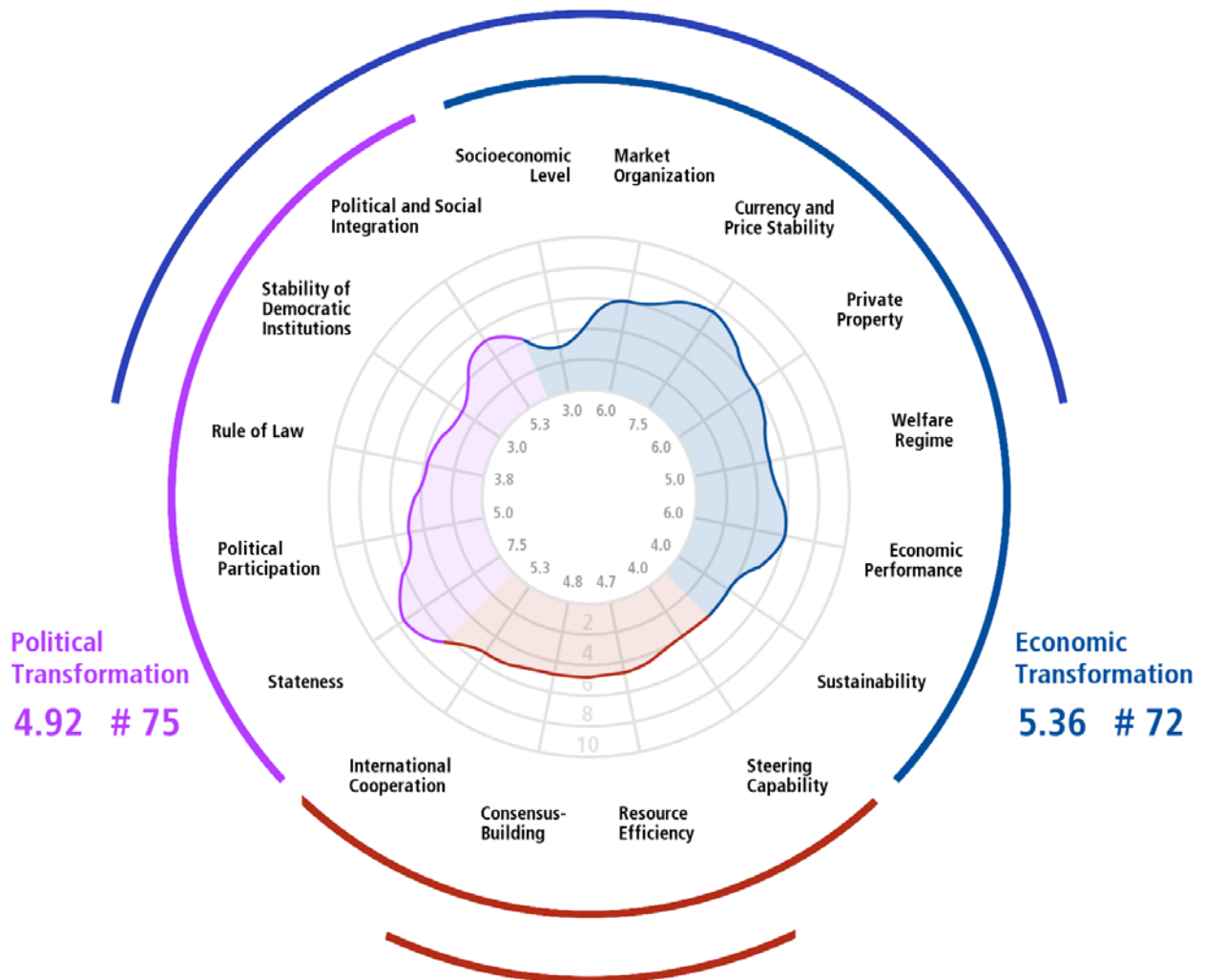


# Nicaragua

## Status Index

**5.14 # 76**

on 1-10 scale out of 129



## Governance Index

**4.22 # 87**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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	6.1	HDI	0.645	GDP p.c., PPP \$	5541
Pop. growth <sup>1</sup>	% p.a.	1.1	HDI rank of 188	124	Gini Index	46.6
Life expectancy	years	75.0	UN Education Index	0.571	Poverty <sup>3</sup>	% 13.8
Urban population	%	59.1	Gender inequality <sup>2</sup>	0.462	Aid per capita \$	74.7

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

During the period under review, the Ortega government reinforced its control over the political and economic system. The 2016 national elections were marred by government encroachments, which led Nicaragua to be recategorized an electoral autocracy. Ortega's third administration (2012-2017) and the beginning of his fourth (2017-present) have been characterized by the continuity of neoliberal macroeconomic policies, the Sandinista hegemony and the continuation of the large social programs to reduce poverty (which had characterized the second half of Ortega's third term). The ongoing politicization of public administration, the justice system and the Supreme Electoral Court, as well as the discretionary use of public resources to support the governing party deepened during the period under review.

The reduction in Venezuelan aid to Nicaragua has motivated the Nicaraguan government to find new allies, such as the Chinese enterprise Hong Kong Nicaragua Canal Development Group (HKND), and reinforce its alliance with the Russian government. A major milestone was the launching of the Gran Canal project, an interoceanic canal intended to run through Cocibolca Lake. In June 2013, the National Congress voted for a 50-year concession (once renewable) for the HKND to build a Nicaraguan interoceanic canal as an alternative to the Panama Canal. Construction of the canal was supposed to begin in December 2014. However, nothing has yet been constructed. The Chinese concessionaire has since lost most of its fortune and the Ortega government has been unable to find another investor.

At the political level, Nicaragua continues to be dominated by the Sandinista National Liberation Front (FSLN). The FSLN's total control of the Supreme Electoral Court enabled the Ortega government to control the 2016 electoral process and limit political pluralism. The main opposition party, the PLI, was sabotaged weeks before the 2016 vote. Consequently, the Sandinista party has become the hegemonic political actor, closely controlled by the presidential couple, President Daniel Ortega and Rosario Murillo, vice-president since January 2017. This concentration of power was facilitated by the 2014 constitutional reforms, which allowed Ortega to run for the 2016

and further presidential elections, enabling a possible Ortega-Murillo dynastic regime. The political system has come close to “electoral authoritarianism” with very few counterweights in the political sphere.

In terms of the economy, there has been continuity concerning macroeconomic policies. As it seems increasingly unlikely that the Gran Canal will be realized, the government has tried to find new trade partners, such as South Korea. However, at this point, no international partner has been able to replace the role Hugo Chavez’s Venezuela filled during Ortega’s second mandate. The future of economic development is therefore more uncertain than it was previously. In terms of international relations, the Ortega government has deepened its relations with Putin’s Russia and has issued no negative response to Trump’s election in the United States.

## History and Characteristics of Transformation

The 1979 “Sandinista revolution” ended the era of authoritarian rule of the Somoza clan beginning in the 1930s. Within a year of the revolution’s end, the FSLN had consolidated its leadership of the new government, of the military and police forces, and of organized interest groups. However, the new government faced a severe economic and social crisis. Although most Nicaraguans were in favor of the revolution, the emerging dominance of the Sandinistas provoked dissent. In the meanwhile, the U.S. administration under President Reagan suspended all aid to Nicaragua and instead funded the counterrevolutionary Contras. Nicaragua became one of the most active stages for Cold War confrontation. The Contras’ raids eroded the social revolutionary Sandinista regime’s acceptance of political pluralism. Still, the Sandinista government held and won elections in 1984 that were considered by international election observers to be for the most part free 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 turning point in Nicaragua’s history: the country’s first peaceful transfer of power through free elections was achieved, and a civil government that had not earned its merits in armed conflict assumed office. As candidate of the opposition coalition Unión Nacional Opositora (UNO), Violeta Barrios de Chamorro won the 1990 election. Civilian presidents governed since, legitimized by means of competitive elections in 1990, 1996, 2001 and 2006. The transfer of power in 1990 spelled the end of the mixed economy of the Sandinista era. The Chamorro government followed a rigorous program of stabilization and structural adjustments based on a strict market-economy and export-oriented development model. It abolished the foreign trade monopoly and most price controls, opened up the banking sector, and privatized some 350 state-owned businesses. Succeeding governments have remained faithful to this development model, and in collaboration with international lenders, continued to pursue transformation toward a market economy.

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

The second, third and fourth Ortega administrations (2007-2012, 2012-2017 and 2017-present) continued with the market-economic and export-oriented development model, but also implemented new social programs that were financed with resources from the Venezuelan government and targeted the fight against poverty. Ortega's governments, as well as showing a greater concern for historically abandoned sectors of the population, carried out a voracious strategy of co-opting and politicizing the state, which allowed him to influence the design of institutions and thus favor FSLN electoral victories. In the 2016 presidential elections, the FSLN was able to control the entire political system reinforcing “electoral authoritarianism.”

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's monopoly on the use of force is established nationwide in principle. In the last two years, the state has faced two major problems: drug-trafficking and illegal migration. Mexican drug mafias have penetrated deep into Nicaragua, although to a lesser extent than in El Salvador, Guatemala and Honduras. The area most vulnerable to drug-trafficking is the south Caribbean region where the state's presence is very weak and where the rainforest facilitates drug-trafficking activities. In late 2015, a bilateral crisis with Costa Rica caused thousands of Cuban refugees to be trapped in Costa Rica for weeks after Nicaragua closed its borders and prevented the refugees from continuing their journey to the United States. The Nicaraguan government accused its Costa Rican counterpart of forcing illegal immigrants into Nicaragua. In January 2016, the Central American governments finally signed a common agreement to transfer Cubans to Mexico to continue their route to the United States.

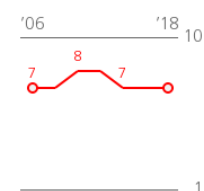
In the last two years, there has also been an increase of violence between indigenous people and Ladino peasants in the north Caribbean region. Many demands have been presented by indigenous organizations and human rights NGOs to demand government support for indigenous people during the conflict. To date, the government has not reacted to these demands. The issue of violence in indigenous territories has also been discussed by the Inter-American Commission on Human Rights (CIDH) without action. The government has also not responded to the allegations of the Center for Justice and Human Rights of the Nicaraguan Atlantic Coast (Cejudhcan).

The Caribbean region is the area where the Nicaraguan state has least control and its presence is weakest. In the rest of the country, the state maintains control through the presence of the armed forces, police and public administration. There are rumors of the emergence of re-armed groups, the "Nueva Contra," in the north of the country, such as the Fuerzas Democráticas Comandante 380 (FDC 380), the Coordinadora Guerrillera Nicaragüense (CGN) or the Fuerzas Armadas de Salvación Nacional

Question  
Score

Monopoly on the  
use of force

7



(FASN-EP). Since 2016, the government, which officially denies the existence of these groups, has deployed armed forces to secure the enclaves where the re-armed groups have supposedly reappeared.

In theory, there is no problem of access to citizenship in Nicaragua. 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, in practice, in the Caribbean region there are a variety of ethnic groups which - although considered Nicaraguan by others and generally by themselves as well - sometimes question the fact that Nicaraguan identity is exclusively ladino, rejecting the population's indigenous (Mayangna, Miskito and Rama) and Afro-American (Creole) roots. The 1987 Autonomy Law, which gave political autonomy to the two regions of the Caribbean (creating the RAAN and the RAAS) and revealed the multicultural identity of Nicaragua, has not really changed the negative perception of and discrimination experienced by Caribbean Nicaraguans. Despite this situation and the war that took place in that area in the 1980s, there have been no "secessionist" or "separatist" movements on the coast, but a different identity has become increasingly evident. This in turn has taken a political expression with the creation of an indigenous party (Yatama) and an Afro-American formation (Coastal Power).

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

In 2014, Archbishop Brenes was appointed a cardinal by Pope Francisco. Since then, part of the Catholic Church around Cardinal Brenes has regularly demanded greater democracy and asked for a transparent democratic process. This position has divided the Catholic Church. Nevertheless, the Catholic Church is an institution with considerable political influence and a significant presence within Nicaraguan society.

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

State identity

8



1

No interference of religious dogmas

9



1

Basic administration

6

general, the quality of services is very low. Judicial administration suffers similar difficulties.

According to the World Bank development indicators for 2016, only 68% of the population has access to sanitation and 87% to a water source. Access to both sanitation and clean water is clearly deficient in marginal urban neighborhoods and almost inexistent in rural areas. The state capacity to collect taxes is limited. Informal work and limited control over the generation of wealth in the formal sector means that fiscal revenues are almost exclusively indirect.

The Caribbean zone is the area with the poorest provision of basic administrative structures. Access to the Atlantic is difficult and in the rainy season routes to the Caribbean can be cut off entirely. Transportation inside the Caribbean zone is practically impossible by roads, while shipping is the only feasible way to connect the capitals of the south and north Caribbean regions. Basic infrastructure (e.g., water, education and health care) is nonexistent across large parts of the Caribbean zone, especially in jungle areas.

The politicization of institutions has created new challenges regarding the extension of basic administrative structures. Through the Citizen's Power Councils (CPCs), the Ortega administration has been able to focus its social policies on areas and beneficiaries connected with the FSLN party, creating a new clientelistic relation between government and Nicaraguans.

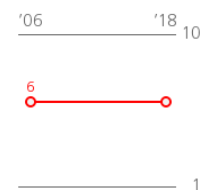
## 2 | Political Participation

The 2016 presidential elections were the most recent in a series of electoral restrictions. Due to significant government encroachment, Nicaragua is now categorized as an electoral autocracy.

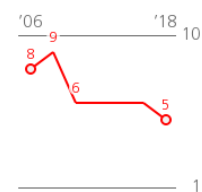
Since the rise of Ortega in the 2000s, the FSLN has been able to co-opt a majority of Supreme Electoral Court (CSE) magistrates and thus control the electoral administration.

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

However, the 2016 general elections created a precedent: for the first time in the democratic history of Nicaragua (since 1990) a presidential election was run without a real party competition. During the summer before the election day, the most important opposition party at the time (the Independent Liberation Party, PLI) was



Free and fair elections  
5





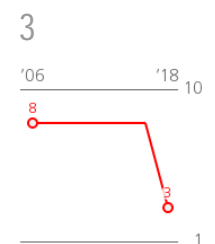
sabotaged. The Ortega-controlled High Court interfered in internal party disputes before the election and suspended those party leaders that were widely recognized to be a threat to Ortega. In these conditions, the PLI ran without the support of most of its electoral base and won only 6.6% of the votes and two seats in the current parliament. In the context of a hegemonic FSLN and lack of real opposition parties, the FSLN was able to win 72% of the votes.

In principle, the government has the effective power to govern without undue hindrance by the classical veto actors, but is no longer legitimized by free and fair elections (see 2.1). The armed forces and national police are under the control of the civil authorities, but there are some limitations on exercising power due to elite agreements made outside the formal political process. Examples are the influence of the Catholic Church concerning legislation on topics such as abortion, or specific groups of businessmen on questions related to banking, international commerce or certain investments. The government controls the administration, and the capacity to establish priorities, design policies and implement them. However, on many occasions, those policies - once designed and enacted - are difficult to implement due to three factors: the fragility and weakness of public administration, the lack of professionalism within the civil service and the difficulty in monitoring tasks, and the scarcity of available resources. Since 2007, and increasingly after the elections of 2011 and 2016, power has been concentrated in the presidential couple, Ortega and Murillo. Following the 2016 the presidential elections, Rosario Murillo, Ortega's wife, has acted as vice-president, further enhancing their power.

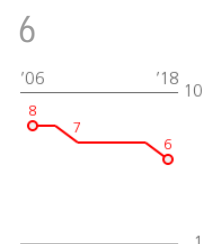
The constitution guarantees the right to political association, as well as other individual and collective rights and freedoms. However, according to the 2015 report of the human rights association CENIDH, freedoms of association and assembly have been increasingly restricted during the last decade, with an augmentation of state repression in response to citizens' demands. Since 2011, the Sandinista government has repeatedly used violence toward civil society groups. In 2015, government violence was directed against El Limon Mine workers affected by the Chronic Renal Insufficiency (IRS), who were demanding an intervention by the state, or peasants in the south pacific region, who mobilized against the interoceanic canal project. The state also responded with violence to groups demanding greater electoral transparency during the 2016 electoral process, access to justice or respect for women's rights.

Even if there is no outright prohibition of independent political or civil society groups, it has been increasingly difficult to freely assemble and demonstrate. The control of dissident organizations increased, indirectly via cooptation of opposition leaders, and directly by suspending the juridical status of some parties (such as the Sandinista Renovation Movement, MRS), intervening in oppositional civic associations (such as the Autonomous Women's Movement MAM) or threatening and expelling international journalists covering the anti-canal protests.

Effective power to govern



Association / assembly rights



The Nicaraguan constitution guarantees freedom of expression. Freedom of expression was relatively secure between 1990 and 2006, as the two principal newspapers of the country, La Prensa and El Nuevo Diario, were independent. But since Ortega's rise to power, freedom of expression has been weakened.

Together with an alleged allied businessman, Angel González, the Ortega family maintains a TV duopoly in the country and controls a large proportion of radio channels. The presidential couple's children have bought or co-opted several national TV channels. In 2015, Canal 2 which was one of the major opposition TV channels passed to González. In sum, only newspapers, such as La Prensa, internet journals and some radios escape Ortega's control, and still provide a plurality of opinions.

According to Reporters Without Borders, journalism as a whole is stigmatized and journalists are often the targets of harassment, arbitrary arrests and death threats.

In its 2015 report, the human rights association CENIDH reported anti-freedom of expression practices, such as harassment of journalists and political opposition members; expelling international journalists and caricaturists; processes for libel and slander; closing and occupation of radio transmission equipment. In this context, distortion and manipulation of information is common and has limited public debate, as in the case of the interoceanic canal project.

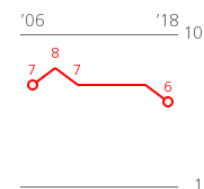
### 3 | Rule of Law

Throughout Nicaragua's modern democratic era, the separation of power has been formally established, but with a predominance of the executive on other powers. However, with Ortega's election to the presidency in 2006 and the Sandinista party's absolute majority of deputies in the National Assembly in 2011, the separation of powers in Nicaragua is essentially a formality, and checks and balances have begun to break down.

The main problems with respect to checks and balances result from the control wielded by the political elite, and since 2006 of the Ortega family and friends, over all state institutions. Consequently, the legislative and the judicial branches lack independence. The legislature is completely controlled by the FSLN, which has held an absolute majority since 2011. Meanwhile, the judiciary, especially the Supreme Court, is completely politicized and aligned with the Ortega family. The executive is in the hands of Ortega and Murillo, and even more evidently since Murillo became vice-president in 2017. The fourth power, the electoral power, is dominated by a very close supporter of Daniel Ortega, Roberto Rivas, who has facilitated the FSLN hegemony on electoral processes since 2008. In this context, accountability mechanisms are very difficult to install.

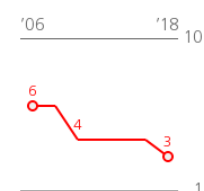
Freedom of expression

6



Separation of powers

3



In theory, the judiciary in Nicaragua is independent, as the judicial branch is institutionally differentiated, formally independent and constitutionally guaranteed 4% of state expenditures. In practice, the judiciary in Nicaragua is subject to corruption, as corrupt practices can be found at all levels. But the main problem is still the very strong political influence of political parties on the judiciary.

Since the 2000 pact between the political leaders Arnoldo Aleman and Daniel Ortega, the credibility of the judiciary has been seriously harmed. Both were at that time facing judicial proceedings, but with the pact they secured the support of magistrates and the parliamentary immunity to avoid punishment. As a result, from 2000 to 2006, all magistrates had clear political loyalties to one of the two parties and imposed party order on judicial decisions. The decline of the judiciary continued after Ortega's return to power in 2007 and the subsequent FSLN hegemony. In 2009, the Supreme Court overturned a ban on consecutive presidential re-elections and on serving more than two terms, enabling Ortega to run for office in 2011. In 2014, the National Assembly approved a change to the constitution accordingly. The Supreme Court's decision removes any limit on the number of time Daniel Ortega can be re-elected, which undermined the last portion of credibility that the Nicaraguan judiciary had.

Another more recent example of the judiciary's lack of independence involved the trial of

poet and priest Ernesto Cardenal (Sandinista minister of culture in the 1980s and current opponent to Daniel Ortega) who was fined \$800,000. Media NGOs (such as PEN Nicaragua), human rights organizations (such as CENIDH) and other civil society organizations condemned the verdict as judicial harassment of Cardenal and as a decision based on political reasons.

On the day-to-day level, arbitrary judicial rulings more often stem from simple bribes or from bargaining between higher-level magistrates. The nevertheless close alignment of Nicaraguan magistrates' party preferences with their judicial decisions damages the credibility of their decisions. 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.

In Nicaragua, the rule of law is undermined by political corruption. Corruption is a fundamental problem in Nicaragua's political culture. Most officeholders who break the law and engage in corruption are never prosecuted. Deficiencies include a lack of transparency in budget management, the lack of monitoring of public entities, excessive exemptions given to procedures and requirements in state contracts, the decrease in the belligerence of watchdog organizations, the increase in the selective application of legal safeguards, and the limited application of legislation regarding access to information and other mechanisms.

Independent  
judiciary

3

'06 \_\_\_\_\_ '18 10



1

Prosecution of  
office abuse

3

'06 \_\_\_\_\_ '18 10



1

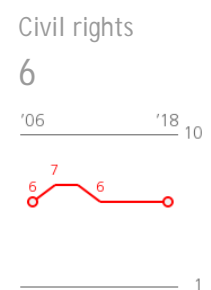
Moreover, the prosecution of corruption tends to be a political weapon rather than a matter of law. The media and numerous civil society organizations have denounced the lack of transparency in the management of public resources, particularly those coming from the Venezuelan government via ALBANISA, a private company which helps manage investment funds from the Bolivarian Alliance for the Peoples of Our America (ALBA) group. These resources have been progressively controlled under the influence of the government party (FSLN) and the presidential family. Since 2007, the Ortega-Murillo family, supplied by ALBANISA funds, has penetrated a wide range of businesses (oil, fuel, energy, television, radio, livestock and tourism) under a mixed public-private package far away from the institutional mechanisms of control and transparency that are intended to monitor the use of state resources.

Civil rights are constitutionally guaranteed and are largely respected. However, the weakness of the judiciary curtails the state's ability to respond to violations of these rights. Due to widespread poverty, the protection of civil rights remains shallow for large sectors of the population.

According to CENIDH, the situation of human rights in Nicaragua has deteriorated during the last Ortega mandate, with an increase in attacks on women rights, anti-Canal activists and opposition parties. In recent years, violence against women has increased (including femicide, a phenomenon previously unknown). Since 2013, judges can impose mediation instead of trial in cases of domestic violence, which was criticized by human rights organizations. In 2014, the juridical definition of femicide was revised, stating that murder only qualifies as femicide if the victim and perpetrator had a personal relationship. Since 2006, Law 603 forbids abortion on health grounds. Furthermore, despite government efforts to improve gender equality (such as the 50-50 law that demands gender equality in party candidate lists for elections), women still suffer discrimination in daily life.

In June 2013, the National Assembly passed to allow the Chinese enterprise HKND to proceed with the development of an interoceanic canal. Since 2014, more than 70 marches were organized against the project. In 2015, the increase in protests provoked a violent reaction from the state and in some areas (like Nueva Guinea) protesters were arrested. Confrontations between the police and protesters during the marches increased during 2016. As 2016 was an electoral year, there was also an augmentation of prosecutions (e.g., intimidations, and violence against people and property) against opposition political actors. These events also demonstrated that mechanisms to prosecute and punish the violation of civil rights have become ineffective in recent years.

Since 2008, same-sex relationships have been legal in Nicaragua, but same-sex couples are still not eligible to the same legal benefits and protections available to opposite-sex married couples.



#### 4 | Stability of Democratic Institutions

Democratic institutions exist but have become subordinated to an authoritarian logic. Their already weak performance was undermined in 2000 by the pact between the two principal political leaders of the country, Arnaldo Aleman (PLC) and Daniel Ortega (FSLN), both in the opposition at the time. The 2000 pact destroyed the fragile equilibrium of national institutions by making national institutions prey to the two parties, and the judiciary and electoral institutions have been most affected.

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

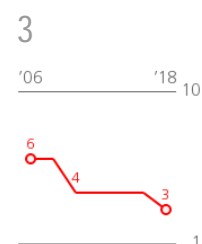
The FSLN's hegemony in the National Assembly, local governments and state institutions (e.g., the Supreme Court of Justice and the Supreme Electoral Court) has contributed to the limited capacity of the state to deliver justice, undermining transparent and democratic elections, colonizing public administration, and imposing the FSLN view on all institutions.

The Nicaraguan elites' commitment to democratic institutions has declined over the last decade. Though formally upholding constitutional procedures, the Ortega government has subsequently hollowed out constitutional democracy, converting it de facto into an electoral autocracy. Actors committed to democracy have become increasingly weaker since 2006, but remain something of a counterweight to the president's authoritarian tendencies where they are not completely suppressed. Since the 2016 elections, a new civil society movement has emerged to defend democratic institutions and transparent elections, while some clergy are also demanding a stronger government commitment to democratic institutions.

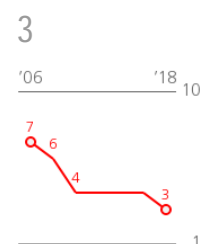
#### 5 | Political and Social Integration

The Nicaraguan party system is characterized by a strong polarization between Sandinistas and anti-Sandinistas. From the 1984 elections until 2005, this polarization created and maintained a unique two-party system: the FSLN on one side, and whichever party led the anti-Sandinistas forces on the other. The 2000 pact between the leaders of the FSLN and the PLC, Daniel Ortega and Arnaldo Aleman, forged a power-sharing pact that initially reinforced this two-party system, but also paved the way for later divisions within the liberals.

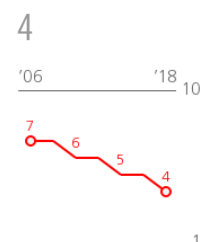
Performance of democratic institutions



Commitment to democratic institutions



Party system



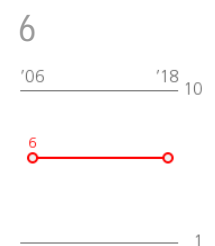
With the 2011 election, the FSLN imposed itself as the hegemonic power in the party system. This hegemony allowed the FSLN to adapt and modify the electoral rules, co-opt the administration, ban and sabotage oppositional parties, and win significant parts of the voters with populist politics and rhetoric. During the last decade, clientelist social policies (Hambre Cero, Usura Cero, Plan Techo and others) have secured the support for the presidential couple and the FSLN of a large part of the popular sectors. Consequently, the party has been able to repeatedly win elections and perpetuate its hold on power. After the 2012 local elections, the FSLN controlled 127 out of 153 municipalities and all 17 departments. Its hegemony became even stronger after the 2016 elections in which the FSLN faced a very weak, divided and suppressed opposition. Eduardo Montealegre, the leader of the main opposition party, the PLI, was excluded from participating in the 2016 elections. In this context, the FSLN was able to win the 2016 presidential elections, with 72% of the vote for Daniel Ortega and Rosario Murillo, and 71 out of 92 deputies in the National Assembly elections.

Nicaragua has a plurality of interest groups, some of which have a long history in the country. The oldest, formally organized interest groups represent private business, such as the Consejo Superior de la Empresa Privada (COSEP). Since 1990, COSEP has maintained straight contact and communication with all governments. Another organization, primarily of importance to farmers, is the Union Nacional de Agricultores y Ganaderos (UNAG), which is relatively pluralist in its make-up and Sandinista in origin. In sharp contrast to the 1980s, trade unions are comparatively autonomous, although there is still a sector (Frente Nacional de Trabajadores, FNT) with strong links to the FSLN. A number of other sectors also act as interest groups, including the Catholic Church, press associations and banking groups, although in many cases these interests are defended via personal contacts. As a general rule, the interaction between public and private interests in Nicaragua's economic sphere is mainly disorganized and informal, and corresponds to personal, clientelistic and corporative logics.

Since the rise to power of Daniel Ortega, relationships between interest groups and the state have been increasingly marked by the Sandinista hegemony. Even if the relationship between the FSLN and trade unions remains complex, the tendency is toward a greater control of the trade unions by the government. As an example, the Sandinista FNT is increasingly hegemonic among the trade unions, as its president, Gustavo Porras, is also deputy and president of the National Assembly.

Since the 1990s and for more than three decades, most Nicaraguans agreed with the idea that democracy was the best possible regime. However, popular approval for democratic norms has gradually decreased over the last decade. According to Latinobarómetro 2016, only 41% of Nicaraguans stated that they would prefer democracy over any other form of political system, down from 48% in 2015. Furthermore, 61% of respondents stated that they would not mind a non-democratic

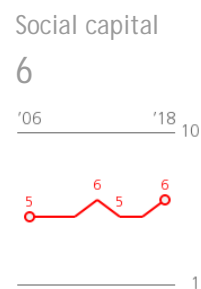
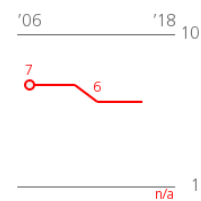
Interest groups



Approval of democracy  
n/a

government if it resolved Nicaragua’s economic problems. While 46% stated that the government “governs for all the people” (the highest approval rate in Latin America) and 69% approved of Ortega’s leadership, the second highest approval rating of any Latin American leadership after the Dominican Republic. In sum, many Nicaraguans seem to prefer the Ortega government over democratic values.

There is a considerable tradition of trust, cooperation and solidarity between citizens at the very local level in Nicaragua. Most Nicaraguans are members of a civil society group, such as a women’s association, peasants’ association or trade union. In the absence of the state, many sectors and areas have developed a strong level of self-organization through the decades. Nonetheless, self-organization and politics are usually interlinked, since party membership is often the basis of local organization.



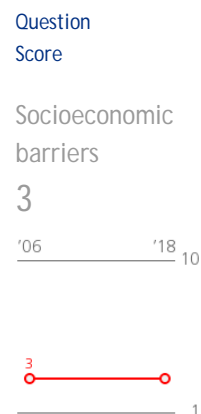
## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Poverty and inequality are key problems in contemporary Nicaragua. Since its return to power, the Sandinista government has extended social policies that aim to reduce poverty in urban and rural areas. However, after 10 years, it is hard to confirm that these social policies have really tackled poverty in the country as inequality remains a fundamental characteristic of society.

Nicaragua’s socioeconomic development status is low. According to the 2016 Human Development Report, the country’s Human Development Index (HDI) value was 0.631 (0.614 in 2014) and Nicaragua ranked 125 out of 188 countries, only ahead of Guatemala (128), Honduras (131) and Haiti (163) in Latin America. The country’s Gender Inequality Index score was 0.449, worse than the Latin American average, though ahead of Panama (0.454), Honduras (0.480) and Guatemala (0.533) 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. In 2014, the Gini Index value reached 47.1. According to the World Bank Development Indicators 2016, 17.1% of the population lived on less than \$3.10 a day. However, most of the country’s almost 6 million inhabitants live in poverty.





Economic indicators		2013	2014	2015	2016
GDP	\$ M	10983.0	11880.4	12747.7	<b>13230.8</b>
GDP growth	%	4.9	4.8	4.9	<b>4.7</b>
Inflation (CPI)	%	7.1	6.0	4.0	<b>3.5</b>
Unemployment	%	5.3	5.3	5.6	<b>5.9</b>
Foreign direct investment	% of GDP	7.4	7.4	7.5	<b>6.7</b>
Export growth	%	3.8	6.4	-1.8	<b>5.5</b>
Import growth	%	2.4	3.1	9.0	<b>7.0</b>
Current account balance	\$ M	-1198.7	-844.0	-1143.8	<b>-1133.4</b>
Public debt	% of GDP	28.8	28.7	28.9	<b>31.0</b>
External debt	\$ M	9712.4	10145.5	10546.8	<b>10990.9</b>
Total debt service	\$ M	638.2	706.7	802.0	<b>830.5</b>
Net lending/borrowing	% of GDP	0.1	-0.3	-0.6	-
Tax revenue	% of GDP	15.0	15.3	15.6	-
Government consumption	% of GDP	7.5	7.7	7.6	<b>8.3</b>
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.4	5.1	-	-
R&D expenditure	% of GDP	0.1	0.1	0.1	-
Military expenditure	% of GDP	0.7	0.7	0.8	<b>0.5</b>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

The organization of market and competition in Nicaragua works under a weak institutional framework. There is little judicial independence, a weak regulatory framework and very high levels of corruption. Since the 1990s, free-market competition has been implemented in Nicaragua and the return of Sandinista government in 2006 hasn't changed the principles of free-market organization. However, during Ortega's mandates, market competition has been undermined by the emergence of strong enterprises dependent on the government and Ortega's family. The informal sector remains large.

Market-based competition

4

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In the Doing Business Report 2017, Nicaragua ranked 127 out of 190 countries, an improvement on previous years, but lowest of all Central American countries. Nicaragua ranked particularly poorly for paying taxes (176), protecting minority investors (145) and registering property (146). The 2016-2017 Global Competitiveness Report ranked Nicaragua 103 out of 138 countries, with Nicaragua scoring poorly for the efficiency of government bureaucracy, educated workforce, supply of infrastructure and corruption.

Weak government institutions, shortcomings in the rule of law and executive control pose significant challenges to investors in Nicaragua, especially for smaller foreign investors. According to the U.S. Department of Commerce, investors regularly complain that regulators, in particular the Nicaraguan Customs Authority, are arbitrary, negligent and slow to apply existing laws. Nevertheless, foreign investment is considered to be economically important and Nicaragua offers business opportunities in various sectors such as construction, food processing, packaging equipment and tourism. Nicaragua's emerging tourism industry has recently been enhanced by attractive tax incentives.

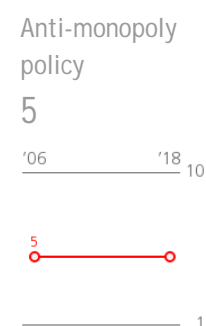
According to the central bank, the informal sector in Nicaragua represents 75.2% of the jobs (74.4% in 2013). This percentage is even higher for women.

A competition-promotion and anti-monopoly law came into effect in 2007, and was again modified in 2008. The law prohibits anti-competitive practices, and created a national institute for the promotion of competition (Procompetencia), which is tasked with enforcing the law. The promotion of competition law establishes financial sanctions for companies that engage in anti-competition practices, varying between 1% and 10% of the company's net sales.

However, after 10 years of the law's existence, anti-competitive practices still exist. Procompetencia has experienced a lot of difficulties in tackling anti-competitive practices and its record has been poor. In 2016, Procompetencia dealt with only 11 cases related to unfair competition and price fixing, according to its 2016 report.

Nicaragua's market contains a number of oligopolies, common to small economies, in which two or three companies control the majority of a sector. According to Procompetencia, anti-competitive practices prevail in sectors such as milk, flour, wood and tourism. Oligopolies in the airline and telecommunication sectors have also been denounced by the president of the National Assembly. According to Procompetencia, many of the most important economic sectors have one company that controls more than 50% of the sector.

One contributing factor, related to Nicaragua's development model, is considerable state interference in economic activity. Collaboration and complicity between the government and business sector has resulted in a small group, generally based on



strong friendship or family bonds, making economic decisions favorable to themselves and facilitating anti-competitive practices.

Furthermore, in its last report, Procompetencia recognized that, 10 years after its creation, most industrial businesses don't even know that Procompetencia exists, which indicates the weak culture of competition in Nicaraguan markets. The Global Competitiveness Index 2016-2017 ranked Nicaragua 121 out of 138 countries concerning the effectiveness of anti-monopoly policy, and 135 concerning the extent of market dominance.

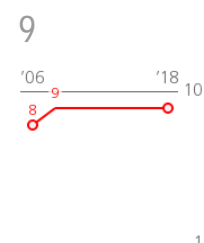
Since the 1990s, Nicaragua has liberalized its foreign trade. Nicaragua is now a member of various regional and bilateral trade agreements with other Central American countries and the United States, including the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR). According to WTO, Nicaragua has a relatively open trade and investment regime. The average applied tariff rate is 2.0% according to the Heritage Foundation. In the Global Competitiveness Index 2016-2017, Nicaragua ranked only 103 out of 138 countries, but 66 concerning foreign competition and 51 concerning trade tariffs. According to World Bank's Doing Business Report 2017, Nicaragua made trading across borders more expensive by introducing a new security fee, which increased the cost of border compliance for exporting and importing.

The United States is Nicaragua's largest trading partner, both in imports and exports, followed by Mexico. According to the U.S. Department of Commerce, trade with the United States represents about a quarter of imports and two-thirds of exports (including free trade zone exports). In 2006, CAFTA-DR entered into force for the United States and Nicaragua, making all U.S. exports of consumer and industrial goods duty-free. Tariffs on most U.S. agricultural products will be phased out by 2024, with all tariffs eliminated by 2026. In 2010, Central American countries, including Nicaragua, also signed a trade agreement with the European Union. In 2014, a partial free trade agreement came into effect between Nicaragua and Cuba. Nicaragua also has trade agreements with Mexico, Panama, Taiwan, Chile and the Dominican Republic.

Since its incorporation into the Bolivarian Alliance for the Peoples of America (ALBA) in 2007, the government's foreign trade policy has also focused on bilateral relations with Venezuela. As a result, Venezuela became Nicaragua's third largest trade partner between 2007 and 2014. Hugo Chavez's death and the fall in world oil prices altered the commercial partnership between Nicaragua and Venezuela, with Venezuela limiting its investments in Nicaragua. Since the Venezuelan crisis in 2016, Venezuelan investments in Nicaragua have almost disappeared.

Since 2013, the Nicaraguan government has tried to develop new commercial partnerships. During the period under review, Nicaragua (together with Costa Rica, El Salvador, Guatemala, Honduras and Panama) concluded terms for a free trade

Liberalization of  
foreign trade



agreement with South Korea. Nicaragua is also negotiating a bilateral trade agreement with Peru and its accession as a full member of the Latin American Integration Association (ALADI). Nicaragua has recently been incorporated into Annex “C” of the International Cocoa Agreement, which defines Nicaragua as a country exclusively producing and exporting fine cocoa. With this incorporation, Nicaraguan cacao received recognition for its quality by the International Cocoa Organization.

In 1995, the constitution was reformed to guarantee the liberty to create banks and other financial institutions (Article 99). In 2005, Law 561 established judicial guarantees for credits and investments in the national territory. Since then, the banking system is oriented to international standards and the central bank is working toward increasing supervision.

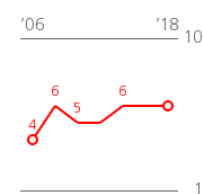
The central bank’s report for 2016 noted that the balances of the national financial system (NFS) reflected favorable performances. The liquidity of the financial system remained adequate and profitability indicators remained positive, associated in part with the improvement in the quality of the loan portfolio. The balance of the NFS loan portfolio registered an inter-annual growth of 18.6% (2015: 23.3%), while total deposits increased by 10.5% (2015: 13.5%). According to the IMF, bank soundness indicators remained solid in 2016, with the proportion of non-performing loans below 1% of total loans and capital adequacy ratio of 13.5% of risk-weighted assets at the end of 2016.

According to the Superintendency of Banks and Other Financial Institutions (SIBOIF), the number of loans granted through credit cards increased from 541,000 in 2009 to more than 1 million in September 2016, with most debts denominated in U.S. dollars (up to \$123.9 million). Despite strong credit growth, the Nicaraguan financial system appears to be robust, with capital adequacy rates above the regulatory level of IMF indicators.

According to the IMF, efforts were made to strengthen financial stability in 2016, such as the implementation of liquidity and solvency banking regulations. However, the IMF also noted that the national banking system remains fragile and needs to be improved, and national financial markets need to be deepened. The IMF also demanded that the government address gaps in the financial supervisory perimeter as the regulatory framework for the microfinance industry remains incomplete and some small institutions could escape oversight.

Banking system

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## 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.

According to World Bank data, the inflation rate in 2015 was 4%, the lowest rate in the last six years (6% in 2014; 7.1% in 2013) and, according to the central bank, the second lowest since 1976. According to the IMF, it decreased further to 3.5% in 2016 due to low prices for food and other basic products.

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%. International reserves are projected to remain stable around 4 months of imports, excluding the free trade zones. Nicaragua maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. During the period under review, the central bank of Nicaragua respected its pre-announced target of a 5% annual decline. But despite these efforts, the Nicaraguan economy remains highly dollarized.

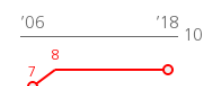
Even if the central bank has pursued a largely consistent inflation and exchange rate policy (the real effective exchange rate is of 103.9 in 2015 for 98.9 in 2014 and 98.3 in 2013), the institution is still not autonomous enough. Accordingly, the IMF has demanded efforts to strengthen the independence and balance of the central bank.

Pushed by international lenders and their own commitments, Nicaraguan governments have pursued a policy of macroeconomic stability since the 1990s. The government's fiscal and debt policies generally promote macroeconomic stability, but lack institutional safeguards and are prone to populist policy changes.

In recent years, debt relief programs through the Heavily Indebted Poor Countries (HIPC) initiative, the Multilateral Debt Relief Initiative (MDRI) and bilateral schemes have considerably reduced Nicaragua's overall external debt. According to the central bank, in 2015 public debt reached \$5.8 billion, which represented a decrease of 0.8% compared to 2014. The variation was due to lower internal indebtedness (-5.5%), which was partially offset by an increase in liabilities with foreign creditors (0.2%). The composition of the public debt at the end of 2015 was 83.5% external debt and 16.5% domestic debt. Public debt represented 45.3% of GDP in December 2015, a decrease compared to December 2014 (49.2%). The total public debt service in 2015 amounted to \$940 million, of which 83.4% corresponded to internal debt and 16.6% to external creditors. The public-sector deficit was 3.1% of GDP at the end of 2016, mainly due to higher spending in pensions and investments inside the Nicaraguan Social Security Institute (INSS) but also to expenses related with the organization of presidential elections and strong investments in infrastructure.

Anti-inflation /  
forex policy

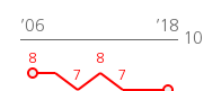
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Macrostability

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A key macroeconomic challenge facing Nicaragua is the economy's high level of dollarization (73% of deposits and 91% of loans). Similarly, the country has a small national capital market. Nicaragua also has external vulnerabilities, reflected in its current account deficit (7.8% of GDP in 2016) and its net external debt (which was close to 100% of current external revenues in 2016). Its external financing needs are sensitive to foreign investment flows and to the availability of official financing. The external current account could deteriorate due to weak external demand and a reduction in the price of some of Nicaragua's key export products, despite a reduction in the price of imported oil.

## 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.

During the first Sandinista era in the 1980s, expropriations and redistribution of properties, residences and companies were mostly carried out without due legal process or documentation that would insure the new owners' legal claim, leading to severe conflicts with former owners who have since tried to reclaim their properties. Problems with property today are concentrated in four areas: urban peripheral zones, due to the continuous arrival of rural migrants who settle on the outskirts of towns and cities; areas where tourism is being promoted by national and international firms (the southern Pacific coast region); indigenous territories on the northern Atlantic coast and the north; and peasants' and indigenous lands on the Interoceanic Canal road on both sides of the country.

Related to the Gran Canal project, Law 840 of 2013 indicates in Article 12 that the concessionary firm can buy any land it needs for the project. It prepares the expropriation of lands and the payment of these lands on the base of the agrarian "reparto" in which the value of land depends on 1930s' prices. The possibility of expropriations has provoked numerous peasant mobilizations on issues of property rights since 2014. Even if the canal's construction seems improbable today, Law 840 remains applicable. For instance, as promotion of tourism is also part of Grand Canal related projects, this could lead to expropriations in coastal areas.

Another important land property problem is related to indigenous properties on the Atlantic coast. Since the Autonomous Law of 1987, indigenous peoples on the Atlantic coast obtained a special property status for ancestral indigenous lands. Furthermore, Law 445 on the property regime of indigenous peoples and ethnic communities clearly states that indigenous lands cannot be sold, donated or embargoed. However, the advance of agribusiness and the invasion of indigenous lands by peasants from the Pacific region has resulted in numerous conflicts between mestizos and indigenous. The pressure on land property rights has increased on the Atlantic coast, as Law 840 is also applicable in this region.

Property rights

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Since 1990, Nicaragua has privatized a significant number of its public 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 privatizations, and opposes the introduction of private pension funds. The government owns and operates several companies such as the National Sewer and Water Company, National Port Authority, National Lottery, and National Electricity Transmission Company, among others.

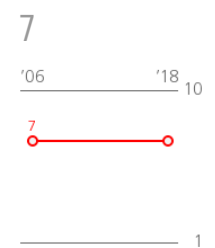
Under the Ortega administration, the relationship between private enterprises and the executive has not always been easy, but has seen remarkable improvements as the Superior Council of Private Enterprise (COSEP) which represents the majority of business groups became one of the principal supporters of Ortega. As a result, private enterprises are not only permitted, but several of the national economy's largest firms are supported and protected by the Sandinista state. Relations between these firms and the government has become even closer, with government actors increasing their personal interests in private enterprises and using their political power to protect the sectors they are involved in.

## 10 | Welfare Regime

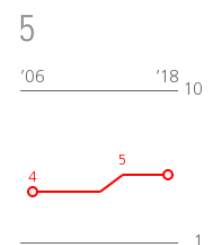
Basic social safety nets exist, but are plagued with severe structural deficits. Due to the large size of the informal sector and high rate of underemployment, large parts of the population are excluded from the social security system and have to rely on special social programs or family support. Many Nicaraguans depend on remittances, mostly from the United States or Costa Rica, which in 2016 totaled \$1.264 billion. The Nicaraguan Institute of Social Security (INSS) is said to cover about a third of all workers, providing for pension insurance in a pay-as-you-go scheme, basic health as well as illness insurances, meaning that 60% to 70% of Nicaraguans live without any kind of social protection. In addition, the need to finance growing INSS deficits and continue the social programs mentioned below are putting increasing pressure on government expenditure.

Since Ortega's return to power, the government has increased social spending in education, health care and housing. For instance, public spending on health care has increased to 5.1% of GDP (3.4% in 2004, 3.8% in 2008, 4.3% in 2010). The Ortega administration's poverty-reduction strategy has had some success concerning three major social programs: Zero Hunger (Hambre Cero), Zero Unemployment (Desempleo Cero) and Zero Usury (Usura Cero). According to the 2014 Standard of Living Survey by the National Development Information Institute, between 2009 and 2014, poverty dropped from 42.5% to 29.6% and extreme poverty from 14.6% to 8.3%. In 2016, the government updated the National Plan for Human Development (PNDH) with objectives like the reduction of inequality by increasing the fight

Private enterprise



Social safety nets



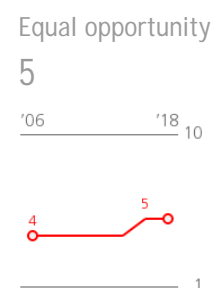
against poverty, and the augmentation of investments in social sectors and rural infrastructure. Despite this progress, poverty remains high in the country.

On the Atlantic coast, poverty remains especially high among people of African and indigenous descent who face extreme poverty, and political and administrative discrimination. Few government social programs have reached the Atlantic coast which remains neglected by redistribution policies. Furthermore, many inhabitants are not included in the census which certainly underestimates the extreme poverty faced by indigenous and creole communities.

Despite some advance, equality of opportunity has not been achieved in Nicaragua. According to the Global Gender Gap Report 2015 by the World Economic Forum, Nicaragua is the Latin American country with the lowest level of gender inequality, ranked 12 out of 145 countries, just one rank behind Germany. The World Bank Gender Parity Index (GPI) for gross enrollment ratio indicates for Nicaragua parity between girls and boys (1.0) in primary, and a small advantage for girls in secondary and tertiary education (1.1 each). While the overall adult literacy rate is comparatively low for Latin American countries (82.5%), there is no significant gender gap (men: 82.3%; women: 82.6%).

At the political level, the country has made some efforts with the implementation in 2008 of the Law of Equality of Rights and Opportunities (Law 648) and, in 2012, of the Law 50-50 for parity, which reformed the Law of Municipalities, and established gender equity in the election of mayors and vice mayors. As a result, the representation of women in Nicaragua's National Assembly and local governments is comparatively high by international standards. However, this progress doesn't extend to working conditions. While the female labor force as a percentage of the total is rather low with 38.7%, many women in Nicaragua are working in informal jobs, with no social protection and additional family constraints which limit their job carriers. Furthermore, feminist organizations claim more attention to women rights in Nicaragua, where many women face gender violence. The prohibition of therapeutic abortion in 2006 increases women's risk of death due to sexual violence and reproductive health problems.

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





## 11 | Economic Performance

Being the third-poorest country in the hemisphere with a GDP per capita (PPP) of \$5,200 in 2015, Nicaragua's social and economic policies must fight poverty and promote growth simultaneously. At the same time, the economy is weak and vulnerable to external shocks given its large current-account deficit, dependency on a small number of export products, its exposition to natural disasters, and spillover effects related to U.S. policies.

Notwithstanding, Nicaragua continued with relatively high growth rates in a context of relative macroeconomic stability. GDP growth reached 4.7% in 2016 after 4.9% in 2015 and 4.6% in 2014, among the highest rates in Latin America. Inflation decreased over the last decade to 4.0% in 2015 and 3.5% in 2016. According to the IMF, the fiscal deficit increased slightly in 2016 and, despite increased tax revenues (0.7% of GDP), the consolidated public-sector deficit widened to 2.4% in 2016 due to election-related spending, expansion of public investment and a further deterioration of the financial position of the Social Security Institute (INSS). Public-sector debt increased from 40.2% in 2014 to 40.7% in 2015 and 41.9% in 2016. The current account deficit remained high (8.6% in 2016 after 9% in 2015), though still balanced by considerable FDI (6.5% of GDP in 2016). Macroeconomic stability has partly been dependent on oil cooperation with Venezuela, and its phaseout poses challenges to external and fiscal sustainability.

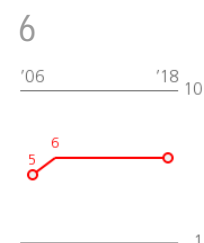
Unemployment has remained stable since 2015 at around 5.3% (ILO estimations). However, the main problem remains underemployment, which represents 59.1% of the total employed population. In addition, 76.2% of all employed persons in Nicaragua worked in establishments without accounting records and do not pay taxes or social security contributions.

## 12 | Sustainability

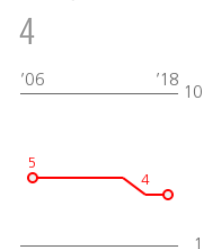
According to the Centro Humboldt, one of the largest environmental organizations in the country, Nicaragua is facing the worst ecological crisis of recent history. In its 2016 Report on the Nicaraguan Post-Drought Socio-environmental Crisis, the center noted a reduction of more than 36,000 hectares of the national forest between 2011 and 2016, as well as damages to water reserves (lakes and rivers). The El Nino drought and other frequent natural disasters (e.g., earthquakes, hurricanes, floods and landslides) have had dramatic consequences on the country's ecosystem.

Successive governments have been unable to respond adequately to these natural disasters. As a result, Nicaragua is the fourth most vulnerable country to climate change in the world, according to the Global Climate Risk Index 2014. The World Risk Index, which considers environmental, social and political indicators,

Output strength



Environmental policy





considered Nicaragua one of the fifteen countries in the world with a high level of risk exposure. During the last COP21 summit on climate change, Nicaragua was one of the few countries that explicitly rejected the Paris Agreement. (In October 2017, the government announced it would join the agreement.)

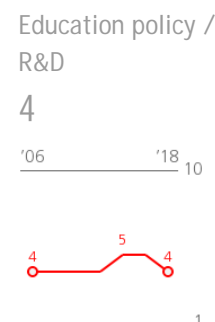
The renewed attention for natural resource extraction has further augmented pressure on environmental protection. Especially the mining industry has grown during Ortega's governments. In addition, the ecological consequences of the interoceanic canal project, led by the Chinese HKND company, has worried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

During the last decade, the government promoted organic agriculture, notably changing the agricultural process of the 1980s and 1990s. As a result, in 2016 Nicaragua had the largest area devoted to certified organic agriculture in Central America, with more than 70,000 hectares dedicated to coffee, tobacco, sesame, honey, cocoa, soybeans and many other products based on diversified production systems. These products contribute \$25 million to GDP, only for export. Organic agriculture has been defended by the Ministry of Agriculture and Forest (MAGFOR). However, at the same time, Nicaragua has been facing the return of big firms promoting monoculture, such as African palm, considered as very destructive for the environment.

Despite some selective efforts, education policy, and the education and training system is sub-standard. Education is a constitutional right in Nicaragua. Primary education is compulsory and free. However, human capital levels remain very low, as Nicaragua has Latin America's highest percentage of children outside the educational system, and the lowest completion rates for both primary and secondary education. According to IDB, only half of children complete primary education. There is no comparable recent data on education expenditures, the most recent data was for 2010 (4.5% of GDP). The literacy rate is 82.5%.

Nicaragua has lower enrollment rates compared to the rest of Latin America. Secondary education gross enrollment ratio is only 74.2% and only 17.2% for tertiary education, the lowest rate in Latin America (except Haiti). While there has been some improvement in access to education in rural areas, the rural-urban divide remains significant. The quality of primary and secondary education is also regularly questioned.

Compared to primary education, public attention on universities is rather high in Nicaragua, mostly with the intention to diversify university careers and train more professionals. At the same time, overall research and development expenditure is



insignificant, with a research sector only recently emerging in Nicaragua. Gender parity is relatively well respected.

On the Atlantic coast, indigenous and creoles communities are supposed to have access to bilingual education at school, both in Spanish and native indigenous or creole language. However, many schools have no books and materials, and have difficulties hiring and retaining teachers, as teachers receive very low incomes.

## Governance

### I. Level of Difficulty

Structural constraints exist at different levels. First, extreme poverty remains very high, despite significant poverty-reduction programs introduced over recent years. In combination with a sub-standard education system, and low completion rates for both primary and secondary education, this means that the high skilled proportion of the labor force is low.

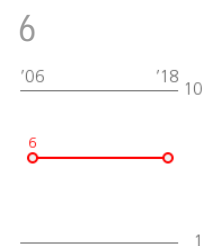
Second, infrastructure problems abound, as part of the country is not interconnected with the capital and important cities of the Pacific coast. The Atlantic coast and islands are not connected with roads. An old road project connecting the Atlantic and Pacific coasts, even in rainy season, remains incomplete, even if some roads in the midland have been improved. To reach Bluefields, the capital of the Autonomous Atlantic Coast region, it is necessary to take a boat from El Rama or a plane from Managua. Public transport by road is very poor, and the rail network leading to the interior and the Atlantic coast does not function during rainy season.

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

On a positive note, organized violence has not penetrated Nicaragua to the level seen in neighboring countries to the north, despite chronic unemployment and underemployment, poverty, unsatisfactory social conditions, and poor government performance. Similarly, HIV/AIDS rates have not reached alarming levels 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, and also created an important level of social trust.

Structural  
constraints



Civil society  
traditions

4

Both in rural and urban areas, mobilization continued through the 1990s, but the political logic changed, with demands taking on a more socially oriented character. Through the end of the 1990s and the start of the 2000s, mobilization levels have declined, but without disappearing altogether. Most of the mobilizations were linked with the FSLN in opposition. An anti-corruption civil society movement also emerged and had some successes with the organization of major marches.

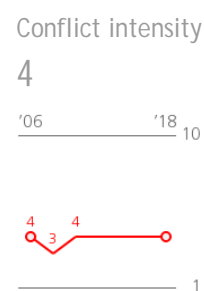
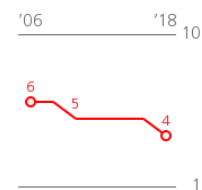
Since Daniel Ortega came to power in 2007, different civil society sectors, which emerged between the end of the 1990s and the beginning of the 2000s, have become stronger, as they oppose Ortega or FSLN policies. For example, the feminist movement has fought more strongly against sexual abuse and violence following the Zoilamerica Narvaez case, and for abortion rights following the 2006 anti-abortion law. But the major movement of the last decade is the anti-Grand Canal project movement. After the parliamentary vote giving a concession for an interoceanic canal to the Chinese entrepreneur Wang Jing in June 2013, a new environmental movement emerged to oppose the ecological consequences of the construction. The Cocibolca Group was joined by a major peasant movement that opposed the expropriation of lands. At the end of 2016, more than 70 marches have been planned by the movement.

Since 2007, the government has made efforts to organize society (above all popular sectors) via party networks (Citizens' Power Councils), which are used to hand out resources, implement social policies, establish slogans and maintain a degree of social control. CPCs represent the Ortega government in all neighborhoods of the country and are top-down rather than grassroots organizations.

Since 2014, Nicaragua has experienced an increase in conflict between the government and civil society organizations after the advance of the Grand Canal project. Two major groups are mobilized against the project: peasants from the south of the Pacific coast and environmental organizations. Other groups such as indigenous and creole people from the Atlantic coast, and part of the opposition parties also oppose the project.

Nicaragua is politically very polarized between pro- and anti-Sandinistas. The 2016 elections increased polarization as several opposition parties were unable to present candidates at the elections. Major protest marches were organized across the country, except in Managua where the opposition feared repression. In addition, there have been rumors of the emergence of re-armed groups labeled the "Nueva Contra" in the north of the country. The Nicaraguan army denies the existence of these re-armed contra groups, but soldiers have reportedly been searching the northern countryside for rebel activity.

On the other hand, there are no important religious conflicts. The country is mainly Catholic, despite the increasing presence of Evangelical churches. The population 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 an



effort to respectfully manage ethnic differences, the Autonomous Region of the North Atlantic (RAAN) and the Autonomous Region of the Atlantic South (RAAS) were created in 1987. Since the war of the 1980s, ethnicity has not been a substantial cause of conflict. However, since the return of Ortega to power in 2007, there have been conflicts over land in the RAAN because of the advance of the agricultural frontier and land invasions. Ladino peasants have taken over indigenous lands, mostly in Miskito territory, resulting in the deaths of many Miskitos that had to abandon villages to escape ladino violence. Since 2016, the Nicaraguan government has yet to react and defend indigenous lands, while Miskitos have created armed groups to resist invasions.

## II. Governance Performance

### 14 | Steering Capability

The government claims to be setting strategic priorities, but does so only in certain policy areas, and often replaces strategic priorities with short-term interests, or fails to prioritize and organize its policy measures adequately. The government's long-term political strategy aims to consolidate its control over power rather than strengthen democratization and the rule of law. Ortega has continued the macroeconomic policy developed in the 1990s and has emphasized pro-poor policies more than previous governments, but has made no major long-term efforts to enhance the rule of law, depoliticize public administration or fight corruption.

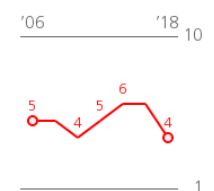
Since 2007, Ortega's administration had two primary international goals. On the one hand, the government sought to retain investors and attract new ones, such as Chinese, to avoid putting economic development and stability at risk. On the other hand, Ortega pushed for integration into the networks of the new leftist governments of Latin America led by Hugo Chavez. But Chavez's death, and the Venezuelan political and economic crisis has pushed Ortega to find new allies, such as Chinese investors or the South Korean government with which a free trade agreement is in negotiation.

At the national level, the anti-poverty programs have been maintained since the 1980s, albeit with 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 "trickle-down" to society. Since 2007, Ortega's administration has been mainly interested in developing social policies via three main programs (Hambre Cero, Usura Cero and Desempleo Cero), and strengthening the universal-service policy in the areas of health care and education. However, the implementation of these policies

Question  
Score

Prioritization

4



had been very dependent on Venezuelan aid via the ALBANISA company, which was dramatically reduced by the Venezuelan crisis and the end of petrodollar flows to Nicaragua. The Gran Canal project, originally considered as a main development project, is an example of strategic incapacity. The project's stagnation since its official launch in December 2014 has made the project increasingly more doubtful and strategic priorities more fragile.

The Nicaraguan state shows several strengths, but also exhibits notable shortcomings in implementing government policies. During the mandate 2007 to 2012, and to a lesser extent during 2012 to 2017 mandate, the Ortega administration was able to implement most of its strategic policies with the financial support of ALBANISA, a private company owned by Venezuela's state oil company, PDVSA (51%), and its counterpart in Nicaragua, Petronic (49%) that manages financial aid from Venezuela with complete discretion. The important petrodollar flows to Nicaragua as well as the existence of a local political structure, the Citizens' Power Councils, facilitated the implementation of major social programs, such as housing for low-income families. Similarly, the government's public security policies had some results, as the country is considered one of the safest in the region, although that doesn't mean that Nicaragua enjoys a high level of security. In addition, the continuous growth of Nicaraguan economy since 2007 has facilitated the implementation of many strategic policies, such as the development of energy and road infrastructure, electrification, and management of natural disasters.

However, the reduction in Venezuelan aid as well as the excessive politicization of CPCs also had negative consequences on popular sectors and, as a result, some difficulties in the implementation of social policies. The beginning of the new Ortega mandate in 2017 has created new social expectations in a context of limited financial resources. The excessive politicization of the CPCs (theoretically designed to process people's demands and respond their needs) has created a pyramid structure and a Sandinista parastatal instrument that distributes rewards to sympathizers and consolidates loyalty. This has increased discontent among excluded groups (generally anti-Sandinista). Politicization also increased inside public administration, which has long been plagued by a serious lack of capacity and professionalism due to the absence of career-oriented civil servants and the appointment of pro-Sandinista public servants across all administrative divisions. This politicization has been orchestrated by Rosario Murillo, Daniel Ortega's wife and vice-president of the country since 2017.

After 10 years in power, Ortega has shown very little willingness to offer explanations and learn from past experiences. Ortega is in this respect very similar to most of the political elite, particularly the leaders of the main parties, especially the FSLN. The political elite have shown very little interest in strengthening the rule of law, and constructing a professional and neutral public administration. While intellectuals and parts of the academic community, along with several international

Implementation

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Policy learning

3

agencies have regularly addressed accountability issues in Nicaragua, politics in Nicaragua remains characterized by short-term, clientelistic, zero-sum and patrimonial practices.

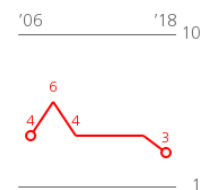
The important presence of international agencies during the 1990s and the beginning of the 2000s has declined under the Ortega governments, which has paid less attention to international cooperation, knowledge exchange and consultancy, and increasingly objected to the interference of donor support in the area of democratic governance. Many international cooperation agencies left the country (or were requested to do so, such as UNDP in 2016) as the government had shown no willingness to learn, adapt or improve its policies, or improve transparency.

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

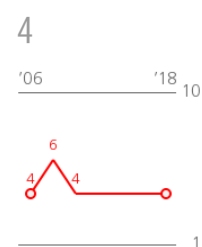
## 15 | Resource Efficiency

The use of public resources in Nicaragua is not particularly efficient and has been increasingly politicized during Ortega's last mandates, while corruption has increased. While the level of state debt is manageable (the result of a prudent management of public finances and economic dynamism), the centralized and highly politicized control of the state means that policies of strategic interest to the president or ruling party (such as social programs) are implemented and monitored in secrecy (though presumably with some efficiency for the beneficiaries of social programs). However, according to the World Bank Governance Indicators 2017, in 2016 Nicaragua had a low performance in government effectiveness (belonging to the 20-30 percentile with a score of 24.04) and ranked 159 out of 209 countries.

The low efficiency of the administration is related to three main reasons. First, the politicized nature of the public administration and lack of career-oriented civil servants. The second reason is structural, and relates on the one hand to the minimal presence of the state in some areas of the country, for instance the Atlantic coast, and on the other hand to the lack of coordination between ministries when implementing government policies in rural municipalities and communities. As a consequence, there is no "responsible" decentralization. The third reason is related to Ortega's administration, in which a cabinet led by the secretary of the presidency and its advisers is guided by decisions made by the president and his wife. The extreme centralization of decisions means that policy is carried out very slowly, since it allows



Efficient use of assets



ministers very little autonomous decision-making power. In this context, there is no independent institution in the country able to monitor public administration.

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

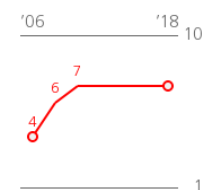
Over time, Ortega's government has generated a variety of policies that lack coherence. First, on the one hand, it has continued with earlier macroeconomic policies in order to maintain the confidence of businessmen, investors and IFIs, while on the other, its preferential agreements established with Venezuela have enabled new import and trading monopolies to develop, and its focused poverty-reduction policies have distorted prices of basic goods via VAT exemptions. However, as the IMF stated in its 2016 report, nearly one-half of the VAT exemptions benefit only the richest two deciles of the population, while the poorest fifth of households receive only 8% of the benefits. Second, the relative effectiveness of targeted social policies to combat poverty is undermined by clientelism. Third, there is an apparent contradiction between the Gran Canal construction and the state's environmental responsibility, which was leveled by simply reforming Article 60 of the constitution in 2014.

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

In theory, the state is supposed to enable administrative transparency and integrity and punish criminal conduct. A series of laws are in place to fight against the practice of bribery. Article 429 of the penal code published in May 2008 (Law 641) contains sanctions against bribery equal to those associated with crimes against freedom of expression. Article 449, titled "International bribery," sanctions foreigners residing in Nicaragua who offer, promise, give, or concede money than authority, civil servant or public worker in order to carry out or omit to carry out functions inherent to their role. Article 475 holds that bribery (Article 476), bribing witnesses (Article 478) and making evasion easier (Article 482) carries the same sanctions as producing false

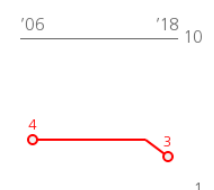
#### Policy coordination

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#### Anti-corruption policy

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testimony or reports. Article 5 of Decree No. 124-99 mandates that public servants referred to in Article 1 of the decree must refrain from receiving gifts, perks, or payments in cash by any interest in the outcome of their decisions. Likewise, the public function should not be used for the benefit of any party.

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

## 16 | Consensus-Building

All important political actors publicly agree on the goal of developing democracy. 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. All parties have tried (when in power) to change rules and institutions to their favor. Between 1990 and 2006, some progress was made concerning horizontal and vertical accountability, mostly during Bolaños' mandate (2001-2006). After Ortega's rise to power, however, the FSLN has conquered all the state's resources, and now has the power to modify rules and use institutions as it wants. Nicaragua has de facto turned from a democracy into an electoral autocracy following the 2016 elections. Since the 2016 elections, the opposition parties have been campaigning for greater transparency and respect of free political competition.

Major political actors mostly agree on a market economy strategy, but disagree about its basic features. Opposition parties (PLI, PLC and MRS) all claim to be in favor of a market-based economy. Currently, the Ortega administration combines a market-based economy with monopoly sectors related to ALBANISA, favoring an economic group that is politically like-minded, and uninterested in the laws of competition and free market. Since the recent reduction in Venezuelan support, the Ortega administration has increasingly related to the COSEP and Sandinista economic group, as well as to big international firms. Different mechanisms (financial resources, authority, influence) have been implemented to favor faithful support. As a result, those that have held power since 1990, including during the Ortega administrations, have not hesitated in using privileged information, legal instruments and networks of favors to benefit themselves, either directly or via friends.

The 2016 elections turned Nicaragua into an electoral autocracy, with anti-democratic actors now holding government positions. Since 2007, the FSLN has become the hegemonic political power, and now controls administrative, executive, legislative and judicial powers. It has also changed the constitution in its favor. As a reaction to the third consecutive election of Daniel Ortega in 2016, an opposition

Consensus on goals

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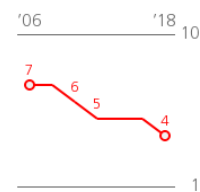
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Anti-democratic actors

4

group has formed demanding the return to democracy and transparent electoral processes. The absence of any reaction from the Sandinista government has encouraged some within the opposition parties, allied inside the Ample Front for Democracy (FAD), to promote civil resistance. Despite this context, there are no violent anti-government actors (apart from some re-armed groups). In addition, the government has co-opted the military and most influential economic actors.



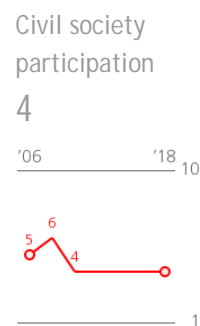
The political leadership has been reasonably successful in managing basic cleavages (social and ethnic), but in some cases has also exacerbated them. Nicaragua is a polarized country, largely divided between Sandinistas and anti-Sandinistas. The third term of Ortega has been characterized by a substantial increase in political conflict. This cleavage is reflected in the political party system, with many parties now opposed to the FSLN, and in growing civil society resistance. The opposition has experienced repression, as the government has harassed opposition street protests, retracted opposition parties' legal status (in the case of MRS in 2008), or sabotaged and manipulated internal party conflicts (in the case of the PLI during the 2016 elections).



Furthermore, the government has also targeted international aid agencies (such as the UNDP) or NGOs that have been critical of its actions. In contrast to the 2011 national elections and the 2012 local elections, during which the opposition was less active in social mobilization, the 2016 presidential elections were characterized by social mobilization across the country (excluding the capital Managua where repression had been higher during the last decade). While the FSLN maintains control over the media, the Ample Front for Democracy has been able to organize several mega-marches in the country before and after the 2016 electoral process.

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

Over the last decade, the Sandinista political leadership has not involved civil society actors in policy deliberation or decision-making. Agenda setting, policy formulation, implementation and performance monitoring has been exclusively controlled by the Sandinista government, leaving civil society without any way to intervene in public decisions. 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. CPCs are in fact para-state organizations organized in a hierarchical way and tightly controlled by Vice-President Rosario Murillo, with the objective of ensuring loyalty and distributing funds and resources associated with tightly focused social policies. This type of organization creates a top-down relationship rather than generating bottom-up participation, and generates what are essentially patron-client political linkages.



Though a fairly vibrant, active, and critical civil society still exists in public life, particularly in comparison to other countries in the region, there are currently no channels to influence public policies.

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. Since the end of the armed conflict, no truth commission has been set up to investigate war crimes. On the contrary, before Violeta Chamorro assumed the presidency in 1990, the Sandinista government approved Law 81 that granted total amnesty to the Sandinista army and the contras from July 1979 until April 1990.

However, President Ortega ran on a platform of reconciliation during his second and third election campaigns, and has made some limited achievements in this regard. In May 2007, the Commission of Verification, Reconciliation, Peace and Justice was created under the presidency of Cardinal Miguel Obando y Bravo, liquidating the previous National Commission of Reconciliation and transferring administrative and bureaucratic functions to Cardinal Miguel Obando, a vigorous opponent of the FSLN in the 1980s and currently loyal supporter of the Ortega family. Since Cardinal Obando y Bravo assumed the presidency of the commission, the commission has had no real activity and the cardinal has regularly been accused of partiality.

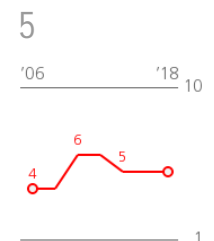
## 17 | International Cooperation

The Ortega government is rather virtuoso in attracting international support from any side, but it is doubtful if it has a long-term development strategy or even a clear roadmap apart from strengthening its power position. Nicaragua is extremely dependent on international aid, which has been a vital element of the country's economy since the 1980s. During the 1990s, Nicaragua had one of the highest rates of international aid per capita in the world. But since Ortega's rise to power, official development assistance has decreased, as the Ortega administration has alienated many donors. According to OECD data, net official development assistance and official aid decreased from \$1.24 billion in 2004 to only \$454 million in 2014.

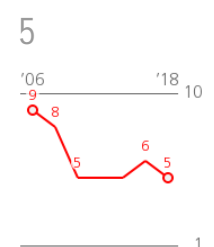
Fraudulent elections in 2008, and electoral misconduct during the 2011 and 2016 presidential elections further eroded the credibility of the Sandinista government. As a result, half of all bilateral donors have left Nicaragua or reduced the scope of their programming. For instance, Nicaragua was to receive a total of \$31.1 million from the U.S. government in 2016, a decrease of 129% from \$71.4 million in 2015.

Furthermore, since Ortega's rise to power in 2007, the government has also had a difficult relationship with international organizations. In 2016, the Nicaraguan government accused the UNDP of political interference, financing political parties and misrepresentation of data on the country's development. As a result, UNDP

Reconciliation



Effective use of support



activities will be reduced to its lowest level after cutting 86% of the programs it was operating in the country.

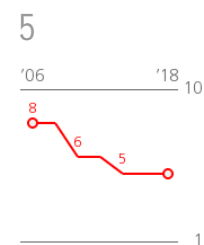
The Ortega administration has been perceived as an ambivalent partner. In the economic sphere, on the one hand, the Ortega administration is regarded as fairly credible and reliable. The fact that the government maintains fiscal discipline as demanded by the World Bank and the IMF means that the investors have not stopped considering the country to be a credible partner, despite not been particularly appealing. Nicaragua is also perceived by the international community as a country that has a reasonable compliance of international norms. Since the 1990s, the country has signed most important international agreements and conventions. Nevertheless, its refusal to sign the COP21 Paris agreement on climate change has shown to the international community the Ortega administration's double standards.

In the national political sphere, however, the international community has perceived the Nicaraguan political regime as increasingly authoritarian, instead of honoring democratic rule of law. Neither the OAS nor the European Union, which had questioned the 2011 presidential elections, were invited to observe the electoral process in 2016. In addition, the government's somewhat opaque collaboration with China and Russia has added new doubts about Nicaragua's credibility, at least among Western governments.

The government has actively sought to develop and consolidate cooperative international relationships. Nicaragua is a member of all important international organizations and has been actively furthered Central American integration efforts, and has taken part in the CAFTA-DR and the EU-Central America association agreement negotiations. But the changes that have occurred in the leftist governments of Latin America in the last years, and the decline in Venezuelan aid, have weakened and somewhat isolated the Ortega government. The recent election of Donald Trump in the United States is also an important source of uncertainty for the current government with relations between the United States and Nicaragua, which were already tense following the 2016 Nicaragua Investment Conditionality Act. The U.S. Congress bill proposed blocking Nicaragua from obtaining loans from international financial institutions unless the country takes "effective steps to hold free, fair and transparent elections."

In late 2010, Nicaragua had its most tense episode with its neighbors following a dispute with Costa Rica over control of the banks of the San Juan river. 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. In 2016, a bilateral military cooperation between Nicaragua and Russia resulted in the contract for the shipment of 50 Russian T72 tanks to Nicaragua, for about \$80 million, provoking a new crisis with Costa Rica.

Credibility



Regional cooperation



## Strategic Outlook

The 2016 presidential elections sealed Nicaragua's turn to an electoral autocracy. There are no effective checks and balances in the country, as the political system, judiciary and electoral institutions are controlled by the FSLN. Furthermore, power in the Sandinista party is concentrated among the Ortega-Murillo family and friends. The political opposition has been regularly harassed and political pluralism severely restricted. Given this situation, the challenge will involve restoring the rule of law and political pluralism in Nicaragua.

Though the Ortega government has maintained the essentials of a market economy, it risks weakening long-term economic growth, poverty reduction and economic resilience. The Gran Canal project was presented to Nicaraguans as a cornerstone of long-term economic development, and was expected to create new jobs, attract foreign investment, and develop infrastructure and tourism. But it seems that the project, led by the Chinese enterprise HKND, is not prospering. No advances have been made on the budget to finance the project since 2014.

The 2016 presidential elections have seen a growth in the organization and visibility of civil society movements and political opposition. However, this opposition has remained centered on unconventional forms of political participation, as most conventional forms of political opposition have been suppressed. Consequently, the constellation of possible reform actors is limited and the further decline of democracy cannot be excluded.

Several reforms should be insisted upon. One of the main problems is the extreme politicization of government institutions. For instance, the politicization of the judiciary must be reversed and the fight against corruption reassumed. The electoral commission must be staffed by representatives unaffiliated to any political party. This also holds for public administration, which would benefit from the creation of a national career track for civil servants. The participation of civil society in decision-making should once again be fostered, and Citizen's Power Councils (CPCs) should (if they are maintained) broaden their membership and complement rather than bypass existing institutions. Reforms will need to address the scarcity of human capital, inadequate infrastructure, underdeveloped financial markets, the pension system and the low level of private sector development. Meanwhile, a non-politicized poverty-reduction strategy is necessary to fight poverty across the country.

These reforms, however, would require a change in actors and power constellations, or at least a fundamental reorientation of the current government strategy. Therefore, international actors should develop concrete strategies to exert more influence on the Ortega government. In April 2017, the U.S. Nicaragua Investment Conditionality Act (NICA) was presented to the U.S. Congress with the support of 25 members of congress from both parties. If NICA is adopted, it could put notable pressure on the Nicaraguan government with significant consequences in the medium term, but this might also backfire as the Venezuelan case has demonstrated.