

BTI 2014 | Nicaragua Country Report

	scale	score	rank	trend
Status Index	1-10	5.57	# 67 of 129	
Political Transformation	1-10	5.60	# 67 of 129	➔
Economic Transformation	1-10	5.54	# 65 of 129	➔
Management Index	1-10	4.82	# 70 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	6.0	HDI	0.599	GDP p.c.	\$	4072.0
Pop. growth ¹	% p.a.	1.5	HDI rank of 187	129	Gini Index		40.5
Life expectancy	years	74.1	UN Education Index	0.527	Poverty ³	%	31.7
Urban population	%	57.9	Gender inequality ²	0.461	Aid per capita	\$	63.5

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Nicaragua has maintained notable continuity at both the economic and political level, taking as a reference point the return of Daniel Ortega to the presidency in 2007. Ortega's second administration (2007 – 2011) was characterized on one hand by the continuity of macroeconomic policy fomented by previous governments. The expansion of social programs, the promotion of focused social policies, programs to aid the grassroots economy (economía popular), and the distribution of basic necessities via party-administrative organs have all managed to limit and even reduce poverty in the country. On the other hand, Ortega's presidency was also characterized by the progressive politicization of public administration, the justice system and the Supreme Electoral Court, and the discretionary use of public resources for the benefit of the governing party. At the same time, the increasing role of First Lady Rosario Murillo also became evident, as well as the progressive concentration into the hands of the Ortega family and their close allies of the country's strategic resources, such as the management of aid flows from Venezuela or the appropriation of telecommunication companies.

At the political level, with the presidential and legislative elections of 2011 (in which Ortega won landslide victories) and the municipal elections of 2012 (where the Sandinista National Liberation Front (FSLN) gained control of the entire local administration, or 134 of 153 municipalities), the local elections of 2008 were confirmed as a test for what was yet to come. Undoubtedly, as of 2008 in Nicaragua elections have not been conducted fairly, mainly in Managua and León. It is not that the FSLN committed fraud on the day of the election, but rather that the administration has managed to orchestrate plans in which, with the help of the judiciary, the electoral administration and public resources, the opposition is sidelined and has no capacity to compete. The opposition in Nicaragua is weak, and fragmented between different liberal parties (such as the Liberal Constitutionalist Party (PLC), the Independent Liberal Party (PLI) and the Nicaraguan Liberal Alliance (ALN)) and others (the Conservative Party (PC) and the Sandinista Renovation Movement (MRS)). Consequently, the incumbent has ended up winning more and more regions

until he essentially has become a hegemonic actor. The FSLN is precisely that, a hegemonic party which – at the same time – is controlled by Daniel Ortega and his wife. In this sense, the third Ortega administration has come close to establishing an “electoral authoritarianism” (or a hybrid regime) with very few counterweights in the political sphere.

In terms of the economy, there has been much continuity in terms of macroeconomic policies despite conflicts between the IMF and the government. In fact, IMF programs were suspended in 2012. The country’s trade partners have changed considerably, with Venezuela gaining preeminence as Nicaragua’s biggest investor and supplier of oil and energy. Likewise, there have been changes at the level of international relations. Although Ortega’s administration has maintained previously acquired commercial and financial commitments (such as the Dominican Republic-Central America-United States Free Trade Agreement or CAFTA-DR), the president has strengthened political and commercial relations with the Bolivarian Republic of Venezuela and the countries of the Bolivarian Alliance for the Peoples of Our America (ALBA) group, as well as with Iran, Libya and Russia. Meanwhile, relations with donor countries in the European Union and with the United States have deteriorated. Border conflicts broke out (yet again) with Costa Rica in 2010 over management of the San Juan River, and with Colombia in 2012 over the historic legal case dealing with the sovereignty of the San Andrés Islands after a resolution from The Hague’s International Court of Justice which was favorable to some of Nicaragua’s demands.

Consequently, the immediate future for Nicaragua looms as complex, and possibly tension-filled. The desire of the FSLN and Daniel Ortega to command a complete hold on political power goes against the general feeling of society, which is much more pluralistic than is reflected during elections and in official discourse. Yet Ortega’s policies are based, to a large extent, on the resources offered by Venezuela, the continuity of which is currently up in the air.

History and Characteristics of Transformation

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

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

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

The transfer of power in 1990 spelled the end of the mixed economy of the Sandinista era. The Chamorro government followed a rigorous program of stabilization and structural adjustments based on a strict market-economy and export-oriented development model. It abolished the foreign trade monopoly and most price controls, opened up the banking sector, and privatized some 350 state-owned businesses. Succeeding governments have remained faithful to this development model, and in collaboration with international lenders, continued to pursue transformation toward a market economy, although the improvement in the country's macroeconomic indices did not lead to a decrease in poverty.

The 1996 elections gave victory to Arnoldo Alemán, who governed from 1997 until 2002 as leader of the Liberal Constitutional Party (PLC) with a broad parliamentary majority. However, Alemán's autocratic- populist style of governance, rampant corruption, and power-sharing arrangements with the Sandinistas undermined the balance of power and impaired the functioning of state institutions. Once in power, the Enrique Bolaños government (2002 – 2007) initiated an anti-corruption campaign against Alemán that resulted in a stalemate between the different state powers. Although ultimately convicted of embezzlement, Alemán maintained his parliamentary

power base and struck additional power-sharing agreements with Sandinista party leader Ortega – with the most famous agreement being “El Pacto” in 2000, where the two leaders politicized institutions and restricted plurality. During the run-up to the 2006 elections, two new moderate, “anti-Pacto” parties established themselves – the Alianza Liberal Nicaragüense (ALN-PC) headed by Eduardo Montealegre, and the Movimiento de Renovación Sandinista (MRS), led by Herty Lewites. In the end, Ortega used this division to win the presidential elections with a simple majority, after three unsuccessful previous attempts.

The Ortega administration (2007 – 2011) 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 government, 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 guarantee FSLN electoral victories.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state of Nicaragua maintains control practically throughout the country. The armed forces, police and public administration are present throughout the territory, albeit with different degrees of intensity. On the Atlantic coast territory (on the Caribbean) the state's presence is weaker; in some cases, this means that the provision of services to citizens is limited. Furthermore, other actors, such as networks of drug-traffickers or mafia groups, challenge the state's legitimacy and even compete with it for the monopoly on the use of force. Over the last two years, Mexican drug mafias have penetrated with greater intensity into Central American territory. On the Nicaraguan border, this phenomenon has manifested itself (although to a lesser extent than with its neighbors to the north) as a result of the smuggling of immigrants and money-laundering. The most vulnerable area is the South Caribbean region, where criminal networks have taken hold and the homicide rate has increased (42.7 homicides per 100,000 inhabitants).

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

Question
Score

Monopoly on the
use of force

7

State identity

8

state administration. As a result, these people lack access to public services and find it difficult to exercise their rights of citizenship. On the other hand, over the last decade, there has also been a process of “ethnogenesis” of groups reclaiming their indigenous identity in the country’s geographical center and northern regions. Specifically, the cases of the Chontales (in the north) and the Subtiavas (in the west) who are reclaiming land and resources are worth pointing out.

In theory, and according to the law, Nicaragua is a lay country. Furthermore, Nicaragua’s constitution proclaims its own non-religious nature, and specifies separation between state and church. Nevertheless, the Catholic Church is an institution with considerable political influence and a significant presence within Nicaraguan society. Throughout history, and especially over the last 30 years, the political role of the Catholic Church has been relevant, whether in support of or in opposition to measures proposed by state institutions.

No interference of
religious dogmas
9

From 1990s until the present day, the Catholic Church has had considerable influence over social and moral issues. Since 2007 (following Daniel Ortega’s return to presidency), the church has not only maintained but increased its power. This is reflected in that Ortega’s administration (at the church’s request) annulled Article 165 of the penal code, which had permitted “therapeutic abortion” in extreme cases. This created a conflict between the political elite and civil society groups, though the former never came into open conflict with the Catholic Church, regardless of ideological differences. This gesture by Ortega’s government, along with religious rhetoric that administration figures (and the first lady) use, does not imply the loss of the state’s secular status, but does indicate an increase in the church’s capacity to intervene in political affairs. This tendency has even grown stronger during Ortega’s current term, in which traditional-religious imagery has been fomented with greater intensity (to a large extent by the first lady) and has gained increasing public visibility. The case of the celebration of the Purísima – celebrating the immaculate conception of the Virgin Mary – in 2012 demonstrates this.

The structures of state administration (both civilian and military) are present throughout the country. However, the intensity of the presence of the administration varies: there is a greater presence in the urban zones of the Pacific compared to the rural zones, and it is lesser still in the Caribbean zone. However, the administration displays key deficiencies in the areas of providing goods and services to citizens, extending infrastructure throughout the country, assuring the rule of law and obtaining direct fiscal resources.

Basic
administration
6

With regard to goods and services, the state provides education and health care throughout the country, particularly in the capitals of departments and municipalities. However, in rural and jungle regions, access is more limited. In general, the quality of services is low and, as a result, the sectors of the population that can acquire services in the open market do not rely on the state. Judicial administration suffers

similar difficulties. The provision of clean water and sanitation is clearly deficient in marginal urban neighborhoods and almost inexistent in rural areas. The transport network is adequate in the Pacific region; indeed, some improvements were made during the period under review. Access to regions in the country's interior, especially the Caribbean region, is more difficult, and in the rainy season access routes to the Caribbean can be cut off entirely. The state's capacity to collect taxes is limited. Informal work and limited control over the generation of wealth in the formal sector means that fiscal revenues are almost exclusively indirect.

From 2006 until the review period, the Ortega administration has created mechanisms to provide focused social policies via parastatal mechanisms called Citizens' Power Councils (Consejos del Poder Ciudadano, CPCs). These councils have a considerable presence throughout the country, although they often act according to party criteria and with little formality. The deployment of the CPCs throughout the country – which in many cases are instruments to implement focused social policies of the Ortega administration – can also entail the creation of a parallel system of institutions, which is parastatal and run by the governing party.

2 | Political Participation

There are obvious problems with free and fair elections in Nicaragua, but the country still can be considered as a (strongly defective) democracy. From 1990 until the review period it is possible to distinguish two phases with regard to elections. The first covers the 1990 elections to the 2006 elections, characterized as being free and competitive, despite having some limitations and irregularities. The second phase starts after the 2006 elections and includes the local elections of 2008 and 2012, as well as the 2011 general elections, characterized by their partiality and an institutional bias in favor of the incumbent (in this case, the FSLN).

The elections in Nicaragua from 1990 until 2006 were a legitimate and clean instrument of access to power for political representatives. However, there have been some “queried” cases as a result of problems with the electoral administration, particularly with the registration of citizens as having the right to vote in instances when some were not identified and others lived outside the country. In the 1996 presidential and legislative elections, there were several errors and small irregularities in the vote-counting process. In the 2006 elections, the Supreme Electoral Council failed to make all the votes public on its Web page. Likewise, in the periodic elections to select local authorities in the North Atlantic and South Atlantic autonomous regions, there have been errors in the voting register and logistical difficulties leading to implementation problems, but never cases of alleged fraud or irregularities that threatened the contests' legitimacy.

Free and fair
elections

6

However, as of 2007, several events have given rise to electoral governance concerns. The main concern in this respect has been that the FSLN will be able to co-opt a majority of the magistrates of the Supreme Electoral Court (CSE) and thus control the electoral administration. This is made relevant in that Nicaragua's electoral process is controlled entirely by the CSE and the political parties of which it is composed. By controlling the CSE, the FSLN holds tight control over the electoral register, the voting tables, the scrutiny of the votes and even over the legal status of parties themselves.

In this sense, as of 2007 the FSLN has worked to increase its control over the electoral administration, despite trying to maintain a degree of legality. Thus the presidential and legislative elections of 6 November 2011, were carried out essentially under the dominance of the government party (FSLN). The opposition did not have the capacity to present competitive candidates or to duly monitor the vote count in the electoral tables. Consequently, the result in the presidential election was 62% in favor of the FSLN candidate, Daniel Ortega. Later, election monitors from the European Union and the Organization of American States (OAS) acknowledged irregularities in the contest but did not claim systematic fraud. The 2012 local elections were also carried out according to the same logic of domination by the FSLN, which gained power over a majority of municipalities (134 of 153) and the entirety of the heads of departments. As a result of this dynamic, many associations in Nicaragua (such as *Ética y Transparencia*) and at the international level (such as the Carter Center) have stressed that the elections of 2008, 2011 and 2012 cannot be considered to be fairly run as previously expected.

In principle, the Nicaraguan government controls the administration and, therefore, the capacity to establish priorities, design policies and implement them. However, on many occasions, those policies – once designed and legislated upon – are difficult to implement due to three factors: the fragility and weakness of public administration; the lack of professionalism of state civil servants and the difficulty in monitoring tasks; and the scarcity of available resources.

It is also important to note that as of 2007 (a tendency which has increased in 2011), government activity has become concentrated in the presidency (monitored by the first lady) and consequently the role of ministers has decreased. In this sense, the centralization of power and hierarchy can create greater obstacles. Nicaragua's elected authorities do have the capacity to design, decide on and implement public policy programs, as well as to develop a national budget. The armed forces and national police are under the control of the civil authorities. Despite this, authorities have some limitations when exercising power due to elite agreements made outside the formal political process and due to pressure from some sectors of the elite in concrete policy areas. In this latter sense, it is worth highlighting the power of the Catholic Church over legislation on topics such as abortion, or specific groups of businessmen on questions related to banking, international commerce or certain

Effective power to
govern
8

investments. International donors and financial institutions, especially the IMF, also have a strong influence in some political fields such as fiscal policy. It is also important to note the dependence of the Nicaraguan government on financial resources from Venezuela via the Bolivarian Alliance for the Peoples of Our America (ALBA). In this sense, the uncertain political fate of Venezuela will certainly have an important impact in Nicaragua.

The constitution guarantees the right to political association, as well as other individual and collective rights and freedoms. However, since 2000, as a result of the “pact” made by the leaders of the two most powerful political groups at the time (Daniel Ortega and Arnoldo Alemán), the institutions in charge of oversight and accountability have fallen under the sway of these two parties. As a result, the judiciary and the Supreme Electoral Court (CSE) acquired an evident two-party bias, excluding other political formations. However, as of 2006 this two-party logic of control turned into a hegemonic order in favor of the FSLN, when Daniel Ortega won the presidential elections.

With the judiciary and the CSE under the control of the FSLN, the freedoms and rights enshrined in the constitution have not been eliminated as such, but their exercise has been limited on certain occasions. This situation has meant the de facto existence of the control of dissidents. This control has been carried out in two ways: indirectly, via negotiations with leaders of the opposition, and directly, by suspending the juridical status of some parties (such as the Sandinista Renovation Movement (Movimiento Renovador Sandinista, MRS) or the Liberal Constitutionalist Party (Partido Liberal Constitucionalista, PLC)), intervening in some oppositional civil associations (as was the case of the autonomous women’s movement), and threatening independent news groups. Violence has been employed in the control of dissidents in a limited, local and exceptional fashion, with some clashes in electoral periods standing out.

In Nicaragua, freedom of expression is relatively recently secured, as of February 1990. In July 1995, the General Law of Telecommunications and Postal Services established a general institutional and judicial framework to regulate the telecommunications sector. This law, known as Law 200, creates the Nicaraguan Institute of Telecommunications and Postal Services (TELCOR) as an autonomous entity under the presidency of the republic to supervise the fulfillment of telecommunications regulations. Also, in 2007, the Law on Access to Information came into effect, with the start of public bidding for contracts and an opening of the radio-electronic spectrum to concessions. However, since Ortega was elected president, the majority of radio and television channels has been bought or co-opted by the government, as was the case with TV channels Canal 4 and Canal 8.

The most widely read newspapers, La Prensa and El Nuevo Diario, do not support the Sandinistas and tend to be critical of the government. According to the

Association /
assembly rights

7

Freedom of
expression

7

Nicaraguan Center for Human Rights, serious threats and violations of the freedom of expression have emerged.

3 | Rule of Law

The separation of powers is formally recognized, but since 2000 (with a pact between Daniel Ortega and former President Arnoldo Alemán) it began to break down. Moreover, since Daniel Ortega's election to the presidency in 2006, and the Sandinista party's absolute majority of deputies in the National Assembly in 2011, the separation of powers in Nicaragua is essentially a formality.

Separation of
powers
4

For this reason, in Nicaragua a regime that might be classified a delegative democracy is becoming consolidated, and which may even end up as an "electoral autocracy." The main problems with respect to checks and balances in Nicaragua result from the control wielded by the political elite over all state institutions. Consequently, the legislative and the judicial branches lack independence, and accountability mechanisms are difficult to install.

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

Independent
judiciary
3

The weakness of the judiciary has resulted in the maintenance of traditional levels of politicization within its structures, a trend which has historically made the judiciary a captive of the executive branch. As a result, the powers of the Supreme Court have always been a result of the historical political struggle among the main political forces in Nicaragua.

In recent years, this tendency has been perpetuated through a political agreement (called simply, "El Pacto") reached in 2000 between Arnoldo Alemán and Daniel Ortega. With the pact, these two actors proceeded to divide top executive positions in each institution according their respective political weights. In fact, this two-party pact has propitiated the clientelistic colonization of certain institutional spaces, which has also seriously affected judicial performance.

In this sense, people assume that all magistrates have clear political loyalties and the imposition of party order over decisions is made in a strategic, though sporadic and decentralized way, involving multiple networks of loyalties which may ultimately

converge in the caudillos. On the day-to-day level, this implies that arbitrary judicial rulings more often stem from simple payoffs, or from bargaining between higher-level magistrates, than from direct instructions from one or the other dominant party leader. The nevertheless close alignment of Nicaraguan magistrates' party preferences with their judicial decisions casts doubt on the credibility of their decisions. This ostensible partisanship has two principal consequences for the judicial system. First, it undermines collegiality among the justices. Second, it diminishes the perceived independence of the entire justice system. Therefore, political and social actors question the impartiality of judicial proceedings, which undermines the rule of law and weakens an essential component of state-society relations.

Corruption is a fundamental problem in Nicaragua's political culture. Moreover, the prosecution of corruption tends to be a political weapon rather than a matter of law. Deficiencies include a lack of transparency in budget management; the lack of monitoring of public entities; excessive exemptions given to procedures and requirements in state contracts; the decrease in the belligerence of watchdog organizations; the increase in the selective application of legal safeguards; and the limited application of the law of access to information and other mechanisms. The media and a considerable number of civil society organizations have denounced the lack of transparency in the management of public resources, particularly those coming from the Venezuelan government via ALBANISA, a private company which helps manage investment funds from the Bolivarian Alliance for the Peoples of Our America (ALBA) group. These resources have progressively been controlled under the influence of the government party (FSLN) and the president's close family. Furthermore, over the last few years, judicial scandals have been revealed, related to illegal business deals (drug-trafficking) which have then been resolved in secrecy. Among these cases is that of Cabral-Fariñas-Osuna, a case which came to a head in 2011.

The opinion data of the Latin American Public Opinion Project (LAPOP) of 2004 – 2010 show the existence of a generalized perception of corruption. In 2010, the great majority of Nicaraguans thought that corruption was a common practice among public employees (39.9% affirmed that it was very generalized and 29.9% somewhat generalized), with a minority thinking the opposite (23.8% affirmed that it was not very generalized and 6.4% stated that it was not generalized at all).

Civil freedoms and protection for human rights are formally in place, and are largely respected. However, the weakness of the judiciary impedes the state's ability to respond to violations of these rights. The weakness of the judicial system, together with the statistics that 61.9% of the population lives in poverty and 31.7% lives on less than \$2 per day, mean that civil rights cannot be exercised, despite being enshrined in the constitution.

Prosecution of
office abuse

3

Civil rights

6

Yet beyond the difficulty in making civil rights a reality for a large part of society, in recent years the problem of violence against women has increased (with a phenomenon that was previously unknown, such as femicide). Women also face other discrimination; women earn only 66% of what men earn for the same job. The Law 603 forbids abortion on health grounds, and for this reason today more than 100 Nicaraguan women at the time of writing are facing legal proceedings. In this sense, despite that the government has made some effort toward gender equality (such as passing the Law 50-50, which demands gender equity in party lists for elections), women still suffer from discrimination in real life.

Despite the creation of a special office for sexual diversity in 2012 and general greater public attention, there are no public policies designed to address issues affecting lesbian, gay, bisexual, transsexual or intersex groups (LGBTI). Nicaraguan citizens abroad (mainly in Costa Rica, the United States, Panama and Spain) have no political rights or guarantees; indigenous groups from the Pacific side, the center and northern part of the country are not acknowledged as such and the customs, lands and resources present in their territories have never been acknowledged.

4 | Stability of Democratic Institutions

Since 1979, Nicaragua has undergone a series of regime changes. The current regime under Ortega can be classed as a hybrid, similar to most Central American governments. In the case of Nicaragua, a hybrid regime means having politicized courts and a powerful president who dominates his political party (FSLN), controls the legislature and directs the electoral commission and the judiciary. As a result, the rule of law is compromised and both vertical and horizontal accountability are undermined. Yet at the same time the economy is stable, poverty is declining, and there is still some measure of political freedom. Free and competitive elections however are in doubt.

The national elections of 2011 and the local elections of 2008 and 2012 have generated fears of democratic involution due to the way in which the FSLN has used (to its own benefit) the electoral administration and state resources. In addition, opposition parties are weak, fragmented and hold little credibility. The fact that the FSLN holds an absolute majority in the National Assembly and controls nearly all local administration has given rise to fears of a hegemonic and discretionary use of power.

The Nicaraguan elites' commitment to democratic institutions appears to be rather instrumental in pursuing their power strategies. Two factors are critical for the legitimacy of Nicaraguan institutions: one is the Ortega government's control over the courts, and the second is its control of the Supreme Electoral Court (CSE) and the weakness of opposition parties. The first gives the administration the tools to harass

Performance of
democratic
institutions

4

Commitment to
democratic
institutions

4

and hamstring its opponents; the second makes those opponents inviting targets. In this sense, the evolution of mistrust toward the CSE is notable. Data from the Americas Barometer (1999 – 2010) show that the percentage of people showing trust in the CSE steadily declined from 2006 to 2010 to only 40.3%. Though rising to 49.6% in 2012, trust in the CSE has to be considered as rather meager and dependent on party preferences.

5 | Political and Social Integration

From the 1984 elections until 2005, Nicaragua maintained a unique, two-party system. One party was the FSLN, and the other was whichever party led the anti-Sandinista forces. In 2000, the FSLN and the leader of the anti-Sandinistas, the PLC, forged a power-sharing pact. Neither two-party dominance nor duopolistic pacts are new to Nicaragua, and both should be considered informal institutions.

Party system
5

Movement away from the two-party model became clear in 2005, when splits in both major parties appeared. It was confirmed in 2006 when three parties, the PLC, the ALN and the FSLN took 27%, 28% and 38%, respectively, of the presidential vote. This three-party system did not last, however. The 2008 municipal vote was again a two-party affair, between the FSLN and the PLC, with the Sandinistas taking over 60% of the municipalities but with no official vote totals ever published.

By 2011, the PLC was reduced to an afterthought (winning 6% of the vote), while the second-place PLI managed 31%, and the FSLN garnered 62.5%. With these elections, the FSLN and its leader, Daniel Ortega, won the presidency once again (and consecutively) as well as a broad majority in the National Assembly, with 62 Sandinista deputies out of a total of 90.

With this domination of national politics, the FSLN increased its control of the electoral administration and, consequently, won another landslide victory (with 75% of the vote) in the local elections of 2012. After these elections, the FSLN controls 127 of the 153 municipalities and all 17 departments.

With such a result, a hegemonic party system has developed in Nicaragua, where the FSLN not only wins repeatedly electoral contests but also adapts and modifies electoral rules and the administration as it pleases, to perpetuate its hold on power and restrict the opposition.

Nicaragua has a plurality of interest groups, some of which have a long history in the country. The oldest, formally organized interest groups represent private businesses; a prime example is the Consejo Superior de la Empresa Privada (COSEP). Since 1990, COSEP has maintained contact and communication with all governments. Another organization, primarily of importance to farmers, is the Unión Nacional de Agricultores y Ganaderos (UNAG). This group is relatively pluralist in its make-up

Interest groups
6

and is Sandinista in origin. In sharp contrast to the 1980s, trade unions are comparatively autonomous, although there is still a sector with strong links to the FSLN (the Frente Nacional de Trabajadores, FNT). Nevertheless, the relationship between the FSLN and trade unions is complex and in many cases based on corporative negotiations, particularly in transport (buses and taxis) and informal sectors. There is a remarkable spectrum of non-Sandinista trade unions, though they tend to be of lesser importance. A number of other sectors also act as interest groups; although their relationship with the administration is less visible than that of trade unions, it is often no less effective. Such groups include the Catholic Church (which wields great influence over education, morality and social policy), press associations and banking groups, although in many cases these interests are defended via personal contacts.

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

Over the last few years, and much more intensely since 2011 (with the reelection of Daniel Ortega), many interest groups have increased a relationship of favors and subordination to government power in spite of their ideological or normative leanings, such as the powerful COSEP.

In terms of the legitimacy of the political system, it can be said that – despite the questionable actions and results of government – the legitimacy of democracy has increased gradually since 1990. In general, most Nicaraguans agree with the idea that democracy is the best form of government. According to a report by the Latin American Public Opinion Project (LAPOP) 2012, 73.8% of Nicaraguans openly support democracy, a figure that is lower than the Costa Rican average (75.1%) but higher than in Guatemala (61.5%), El Salvador (65.6%) and Honduras (52.6%). However, Nicaraguans' satisfaction with the way democracy works however is not high. According to the Americas Barometer 2010, the number of citizens "satisfied" was only 48.6%. The main causes of this lack of contentment according to research are not socio-demographic variables such as class, education or age, but rather the perception of the economic performance and support for the FSLN and Ortega's government. That is to say, the majority of individuals dissatisfied with how democracy works are also opposed to the Sandinista government. In addition, according to the Americas Barometer 2012, only 13.8% of those who report voting for the FSLN perceived irregularities, compared to 30.4% of those who voted for no party, 41.4% of PLC voters and 67.2% of PLI voters.

Self-organization among the population often faces socioeconomic barriers and is therefore generally weak. Self-help organizations are active in combating the most pressing social ills, such as the prevalence of street children and drug abuse, but a

Approval of
democracy
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Social capital
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lack of funds has prevented any major successes. Levels of trust among the population are generally low. According to Latinobarómetro 2011, Nicaragua ranked second to last in the region, only ahead of Brazil. Nevertheless, the often informal self-help networks have created some degree of social cohesion and social capital, which also helps explain the country's relatively low crime rate in comparison to Nicaragua's neighbors.

Alongside party politics, unconventional forms of political participation have played a significant role in Nicaragua during the last two decades. In fact, political conflict has often taken a disruptive form. It is therefore important to understand the emergence and dynamics of popular movements. Over time, various sectors of civil society – especially feminist and civil liberties movements – have become more active and combative. Two types of mobilizations have occurred in this context. First, there have been those formed in reaction to the morally and socially conservative policies on reproductive health promoted by the FSLN, and second, street demonstrations organized to protest the erosion of freedom and rights caused by the politicization of the judicial system, electoral administration and the state in general. The latter of these two types of mobilization have taken on major importance since Ortega assumed the presidency.

Lastly, the Ortega administration has created a new, so-called participatory mechanism known as Citizens' Power Councils (CPCs). The structure and behavior of CPCs shows that they are parastatal organizations structured hierarchically and controlled by the FSLN – their overall head is Ortega's wife – with the aim to distribute funds and resources under targeted social policies and to keep loyalties in place. This type of organization generates a top-down relationship rather than bottom-up participation, since it attempts to motivate and control the participation of the faithful as well as latecomers to the cause, generating policies of patronage.

II. Economic Transformation

6 | Level of Socioeconomic Development

Nicaragua's socioeconomic development status is low. According to the Human Development Report 2011, the country's Human Development Index (HDI) value was 0.589 (compared to a regional average in Latin America and the Caribbean of 0.764), with Nicaragua ranking 129 out of 169 countries, ahead only of Guatemala (131) and Haiti (151).

Question
Score

Socioeconomic
barriers
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The country's Gender Inequality Index shows a value of 0.506, clearly worse than the Latin American average, and only ahead of Honduras (0.511) and Guatemala (0.542) in the Central American region.

Social exclusion due to poverty and hardship is quantitatively and qualitatively very pronounced, and is structurally entrenched. According to official data, inequality diminished during the 2000s from a Gini Index value of about 0.58 in 2001 to 0.47 in 2011. However, the majority of the country's almost 6 million inhabitants live in poverty. According to the most recent data available, poverty diminished from 69.4% in 2001 to 58.3% in 2009, and extreme poverty from 42.5% to 29.5%. Life expectancy is relatively high (on average 73.7 years). The U.N. Education Index, which captures the level of education by measuring average years of schooling for adults aged 25 years and expected years of schooling for children of school going age, is 5.25 years of education. Per capita gross national income is just \$2,567 (as of 2008).

Economic indicators		2009	2010	2011	2012
GDP	\$ M	8156.1	8586.3	9635.6	10507.4
GDP growth	%	-2.2	3.6	5.4	5.2
Inflation (CPI)	%	3.7	5.5	8.1	7.2
Unemployment	%	-	8.0	-	-
Foreign direct investment	% of GDP	5.3	5.9	10.0	7.7
Export growth	%	3.6	12.5	5.8	-
Import growth	%	-5.6	8.4	7.3	-
Current account balance	\$ M	-776.2	-858.7	-1268.2	-1350.1
Public debt	% of GDP	61.3	62.8	56.1	52.1
External debt	\$ M	5552.1	6390.2	7121.0	-
Total debt service	\$ M	491.4	578.0	658.5	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-1.7	-0.7	0.5	-
Tax revenue	% of GDP	13.4	14.0	14.7	-
Government consumption	% of GDP	7.9	7.3	6.9	-
Public expnd. on edu.	% of GDP	-	4.7	-	-
Public expnd. on health	% of GDP	5.8	5.7	5.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.5	0.5	0.5	0.6

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

The market in Nicaragua operates under a weak institutional framework with weak judicial independence, high levels of corruption and an inefficient regulatory framework. Since the 1990s, governments have pursued a strict market- and export-oriented development model, based on the private economy and oriented toward the principles of free-market competition. However, the rules of the game are not always followed. Apart from presidential decrees that have the ability to change rules suddenly, the greatest threats to a market economy in Nicaragua are corruption and a weak legal system.

The World Bank's Doing Business Report 2013 ranks Nicaragua 119 out of 185 countries; the country scores most poorly in the areas of paying taxes (158), dealing with construction permits (154) and starting a business (131). The 2012 – 2013 Global Competitiveness Report ranks Nicaragua 108 out of 144 countries, scoring poorly concerning taxation (130), the burden of customs procedures (131), the extent of market dominance (132) and judicial independence (134). According to the Central Bank, the informal sector accounts for almost two-thirds of jobs in Nicaragua. Profits can be used and transferred freely. Aside from utilities such as energy and water, the state controls the prices of only a few products. There is no limitation on currency convertibility. Foreign and domestic investments are treated equally. However, in a cluster approach to development, a handful of sectors, such as the tourism and “maquila” industries, have been offered tax exemptions on profits, building materials and property.

During the 1990s, economic actors searched for and found new opportunities to insert themselves in the international economy, characterized by the transnational nature of accumulation within globalized chains of value. Chief among these sectors were

Market-based
competition
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activities such as assembly manufacture for export, non-traditional agricultural products and tourism.

These sectors introduced a more intensive application of capitalist social relations to more extensive areas of social life. Privatization of public services, such as telecommunications and electricity, further opened areas to market actors. These were more than the liberalization of market operations; they amounted to the intentional introduction of self-regulated market logic into areas that were not previously commoditized. The evidence of continued poverty and inequality made clear the costs paid by popular sectors. It was perhaps only because of the safety valve of migration that popular sectors could survive these changes, if only barely. Yet, in recent years, the process of market integration has begun to penetrate even into the lives and work of the most powerful domestic and regional economic actors. As international capital absorbs regional groups and shifts the local business elite into managerial and subordinate roles, they lose the family and social networks that governed economic activity previously, as well as the currency of economic leverage that offered access to political power.

Since Ortega came to power in 2007, the Venezuelan government has increased its investments via a mixed Nicaraguan-Venezuelan company called ALBANISA. Since then, Venezuela has become the country's main commercial partner. In 2012, Venezuela bought 48.9% of the total exports of meat. In this sense, the Venezuelan market has been crucial in absorbing a large part of primary products such as milk, beans, meat or sugar. In 2007, Nicaragua exported products to Venezuela worth just \$6 million. In 2011, with the Bolivarian Alliance for the Peoples of Our America (ALBA) group, that figure reached \$303 million.

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

However, anti-monopoly practices exist on paper but not always in practice. According to studies by international organizations and government entities, Nicaragua's market contains a number of oligopolies, common to small economies, in which two or three companies control the majority of a sector. Studies carried out by the Economic Commission for Latin America (CEPAL) and at the national level have found that Nicaragua has a very concentrated market in a number of sectors, but

Anti-monopoly
policy

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particularly in banking, telecommunications, electricity, flour production, medicines, agricultural production and compressed air. It remains unclear whether the national institute will have the capacity and willingness to regulate in an effective and independent manner, since the appointment of its members has been along political criteria.

According to a survey by FUNIDES (Fundación Nicaragüense para el Desarrollo Económico y Social) published in May 2012, businessmen working in Nicaragua said they feared five factors most: corruption (91.3%), energy prices (88.5%), the political environment (68.5%), raw materials prices (63.4%), and inflation (63.2). Undoubtedly, the issue of corruption is not only related to the necessity of paying quotas to the authorities to carry out commercial activities, but also the possibility that lawmakers create biased laws in favor of certain economic groups, or that the executive foments patrimonial economic projects that entail the economic control of strategic sectors by the president's close allies or friends.

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

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

Negotiations to establish trade agreements with Canada and Chile continued during the period under review. Negotiations with Chile came to a conclusion in May 2010.

Liberalization of
foreign trade

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In 2010, an agreement was signed between Central America and the European Union concerning access to markets and rules on intellectual origin and property, among other matters.

Nicaragua's banking sector is underdeveloped; it is one of Latin America's smallest, accounting for about 5% of GDP. The banking sector expanded during the 1990s with the founding of 14 new private banks. State banks were closed or privatized between 1994 and 2001. Despite strong credit growth in recent years, financial intermediation remains very weak, a fact that seriously hinders economic growth. Banks' high exposure to the public sector due to their extensive investment in public debt bonds is also worrying. The capital adequacy ratio is sufficient and the percentage of nonperforming loans is low. More than two-thirds of deposits and loans are denominated in U.S. dollars. Independent supervision of the banking sector has become stricter over time, especially following the banking crisis in 2000. Nicaragua has ratified its commitment to the 1997 WTO Financial Services Agreement.

Banking system

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

In 2012, the growth rates of private deposits continued to increase, while credit has stabilized at high levels. Given that credit is still growing more than deposits, the liquidity of banks is dropping toward more "normal" levels. In 2012, the passive interest rate was around 4.5%, similar to 2011. The active rate rose to 11% at the end of 2012.

8 | Currency and Price Stability

Though the central bank is not an autonomous institution, it has pursued a largely consistent inflation and exchange rate policy, even in the face of political fluctuations. By the beginning of the century, the country's previously persistent double-digit inflation had been overcome. However, in 2007 and 2008, inflation again rose to

Anti-inflation /
forex policy

8

above 15% due to the rise in oil and food prices. For 2009 and 2010, average inflation figures respectively stood at about 3.7% and 5.4% (although consumer inflation had risen to an annualized rate of 9.2% by the end of 2010). This notable reduction was due to the decrease in internal demand and the fall in the international prices of food and fuel, despite the country's falling exchange rate and the increase in salaries. Indeed, the food and drink sector showed negative annual price growth (-6.1%).

The accumulated inflation rate, according to data from Nicaragua's central bank, was 6.62% in 2012, lower than 7.95% in 2011 and 9.23% in 2010. A bit over half of the inflation rate was due to the increase in prices of food, transport, hotels and restaurants. Yet the credibility of statistical data offered by the government is questioned, given that the figures have been queried and debated since 2007.

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

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

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

In this sense, one can say the government's macroeconomic policies are responsible. The central bank's coverage of reserves is still adequate at the time of writing, although somewhat less so than previously, and public debt is still decreasing as a

percentage of GDP. However, the government's budget excludes expenses of a fiscal nature financed by Venezuela and the fact that external debt has gone from 68% of GDP in 2007 to 83% in 2011 due to debt with Venezuela. With regard to international reserves, they retain a considerable similarity (although with a downturn) with respect to 2011.

Finally, in 2012 both the IMF and the U.S. government criticized Nicaraguan fiscal policies more severely than in previous years, and started to put more pressure on the government.

9 | Private Property

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

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

Since 1990, Nicaragua has privatized a significant number of its public utilities and disposed of more than 350 government-owned enterprises. The last large-scale privatization took place in December 2003, when the government sold its remaining 49% share in national telecommunications company Enitel. President Ortega has clearly positioned himself against further privatization, and opposes the introduction of private pension funds.

Under the Ortega administration, relatively minor government shares in companies have been acquired. The relationship between private enterprises and the executive has sometimes been difficult, as illustrated by the intense conflict between the Unión Fenosa electricity company and the Ortega administration.

Property rights

6

Private enterprise

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Although privatization did not progress during the review period, and even took some small steps backward, private companies remain the backbone of the economy and the appropriate legal framework has been established. In this sense, it is possible to state that the mechanisms of private enterprise are still valid in Nicaragua with a legal framework and ease of use similar to that which was in place before 2007.

The only visible change is the increased presence of a group of businessmen who are explicitly linked to the government and the Sandinistas, a group that has progressively become consolidated via the proximity it has established to the president and due to the access to resources coming from Venezuela, which are managed via ALBANISA.

Despite the distance between business and the government, since Ortega's return to the presidency in 2007 a majority of business groups, led by the Superior Council of Private Enterprise (COSEP), established links of cooperation and good relations with the government. Consequently, large firms have not had problems with the government and its policies, since they maintain fluid communications. However, medium-sized and small businesses, who do not have the capacity for direct communication with the government, suffer from greater juridical uncertainty when their interests clash with those of larger firms or those of the administration itself.

10 | Welfare Regime

Since 1990, with historically exclusionary social policy regimes, Nicaragua has witnessed positive changes in both levels of social spending and a timid but more inclusive design in its policy architectures. But the role of the state in Nicaragua was, and continues to be, secondary to the very significant role held by families in both subsistence and social protection. Social policy effects on social structures can hardly be assessed with available data, as there are no disaggregated data on changes due to primary income (mostly through labor markets) or changes due to secondary income (taxes or social policies).

Social policy has played a role through its action or omission. At the same time, the role of social policy in the lives of a majority of Nicaraguans is barely visible: six or seven out of every 10 Nicaraguans live their lives without any kind of social protection. From the late 1990s until 2009, when the most recent data was available, per capita social spending increased 2.4 times. In Nicaragua, increases in social spending were higher between 2000 and 2009 than during the 1990s. Disaggregation by policy sector shows positive trends for a progressive redistribution in so far as increases are highest in education, followed by healthcare and then housing. By 2010 Nicaragua had lowered the number of people living under the poverty line (from 73.6% in 1990 to 58.3% in 2010).

Social safety nets
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The Ortega administration has begun to expand social programs, but financial and organizational constraints have hampered initiatives, as well as attempts to offer free health services and education. According to official figures, poverty-related expenditures account for more than half of the government's budget, reaching 13.3% of GDP in 2008, 13.5% in 2009 and 12.9% in 2010. Although public spending on these services has increased considerably in absolute terms, it did not increase as a share of the state budget or GDP. It also has to be noted that most new funds assigned to these sectors were used to finance higher wages. The FSLN currently has three signature social policies: Zero Hunger (Hambre Cero), Zero Unemployment (Desempleo Cero) and Zero Usury (Usura Cero). They form part of a poverty-reduction strategy that has had some success.

Income inequality is generally high in Central America when compared to the rest of the world. In 1990, Nicaragua had the highest levels of inequality the region. Income inequality in Nicaragua is highest because education is badly distributed, and because rural-urban wage gaps are higher than in the rest of Central America. This in turn is related to the Nicaraguan government's low commitment to providing education, health, and public infrastructure to even the most remote rural areas.

Equal opportunity
4

During the first decade of the 21st century, inequality in Nicaragua decreased. By 2009, levels of inequality in El Salvador and Nicaragua were similar to those in Costa Rica. We can identify one important source of the fall in income inequality in El Nicaragua: declining returns (or wage premia) to education in those countries. Falling returns to education in Nicaragua were not due to a more rapid educational expansion, but rather to a decline in the relative demand for more-educated workers, which led to a fall in the real earnings of workers with secondary and higher education in those countries.

As a result of this, Nicaragua is a very vulnerable and highly stratified society. There is a vast social gulf between the many poor and the few rich, and a clear divide between urban and rural areas. The two formally autonomous Atlantic regions are culturally very different from the rest of Nicaragua, and are economically disadvantaged and neglected by the state. These regions' minority communities, both those of African and of indigenous descent, face extreme poverty and discrimination, both administrative and political, and it is likely that many inhabitants are not included in censuses. Public services are not able to redress the existing imbalances to create equal opportunities.

11 | Economic Performance

Nicaragua is a poor country, thus its social and economic policies must fight poverty and promote growth.

Output strength
6

Despite a macroeconomic recovery since the 1990s, the Nicaraguan economy is weak and vulnerable to external shocks. Per capita GDP has only recently surpassed the level of \$1,000, the level reached before the Nicaraguan Revolution, reaching \$1,083 in 2009 and \$1,126 in 2010. The economy is extremely vulnerable given its large current-account deficit, dependency on a small number of export products, and vulnerability to natural disasters such as hurricanes, earthquakes and volcanic activity. Economic growth was moderate at over 3% per year until 2009, when it shrunk by 1.5% due to the international crisis. In 2011, however, growth picked up again to 4.7%. Due to the high dependency on imports, inflation returned to double digits in 2007 and 2008, but fell again to 6.81% in 2012. In addition, Nicaragua is highly dependent on foreign aid, and has the sixth-highest public debt in the world, at 82.3% of GDP.

During the review period, the reduction in gross investment, consumption and export demand, as well as the withdrawal of international aid (that over the last 10 years went from \$144.9 million in 2002 to \$71.9 million in 2012) was partially compensated for by the increase in the export of services and international aid from the Bolivarian Republic of Venezuela. Other problems include low per capita GDP and productivity growth. Nicaragua's economy lacks a sizable industrial base and the country therefore has to import many goods from abroad. Nicaragua's export base is narrow, but under recent free trade agreements, export growth has developed dynamically and diversification has also increased.

The current-account deficit decreased considerably but still remains high. More positive has been the reduction of the trade deficit to 25% (though this remains significant). In 2012, the budget deficit decreased to 1.3% and unemployment stood at 7.3%, but underemployment is much higher.

12 | Sustainability

During the last 25 years, the frequency and intensity of natural disasters, including those resulting from extreme and severe weather, have exposed Nicaragua's environmental and social vulnerability. In a context of increasing levels of urbanization, poverty and inequality, the compounded effects of these phenomena are not only gradually undermining socioeconomic development but are also modifying the agendas of national governments and international aid agencies.

Due to its geological characteristics and geographic location, Nicaragua has been exposed to a wide range of natural disasters, including earthquakes, hurricanes, floods, landslides and even droughts.

Vulnerability to climate change however should not be simply understood as a synonym of poverty, as hydro-meteorological hazards impact both rich and poor

areas of a city. Recent studies show, however, that the type of physical and social asset portfolio and the access to such assets as well as society's capabilities to respond to a severe climate event are what determines how vulnerable or not, a region, a city or even a settlement within a city might be.

It is estimated that by the year 2025, as a result of climate change and modifications in water consumption patterns, the number of people in Nicaragua facing difficulties in accessing drinking water will increase up to 70%; and the demand for water in the next 50 years will increase by 300%. Climate change will also cause a rise in the price of agricultural products, aggravating the levels of poverty in many countries and cities in the region.

Even so, environmental consciousness is underdeveloped in Nicaragua, and is subordinate to the push for growth. As a result of intense armed conflict, the region's economic impoverishment and uncontrolled activity by extractive companies, the state of the environment in Nicaragua is increasingly worrying in terms of the coverage of flora, the loss of forest area and the pollution of land, air and water.

In 2012, the government has pursued seriously plans to build an interoceanic canal. Investments have been discussed with China, and the HK Nicaragua Canal Development Investment Company was established in August 2012, with headquarters in Hong Kong. This project will be important not only in economic terms, but also in environmental terms.

Education is a constitutional right. However, human capital levels remain very low. According to official data, 12% of the population in Nicaragua cannot read or write. The average level of adult schooling is 4.6 years. State and private educational institutions exist at all levels. According to official data, public expenditures rose by about 79% between 2006 (\$221 million) and 2011 (\$368 million, as planned in the 2011 budget) implying an increase from 20.1% to 23% of the public budget or from 4.8% to 5.5% of GDP. These figures include subsidies to religious and private schools. Universities are entitled to an additional 6% share of public expenditure under the constitution. There is hardly any expenditure on research and development.

Primary education is supposed to be the main focus of educational spending. However, if per-student spending is considered, the focus is clearly on tertiary students, who receive about 10 times as much per-head funding as do primary or secondary students. Net enrollment rates for primary school increased to 90% in 2006, while gross enrollment rates have even exceeded 100%. The completion rate for primary school (through sixth grade) is 50%, and the net enrollment ratio for secondary school is about 43%. One reason for the low completion rate is the high incidence of dropouts for economic reasons; another reason is related to poor teaching conditions.

Education policy /
R&D
5

Transformation Management

I. Level of Difficulty

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

Structural
constraints

6

On a positive note, despite chronic unemployment/underemployment, poverty, unsatisfactory social conditions and the poor government performance, organized violence has not penetrated Nicaragua to the level seen in neighboring countries to the north. Likewise, HIV/AIDS has not reached alarming infection rates among the adult population.

Nicaragua has been characterized by a significant level of social mobilization since the 1970s. During the 1980s, mobilization was very intense as a result of the revolutionary regime, social polarization and the civil war. The mobilization that took place in the course of this decade generated a culture and tradition of mobilization, debate and protest that has lasted until the present day, although during the 1980s the conflict was essentially political and led by opposing political groups: the FSLN in power and the "counterrevolutionary" forces in opposition. Mobilization continued through the 1990s, but the political logic changed, with demands taking on a more socially oriented character. During the government of Violeta Barrios de Chamorro (1990 – 1996), mobilizations were very intense both in rural and urban areas due to privatization and adjustment policies. In rural areas, demands were based on land

Civil society
traditions

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claims by those involved in the war (on both sides), while demands in urban areas were more labor-oriented.

Through the end of the 1990s and the start of the 2000s, mobilization levels have declined, but without disappearing altogether. Three sectors retain significant mobilizing capacity: trade union sectors linked mainly to the FSLN; civil society sectors concerned about specific issues, including the feminist movement and the citizen movements against corruption; and the politicized pro- and anti-Sandinista movements that protest against measures taken by the various governments. Since Daniel Ortega came to power in 2007, the government has made efforts to organize society (above all popular sectors) via party networks (Citizens' Power Councils, CPCs), which are used to hand out resources, implement social policies, establish slogans and maintain a degree of social control.

Nicaragua is mainly Catholic, despite the increasing presence of Evangelical churches. There is no tension or conflict over religion as such. The society is mainly of mestizo and ladino origin (94%), although populations of ethnic minorities (Miskitos, Mayagnas, Ramas and creoles) live in the Atlantic coast region. In the effort to respectfully manage ethnic differences, the Autonomous Region of the North Atlantic (RAAN) and the Autonomous Region of the South Atlantic (RAAS) were created in 1988, each as regional governments with a multicultural vocation. Since the war of the 1980s, ethnicity has not been a substantial cause for conflict. Nevertheless, the state's weak presence, the increasing prevalence of drug-trafficking, and the fact that the national parties present on the coast do not represent local interests may well generate new tensions.

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

Conflict intensity
4

II. Management Performance

14 | Steering Capability

Question
Score

Prioritization
6

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

Nominally, the issue of development and poverty reduction has been consistently present on Nicaragua's political agenda since the 1980s, though this has taken the form of completely different policies. The three governments in charge of the country between 1990 and 2006 abandoned the "statist" approach of the first Sandinista government and focused on generating economic growth and waiting for benefits to "filter" into society. Since 2007, with the return of Daniel Ortega, there has been no substantive change in policy despite the election campaign of 2006. However, there has been an interest in developing focused social policies via three programs (Hambre Cero, Usura Cero and Desempleo Cero), and by strengthening the universal-service policy in the areas of health and education. However, the implementation of these policies has been somewhat limited due to a reduced budget. More broadly, Ortega's government has continued the macroeconomic policy developed in the 1990s (including participation in CAFTA-DR), but has emphasized pro-poor policies more so than previous governments.

The government is planning (with a Chinese company) a major initiative: the construction of an interoceanic canal through the San Juan River. This initiative is very important, as if the plans are successful, the country's role in the international economy would change dramatically.

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

Implementation
7

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

The Sandinista government has fought hard against poverty, but a lack of resources and the politicization of the administration have limited achievements.

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

Policy learning
4

institutionalized mechanisms that facilitate innovation and flexibility in policymaking. Instead, the most important and successful politicians have deinstitutionalized their own parties as well as state institutions.

15 | Resource Efficiency

The use of public resources in Nicaragua is not particularly efficient for three main reasons. The first, which is endemic, is the politicized nature of the public administration and the lack of career-oriented civil servants. This means that public workers have low levels of commitment, and that there is a loss of human capital every time there is a change in government. The second reason is structural, and relates to the minimal presence of the state in some areas of the country, and the lack of coordination between ministries when implementing government policy in rural municipalities and communities. The third reason is more circumstantial, and is related to the style of Ortega's administration, in which a cabinet led by the secretary of the presidency and its advisors is guided by decisions made by the president and first lady. This centralization means that policy is carried out very slowly, since it allows ministers little autonomous decision-making power. As a result, the organs responsible for various policy areas have little flexibility when carrying out, agreeing to, and – when necessary – adjusting policy. According the last World Bank Governance Indicators, Nicaragua had a low performance: in government effectiveness the country belongs to the 0 – 10 percentile, and in regulatory quality, to the 25 – 50 percentile.

However, the centralized and highly politicized control of the government has also meant that some specific policies that are of “strategic interest” for the president or the party (such as some focalized social policies) are implemented and monitored with great secrecy. This situation has meant that the beneficiaries of these specific policies perceive the FSLN's administration as efficient.

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

Over time, Ortega's government has generated a variety of policies that lack coherence. On the one hand it has maintained continuity with earlier macroeconomic policies. On the other, it has distorted prices of basic goods as a result of its focused poverty-reduction policies, while enabling new import and trading monopolies to

Efficient use of
assets

4

Policy
coordination

7

develop as a result of preferential agreements established with Venezuela. The effectiveness of targeted social policies however to combat poverty should be underlined.

Corruption is an acute and endemic problem in Nicaragua, particularly within its political culture. Legal, political, and administrative accounting structures and procurement systems may in theory enable administrative transparency and integrity and punish criminal conduct, but enforcement lags in most instances. A series of laws are in place to fight against the practice of bribery. Article 429 of the Penal Code published in May 2008 (Law 641) contains sanctions against bribery equal to those associated with crimes against freedom of expression. Article 449, titled “International Bribery,” sanctions foreigners residing in Nicaragua who offer, promise, give, or concede money to any authority, civil servant or public worker in order to carry out or omit to carry out functions inherent to their role. Article 475 holds that bribery (Article 476), bribing witnesses (Article 478) and making evasion easier (Article 482) carries the same sanctions as producing false testimony or reports. Article 5 of Decree No. 124-99 mandates that public servants referred to in Article 1 of the decree must refrain from receiving gifts, perks, or payments in cash by anyone who has any interest in the outcome of their decisions. Likewise, the public function should not be used for the benefit of any political party. However, these mechanisms lack effectiveness and credibility, in part due to the political exploitation of corruption trials. As an example, former President Arnoldo Alemán, who was accused of and tried for several crimes of corruption, is now a free man as a result of political pacts, and is one of the leaders of the liberal party.

Anti-corruption
policy
4

16 | Consensus-Building

All important political actors publicly agree on the goals of developing democracy and a market economy. However, this fragile consensus does not translate into an agreement on the impartial institutionalization of democracy and market-economic principles so as to create a level playing field. In the case of the economy, both opposition groups (PLI and PLC) and the government openly affirm that they are in favor of a market-based economy. However, those that have held power since 1990 have not hesitated in using privileged information, legal instruments and networks of favors to benefit themselves, either directly or via friends. Currently, the Ortega administration combines a market-based economy with sectors under a monopoly, related to the Venezuelan government (and ALBA member countries) to favor a political elite that is politically like-minded and therefore uninterested in the laws of competition and the free market. This new situation, together with Ortega’s capacity to make pacts with the country’s traditional large economic groups, has brought about a consensus among incumbents, the wealthy and new economic elites born out of the

Consensus on goals
6

commercial agreements within the ALBA group, to the detriment of workers and businessmen who are politically opposed to the FSLN.

On the political level, although all parties declare themselves to be pro-democracy, they have all tried (when in power) to change the rules and institutions to their favor. However, this behavior was modified between 1990 and 2006, due to the presence of an articulated opposition that could offer a political counterweight. As of the presidential elections of 2006 and Ortega's rise to power, the FSLN, little by little, has conquered all of the state's resources and, consequently, has had the capacity to modify rules and use institutions as and when it wanted. In this framework, the government's democratic discourse has become a nominal resource since there is little room for either horizontal or vertical accountability within institutions.

The pact of 2000 between Daniel Ortega and Arnoldo Alemán meant that government institutions became politicized and were taken over by the leaders' two political parties. In essence, they aimed to create a political dynamic in the hands of a duopoly under the control of two strongmen. This phenomenon signaled the erosion of mechanisms of horizontal accountability (due to the politicization of the judiciary and other agencies of control) and vertical accountability (due to the politicization of the Supreme Electoral Council). In 2006, the division of the group led by Alemán (PLC) meant the victory of Daniel Ortega's FSLN and the start of a process by which the party took control of the state. Since then, the FSLN has managed to control the electoral administration and judicial power. As a result, the Sandinistas have won nearly all political power at the local level (in the elections of 2008 and 2012) and, since 2011, have secured a qualified absolute majority in the legislature. It is not yet clear what will be the role of the FSLN going forward; one concern is that it will become a hegemonic party. If so, the opposition would have only two political means, negotiation or civil resistance.

Anti-democratic
actors

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While the Sandinista movement still polarizes society, violence is no longer a way of engaging in politics in Nicaragua. However, since 1990 there have been numerous violent confrontations between the government and university students over financing, and between the government and bus and taxi owners over the price of petrol and regulation on the roads. The Ortega government has harassed the opposition with street protests (as in the municipal elections of November 2008), and has engaged in other measures such as retracting opposing parties' legal status (in the case of the MRS). Furthermore, the government has also targeted NGOs that are critical of its actions. During the national elections of 2011 and the local elections of 2012, in contrast to those of 2008, the opposition was less active in social mobilization. This can be attributed to the opposition's weakness and the fact that the FSLN maintained tight control over the media and public forces rather than to a lack of polarized sentiments or discontent.

Cleavage /
conflict
management

5

The Ortega government has decreased opportunities for civil society participation during its two terms. Even organizations typically aligned with the Sandinistas have been excluded. Instead, the Ortega administration introduced the CPCs, which are tasked with implementing direct democracy functions, although primarily on behalf of Ortega's own loyalists. In a related move, the previously relatively influential presidential advisory body on economic and social programs (CONPES), which had been made up of a variety of interest groups and organizations, was subsumed in the CPC hierarchy headed by Ortega's wife. CPCs are in fact para-state organizations organized in a hierarchical way and controlled by the FSLN, with the objective of ensuring loyalty and distributing funds and resources associated with tightly focused social policies. This type of organization creates a top-down relationship rather than generating bottom-up participation, since it offers incentives and seeks to control the participation of followers; in this way, it generates what are essentially patron-client political linkages. Nevertheless, a fairly vibrant, active, and critical civil society still exists in public life, particularly in comparison to other countries in the region. Women's groups and indigenous organizations, as well as human rights NGOs, universities, intellectuals and the press are expressions of a noticeably active society. Another issue to take into account is the fact that many international NGOs that once operated in Nicaragua have left the country, leaving those civil society actors critical of the government with a diminished capacity to obtain resources.

Civil society participation
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Political leaders have little incentive to redress historical injustices of the revolutionary era (whether on the part of the Contras or Sandinistas) in any serious manner, because they provide a useful issue with which to mobilize the population for their respective causes. However, President Ortega ran on a platform of reconciliation in 2006 and in 2011, and has made some achievements in this regard. A reconciliation commission headed by a former cardinal was created. This commission has primarily focused on solutions to unresolved land claims by demobilized former rebels, but has made only minor progress at the time of writing. Other forms of reconciliation affecting the broader population have not yet been sufficiently addressed. However, the process of reconciliation that has taken place as a result of grassroots efforts has prospered in recent years, particularly in rural areas where fighting during the civil war took place. Furthermore, the war during the 1980s is now securely in the past. Nicaraguan society, which is mainly young, has little memory of this armed conflict. For that reason, the issue of reconciliation is not in the current political agenda. Furthermore, the majority of the elites that were protagonists in the conflict – if they are still in power – have set aside their conflicts to establish pacts of mutual benefit.

Reconciliation
5

17 | International Cooperation

Nicaragua is extremely dependent upon support from abroad. International aid has since the 1980s been a vital element in the country's economy. Nicaragua in the 1990s was among developing countries one with the greatest volume of international aid per capita in the world. But official development assistance (ODA) fell by half from 2002 to 2011, from \$144.9 million to \$71.9 million, as the Ortega administration alienated some donors. At the end of the last decade and in 2011, several donors – including Sweden, Switzerland, the Netherlands, Great Britain, Denmark, Norway, Austria and the EU Commission – decided to freeze their aid budget. Also, in 2012, all institutions of international cooperation and aid changed their position (or at least their tone). The IMF and the U.S. government have put more pressure on Nicaragua; the German government has cancelled parts of development initiatives in Nicaragua, as well.

Effective use of support

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The concern is that Nicaragua's dependence on international aid affects its political capability to set and maintain strategic priorities. For this, the Ortega administration has been able to diversify its donor landscape through cooperation with Venezuela and Iran, giving it more leeway in its decisions and increasing competition between donors. Between 2006 and 2012, the Ortega administration has relied on abundant and readily available aid from Venezuela (with ALBANISA) rather than on international aid. While traditional donors now offer fewer resources which are subject to strict controls and destined directly to the intended beneficiaries, the ALBA group does not monitor resources (they do not go through the public budget). Moreover, assistance from the ALBA group has a clear party bias (under the control of the FSLN) and lax terms of repayment.

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

Credibility

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

Regional cooperation

7

association agreement negotiations. Seeking closer ties with the new, leftist governments in Latin America, Nicaragua has also joined the Bolivarian Alliance for the Peoples of Our America (ALBA) group.

Nicaragua's most tense episode with its neighbors was the late-2010 dispute with Costa Rica over control of the banks of the San Juan River. This conflict is not new, but has become more intensified in recent years due to the fact that while Nicaragua holds jurisdiction over the river itself, Costa Rican police have the power to patrol the river to control drug- trafficking and the illegal transit of immigrants. Looking forward, this relationship may be further strained with Nicaragua's plans to build an interoceanic canal on the San Juan.

Strategic Outlook

The quality of democracy in Nicaragua has declined over time. The most troublesome problem is a lack of horizontal and vertical accountability. President Daniel Ortega controls the judiciary, the Supreme Court of Justice and the Supreme Electoral Court. He has also neutralized the political independence of some television and radio outlets (though not the printed media) and has co-opted and politicized the public administration. With regard to vertical accountability, the municipal elections of 2008, when the FSLN gained control of practically all of Nicaragua's municipalities, represented a setback in this sense. They also were a try out for the general elections of 2011, in which the FSLN used all state resources in its favor to take complete control of political power. The FSLN has exercised its influence on the electoral administration, the public budget and the justice system so that Daniel Ortega (in spite of the constitution) could be re-elected and win. In the face of this situation, the question is of how to guarantee the rule of law and political pluralism in Nicaragua. Given the dominance of the executive and of the FSLN countrywide, as well as the weakness of the opposition, true reform actors are not visible during the review period. Given the alliance with Venezuela and other countries, Western countries also will have a difficult stance in exerting more pressure on the Ortega government.

Nevertheless, to avoid a further decline and to strengthen democracy, several reforms must be envisioned and should be insisted on. The politicization of the judiciary has to be reversed and the fight against corruption resumed. The electoral commission has to be staffed by representatives of all parties. Although this would be better than the current situation, it would still be far from true neutrality, in which civil servants would act without their party affiliation in mind. The participation of civil society in decision-making must once again be fostered, and Citizens' Power Councils (CPCs) should – if they persist – broaden their membership and complement instead of bypass existing institutions.

From a policy perspective, two contrasting threads have affected social development. On the one hand, focused social policies to reduce poverty, measures to offer free healthcare and education, and the distribution of provisions and goods via CPCs have addressed and even reduced the levels of homelessness and poverty in the country. On the other, the concentration of foreign investment and trade with one preferred country (Venezuela), channeled through ALBANISA, has the danger of overdependence on a single country. The dependence on oil and electricity is troublesome, as it increases vulnerability to the price of crude oil and the will of the Venezuelan administration. Though the Ortega government has maintained the essentials of a market economy, it runs the danger of weakening prospects for long-term growth, furthering poverty reduction and building a more resilient economy. As the IMF had recommended in December 2012, needed reforms concern the country's weak institutions and governance, the scarcity of human capital, poor infrastructure, underdeveloped financial markets, the pension system and the low level of private sector development.