March 2019, but Ortega's government merely replied that future elections should not be organized until 2021, in compliance with the constitutional election interval of the presidential elections.

In principle, the government has the effective power to govern without undue hindrance by the classical veto actors, but is no longer legitimized by free and fair elections since the 2016 election. Since 2007, and increasingly after the elections of 2011 and 2016, power has been concentrated in the executive with Ortega and Murillo. Following the 2016 the presidential elections, Ortega's wife Rosario Murillo has acted as vice-president, further enhancing their power.

The 2018 political crisis has also resulted in changes being made that allow the presidential couple to exercise tight control over the national police force. While the

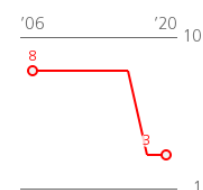
Free and fair elections

5



Effective power to govern

3



military has not intervened in the conflict and remained an institution under the control of civil authorities, the military leadership shares economic interests with the presidential couple, which currently further limits the military's veto power against the government.

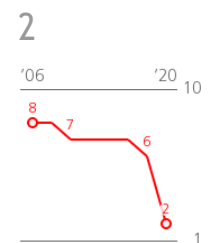
The government controls the administration, and the capacity to establish priorities, design policies and implement them. However, on many occasions, those policies – once designed and enacted – are difficult to implement due to three factors: the fragility and weakness of public administration, the lack of professionalism within the civil service and the difficulty in monitoring tasks, and the scarcity of available resources.

In theory, the Nicaraguan constitution guarantees the right to political association, as well as other individual and collective rights and freedoms. In practice, freedom of association and assembly have been increasingly restricted in relation to the political crisis beginning in April 2018. Since then, the government has violated the right to free mobilization and peaceful assembly. The population has systematically been the victim of government violence through the disproportionate use of force by police officers, special forces (anti-riot) and paramilitary forces. Despite the repression, the protests continued until Note 114 of the National Police, of September 2018, made official the repression of protests and demonstrations declaring them illegal.

In December 2018, the civil rights organization CENIDH published a report titled “Six months of civil resistance in front of governmental repression.” It emphasizes that the governmental repression began long before the crisis but increased dramatically since April 2018. This repression registers violations of the right to life (including extrajudicial executions), and to physical and psychological integrity, including enforced disappearances, arbitrary arrests, torture, arbitrary dismissals and citizen insecurity due to the action of pro-government paramilitary armed groups that act with the approval of the authorities. State violence has reached nearly all social sectors. In the last nine months more than 350 people were killed, more than 2000 were injured and several hundred imprisoned and disappeared.

The criminalization of social protest is the government's main strategy to dismantle citizen mobilization, employing a systematic campaign in official media labeling it “coup-driven terrorism.” The government has, above all, promoted the creation of a legal framework that criminalizes social protest with the approval of the law against money laundering, financing of terrorism and financing the proliferation of weapons of mass destruction (law 977), which represents a government strategy to configure a permanent state of intimidation and repression. This law constitutes a tool for the criminalization of social protest by making it possible for people who have participated in civic protests to be prosecuted for terrorism and alteration of the constitutional order, thus criminalizing citizens who demand respect and guarantees for their human rights.

Association /  
assembly rights



Freedom of expression is guaranteed in the 1987 constitution (Art. 30). During the review period, it has increasingly been subject to interference and government restrictions. In the context of the 2018 crisis, journalists from various media have stated that they are victims of threats, intimidation, assaults, defamations and illegal detentions, facing constant persecution. The government has also intensified disqualification and defamation campaigns against journalists and independent media. In its annual report, Reporters Without Borders (RSF) describes the situation of the press in Nicaragua as “critical.” It explains that all the informants who gave journalistic coverage to what was happening in the country were threatened and besieged on social networks and, often, watched and photographed by security agents of the state.

The press has suffered continuous aggressions since then. It started two days after the first protests, when five trucks loaded with paramilitaries set fire to a radio station with the intention of killing everyone inside. The journalist Ángel Eduardo Gahona was one of the first victims of the wave of protests, murdered in Bluefields on the Atlantic coast. In December 2018, national police officers assaulted the offices of the Confidential newsroom, the Niú Magazine, and the popular television programs Esta Semana and Esta Noche – all of them independent medias. This situation has created a highly risky environment that has forced several of them to leave the country, such as Carlos Fernando Chamorro, director of El Confidencial, Ileana Lacayo Ortiz, José Noel Marengo and Jackson Orozco, these last two of the 100% news channel.

The independent journalists have been accompanied by the civil rights organization CENIDH, which makes arrangements with the Inter-American Commission on Human Rights (IACHR) requesting precautionary measures and informing the Special Rapporteur on Freedom of Expression. In this regard, 30% of the 260 proposed beneficiaries of precautionary measures promoted by the CENIDH since April 2018 correspond to journalists and staff of media teams subjected to aggressions, threats and permanent siege for their work. In addition, along with other NGOs, CENIDH itself has come under pressure.

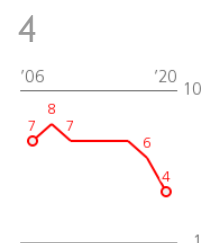
In sum, a few independent media still do exist, but are threatened.

### 3 | Rule of Law

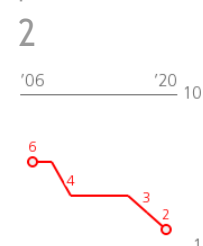
Throughout Nicaragua’s modern democratic era, the separation of power has been formally established, but with a predominance of the executive on other powers. However, with Ortega’s election to the presidency in 2006 and the Sandinista party’s absolute majority in the National Assembly in 2011, the separation of powers in Nicaragua is essentially a formality, and checks and balances have begun to break down. The 2018 crisis has worsened the checks and balances, with an increasing power concentrated in the presidential couple above all others major institutions.

The main problems with respect to checks and balances result from the control wielded by the political elite, and since 2007 of the Ortega family and friends, over

Freedom of expression



Separation of powers



all state institutions. Consequently, the legislative and the judicial branches lack independence. The legislature is completely controlled by the FSLN. The judiciary, especially the Supreme Court, is completely politicized and aligned with the Ortega family. The executive is in the hands of Ortega and Murillo, and even more evidently since Murillo became vice-president in 2017. The fourth power, the electoral power, is dominated by a very close supporter of Daniel Ortega, Roberto Rivas, who has facilitated the FSLN hegemony on electoral processes since 2008. In this context, and more acute since the crisis, accountability mechanisms are very difficult to install.

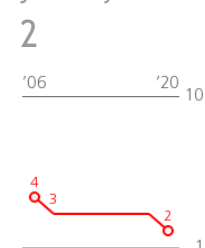
In theory, the judiciary in Nicaragua is independent. The judicial branch is institutionally differentiated, formed by local judges, district judges, Court of Appeals and the Supreme Court of Justice. It is formally independent and constitutionally guaranteed 4% of state expenditures. In practice, the judiciary in Nicaragua is subject to corruption, as corrupt practices can be found at all levels, and to very strong political influence of political parties (especially the FSLN since 2007). But the main problem since the 2018 crisis is the participation of the judiciary in the criminalization of protesters.

All the murders and serious aggressions that have been denounced to the competent authorities go unpunished in the face of the collusion of the justice system, which has become a repressive apparatus that condemns the innocent and does not clarify the crimes perpetrated. According to the CENIDH, the public ministry has shown its complicity with the Ortega government. Its double standard is expressed in a high effectiveness in the indictment of 417 people, yet none in those cases involving the repressive forces of the government and state workers. Relatives of more than seventy people murdered in the context of the protest received by CENIDH until December 2018, have not been informed of investigative measures.

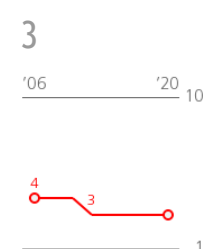
The public ministry's actions have led to the resignation of at least ten prosecutors who have refused to promote cases with the intention of criminalizing social protest. In January 2019, Magistrate Rafael Solis, ideologist of the constitutional reforms that allowed the president to entrench himself in power, resigned from his post and accused the president of imposing a "state of terror" in the country.

In Nicaragua, the rule of law is undermined by political corruption. Corruption is a fundamental problem in Nicaragua's political culture. According to Transparency international, 30% of Nicaraguans had paid a bribe when accessing basic services. Most officeholders who break the law and engage in corruption are never prosecuted. 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 legislation regarding access to information and other mechanisms.

Independent judiciary



Prosecution of office abuse



According to the NGO Hagamos Democracia and its Observatory for Transparency and Anti-Corruption, the country does not investigate accusations of corruption and there is no real punishment for those involved, which means impunity prevails. Among the emblematic cases collected by the observatory is the story of FSLN magistrate Roberto Rivas. The president of the Supreme Electoral Council (CSE) was sanctioned on December 2018 by the United States through the Magnitsky Law, which punishes corrupt foreign officials and violators of human rights. In media investigations, Rivas has been linked to the purchase of luxurious properties, both in Nicaragua and Costa Rica, and to the acquisition of airplanes. However, the Ortega executive protected him by promoting a legislative reform that took away his functions in the electoral power, but kept him in office with immunity. In fact, the absence of judicial procedures against FSLN's corrupt practices is directly related to the submission of judicial power to the political power of Ortega's government. This situation of impunity has worsened since the political crisis.

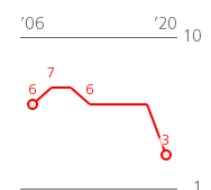
Civil rights are constitutionally guaranteed. However, the weakness of the judiciary curtails the state's ability to respond to violations of these rights. Due to widespread poverty, the protection of civil rights remains shallow for large sectors of the population. Gender inequality promoted by patriarchal cultural patterns makes women and the LGBTI population highly vulnerable. In addition, the populations of the Atlantic coast, having endured decades of racial discrimination as indigenous communities and Afro-descendants, continue to confront daily social, political and economic discrimination.

The 2018 crisis has brought out the systematic violation of human rights in the country. According to the CENIDH report, in the first six months of the political crisis, government repression and violence has been characterized by the disproportionate use of force and the execution of murders, imprisonments, forced disappearances and torture. State violence has reached nearly all social sectors. In the six months, there have been 320 protest-related murders according to CENIDH organization (500 according other human rights organizations), 22 of them under 18 years of age, 40 are young students, 22 police officers and one journalist. At the beginning of 2019, the Ortega government is implementing a state of terror, where even basic civil rights are not guaranteed anymore if you are not an Ortega partisan. As a result, legal protection is no longer guaranteed, and emigration seems the only option for many people to secure their right to physical integrity and life.

Violations of human rights have been denounced by the Inter-American Commission on Human Rights (IACHR) and the Interdisciplinary Group of Independent Experts (GIEI), which in December 2018 presented a broad report in which it states that the Ortega regime committed crimes against humanity with the brutal repression unleashed against the demonstrations.

Civil rights

3



#### 4 | Stability of Democratic Institutions

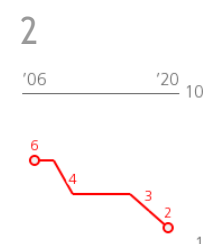
“Democratic” institutions have increasingly become part of an authoritarian system since the return of Daniel Ortega in power in 2007, and definitely after the 2016 elections. Their already weak performance was undermined in 2000 by the pact between the two principal political leaders of the country, Arnoldo Alemán (PLC) and Daniel Ortega (FSLN), both in the opposition at the time. The 2000 pact destroyed the fragile equilibrium of national institutions by making national institutions prey to the two parties, and the judiciary and electoral institutions have been most affected. In 2018, the violent repression by the Ortega regime had continued to weaken the performance of Nicaraguan institutions.

Since 2006, the victory of Daniel Ortega changed the two parties’ equilibrium as the FSLN became the hegemonic power and secured control over Nicaragua’s democratic institutions. This is most visible during elections. Since 2008, the FSLN largely used the resources of the state and administration to finance its campaigns, activists and communications. In the 2011 general elections, the FSLN won an absolute majority in the National Assembly, enabling the government to secure any constitutional or legislative change, while marginalizing opposition parties.

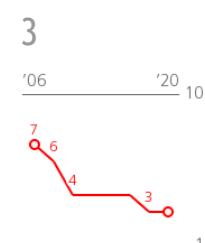
During the last 12 years, the FSLN’s hegemony in the National Assembly, local governments and state institutions (e.g., the Supreme Court of Justice and the Supreme Electoral Court) has contributed to the limited capacity of the state to deliver justice, undermining transparent and democratic elections, colonizing public administration, and imposing the FSLN view on all institutions. Since the 2018 crisis, the FSLN’s hegemony has been replaced by an Ortega-Murillo direct hegemony on all state institutions and a systematic use of violence to impose their views. In the current political context, democratic institutions are only a formal shell.

The relevant actors’ commitment to democratic institutions has increasingly shifted toward negligence of democratic institutions over the last 12 years, due to the rampant monopolization of power in the presidency. Though formally upholding constitutional procedures, the Ortega government has subsequently hollowed out constitutional democracy, converting it de facto into an electoral autocracy before the crisis, and an authoritarian regime since April 2018. Actors committed to democracy have become increasingly weaker since 2006, and largely persecuted since the political crisis. In the current political context of state violence against opponents, there is no counterweight to the president’s authoritarian and violent practices. Nevertheless, though currently repressed, the remaining “relevant actors” still demand a return to democratic institutions, such as civic organizations, parts of the business sector, and parts of the Catholic Church and universities.

Performance of democratic institutions



Commitment to democratic institutions



## 5 | Political and Social Integration

The Nicaraguan party system has increasingly become dominated by the (nominally) leftist FSLN of governing Daniel Ortega, though predominantly by autocratic means. Therefore, fragmentation is rather low, but polarization increased throughout the decade. Social rootedness is weak, if one excludes clientelist modes of shaping citizens' preferences – the latter, however, are strong, given the country's poor development level.

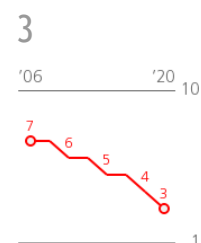
Before the 2018 crisis and since the 1980s, the Nicaraguan party system has been characterized by a latent polarization between Sandinistas and anti-Sandinistas. From the 1984 elections until 2005, this polarization created and maintained a unique two-party system: the FSLN on one side, and whichever party led the anti-Sandinistas forces on the other. The 2000 pact between the leaders of the FSLN and the PLC, Daniel Ortega and Arnoldo Alemán, forged a power-sharing pact that initially reinforced this two-party system, but also paved the way for later divisions within the liberals. The 2016 elections had changed the two-party system as the FSLN was able to eliminate all opposition parties before the election to be the only real party running the election, facing a very weak, divided and suppressed opposition. The FSLN was able to win the 2016 presidential elections, with 72% of the vote for Daniel Ortega and Rosario Murillo, his wife (elected as vice-president), and 71 out of 92 deputies in the National Assembly elections.

Nicaragua has a plurality of interest groups, some of which have a long history in the country and most of them have been directly involved in the political crisis. Since the rise to power of Daniel Ortega in 2006, relationships between interest groups and the state have been increasingly marked by the Sandinista hegemony. But the 2018 political crisis ended these strong relations as most of interest groups have declared their opposition to the Ortega government, above all Unidad Nacional Azul y Blanco, which is the broadest coalition of oppositional groups and actors. Therefore, instead of forming a solid ground of non-political mediation, interest groups have increasingly become part of a decidedly political game.

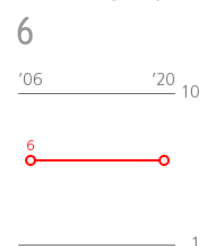
The oldest, formally organized interest groups represent private business, such as the Consejo Superior de la Empresa Privada (COSEP). Since 1990, COSEP has maintained straight contact and communication with all governments. The political crisis created a precedent as COSEP rejected the repression and asked the presidential couple to organize anticipated elections.

Another organization, primarily of importance to farmers, is the Unión Nacional de Agricultores y Ganaderos (UNAG), which is relatively pluralist in its make-up and Sandinista in origin. In sharp contrast to the 1980s, trade unions are comparatively autonomous, although there is still a sector (Frente Nacional de Trabajadores, FNT) with strong links to the FSLN. A number of other sectors also act as interest groups,

Party system



Interest groups



including the Catholic Church, press associations and banking groups, although in many cases these interests are defended via 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. Some important members of these interest groups in the Catholic Church, the press association and even in the bank are now persecuted and left the country in exile.

The 2018 crisis revealed the importance for Nicaraguans in opposition to Ortega to defend democracy against the development of an authoritarian regime using violence and repression to control its population.

According to the Latinobarómetro polls (2018), support for democracy since 2007 has continuously dropped from 61% to 40% in 2017, but recovered to 51% in 2018 (slightly above the regional average of 48%). The authors of the report explain this increase by the politicization of support for democracy in the context of polarization between government and opposition. The percentage of those saying that democracy is the comparatively best political system, at least better than all others, has been 66% in 2018 (which is around the Latin American average). The authoritarian potential of those surveyed, however, continues to be comparatively low: Only 25% said that the political regimes are "all the same," and 10% declared an authoritarian regime preferable to democracy. In terms of performance, satisfaction with democracy fell from a comparatively high level (52% in 2017) to only 20% in 2018, below the Latin American average.

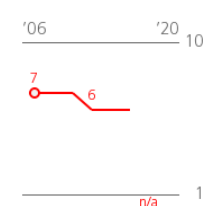
Trust in specific institutions is also rather low, and consistently situated below the regional average: Government 20% (LAC: 22%); election authority 14% (LAC: 28%); parliament 15% (LAC: 21%); judiciary 15% (LAC: 24%); political parties 10% (LAC: 13%); the military 22% (LAC 44%); and the police 21% (LAC: 35%). Most-trusted institutions are the Church with 69% (LAC 63%) and the media with 46% (LAC: 44%).

There is a considerable tradition of trust, cooperation and solidarity between citizens at the very local level in Nicaragua, indicating a more bonding than bridging version of social capital. Most Nicaraguans are members of a civil society group, such as a women's association, peasants' association or trade union. In the absence of the state, many sectors and areas have developed a strong level of self-organization through the decades.

Nonetheless, self-organization and politics are usually interlinked, since party membership is often the basis of local organization. In the context of the crisis, this strong politicization and repression have created strong cleavages in the local civil society. According to Latinobarómetro 2018, 12% of Nicaraguan respondents agreed that most people can be trusted, slightly below the regional average (14%).

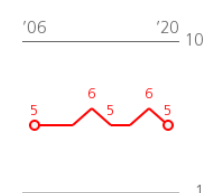
Approval of democracy

n/a



Social capital

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## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Before the crisis, despite some successes achieved by the Sandinista government during the 2000s with the extension of social policies, Nicaragua remains a poor and very unequal society. Twelve years of Sandinista social policies have not reversed the poverty and inequality remaining as fundamental characteristic of the country. Nicaragua continues to be one of the poorest countries in Latin America, being the third poorest before the 2018 crisis.

According to the 2018 Human Development Report, the country's Human Development Index (HDI) value was 0.658 (0,657 in 2016) and Nicaragua ranked 124 out of 188 countries, only ahead of Guatemala (127), Honduras (133) and Haiti (168) in Latin America. The country's Gender Inequality Index score was 0.456, worse than the Latin American average, though ahead of Panama and Honduras (0.461), Paraguay (0.467), Guatemala (0.493) and Haiti (0.601).

Social exclusion due to poverty and hardship is quantitatively and qualitatively very pronounced and structurally entrenched. Poverty persists as a rural phenomenon. About 70% of the rural population is poor, compared to 30% of the urban population, according to the poverty report of the World Bank. In 2014, the Gini index value reached 46.2 (49.5 according to CEPAL). According to World Bank data, 12.8% of the Nicaraguan population lives with less than \$3.2 a day, down from 17.1% in 2016. According to the Household Survey to measure Poverty published by the International Foundation for the Global Economic Challenge (FIDEG), 7.7% of Nicaraguans lived in extreme poverty in 2016 and 8.4% in 2017. The 2018 crisis has worsened the situation as 417,000 people have been dismissed or suspended from their jobs, though exact poverty numbers are still not available.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	12756.7	13286.1	13843.6	<b>13117.9</b>
GDP growth	%	4.8	4.6	4.7	<b>-3.8</b>
Inflation (CPI)	%	4.0	3.5	3.9	<b>4.9</b>
Unemployment	%	4.4	4.3	4.2	<b>4.5</b>

Question  
Score

Socioeconomic  
barriers

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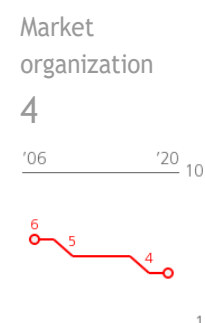
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Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	7.4	6.8	5.6	<b>2.7</b>
Export growth	%	-1.0	4.6	9.7	<b>-2.6</b>
Import growth	%	12.0	4.1	3.9	<b>-14.0</b>
Current account balance	\$ M	-1144.9	-870.8	-675.1	<b>83.0</b>
Public debt	% of GDP	28.9	30.9	33.9	<b>37.2</b>
External debt	\$ M	10509.3	10985.3	11460.7	<b>11617.6</b>
Total debt service	\$ M	792.3	828.9	1140.4	<b>1065.8</b>
Net lending/borrowing	% of GDP	-0.6	-0.6	-0.6	-
Tax revenue	% of GDP	15.6	16.2	16.5	-
Government consumption	% of GDP	14.1	14.5	14.7	<b>15.4</b>
Public education spending	% of GDP	4.1	4.1	4.3	-
Public health spending	% of GDP	4.5	5.4	-	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	0.8	0.6	0.6	<b>0.6</b>

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Since the 1990s reforms, 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. The return of the Sandinistas in the 2006 elections hasn't changed the principles of free-market organization that remains central in the Sandinista economy. However, the organization of market and competition in Nicaragua works under a weak institutional framework that doesn't ensure unrestricted participation in the market. There is little judicial independence, a weak regulatory framework and very high levels of corruption, which all contribute to a lack of legal certainty for private investors. This affects the free and fair competition, limited by dependence on the Sandinista government. During Ortega's mandates, market competition has been undermined by the emergence of strong Sandinista enterprises. In the Doing Business 2019 Report, Nicaragua ranks 144 out of 190 countries in the subsection "starting a business," as it takes seven procedures,



14 days and costs 63.6% of per capita income to start a business. In addition, Nicaragua ranked particularly poorly for paying taxes (160), protecting minority investors (168) and dealing with construction permits (177). According to the World Bank's Review of 2018, the most important obstacle for starting a business in Nicaragua is the small and highly concentrated financial system with low private credit and strikingly short maturities of mainly up to three years. Additionally, the large infrastructure gap (Nicaragua has the least developed road infrastructure in the region) as well as the highest electricity prices in Latin America reduce the opportunities for businesses considerably.

The 2018 Global Competitiveness Report ranked Nicaragua 93 out of 137 countries, with Nicaragua scoring poorly for the efficiency of government bureaucracy, educated workforce, supply of infrastructure and corruption. The BTI scores for prosecuting office abuse and for combating corruption have been consistently low over the current decade, indicating its pervasiveness and the state's unwillingness to confront it.

The informal sector remains large as it represents about 75% of the jobs, this percentage being even higher for women, according to the most recent ILO data.

In principle, laws to enhance competition, and prevent monopolistic structures and conduct have existed since the 2000s, but are enforced inconsistently or undermined by state intervention.

In 2007, a competition-promotion and anti-monopoly law came into effect. The law prohibits anti-competitive practices and created a national institute for the promotion of competition (Procompetencia), which is tasked with enforcing the law. However, after 12 years of the law's existence, anti-competitive practices still exist, as Procompetencia has experienced a lot of difficulties in tackling anti-competitive practices and its record has been poor. As a result, oligopolies are still numerous and strong in Nicaragua, common to small economies, in which two or three companies control the majority of a sector. According to Procompetencia, anti-competitive practices prevail in sectors such as milk, flour, wood, tourism, airline and also telecommunications. As a result, many of the most important economic sectors have one company that controls more than 50% of the sector.

One contributing factor, related to Nicaragua's development model, is considerable state interference in economic activity. Collaboration and complicity between the government and business sector has resulted in a small group, generally based on strong friendship or family bonds, making economic decisions favorable to themselves and facilitating anti-competitive practices. In October 2018, parliament approved the controversial law for the creation of the Nicaraguan Imports and Exports Company (ENIMEX). Stating in article 2 that ENIMEX "... shall have as its object to carry out transactions of goods, merchandise, products and services in

Competition policy

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general, acting even as buyer agent and discretionary seller of the state,” the private sector voiced concerns about the undue competition by the Nicaraguan state.

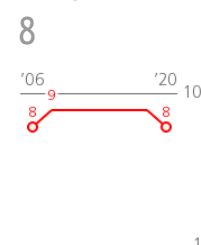
Shortcomings in the rule of law and executive control pose significant challenges to investors in Nicaragua, especially for smaller foreign investors. According to the U.S. Department of Commerce, investors regularly complain that regulators, in particular the Nicaraguan Customs Authority, are arbitrary, negligent and slow to apply existing laws. Nevertheless, foreign investment was considered before the crisis to be economically important and Nicaragua offers business opportunities in various sectors such as construction, food processing, packaging equipment and tourism.

Since the 1990s, Nicaragua has widely liberalized its foreign trade. Nicaragua is member of various regional and bilateral trade agreements with other Central American countries and the United States, including the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR). According to WTO, Nicaragua has a relatively open trade and investment regime. The average applied tariff rate is 2.0% according to the Heritage Foundation. The simple average of the MFN applied tariff in 2017 was 5.7%. In the Global Competitiveness Index 2018 Nicaragua ranked only 104 out of 140 countries, but 11th concerning services trade openness and 53rd concerning trade tariffs. However, concerning the prevalence of non-tariff barriers, the country ranks only 106th. According to World Bank’s Doing Business Report 2019, its rank in trading across borders declined slightly from rank 74 (2018 report) to 85, due to an increase in time and cost of border compliance.

There are very few protectionist barriers. The international inversions are largely protected by the free zone’s regime. Nicaragua offers important fiscal incentives through the free zones regime for companies interested in establishing export-oriented operations, either goods or services. Similarly, the country offers other export regimes and incentives, such as the National Customs Regime and the Temporary Admission Regime, among others. On the other hand, Nicaragua receives the benefits of the Generalized System of Preferences (GSP), a non-reciprocal and non-discriminatory trade regime, through which the industrialized countries apply tariff preferences to imports from developing countries, from Canada, Norway, Japan, Russia and Switzerland.

The United States is Nicaragua’s largest trading partner, both in imports and exports, followed by Mexico. According to the U.S. Department of Commerce, trade with the United States represents about a quarter of imports and two-thirds of exports (including free trade zone exports). In 2006, CAFTA-DR entered into force for the United States and Nicaragua, making all U.S. exports of consumer and industrial goods duty-free. Tariffs on most U.S. agricultural products were previously phased out by 2024, with all tariffs eliminated by 2026, but the recent Nicaraguan Investment Conditionality Act signed in December 2018 by the Trump government could change the nature of the agreement as all investment are sanctioned and trade limited.

Liberalization of  
foreign trade



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Nicaragua is a member of the Central American Common Market (CACM) and has established Free Trade Agreements also with the European Union in 2010, Mexico, the Dominican Republic, Chile, Panama and Taiwan. Additionally, Nicaragua operates under the Generalized System of Preferences (GSP) with several countries, including Canada, Norway, Russia and Japan.

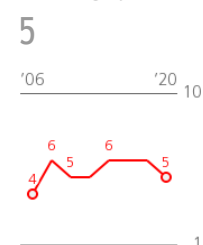
Since the Venezuelan crisis in 2016, Venezuelan investments in Nicaragua have almost disappeared. As a result, Nicaragua tried since 2013 to develop new commercial partnerships. Together with Costa Rica, El Salvador, Guatemala, Honduras and Panama, it concluded terms for free trade with South Korea, and another with Peru. According to PRONicaragua, the Nicaraguan investment promotion agency, other free trade agreements are in negotiation with Canada and with the Latin American Integration Association, ALADI.

The fragility of the national Financial System and the Stock Exchange is strong entering 2019, since they have been tremendously impacted by the political crisis. Furthermore, the central bank of Nicaragua, the state regulator of the national monetary system, has applied since the beginning of the crisis, a secrecy policy and is not publishing national banking and economic data. This current situation is unprecedented in recent years when the banking system enjoyed good health and was growing. According to IMF data, bank non-performing loans amounted to 1.04%, but the capital to assets ratio to a meager 7.4% in 2017.

According to the Superintendency of Banks and Other Financial Institutions (Siboif), the national banking system suffered in December 2018 its fourth worst performance since the crisis erupted in April 2018. In that month, \$220 million left deposits, which accumulated an annualized leak equivalent to \$1,553 million. The exit of deposits in December coincided with the decision of several U.S. banks to close correspondence for Nicaragua and the full application of the Nica Act, one of the most severe sanctions in the United States against the Ortega's regime. These outflows of money from the financial system correspond to 11% of the country's GDP, according to COSEP calculations.

Between March 2018 and February 2019, the deposits of the Nicaraguan banking system have fallen by \$1,662 million to \$3,833 million, which implies a reduction of about 30%. According to reports from the central bank of Nicaragua in April 2018, the risk portfolio of the financial system represented 3.33% of the total portfolio – six banks and three financial institutions – but in November, it increased to 9.79%, as a result of its contraction process in both deposits and credits, and in international inversions. According to the economist Alejandro Aráuz, the most imminent risk of prolonging the current political crisis with increasing pressure by the Nica Act is the possibility of a major devaluation in the face of the exit of deposits. In addition, Fitch Ratings states that Nicaragua is the only country in Central America and the second in Latin America that did not adopt the principles of Basel I, related to good practices to reduce credit risk.

Banking system



## 8 | Monetary and fiscal stability

Though the central bank is not a fully autonomous institution, it has pursued a largely consistent inflation and exchange rate policy, even in the face of political fluctuations. The inflation target corresponds to the inflation forecasts of the central bank of Nicaragua, which combine the expected exchange rate and the expected inflation of the U.S. Federal Reserve. For 2018, the central bank had initially forecast inflation between 5.5% and 6.5% compared with the previous year, but corrected this to between 6.5% and 8.5% in August. According to World Bank data, the inflation rate decreased since 2011, reaching 3.5% in 2016 and 3.9% in 2017. According to the central bank, it decreased further to 3.3% in 2018 due to low prices for food and other basic products.

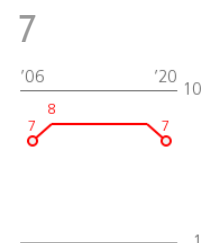
The central bank adjusts the official exchange rate daily according to a crawling peg that devalues the Córdoba against the U.S. dollar at an annual rate of 5%. The real effective exchange rate index remained rather stable since 2010. However, the córdoba could be on the verge of suffering a major devaluation, greater than the usual 5% per year. The main reason would be the continued fall in reserves in dollars that the central bank owns as a consequence of the political crisis, which has accelerated the exit of deposits from banks. The flight of capital and the probable imposition of severe sanctions by the United States are leading to a situation that is becoming increasingly untenable.

While the fear persists among the population of a possible devaluation of the exchange rate of the córdoba against the dollar, the exchange rate gap (i.e., difference between the official exchange rate and the average market rate) reached 2.3% in December 2018, its highest level in the last three years (and rising from 0.14% since the outbreak of the crisis in April). As many Nicaraguans have been taking their deposits out of the national financial system since the unrest began, in November the government stopped online dollar purchases by banks in an attempt to control withdrawals.

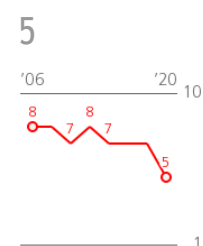
Pushed by international lenders and their own commitments, Nicaraguan governments have pursued a policy of macroeconomic stability since the 1990s. The government's fiscal and debt policies generally promote macroeconomic stability but lack institutional safeguards and are prone to permissive policy changes. However, since the 2018 political crisis, fiscal stability is no longer guaranteed as the public debt is continuously growing. According to CEPAL, the fiscal balance shows deficits since 2014, reaching -0.6% of GDP in 2016 and 2017, and -1.5% in 2018. Public debt hovered around 30% of GDP since 2009, but increased in 2017 (34.1%) and 2018 (35.1%).

After concluding a visit to evaluate the situation of the economy in Nicaragua at the end of 2018, the International Monetary Fund (IMF) issued a statement stating that

### Monetary stability



### Fiscal stability



the “main challenge for 2019 and the following years is to preserve macroeconomic and financial stability” to prevent a major national economic crisis that could have impacts on all Central American countries. With regard to the multiple shocks affecting the Nicaraguan economy, the IMF warned that the contraction in formal employment, the retrenchment in FDI and the reduction in credit to the private sector could exacerbate the effect of the shocks.

After an outbreak of the political crisis due to the reform of social insurance in April 2018 – following the recommendations of the IMF – the National Assembly approved a new reform to the INSS in early 2019. It includes an increase from 19% to 21.5% of the employer contribution for companies with less than 50 workers, and in the case of companies with more than 50 workers an increase from 19% to 22.5%. The National Assembly also approved a tax reform in February 2019 that increases the tax on income of large taxpayers from 1% to 3% and raises it from 1% to 2% for medium-sized companies with higher income. Both reforms are aimed at restoring fiscal stability, but they have to confront the dissatisfaction of most Nicaraguans and the business sector in a context of serious economic crisis.

## 9 | Private Property

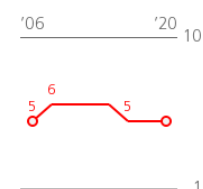
In principle, property rights are well-defined. However, poorly enforced property rights and property disputes remain among the most serious barriers to economic development in Nicaragua. One month after the crisis, in nine departments of Nicaragua, there have been illegal invasions of properties, mostly agricultural as cultivations of sugarcane, peanuts and coffee. The Union of Agricultural Producers of Nicaragua (UPANIC) calculates that 6,800 hectares have been taken from their owners during the crisis, of which 40.82% have been returned. At the end of November 2018, 59.18% of these lands, the equivalent of 4,000 hectares, are still invaded. The peasants have already divided the properties into plots, carried out censuses and some have placed flags of the ruling party, the Sandinista Front. The lands returned to their owners have suffered looting, burning of crops and destruction caused by the invaders. Observers have interpreted these actions also as a warning message on behalf of the regime to private owners and entrepreneurs not to participate openly in opposition activities.

The situation recalls other past events, known in the country as the “Piñata”: the confiscations and expropriations of the 1980s during the first Sandinista government, which had taken about 28,000 properties to nationals and foreigners, mostly carried out without due legal process or documentation. Until 2013, the “Piñata” had cost the state of Nicaragua \$1,300 million in compensation.

Before the crisis, problems concerning property rights were 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 promoted by national

Property rights

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and international firms (the southern Pacific coast region); indigenous territories on the northern Atlantic coast and the north; and peasants' and indigenous lands on the Interoceanic Canal road on both sides of the country.

The current crisis is having a very strong impact on the country's economy and will extend beyond the short term. The banking system is very fragile, credit is down, deposits are withdrawn continuously and the national stock market dropped 57% in January 2019. This economic context produces the loss of confidence of both domestic and foreign investors. As a result, private companies are weakened by the political crisis, and less protected by existing legal safeguards.

Before the crisis, the relationship between private enterprises and the executive has been progressively closer as the Superior Council of Private Enterprise (COSEP), which represents the majority of business groups, became one of the principal allies of Ortega. As a result, private enterprises were not only permitted, but several of the national economy's largest firms were supported and protected by the Sandinista state, as government actors had increased their personal interests in private enterprises and used their political power to protect the sectors they are involved in.

These close relations changed with the crisis as the COSEP had given its support to protesters' claims and denounced violence and repression. The COSEP participated in the negotiation round on the side of opponents denouncing the impacts of the political crisis on the economy of the country, as many international firms had to leave and many national companies had to fire hundreds of employees in all kinds of economic sectors.

Throughout his presidency beginning in 2006, Ortega has increased state presence in the economy. The government owns and operates several companies such as the National Sewer and Water Company, National Port Authority, National Lottery and National Electricity Transmission Company, among others. In addition, with the recent tax law reform, the Ortega government imposed a new fiscal calendar, which is designed to financially stifle companies because the deadlines to submit on time the declarations on tax incomes to the General Directorate (DGI) are unviable, so they would constantly incur fines. With this new fiscal calendar, on the one hand, the Ortega Administration is trying to obtain more liquidities and, on the other hand, it can be considered as a reform made to punish the private sector and to force it to surrender at the negotiation table.

Private enterprise

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## 10 | Welfare Regime

During the first week of the 2018 political crisis, the welfare regime was the center of political discussions and negotiation, as the crisis began with pension reforms launched by the Nicaraguan Institute of Social Security (INSS). INSS is said to cover about a third of all workers, providing for pension insurance in a pay-as-you-go scheme, basic health as well as illness insurances, meaning that 60% to 70% of Nicaraguans live without any kind of social protection. In April 2018, the Sandinista government announced the increase of quotas for pensioners and companies, that provoked the first pensioners' protests in the streets of Managua. After five days of protests, the Ortega government decided to withdraw the pension reform.

Since Ortega's return to power, social spending increased in education, health care and housing. Public spending on health care has increased to 5.1% of GDP in 2014 (3.4% in 2004, 3.8% in 2008, 4.3% in 2010). The poverty-reduction strategy reclaims some success concerning three major social programs: Zero Hunger (Hambre Cero), Zero Unemployment (Desempleo Cero) and Zero Usury (Usura Cero). But according to the 2009 to 2017 survey of the FIDEG organization, structural poverty and extreme poverty has not really decreased as 41.2% of the Nicaraguan population is considered poor (stagnating throughout the last decade) and 8.4% as extremely poor in 2017.

On the Atlantic coast, poverty remains especially high among people of African and indigenous descent who face extreme poverty, and political and administrative discrimination. Few government social programs have reached the Atlantic coast, which remains neglected by redistribution policies. Furthermore, many inhabitants do not have access to national ID application procedures and are therefore excluded from administrative processing and statistics, which certainly underestimates the extreme poverty faced by indigenous and Creole communities.

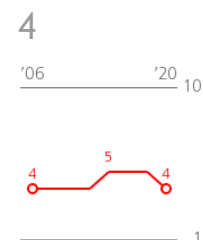
The political and economic crisis worsens the situation as unemployment is growing and thousands of companies are closing.

Despite some limited advance, equality of opportunity is far from being achieved in Nicaragua.

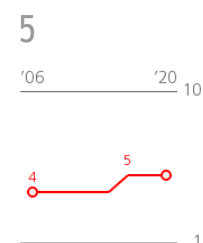
At the political level, the country has made some efforts with the implementation in 2008 of the Law of Equality of Rights and Opportunities (Law 648) and, in 2012, of the Law 50-50 for parity, which reformed the Law of Municipalities, and established gender equity in the election of mayors and vice mayors. As a result, the representation of women in Nicaragua's National Assembly and local governments is comparatively high by international standards.

According to the 2018 Global Gender Gap report, Nicaragua rises among the global top 10 to rank five. With more than 80% of its overall gender gap closed, it remains

Social safety nets



Equal opportunity



the country with the narrowest gender gap in the Latin America and the Caribbean region for the seventh year running. Nicaragua continues to maintain gender parity in ministerial positions and has one of the world's highest shares of women in parliament. However, 2018 also records a deteriorating performance in the Economic Participation and Opportunity sub-index of the Global Gender Gap report, due to a widening gender gap in the share of women among legislators, senior officials and managers. Concerning education, enrollment is almost equal (though tertiary enrollment remains significantly low overall). The gross enrollment ratio indicates for Nicaragua parity between girls and boys (1.0) in primary, and a small advantage for girls in secondary and tertiary education (1.1 each). While the overall adult literacy rate is comparatively low for Latin American countries (78.0%), there is no significant gender gap (men: 78.1%; women: 77.9%).

However, progress doesn't extend to working conditions. While the female labor force as a percentage of the total is rather low with 38.7%, many women in Nicaragua are working in informal jobs, with no social protection and additional family constraints that limit their careers. Furthermore, feminist organizations claim more attention to women rights in Nicaragua, where many women face gender violence. The prohibition of therapeutic abortion in 2006 increases women's risk of death due to sexual violence and reproductive health problems.

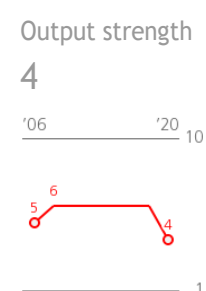
Other groups with less equality of opportunity are indigenous and afro-Caribbean people. Both groups, mostly living on the Atlantic coast, receive no public attention and regularly face racial discrimination.

## 11 | Economic Performance

Before April 2018, Nicaragua was facing high levels of poverty, being the third poorest in the hemisphere, yet promoting growth at the same time. GDP per capita (PPP) constantly increased from \$3,782 in 2009 to \$5,842 in 2017, when GDP per capita (PPP) growth reached 3.7%. Inflation decreased from 6% in 2014 to 3.9% in 2017 and – according to the central bank – 3.3% 2018.

However, after the outbreak of the crisis in April 2018 growth plummeted and GDP per capita fell by 5.1% according to preliminary CEPAL data, far away from the +4.5% initially planned. In the new context, the country is even more vulnerable to external shocks given its growing current-account deficit, dependency on a small number of export products, the spillover effects related to U.S. and international policies, and reactions after the political crisis. The relative macroeconomic stability that characterized the country during the last 10 years is no longer reality.

Before the crisis, unemployment remained stable since 2014 around 4.5% (4.4 in 2017) according to ILO estimations, even if underemployment remains the main problem as it represents around 59.1% of the total employed population. In addition,



76.2% of all employed persons in Nicaragua worked in establishments without accounting records and do not pay taxes or social security contributions.

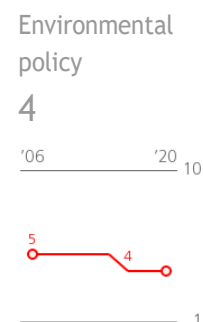
The 2019 outlook is even less encouraging. According to the COSEP, at least 22 economic sectors out of 27 confirmed that firing will continue this year as a consequence of the deepening economic crisis. The COSEP estimates also that since the crisis began, the country has lost close to 347,000 jobs and official figures from the Nicaraguan Institute of Social Security (INSS) have shown that between April and August, 115,978 workers have quit quoting for social security.

## 12 | Sustainability

Environmental concerns receive only sporadic consideration and are often subordinated to growth efforts. According to the Centro Humboldt, environmental regulation is in parts more advanced than in most neighboring Central American countries (e.g., water law, about 150 protected areas, and three biosphere reserves), but implementation and enforcement – at times due to economic policy considerations – remain weak. After standing apart for some time, in October 2017 the government announced to join the Paris Agreement. In the EPI 2018, Nicaragua improved from rank 115 to 97 out of 180 countries.

Nevertheless, the budget for the environment policies of the government is also revealing. In 2016, for instance, the state invested only 0.67% of the general budget in environmental issues. In addition, the protection policies to address deforestation or the protection and management of water resources, among others, received little attention and had very limited applications. In addition, in August 2017, a presidential decree entitled Updating the Environmental Assessment System of Permits and Authorizations for the Sustainable Use of Natural Resources was published, by which environmental restrictions are outlined to allow the extraction of mineral, forest, biodiverse resources and to favor business with natural resources. This decree limits the previous agreements and laws that protect conservation areas and allows companies to legally operate for the exploitation of protected areas, natural (and) biosphere reserves.

In April 2018, one of the main reserves of the Central American rainforest and the country's second reserve burned uncontrolled in the Caribbean coast, destroying more than five thousand hectares of the forest core of Indio Maíz. The state reacted very slowly to the fire and waited more than a week before any kind of intervention. The reserve had already been inhabited for more than a decade by settlers who destroyed land to plant pastures for livestock, exploit valuable forests and illegally hunt exotic animals. Data from the environmental organization Foundation del Rio show that more than 2,378 hectares of tropical forest had already been lost between 2010 and 2014.



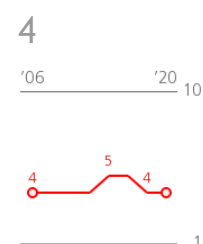
Renewed attention to natural resource extraction has further augmented pressure on environmental protection. The mining industry has particularly grown during Ortega's governments. In addition, the ecological consequences of the inter-oceanic canal project, led by the Chinese HKND company, has worried national and international environmental organizations, and peasants, especially on the Cocibolca Lake. Notwithstanding, environmental consciousness remains underdeveloped in Nicaragua.

Education is a constitutional right in Nicaragua where primary education is compulsory and free. Before the crisis, some selective efforts have been made in education policies and in the development of the very low human capital level, as Nicaragua still has Latin America's highest percentage of children outside the educational system, and the lowest completion rates for both primary and secondary education. According to the 2018 Human Development Report, Nicaragua ranked 78 out of 133 BTI countries considered with a score of 0.558, 19th in the region and only ahead of Guatemala, Honduras and Haiti. There are no comparable recent data on education expenditures, the most recent data being for 2010 (4.5% of GDP). The literacy rate was 78% in 2005.

Compared to primary education, public attention on universities is rather high in Nicaragua, mostly with the intention to diversify university careers and train more professionals. At the same time, overall research and development expenditure is insignificant, with a research sector only recently emerging in Nicaragua. On the Atlantic coast, indigenous and Creole communities should have access to bilingual education at school, both in Spanish and native indigenous or Creole language. However, many schools have no books and materials, and have difficulties hiring and retaining teachers, as teachers receive very low incomes.

The Higher Council of Private Universities (COSUP) estimates that a total of 10,000 out of 20,000 students enrolled at the beginning of the 2018 school year dropped out when the 2018 protests were subject to repression. In addition, the independent students' organization, Expresión Organizada de Universitarios, estimates that 85% of exiled higher education students have not been able to resume their education. The organization has also highlighted the problems faced by many returning students, some of whom were interrogated upon entering some state universities.

Education policy /  
R&D



## Governance

### I. Level of Difficulty

Structural constraints on governance exist at different levels and are fairly high. Poverty and extreme poverty had increased with the crisis, which also reinforced the difficulty of a sub-standard education system and low completion rates for both primary and secondary education. As a result of the crisis, part of the high skilled proportion of the labor force has left the country. Infrastructure problems abound, as part of the country is not interconnected with the capital and important cities of the Pacific coast. The Atlantic coast and islands are not connected with roads. An old road project connecting the Atlantic and Pacific coasts, even in rainy season, remains incomplete, even if some roads in the midland have been improved. Public transport by road is very poor, and the rail network leading to the interior and the Atlantic coast does not function during rainy season.

In addition, natural disasters are common. As the country is not exploited in a mindful or respectful way, despite its great ecological wealth, the country is even more fragile to natural disasters. In the last decade, storms, hurricanes, earthquakes and drought have unsettled the ecological balance of the country even more.

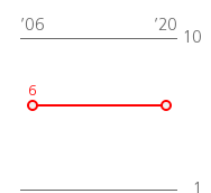
The 2018 crisis intensified further constraints as state repression instilled fear inside the Nicaraguan population. The population does not have the same possibility of expressing and circulating in the country. Many were dismissed from their jobs causing a dramatic increase in unemployment and as a consequence a greater wave of migration to Costa Rica and other countries.

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, and also created an important level of social trust.

In the last few years, the most visible movement has been against the inter-oceanic canal. In fact, large-scale demonstrations have taken place in all regions of the country affected by the megaproject, creating a very strong awareness of environmental and social impacts of the government project. There was also before the crisis an organized movement of university students, of pensioners defending their interests, and of feminist organizations fighting against violence against women. These organizations were very mobilized in years before the crisis and met to participate in the big protests of spring 2018.

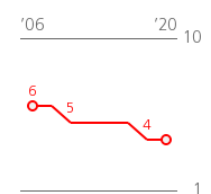
Structural constraints

6



Civil society traditions

4



This culture of civil society organization formed the background of the April 2018 protests, including several organized groups in opposition to the Ortega government before the crisis, such as the Nicaraguan Center for Human Rights CENIDH. The protests were joined by groups of newly organized citizens, mothers of the victims of repression, or thousands of Nicaraguans who took part in the marches even though they had previously not been politically active. In addition, new political actors formed such as Alianza Cívica and the Unidad Nacional Azul y Blanco.

Since the April 2018 crisis, the conflict intensity in Nicaragua has been the highest since the civil war in the 80s. For several months, mobilized groups and protest movements dominated politics. Society and the political elite are deeply split, mainly for political reasons. The country is now divided in two major groups, pro-Sandinistas who defend the Ortega government and support or even take part in repression; and anti-Sandinistas who are now the majority of the population.

State repression of the spring protests had been so violent that it provoked the opposition of a major part of the Nicaraguan population. The country was then in a situation of widespread violence as protesters defended themselves from the repression with barricades. Most of the main cities of the country were places of violent conflicts between the protesters, mostly male students, organized in the streets and defending with mortars and throwing stones behind the barricades against police forces and paramilitaries equipped with war weapons.

However, street confrontations have ceased because the government has shown that it is willing to act with harsh force against protests. As a result, many demonstrators have been forced to leave the country in recent months.

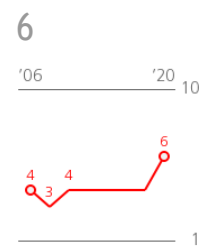
## II. Governance Performance

### 14 | Steering Capability

Since the return of the FSLN in power, the Ortega government's long-term political strategy aims to consolidate its control over power rather than strengthen democratization and the rule of law. It claims to be setting strategic priorities, but does so only in certain policy areas, and often replaces strategic priorities with short-term interests, or fails to prioritize and organize its policy measures adequately. Before the crisis, Ortega has continued the macroeconomic policy developed in the 1990s and has emphasized pro-poor policies more than previous governments, but has made no major long-term efforts to enhance the rule of law, depoliticize public administration or fight corruption. Since the crisis, the situation had changed as neither macroeconomic policies nor pro-poor policies are realized.

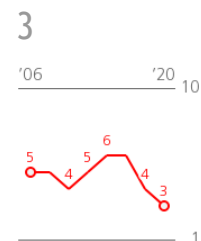
There are no more strategic priorities, as the government replaces it by short-term measures to respond the political crisis. Some examples of these short-term policies

Conflict intensity



Question  
Score

Prioritization



are the latest economic reforms that the government is promoting to raise funds in its critical economic situation: the reform of the social security system, which launched the crisis in April 2018, and the tax reform that, according to the COSEP, will have drastic consequences for the national economy, causing the increase of the basic product prices and the closure of more companies.

Nine months after the crisis, there is no clear way for how the Ortega government is planning to get the country out of the most important political and economic crisis since the 1980s.

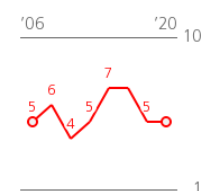
Since 2007, the Nicaraguan state shows several strengths as the parliament and other institutions are completely controlled by the ruling party, FSLN. As a result, since the two last mandates, the state has been able to implement most of its own policies. This partly changed with the political crisis of April 2018.

Before the crisis, during the mandate 2007 to 2012, and to a lesser extent during the 2012 to 2017 mandate, the Ortega administration was able to implement most of its strategic policies with both the support of its politicized institutions and with the financial support of ALBANISA, a private company owned by Venezuela's state oil company, PDVSA (51%), and its counterpart in Nicaragua, Petronic (49%) that manages financial aid from Venezuela with complete discretion. The important petrodollar flows to Nicaragua as well as the existence of a FSLN's local political structure, the Citizens' Power Councils, facilitated the implementation of major social programs, such as housing for low-income families. In addition, the continuous growth of Nicaraguan economy since 2007 to the beginning of 2018 has facilitated the implementation of many strategic policies, such as the development of energy and road infrastructure, electrification, and management of natural disasters.

However, the reduction in Venezuelan aid as well as the excessive politicization of CPCs also had negative consequences on popular sectors and resulted in some difficulties regarding the implementation of social policies. The beginning of the new Ortega mandate in 2017 has created new social expectations in a context of limited financial resources. But it is essentially the political crisis of April 2018 that changed the government's capacity to implement all its policies, as the economic situation of the country is now dramatic and the decrease of financial resources has limited its autonomy.

#### Implementation

5



After 12 years in power, Ortega has shown very little willingness to offer explanations and learn from past experiences. Since the crisis, Ortega has shown his determination to go against all the social groups organized in the protests or supporting them, showing an inability to listen and learn from the Nicaraguan's demands. This determination has led him to unleash disproportionate state violence.

Even before the crisis, Ortega's administration was characterized by no observation and knowledge exchanges, as the government wasn't listening to international or even national advice from groups that weren't aligned with FSLN's discipline. In this context, the political elite have shown very little interest in strengthening the rule of law and constructing a professional and neutral public administration. While intellectuals and parts of the academic community, along with several international agencies have regularly addressed accountability issues in Nicaragua, politics in Nicaragua remains characterized by short-term, clientelistic, zero-sum and patrimonial practices.

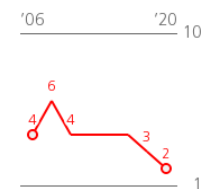
Since 2011, Ortega has focused on controlling the country's most important political institutions such as the legislature, the courts, the electoral authority, the controller general's office (the nation's auditor), the army and the police. This situation has created a very politicized administration, where Daniel Ortega and his wife Rosario Murillo control, designate and change civil servants almost at will. Policy learning thus happens coincidentally if at all, as there are no institutionalized mechanisms that facilitate innovation and flexibility in policy-making.

## 15 | Resource Efficiency

The use of public resources in Nicaragua is not particularly efficient, and corruption remains a central problem in Nicaraguan administration. As a result of the crisis, the debt of the country is increasing and the macroeconomy of the country is no longer stable. For instance, in August 2018, the government cut its expenditure budget for 2018 by \$186.3 million, 1.3% of its GDP. The amendment mainly affects public investment programs, health and education portfolios, and transfers to municipalities, according to the bill approved by the FSLN deputies. The budget cut was due to a lower collection of tax revenues of up to 9.2 %, and to a reduction in donations and disbursements of external loans. As a result, the new budget deficit has increased to \$48.8 million in 2018. Some of the most affected sectors are the Public Investment Program, sanitation, transfers to the municipalities and education. Furthermore, the centralized and highly politicized control of the state means that policies of strategic interest are implemented and monitored in secrecy and are made to exclusively benefit Ortega's power interests. Although there is an audit body for public administration in the form of the Office of the Controller General, it is ineffective and has not issued its report since 2016.

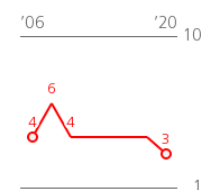
### Policy learning

2



### Efficient use of assets

3





The low efficiency of the public administration is related to four main reasons. The first one relates directly to the consequences of the political, social and economic crisis since April 2018. In this context, the state has to cut its budget and could also be in the obligation to cut public jobs. The second reason is the politicized nature of the public administration and lack of career-oriented civil servants. The third reason is structural, This relates, on the one hand, to the minimal presence of the state in some areas of the country, for instance the Atlantic coast, and on the other hand, to the lack of coordination between ministries when implementing government policies in rural municipalities and communities. As a consequence, there is no “responsible” decentralization. The fourth reason is related to Ortega’s administration, in which a cabinet led by the secretary of the presidency and its advisers is guided by decisions made by the president and his wife. The extreme centralization of decision-making means that policy is carried out very slowly, since it allows ministers very little autonomous decision-making power. Since the crisis, the dependence of the public administration has increased even more as the Ortega couple has strengthened control on all institutions using repression to silence any opposition inside the administration.

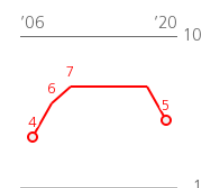
Policies designed by the government are coordinated by the presidency and, since 2017, together with the vice-president. As a result, Ortega and Murillo have total control over the government decisions. From 2007 onwards, there has been an attempt to centralize political power and decision-making power in the hands of the Ortega family. The price of centralization, however, has been inflexibility, a lack of autonomy and debate, and even, on occasion, paralysis. The purely personalist style of governing also means that there are no horizontal forms of coordination to mediate between different departments of state administration, leading to the further de-professionalization of administration. However, horizontal coordination is supposed to take place in the Ortega-Murillo kitchen cabinet.

Since the crisis, centralization has grown even more as the use of violence has created a situation of no return for the government. The importance of the repression and the dimension of the opposition inside the country obliged the Ortega’s government to concentrate its policies on security. The government accused the opposition of a coup and mobilized the police and paramilitaries to persecute opponents in all the country. The CPCs are used to supply information (identification and localization) on protesters and serves the repression procedures.

Corruption is an acute and endemic problem in Nicaragua, particularly within its political culture, and anti-corruption policies have never been very pronounced. Though the single major anti-corruption campaign initiated by the Bolaños government in 2002 led to the successful prosecution of former President Arnoldo Alemán, a pact between Daniel Ortega and Arnoldo Alemán ended this campaign. Since then and enhanced during the Ortega’s mandates, anti-corruption policies have been nonexistent, as the Ortega administration has had no interest in monitoring integrity mechanisms.

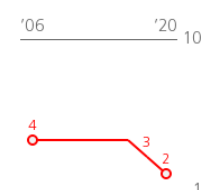
#### Policy coordination

5



#### Anti-corruption policy

2



In theory, the state is supposed to enable administrative transparency and integrity and punish criminal conduct. 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 than 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 any interest in the outcome of their decisions. Likewise, the public function should not be used for the benefit of any party.

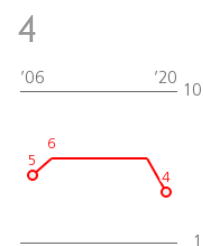
However, since Ortega came to power in 2007, the FSLN has been tightly linked to public administration. For the last decade, being a Sandinista militant has been the principal way to enter the public administration. The politicization of public administration, perceived by many as a Sandinista administration, has developed bribery practices at different levels to a point that anti-corruption mechanisms completely lack effectiveness and credibility.

## 16 | Consensus-Building

The major political actors are in fierce conflict over the very meaning of democracy. The Ortega regime uses the term democracy in a strategic sense to tighten a non-democratic regime. Consequently, the political actors are strongly divided in two groups, between support of the government and anti-regime forces. In the first group, political actors claim that democracy has been undermined by opponents that were organizing a coup against Ortega’s government. They also accuse opponents of anti-democratic practices. On the other, the second and major group is composed of opponents to the ruling party government. They accused the government of state violence against pacific protesters. They also claim for democracy, as they consider Ortega an illegitimately elected president and an authoritarian ruler. Already during the 2016 elections, the opposition parties have been campaigning for greater transparency and respect of free political competition. The massive use of force during spring 2018 consolidate their positions now supported all around the world by international organizations and countries asking for more democracy in the country.

Major political actors mostly agree on a market economy strategy, but disagree about its basic features. Opposition parties (PLI, PLC and Unidad Nacional Azul y Blanco) all claim to be in favor of a market-based economy. Before the crisis, the Ortega administration combined a market-based economy with monopoly sectors related to ALBANISA, favoring an economic group that is politically like-minded, and

Consensus on goals



uninterested in the laws of competition and free market. After the reduction in Venezuelan support, the Ortega administration has increasingly related to the COSEP and Sandinista economic group, as well as to big international firms. Different mechanisms (financial resources, authority, influence) have been implemented to favor faithful support. As a result, those that have held power since 1990, including during the Ortega administrations, have not hesitated in using privileged information, legal instruments and networks of favors to benefit themselves, either directly or via friends. Since the crisis, the COSEP and a significant number of companies have decided to support opposition.

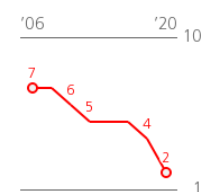
The 2016 elections turned Nicaragua into an electoral autocracy, with anti-democratic actors holding government positions. The 2018 crisis has turned Nicaragua to an authoritarian regime, using violence through paramilitary forces to control its population.

Since 2007, the FSLN has become the hegemonic political power, and since then took control of administrative, executive, legislative and judicial powers. It has also changed the constitution in its favor, and co-opted the military and most influential economic actors. However, since the crisis, the equilibrium of Ortega's government had been unsettled by the major protests. As a consequence, the Ortegas reacted by using the force of the national police but also of paramilitaries present before the crisis in a most discrete form in the country. According to Amnesty International, there is evidence dating back to 2011 of FSLN members giving weapons to civilians "to use in aggressive acts against political opposition groups." These paramilitaries are now the most important anti-democratic actors of the country. Their presence is widespread throughout the country, the use of violence is extreme, and they respond only to Ortega directives.

According to the GIEI's 2018 report, as the protests unfolded, the Ortega government relied increasingly on paramilitary groups to attack demonstrators. The report concluded that these groups acted "in parallel and coordinated fashion with the National Police," and that this coordination included "guarantees of impunity" for these groups. The paramilitary groups were made up of "unidentified persons" who often carried "military weapons," including AK-47s, Dragunovs, PKM machine guns, and M16s. The report indicates that members of these groups included public employees, members of the youth wing of the ruling FSLN party, the Sandinista Youth, as well as current or former gang members.

Anti-democratic actors

2



Nicaragua is a polarized country, largely divided between Sandinistas and anti-Sandinistas. The third consecutive term of Daniel Ortega has been characterized by a substantial increase in political conflict, resulting in the political crisis of 2018.

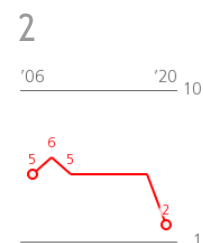
Even before the crisis, the political opposition experienced repression as the government harassed opposition street protests, retracted opposition parties' legal status (in the case of MRS in 2008), or sabotaged and manipulated internal party conflicts (in the case of the PLI during the 2016 elections). Since the crisis, the main change is the use of force that is now extremely important as the repression includes the incarceration, torture or even killing of opponents. As a result, there is a strategy of terror against protesters but also the media, human rights activists and others conducted by the Ortega government to end the political conflict.

On the contrary, ethnicity, class, regional and religious conflicts are minor in the country. Only on the Atlantic coast has there recently been ethnic and regional conflicts, initiated by Ladino peasants invading Miskito lands, and resulting in armed confrontations and several deaths.

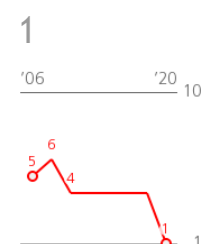
Over the last decade, the Sandinista political leadership has not involved civil society actors in policy deliberation or decision-making. Agenda setting, policy formulation, implementation and performance monitoring has been exclusively controlled by the Sandinista government, leaving civil society without any way to intervene in public decisions. Since the political crisis of April 2018, the situation is even worse as civil society actors are mainly persecuted by the Ortega government, including prohibition and criminalization of civil society groups, such as CENIDH.

On the other hand, the Ortega administration introduced since 2007 the Councils of Citizen Power (CPC), which are tasked with implementing direct democracy functions, although primarily on behalf of Ortega's own loyalists. CPCs are in fact para-state organizations organized in a hierarchical way and tightly controlled by Vice-President Rosario Murillo, 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 and generates what are essentially patron-client political linkages. Since the beginning of the crisis, some members of the CPCs have even been recruited by paramilitary groups to defend Ortega's positions.

Cleavage /  
conflict  
management



Civil society  
participation



Political leaders had little incentive to redress historical injustices of the revolutionary era (whether on the part of the Contras or Sandinistas) in any serious manner. The last experiment before the crisis was the launching of a platform of reconciliation during Ortega's second and third election campaigns. The Commission of Verification, Reconciliation, Peace and Justice that was created was ruined by Cardinal Obando y Bravo and had no real activity and the cardinal was accused of partiality.

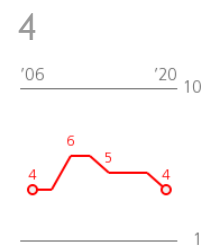
Concerning the 2018 human rights violations, reconciliation seems void. In May 2018, the Catholic Church organized a negotiation round between the Ortega government and different sectors of the opposition (students, representation of economic sectors as COSEP, peasant groups, feminist groups, political opposition, etc.). They all participated in the negotiation without any results, the government blocking any discussion and rejecting all opponents' propositions, including the anticipated elections in March 2019. After several weeks of blocked negotiations, they were stopped as the state violence was increasing at the same time. As a result, there is no intention from the government to respond to recent injustices and recent state violence. In these conditions, the Ortega state is not willing to lead a political reconciliation process.

## 17 | International Cooperation

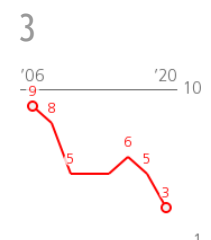
Before the political crisis, the Ortega government had been successful in attracting international support from any side. The National Human Development Plan (PNHD) 2018-2021 is the best example of the government's ability to attract international resources to finance its development policies, achieving the consensus of the majority of multilateral donors on its project of poverty reduction and human capacities improvement. But this plan hides much more disorganized public policies, no real long-term development strategy, or even a clear roadmap apart from strengthening the Ortega's government power position. Since the crisis, the majority of donors have left the country and international aid has decreased in a dramatic way considering the extreme dependence of the country on aid, which has been a vital element of the country's economy since the 1980s.

This latest development is at the end of a downward spiral that has been taking shape for some time under the Ortega governments, which has paid less attention to international cooperation, knowledge exchange and consultancy, and increasingly objected to the interference of donor support in the area of democratic governance. As a result, official development assistance gradually decreased as the Ortega administration alienated many donors. The Ortega administration has also had a difficult relationship with international organizations. In 2016, the Nicaraguan government accused UNDP of political interference, financing political parties and misrepresentation of data on the country's development. As a result, UNDP activities have been reduced to its lowest level after cutting 86% of the programs operating in the country.

### Reconciliation



### Effective use of support



After the outbreak of violence in Nicaragua, the Ortega's government has lost further credibility and is no longer considered a reliable partner by the international community that had progressively acted since the crisis denouncing the use of violence since spring 2018.

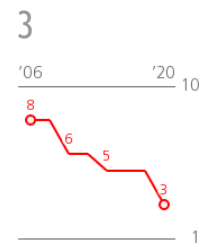
Although the international rejection is broad, the Ortega government has not stopped making regular use of international spaces that he continues to consider as legitimate. Still, in the international arena, the Ortega regime only finds support in the government of Bolivia and mostly Venezuela, which in the framework of the Organization of American States openly supported the Nicaraguan government.

Apart from Venezuela and Bolivia, criticism against Ortega's regime have been unanimous. The office of the United Nations High Commissioner for Human Rights (OHCHR) published a report indicating that the Nicaraguan state was responsible for violating the human rights of its citizens. The Security Council of the United Nations also denounced the violation of human rights and has stated that it cannot remain a mere observer in the face of the possibility of Nicaragua becoming a failed state, considering the possibility of a greater escalation of the crisis and its probable impact in Central America.

In May 2018, the IACHR issued a report that documented a pattern of massive repression. Since the beginning of June 2018, the permanent council of the Organization of American States began addressing the crisis in Nicaragua and declared that the Nicaragua was given a term of nine to 14 months to hold general, municipal and parliamentary elections in which the popular will is respected. The 21 countries, with the exception of Venezuela and Nicaragua, supported the final report of the IACHR condemning the excessive use of armed force against the protests. In July 2018, the OAS approved a resolution that aims to create a special commission for Nicaragua that contributes to the search for peaceful solutions to the crisis, including support and accompaniment measures of the OAS and other regional actors, such as SICA, UNHCR and the European Union. On August 20, a working group formed by twelve countries of the region (Argentina, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, United States, Guyana, Mexico, Panama and Peru) was created. However, this group has not been able to play a real role in resolving the conflict in the country given that the Ortega government has rejected all collaboration.

In addition to international organizations such as the UN, OAS and IACHR, various human rights organizations have condemned violence and repression, such as the International Federation of Human Rights (FIDH) and the World Organization against Torture (OMCT), Amnesty International, WOLA, Front Line Defender and Human Rights Watch, among others.

### Credibility



As a response to these international actions, the Ortega government had declared itself a victim of a coup d'état and rejected all international propositions.

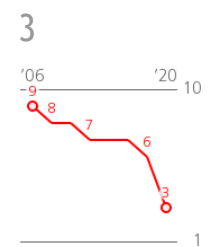
Notwithstanding, Nicaragua has maintained its relations with the IMF who visited the country in October 2018, stating that “the mission has agreed to conduct the next Article IV consultation during the first half of 2019.”

Since its return to power, the Ortega government has actively sought to develop and consolidate cooperative international relationships. Nicaragua is a member of all important regional organizations and has actively furthered Central American integration efforts. It has taken part in the CAFTA-DR and the EU-Central America association agreement negotiations. However, the defeat or crises of leftist governments in the region during the last years and the decline in Venezuelan aid, as well as the impacts of the domestic crisis have isolated the Ortega government, which is only supported officially by the Venezuelan government.

Relations with the United States, Nicaragua's major trade partner, are conflictual due to Ortega's authoritarian excesses and his refusal to compromise. The vote by the U.S. Congress of the Nica Act in December 2018 has further complicated relations with the United States. The Nicaragua Investment Conditionality Act (Nica Act) has been floating around Congress since 2015. Its main idea is to direct the U.S. executive to use its voting power in multilateral lending institutions to block any new loans for Nicaragua until a set of reforms regarding elections and transparency are implemented. The bill also demands the reestablishment of diplomatic institutions and that corruption be tackled, including investigating high-ranking officials. The Trump administration also imposed financial sanctions on Nicaragua's Vice-President Rosario Murillo and on top adviser Nestor Moncada, thus increasing pressure on the Sandinista government. This, in turn, is – at least rhetorically – rejected by the Nicaraguan government as imperialist interference.

Recently, the Lima Group and the working group in the OAS were created with the objective of facilitating a democratic transition under the Inter-American Democratic Charter. But the Ortega-Murillo government is not willing to negotiate and rejects all propositions of negotiations at the time of writing, and even the mediation of the Mexican government of President López Obrador.

### Regional cooperation



## Strategic Outlook

Nicaragua's transformation perspectives have increasingly become obscured during the period under review. The 2018 political crisis has profoundly changed the nature of the political regime through the massive use of force and systematic human rights violations, and also affected political participation, social organization and the country's economy. Nicaragua entered into its largest crisis since the civil war in the 1980s as hundreds of Nicaraguans are leaving daily the country for safer Costa Rica where they are not persecuted for their political positions. Around 25,000 Nicaraguans have applied for asylum or plan to do so, in total 40,000 migrants since the beginning of the crisis, creating a new migration crisis on the border. Human rights organizations declared that the repression led to between 350 and 500 killings, 2000 injured and hundreds of prisoners.

In May 2018, the Catholic Church tried to implement a negotiation round table between the Ortega government and the different sectors included in the opposition. However, the negotiation failed as the repression was still going on in the streets during the round tables. The opposition was asking for anticipated elections in March 2019 but were rejected by Ortega's government that claimed to be victims of a right-wing opposition coup d'état. At the moment of the report, the government continues a strategy of state terror, persecuting all opponents in the country, using police and mostly paramilitary forces equipped with war weapons.

Given this scenario, a return to democracy with Ortega and/or Murillo as "strategic partners" is virtually impossible, as the regime has accumulated an amount of human rights violations that impedes any participation in a thorough negotiation process. Therefore, from a normative point of view, there will be either a new democratic regime or a non-democratic Sandinista regime. However, from a more realistic point of view, and taking into account the regime's aptitude for survival, a more prolonged transition process seems to be at stake with probably more victims of repression.

As the domestic opposition is not capable of enforcing a regime change on its own without the – improbable – help of Nicaraguan security forces, international pressure might be the only viable solution to "convince" Ortega to resign. As the Trump administration is not a very reliable partner to enforce democratic processes, the only hope would be Latin American peers along with the European Union.