

BTI 2010 | Nicaragua Country Report

Status Index	1-10	5.63	# 66 of 128	
Democracy	1-10	5.90	# 63 of 128	↘
Market Economy	1-10	5.36	# 70 of 128	→
Management Index	1-10	4.66	# 75 of 128	

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

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	5.6	HDI	0.70	GDP p.c.	\$	2570
Pop. growth	% p.a.	1.3	HDI rank of 182	124	Gini Index		52.3
Life expectancy	years	73	UN Education Index	0.76	Poverty ²	%	31.8
Urban population	%	56.5	Gender equality ¹	0.54	Aid per capita	\$	148.7

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

After three failed attempts to regain the presidency, former President Daniel Ortega (1985 – 1990) was elected as president once again in 2006. During the period under review, the new administration focused on expanding social programs and introduced a new rhetoric without rolling back previously instituted market-oriented reforms. The Ortega administration also set up a commission to oversee a reconciliation process, and has increased its resources and steering capability by building alliances with non-Western donors. However, democracy in Nicaragua suffered some setbacks during the review period. The 2008 municipal elections, which were followed by protests and accusations of fraud, constitute the most recent example of deteriorating democracy in Nicaragua and may have marked a new low in Nicaragua's democratic development since 1990. During the evaluation period, the executive branch clearly overstepped the constitutional rights of its office on different occasions by permitting intimidation of the press and establishing supposedly direct democratic councils that generally consist of Sandinista National Liberation Front (FSLN) followers exclusively and which interfere with established democratic institutions. At the same time, the pacto político, an informal power-sharing agreement between President Ortega and former President Arnoldo Alemán remained strong. After 10 years, this agreement continues to help both men further their personal aims and undermine democratic institutions. The new parties that emerged in the 2006 elections – a development that had raised hopes of clientelism and polarization being overcome – are weaker today than they were two years ago. However, after taking power, the Sandinistas were able to calm the fears of international and local investors in the economic sphere. Hardly any economic reforms capable of strengthening or weakening the country's market economy were introduced. Although unlikely, if external donors were to reduce aid flows significantly in the aftermath of the 2008 elections, the macroeconomic situation would deteriorate significantly and potentially unleash a deep economic crisis.

History and Characteristics of Transformation

Nicaragua declared its independence from Spanish rule in 1821. It finally achieved independence after the end of the Central American Federation in 1838, but this did not end foreign influence and domination. Spanish rule had covered only the Pacific side of the country; British occupation of the territories on the Caribbean coast would only end 56 years after Nicaragua's formal independence.

The predominant foreign influence for the past 150 years has been the United States. In order to counterbalance British influence, Nicaraguan officials turned to the United States in 1849 for protection from foreign intervention, in return granting exclusive transit rights across Nicaragua. During the civil war between Liberals from the northern town of Leon and Conservatives from the town of Granada on Lake Nicaragua (1854 – 1855), the Liberals called on the U.S. adventurer William Walker to bring troops to their aid. After the surrender of the Conservatives, William Walker assumed power and control of the Nicaraguan army and installed himself as Nicaraguan president. This led to the National War (1856 – 1857), in which Conservatives and Liberals, aided by Central American forces, jointly fought Walker and defeated him. The National War was a unique occurrence in Nicaraguan politics.

Growing out of civil war, cooperation in the war against Walker enabled Nicaraguans to overcome the bitter partisan division that had previously characterized the country's politics. However, U.S. influence remained strong, even after the decision to dig a canal across the Central American isthmus resulted in the choice of Panama as a site, instead of Nicaragua. Over time, tensions between Liberals and Conservatives tightened again, and various uprisings between 1909 and 1912 provoked U.S. military intervention in favor of Conservative candidates. This foreign military presence lasted until 1933, as armed conflicts persisted. The considerable death toll inflicted on U.S. troops by the rebel forces of Augusto César Sandino ultimately induced the United States to withdraw.

Despite the withdrawal of its troops, the United States maintained a strong influence over Nicaraguan politics during the following four decades, backing autocratic governments under various members of the Somoza family. Gross human rights violations perpetrated by the National Guard in response to mounting opposition and FSLN guerrilla attacks persuaded U.S. President Jimmy Carter's administration to end support for the Somoza kleptocracy. During the subsequent Nicaraguan Revolution, Anastasio Somoza Debayle waged a full-blown war against opposition forces. Having lost U.S. support and military aid, and facing a severe economic crisis and an FSLN growing in strength, Somoza went into exile in Miami on 17 July 1979. Three days later, the multiparty exile government entered Managua, marking the culmination of the Nicaraguan Revolution.

Approximately 50,000 Nicaraguans died during the insurrection. Within a year of the Revolution's end, the FSLN had consolidated its leadership of the new government, of the military and police forces, and of organized interest groups. However, the new government faced a severe economic and social crisis. GDP had fallen by more than 30% between 1977 and 1979, inflation was rising sharply and the banking sector was bankrupt due to massive capital flight. In addition, 600,000 Nicaraguans were homeless and food supplies exhausted. Foreign debt had skyrocketed during the last years of Somoza's rule, reaching parity with GDP by the time he left office, and debt services now accounted for up to half of state revenues. The Sandinista regime nationalized the enormous wealth of the Somoza family and its associates, as well as the domestic banks and foreign trade. From 1978 to 1980, the state's share in generating GDP rose from 15% to 41%. The Sandinistas introduced drastic economic measures and adjustment programs culminating in internally and externally induced economic crisis at the end of the 1980s, characterized in 1988 by hyperinflation of up to 36,000% and foreign debt that amounted to 500% of GDP.

Although most Nicaraguans were in favor of the revolution, the emerging dominance of the Sandinistas provoked dissent. When Ronald Reagan took office in 1981, the situation worsened for the new government. The new U.S. administration suspended all aid to Nicaragua and instead funded the counterrevolutionary Contras – forces that included former National Guard members in exile, but also thousands of peasants from the countryside – in their attempt to overthrow the government. Nicaragua became one of the most active stages for Cold War confrontation, with many domestic problems also taking on an international dimension. The Contras' raids eroded the social revolutionary Sandinista regime's acceptance of political pluralism. Civil liberties were circumscribed and social spending reduced in order to fund the military budget. Still, the Sandinista government held and won elections in 1984 that were considered for the most part free and fair by international election observers. As part of the Central American peace process initiated in 1987, the government accelerated a political opening and sought a negotiated solution for the armed conflict with the Contras. The subsequent elections of 1990 marked an important step in Nicaragua's history: The first peaceful and accepted transfer of power by free elections was achieved, and a civil government that had not earned its merits in armed conflict assumed office. Civilian presidents have been governing since, legitimized by means of competitive elections in 1990, 1996, 2001 and 2006. Nonetheless, Nicaragua's society has not overcome the strong polarization predominant since the end of Sandinista rule. As candidate of the opposition coalition Unión Nacional Opositora (UNO), Violeta Barrios de Chamorro won the 1990 election against incumbent Sandinista President Daniel Ortega. The difficult process of reintegrating the rebels, delays in the de-politicization of the armed and security forces and fierce conflicts with parliament marked Chamorro's term of office (1990 – 1997). Due to her policy of reconciliation toward the Sandinistas, she soon lost the support of a large part of her coalition, bringing about conflicts with parliament as well as considerable governance problems.

By contrast, the succeeding Arnoldo Alemán government (1997 – 2002) of the Liberal Constitutional Party (PLC) had a secure parliamentary majority. However, Alemán's autocratic-populist style of governance, rampant corruption and power-sharing arrangements (pacto

político) with the Sandinistas undermined the balance of power and impaired the functioning of state institutions. Once in power, the Enrique Bolaños government (2002 – 2007) initiated an anti-corruption campaign against Alemán that resulted in a stalemate between the different state powers. This institutional logjam frustrated the Bolaños government's ability to govern. Although ultimately convicted of embezzlement, Alemán maintained his parliamentary power base, and struck additional power-sharing agreements with Sandinista party leader Ortega. During the run-up to the 2006 elections, two new moderate, "anti-pact" parties established themselves – the Alianza Liberal Nicaragüense (ALN-PC) headed by Eduardo Montealegre, and the Movimiento de Renovación Sandinista (MRS), led by Herty Lewites. Lewites and the MRS clearly led the polls as the elections neared, but Lewites died of a heart attack in July 2006 and his successor, Edmundo Jarquín, could not hold the party's momentum. Thereafter, the split in the Sandinistas' voter base was considerably reduced, while a portion of the voters previously inclined to the PLC defected to the new ALN-PC. In the end, Ortega used this division to win the presidential elections with a simple majority, after three unsuccessful previous attempts.

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

Transformation Status

I. Democracy

1 | Stateness

The state's monopoly on the use of force basically extends throughout the entire country. The incidence of violent crime compared to other Latin American countries is astonishingly low. Large-scale armed conflict comparable to the conflicts between Recompas and Recontras during the Chamorro administration (1990 – 1997) is highly unlikely today. However, smaller violent conflicts related to rural land disputes, as well as political and social protests in urban areas flare up occasionally. In some parts of the country, the state has little presence, and crime in urban areas is growing due to poor-quality law enforcement. In the two autonomous regions on the Atlantic Coast – Región Autónoma Atlántico Norte and Región Autónoma Atlántico Sur – the lack of state authority presence has allowed drug trafficking to spread.

Monopoly on the use of force

Defining citizenship and determining who qualifies as a citizen are not politically relevant issues. All citizens formally have the same civic rights, and can act as a citizen in the political sphere. The nation-state is widely accepted as legitimate. The sole serious dissenting voice is in the two autonomous regions along the Atlantic Coast, where a small but growing separatist movement has gathered strength due to poor socioeconomic conditions and central government neglect.

State identity

Church and state are formally separate, although the Catholic Church exerts great political influence. The Bolaños government distanced itself from the church, insisting on the secular nature of the state. The FSLN and President Ortega have followed this path, removing very conservative members of the Catholic Church from the education ministry, among other examples. However, the election campaign of 2006 saw even the FSLN actively knit closer ties with the Catholic Church. While the church is thus a very strong interest group, its influence does not lead to a direct translation of religious dogmas into law. For example, the ban on all abortions, including those done for the mother's health, has been upheld since its passage during the 2006 elections. However, the law criminalizing same-sex relationships was omitted in the new criminal code released in 2007.

No interference of religious dogmas

State infrastructure and administrative institutions are present almost everywhere in the country. Generally, state institutions are more easily accessible and superior in urban than in rural areas, and on the Pacific Coast as compared to the Atlantic Coast or in the interior. Therefore, some social exclusion is apparent, especially in rural areas. In remote regions which lack sufficient administrative structures, peace commissions run by local citizens also resolve disputes. Under President Ortega, Consejos del Poder Ciudadanos (CPCs) made up of FSLN followers have been installed throughout the country in order to further consolidate the Sandinista power structure; these interfere with elected and administrative bodies to some degree.

Basic
administration

2 | Political Participation

The right to vote by general, direct, equal, secret and free ballot is constitutionally guaranteed. Democratic elections take place regularly on the national and regional level. Presidential and parliamentary elections were last held in November 2006, elections in the two autonomous regions in March 2006, and municipal elections in November 2008 and January 2009. The pacto has undermined the impartiality of election procedures by granting the power to watch over fairness in election processes to the FSLN and the PLC parties rather than an impartial state institution. In addition, the pacto provides the FSLN a majority in the electoral council. This power was used during the 2008 municipal elections to such an extent that these elections could no longer be considered free and fair. Two important opposition parties, the Movimiento Renovador Sandinista (MRS) and the Partido Conservador (PC), were not allowed to participate in the elections and almost all international observers were prevented from scrutinizing the balloting procedures. The vote count was considered seriously flawed by Eduardo Montealegre's opposition movement and by some non-governmental institutions.

Free and fair
elections

The power to govern is vested in the elected representatives. Extra-constitutional veto powers were eliminated by the reintegration of formerly armed groups during the 1990s. After the election of President Ortega, the parties to the pacto político took control of all state institutions, even those which should not be politicized, such as the judiciary and the election committee. Instead of forming a parliamentary coalition between FSLN and the PLC deputies loyal to Alemán, based on a joint program, President Ortega and Alemán kept their deal-making personal and behind closed doors. Therefore, most important decisions are not made in the public political sphere, and the elites of both parties have a great influence on decision-making. After the municipal elections in November 2008, the pacto showed a serious split when Alemán supported Montealegre's decision to contest the election results. However, the Supreme Court's overturning of Alemán's prison term in January 2009 helped heal this split. These elite agreements for private instead of societal interests and the decreasing legitimacy of elections have diminished elections'

Effective power to
govern

influence on political outcomes. Still, the effective power to govern is clearly given to elected representatives, or President Ortega would not have had to resort to informal agreements with Alemán. Nevertheless, considering Nicaragua's dependence on official development assistance (ODA), the veto power held by international financial institutions and other donors cannot be ignored.

There is unrestricted de jure freedom of association and of assembly. Strict laws concerning the legal rights of political parties can to some extent be considered an unfair legal restriction, as they favor the established major parties, PLC and FSLN. All public and private sector workers except the military and the police are entitled to form and join unions of their own choosing. Half of Nicaragua's workforce, including much of the agricultural sector, is unionized. However, de facto economic constraints inhibit the freedom of association and of assembly. Lately, political violence has also constricted these freedoms to some degree.

Association /
assembly rights

Freedom of speech and of the press are guaranteed by the constitution and vigorously exercised. The main media for public information consumption is radio, but a variety of TV stations and daily newspapers are also available. In spite of some potentially dissuasive legal provisions, debate in the Nicaraguan press and public is vibrant and legal opportunities to restrict freedom of speech are rarely used. In 2007, freedom of information legislation was passed. However, President Ortega ended the system introduced by the Bolaños administration to distribute public advertising funds – which had been critical to the economic survival of most media companies – according to market share, and reintroduced the practice of using public advertising to punish and reward specific media outlets. Moreover, some journalists critical of the government have been threatened and sometimes temporarily detained, which has led some journalists and media organizations to censor themselves. As in the press, some very active civil society organizations criticize the influence of the pacto and other shortcomings of Nicaragua's development on a nonpartisan basis.

Freedom of
expression

3 | Rule of Law

State power is subject to the law. In addition to the executive, legislative and judicial branches of government, the Supreme Electoral Council (SEC), which is responsible for organizing and holding elections, has the status of a fourth state power. Until President Ortega's election, a formal balance of power existed, though compromised by the blatant politicization of these state institutions. Since President Ortega's election this formal balance of power has become even less decisive; in several instances, the executive has openly overstepped its rights without consequence. The presidency is not seriously constrained by checks and balances as long as the pacto político remains in force. The judiciary is too weak, and like the SEC, is controlled by the parties to the pact. Although the FSLN does not have a

Separation of
powers

parliamentary majority to itself, it usually can rely on the deputies loyal to Alemán. In the few cases during the review period in which this majority could not be secured because too many delegates refused to follow Alemán, the pacto's strong influence in the judiciary came to the rescue. Moreover, opposition parties have largely been unable to unite against the FSLN, even when the pacto was temporarily suspended during the election crisis at the end of 2008, or after the "bloc against the dictatorship" was created about a year earlier. Therefore, the parliament's primary constraint on the executive during this time rather has rather been an inability to act at all, such as with regard to the state budget.

The constitutional reforms initiated by Ortega and Alemán to curtail the executive powers of then-President Bolaños also demonstrate the instability of the institutional setup. Due to a serious stand-off between parliament and the executive over this reform package, its implementation was delayed until after the 2006 elections. Yet, when President Ortega and the FSLN had won the elections, instead of enacting these reforms, they postponed their implementation for another year and introduced laws to strengthen the executive. In the end, the Supreme Court was asked to declare the previous reforms unconstitutional, which it did at the beginning of 2008 (except for one measure requiring parliament to approve the appointments of ministers and ambassadors). At the close of the review period, President Ortega and Alemán had started discussions on another constitutional reform which would transform the presidential system into a parliamentary system, possibly allowing President Ortega to become prime minister after the end of his term in office, as he cannot be reelected.

The judicial branch is institutionally differentiated, formally independent and constitutionally guaranteed 4% of state expenditure. However, it is subject to strong political influence and corruption, does not adequately cover the entire country and demonstrates considerable functional deficiencies. The training of judges is inadequate and reforms initiated by the Bolaños government, which aimed at professionalizing and enhancing the independence of the judiciary by adopting merit-based promotions, have yet to take effect. Due to the political influence of the pacto político and the subsequent subordination of the judiciary, the credibility of the judiciary has been seriously harmed.

Independent
judiciary

Corruption is a fundamental problem in Nicaragua's political culture. For a long time, it merely attracted negative publicity but went unpunished. During President Bolaños' term, a serious anti-corruption campaign was initiated; former President Alemán was prosecuted and sentenced for corruption. However, President Bolaños lost his parliamentary support in the aftermath of this anti-corruption campaign, hampering further efforts in this direction. The overturning of Alemán's conviction in January 2009 provided a telling end to this episode of corruption fighting. It also illustrated that the prosecution of corruption is – once again – a political weapon rather than a matter of law.

Prosecution of
office abuse

Civil freedoms and human rights are in place, and are largely respected. However, the weakness of the judiciary impedes the state's ability to respond to violations of those rights. For example, threats against and harassment of human rights defenders are a problem, as is the excessive use of force by public security forces, but few offenders have been punished. Violence against women and children, including domestic violence, rape and sexual exploitation, is common. The constitution provides for freedom of religion, and the government's policy and practice generally respects this right in full. The constitution also prohibits discrimination. However, discrimination against indigenous people occurs, and salary discrimination against women is recurrent persistent problem. Long distances to representatives of the state and a lack of financial means hamper access to justice, especially for those living in rural areas. Local peace commissions and programs training laypersons to become rural judicial facilitators have proven successful in providing disadvantaged communities with basic access to individual rights.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in form but often not in content. They are not particularly effective, and their domination by President Ortega and the FSLN by means of the pacto político has considerably diminished their influence. The politicization of the judiciary, the SEC and the comptroller general by the pacto político has undermined those institutions' legitimacy; the judiciary performs most poorly of all democratic institutions. The Consejos del Poder Ciudadanos (CPCs) interfere with elected and administrative local bodies to some degree.

Performance of democratic institutions

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

Commitment to democratic institutions

5 | Political and Social Integration

The political party landscape is highly polarized, and used to show the characteristics of a two-party system, though more parties have entered the political sphere in recent years. Nevertheless, the party system's fragmentation remains moderate. The two main political camps before the 2006 elections, the Liberals and

Party system

the Sandinistas, have stable social bases and programmatic platforms. These social bases are maintained partly by clientelistic structures and the partisan affiliations of associations and interest groups, which leads to low voter volatility. This was apparent in the 2006 elections, when two-thirds of Nicaraguans voted for either the FSLN or the PLC, even though the operation of the pacto político had compromised the differing programmatic goals of the two parties. While it would seem that the pacto político has overcome Nicaragua's strong political polarization, the parties' leaders in truth acted not out of societal interest, but solely for their own personal gain. As a result, the rift between the parties' followers remains unbridged. The 2006 elections brought about a very positive development, insofar as leaders Ortega and Alemán were challenged from within their parties. The unsuccessful revolts subsequently led to the formation of two new centrist parties. However, both of these parties lost ground during the observation period. The CSE blocked the left-centrist Movimiento de Renovación Sandinista (MRS) from participating in the 2008 municipal elections in part on formal grounds, but also to prevent a serious rival to the FSLN on the left. Former PLC minister Eduardo Montealegre, who formed the right-centrist Alianza Liberal Nicaragüense (ALN-PC) in 2006, returned to the PLC in the run-up to the 2008 elections. His ALN-PC presidency had been revoked by the CSE, and he had come under pressure in a scandal concerning government bonds, which dated back to his time in the Bolaños government. However, Montealegre has retained his reformist agenda and inclination. In the muddy situation that followed the 2008 elections, the pacto político – wrongly – seemed to have been overturned. Thus, it can be concluded that the high hopes raised during the 2006 elections for a replacement of Nicaragua's clientelism and polarization with an improvement in the aggregation and articulation of societal interests have not been fulfilled. However, these goals should not be abandoned. The historic cleavage between Sandinistas and anti-Sandinistas has been supplemented by a new division of forces, between those who support and those who speak out against the pacto.

Interest groups are able to organize themselves and have played an important role in the country's history, but are to some extent under the influence of partisan actors. Socioeconomic bottlenecks and the great influence of partisan organizations limit the balancing of social interests. The NGO sector has become an important economic sector, receiving substantial financial support from external actors. While most of these organizations are active in the fields of self-help, there are also some very qualified lobbying groups supporting issues such as environmental protection and women's and human rights, or groups such as unions or business associations. These do not only include subsidiaries of international NGOs, but also local groups that are skilled in advocacy and have specialist think tanks to call on for research. Yet overall, the intermediation between society and the political system needs serious improvement, and the general mistrust between civil society, the government and political parties must be overcome.

Interest groups

Approval of democracy as a form of government did not change during the evaluation period. However, the latest opinion polls were conducted before the 2008 municipal elections. At that time, 58% of respondents in Latinobarómetro polls indicated that democracy was preferable to all other forms of government. While this is still short of the 72% reached in 1998, compared to figures in the lower 40th percentile at the beginning of the century and of the pacto político, the approval rating has stabilized. Satisfaction with democracy as practiced in Nicaragua – with political parties, the government and the overall direction of the country’s development – is much lower and shows figures in the 30th percentile. The feeling that the political elites govern the country for their own instead of the country’s benefit is widespread, with 69% agreeing. Nearly this many Nicaraguans say they would not mind a non-democratic government if it could solve the prevailing economic problems, which shows some contradiction with the fairly high approval ratings for democracy. At the same time, voting is clearly preferred to protests as a means of changing the course of politics, and most Nicaraguans feel that democracy preserves the rights to participate actively in politics and to private property.

Consent to
democratic norms

Self-organization among the public often encounters socioeconomic barriers and is therefore generally weak. Self-help organizations are active in combating the most pressing social ills, such as the prevalence of street children and drug abuse, but a lack of funds has prevented major successes. Levels of trust among the population are generally low. Wounds inflicted during the Somoza dictatorship, the Sandinista Revolution, and the armed conflicts in the years after democratic transition have yet to heal. Nevertheless, the often-informal self-help networks have created some degree of social cohesion and social capital, which also helps explain the relatively low crime rate in comparison to Nicaragua’s neighbors.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

The country’s socioeconomic development status is low. Nicaragua is the second-poorest country in Latin America after Haiti. Social exclusion due to poverty and social hardship is quantitatively and qualitatively very pronounced and structurally entrenched. Since 1993, the population living in poverty (about \$1.15 or less per day in 2005) has decreased slightly from 50% to 46%, but has not improved further in the most recent years despite a sound macroeconomic performance. The

Socioeconomic
barriers

incidence of poverty is distributed unequally, with 29% of the urban population and 68% of the rural population classified in this category. The level of absolute poverty (about \$0.60 or less per day in 2005) has decreased from 19% to 15%, but has also remained unchanged in the last several years. In rural areas, 27% of the population lives in absolute poverty. Considering population growth, the stagnation of poverty indicators implies an increase in absolute numbers. Due to the increase of food prices during the evaluation period, some studies suggest that the number of people living in poverty may have increased by about 10%. While the official unemployment figure was about 6% in 2008, around one-third of the population is estimated to be underemployed. The Gini coefficient concerning income is 50.9 (based on 2003 data) while the Gini coefficient based on consumption is at 40.6 which indicates intermediate social inequality. According to the Human Development Report 2007 – 2008, Nicaragua's Human Development Index value was 0.71 in 2005, ranking Nicaragua at 110th place out of 177 countries. The Gender-related Development Index (GDI) showed a slightly worse score, with a value of 0.696 (rank 99 out of 157 countries). Interestingly, the HDR 2008 update estimated per capita income at a much lower level, ranking Nicaragua at 120th place among 179 countries with an HDI value of 0.699; the GDI value (0.684) also fell, putting the country at 104th place out of 157 countries.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	4466.8	4855.5	5300.8	5725.9
Growth of GDP	%	5.3	4.3	3.7	3.9
Inflation (CPI)	%	8.5	9.6	9.1	11.1
Unemployment	%	6.5	5.6	5.2	4.8
Foreign direct investment	% of GDP	5.6	5.0	5.4	6.7
Export growth	%	17.1	9.5	10.5	9.7
Import growth	%	8.2	6.2	6.1	16.3
Current account balance	\$ mn.	-648.7	-734.3	-710.2	-1000.6
Public debt	\$ mn.	3965.3	3870.0	3169.1	2143.7
External debt	\$ mn.	4985.5	4900.4	4079.0	3389.7
Total debt service	% of GNI	3.0	3.6	3.3	7.3

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	-2.2	-1.8	0.1	0.4
Tax Revenue	% of GDP	15.8	16.8	17.5	18.0
Government consumption	% of GDP	11.3	11.2	11.9	12.4
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.1	4.5	4.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.7	0.7	0.7	0.7

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Since the 1990s, governments have pursued a strict market-economic and export-oriented development model, based on the private economy and oriented toward the principles of free-market competition. However, the rules of the game are not always followed. Apart from the possibility of presidential decrees that can suddenly change those rules, the greatest threats to the market economy in Nicaragua are the aforementioned problems of corruption and the weak legal system. Aside from utilities such as energy and water, the state controls the prices of only a very few products. The minimum wage differs across different sectors of the economy, from \$70 per month in agriculture to \$170 per month in construction and finance. According to the central bank, the informal sector accounts for almost two-thirds of jobs. Profits can be used and transferred freely. There is no limitation on currency convertibility. Foreign and domestic investments are treated equally. Yet, in a cluster approach to development, a handful of sectors such as the tourism and maquila industries are offered tax exemptions on profits, building materials and property. The World Bank's Doing Business Report 2009 ranks Nicaragua 107th out of 175 countries. The deterioration in this ranking in recent years can be attributed to other countries' progress, and to some methodological changes, rather than to serious obstructions in Nicaragua itself. Foreign direct investment (FDI) inflows are concentrated on maquila operations, telecommunications and tourism projects. FDI inflows have been increasing steadily in recent years, reaching \$335 million or 5.8% of GDP in 2007, showing trust on the part of international investors.

Market-based
competition

In September 2006, parliament finally approved a competition promotion law, with bipartisan support, which had been discussed since the 1990s. The law came into effect in 2007. Before this point, Nicaragua had anti-monopoly laws in place only for specific sectors such as telecommunications and energy. The new law prohibits anticompetitive practices, and created a national institute for the promotion of competition (Pro Competencia) tasked with enforcing the law. As of the time of writing, the board of the new institution as suggested by President Ortega had not yet been approved by parliament. Studies by the Comisión Económica para América Latina (CEPAL) have shown that markets in Nicaragua have to date shown low levels of competition. Since price fixing is suspected in markets for some staple foods, increased levels of competition can be expected to directly benefit the poor.

Anti-monopoly
policy

Foreign trade has been liberalized since 1990. Trade openness measured by the ratio of imports and exports to GDP is very high, at 106% in 2008. Nicaragua has abolished all WTO-inconsistent non-tariff barriers and does not have import prohibitions on commercial grounds. Since it is a low-income country, incentives for maquila operations and tourism are consistent with WTO standards. Aside from these, Nicaragua grants exporters a 1.5% tax benefit on exported goods but does not provide export financing. The most favored nation (MFN) duty rate declined sharply during the 1990s, and now stands at around 4%. Nicaragua is also a member of various regional and bilateral trade agreements. It is very well integrated in Central America and has strong trade ties with the United States. Integration has further improved due to Nicaragua's membership in the Dominican Republic-Central American Free-Trade Agreement (DR-CAFTA), which came into effect in April 2006. Nicaragua has also participated in the EU-Central America negotiations over a proposed association agreement, which would include the establishment of a free trade area.

Liberalization of
foreign trade

Nicaragua's banking sector is underdeveloped, and is one of the smallest in Latin America, accounting for about 5% of GDP. The banking sector expanded during the 1990s with the founding of 14 new private banks. State banks were closed or privatized between 1994 and 2000. In 2001, the last state-owned bank, Banco Nicaragüense de Industria y Comercio, was closed due to severe losses. Despite strong credit growth in recent years, financial intermediation remains very weak and seriously hinders economic growth. Banks' high exposure to the public sector due to their extensive investment in public debt bonds is also worrisome. The capital adequacy ratio is sufficient and the percentage of non-performing loans low. More than two-thirds of deposits and loans are denominated in U.S. dollars. Independent supervision of the banking sector has become stricter over time, especially since the banking crisis in 2000. The principles of the Basel Accords have been implemented, and Nicaragua has ratified its commitment to the 1997 WTO Financial Services Agreement. Today, the banking sector consists of seven banks and two finance

Banking system

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

8 | Currency and Price Stability

In Nicaragua, the central bank is not an autonomous institution, but has pursued a largely consistent inflation and exchange rate policy despite political fluctuations. At the beginning of the century, double-digit inflation had been overcome. However, in 2007 and 2008 inflation rose again to above 15% due to the rise in oil and food prices. The Nicaraguan currency (the córdoba) has been annually devalued by means of a crawling peg mechanism since 1993. The crawling peg stood at an annual rate of 12% until 1999 and currently stands at 5%. The sustainability of this peg and its continuous, stable decline are proof of the success of Nicaragua's exchange-driven monetary policy, which has improved currency and price stability and offered greater certainty to economic actors. Due to the high inflation rate of the last few years, the appreciation of the córdoba in real terms has not yet established a serious threat to the crawling peg mechanism. Owing to current account deficits, the replenishment of gross foreign reserves depends on foreign assistance and remittances. Over the last two years, the previously strong increase in reserves has stalled. At the end of 2008, a sum of about \$1 billion was available, enough to cover about two months of imports, compared to 2.8 months in the two previous years.

Anti-inflation /
forex policy

Pushed by international lenders and their own commitments, Nicaraguan governments have pursued a policy of macroeconomic stability since the 1990s. At the beginning of the century, the fiscal deficit before grants still amounted to 9%. This had fallen to a level of about 3% by 2007, and even turned into fiscal surpluses after grants. This improvement was due to an increase in revenue and a stabilization of expenditures associated with IMF-related reforms, as well as strong economic growth. However, a growth in state expenditures before the 2008 elections allowed

Macrostability

the fiscal deficit to increase again, to almost 5% of GDP in 2008. Debt relief programs in recent years through the HIPC initiative, the Multilateral Debt Relief Initiative (MDRI), and bilateral schemes have considerably reduced Nicaragua's external debt. For the last two years, external debt has remained constant at around \$3.3 billion, or about 50% of GDP, as compared to 170% of GDP in 2003. Public debt including internal debt amounts to about 55% of GDP, while interest payments on internal debt are already up to four times as high as those associated with external debt. The stability-oriented policy can be expected to remain largely intact – even though hardly any institutional safeguards exist – mainly due to the poverty reduction and growth facility currently being implemented under IMF auspices. But this will hold true only if donors avoid making substantial cuts in budget and project aid, both of which were under consideration following the election crisis in late 2008. These eventualities could seriously endanger macroeconomic stability. Due to the sharp drop in oil prices, comprehensive assistance by Venezuela compensating for these inflows also seems unlikely.

9 | Private Property

In principle, property rights are well defined. However, poorly enforced property rights and property disputes remain among the most serious barriers to economic development in Nicaragua. The Sandinista regime expropriated and collectivized many properties, residences and companies. Subsequently, these were redistributed to agrarian collectives; during the so-called “piñata” before power was handed over in 1990, many were also given to Sandinista leaders and top government officials. Because most of these transfers were carried out without due legal process or documentation that would insure the new owners' legal claim, there have been severe conflicts with former owners who have since tried to reclaim their properties. This situation is especially detrimental in the agricultural sector, which employs about 40% of the population. During the observation period, a program was introduced to help obtain land titles for impoverished families that cannot afford the registration fees, and the newly established reconciliation council was actively engaged in finding a solution for land claims made by former rebels.

Property rights

Since 1990, Nicaragua has privatized a significant number of its public utilities and disposed of more than 350 government-owned enterprises. The last large-scale privatization took place in December 2003, when the government sold its remaining 49% of national telecommunications company Enitel. President Ortega has clearly positioned himself against further privatization, and opposes the introduction of private pension funds. Under the Ortega administration, relatively minor government shares in companies have been acquired. The relationship between private enterprises and the executive has sometimes been difficult, as illustrated by the intense conflict between the Unión Fenosa electricity company and the Ortega

Private enterprise

administration. While the government has blamed Unión Fenosa for not investing enough and thereby causing almost daily blackouts, Unión Fenosa has blamed the government for not allowing it to raise prices in line with higher fuel costs. Although privatization did not progress during the evaluation period, and even took some small steps backward, private companies remain the backbone of the economy and the appropriate legal framework has been established.

10 | Welfare Regime

Nicaragua faces severe social problems. Large segments of the impoverished population, especially in rural areas, are beyond the reach of the country's social safety net. There is also a significant difference in the quality of education and health services, not only between urban and rural areas but even more so between private and public services. Systematic efforts to reduce poverty have been planned and implemented since 2001 within the framework of Poverty Reduction Strategy Papers (PRSPs). In addition to health and education services, special social protection programs range from food assistance, social infrastructure and programs for special target groups to rural development. The Ortega administration has begun to expand these programs further, but financial and organizational constraints have hampered initiatives such as "Zero Hunger" as well as attempts to offer free health services and education. According to official estimates, a sum of about \$750 million, half of the government's budget (or about 11% of GDP), was allocated to social or poverty-reduction services in 2008. Although public spending on these services has increased considerably in absolute terms, it did not increase as a share of the state budget or GDP during the evaluation period. It also has to be noted that most additional funds slated for these sectors were used to finance higher wages. In some areas such as reproductive health and education, some deterioration has even been observed in recent years. Moreover, the small number of workers employed in the formal sector limits participation in official social security schemes with determined entitlements for old age, disability and health. Only 16% of the economically active population is insured by the official system. In April 2000, a law was passed to change the pension scheme from a pay-as-you-go system to an individually funded system. However, due to uncertainties regarding transition costs, implementation was postponed, and parliament repealed the law in November 2005.

Social safety nets

Nicaraguan society is socially heterogeneous. There is a vast social gulf between the many poor and the few rich, and a clear divide between urban and rural areas. The two formally autonomous Atlantic regions are culturally very different from the rest of Nicaragua, and are economically disadvantaged and neglected by the state. These regions' minority communities, both those of African and of indigenous descent, face extreme poverty and discrimination, both administrative and political.

Equal opportunity

Public services are not able to redress the existing imbalances to create equality of opportunity. The increase in poverty-related spending over the last several years has shown some minor positive effects, but poverty levels have stagnated, and may even have increased over the last two years due to increases in food prices. Although school education has been expanded to include more individuals, the quality and duration of education must still be increased considerably to redress social inequalities significantly. Women's literacy and school enrollment rates are as high as those of men, but on average women earn less than half as much as men.

11 | Economic Performance

Despite macroeconomic recovery since the 1990s, the Nicaraguan economy is weak and vulnerable to external shocks. Per capita GDP has only just regained the level of \$1000, its level reached before the Nicaraguan Revolution. The economy is extremely vulnerable given the large current-account deficit, the country's dependency on a small number of export products and the vulnerability to natural disasters such as hurricanes and volcanic activity. Economic growth is moderate at over 3% per year. Inflation, also due to the high import dependency, returned to double digits during the evaluation period. In addition, Nicaragua is highly dependent on foreign aid. Other problems include high underemployment and low per capita GDP and productivity growth. The persistent trade deficit, reaching 35% of GDP in 2008, is the main reason for the large and chronic current account deficit, which itself amounted to 23% of GDP in 2008. Nicaragua's economy lacks a sizable industrial base and the country therefore has to import many goods from abroad. Nicaragua's export base is narrow, but under the recent free trade agreements, export growth has developed dynamically and diversification has also increased. Coffee remains Nicaragua's most important export good, accounting for 16% of exports in 2007. The terms of trade have stabilized at about 50% of the 1990 value. Remittances from Nicaraguans living abroad (totaling \$800 million in 2008), FDI inflows (reaching \$335 million in 2007) and foreign aid (about \$1 billion in 2007) serve as a significant economic stabilizer.

Output strength

12 | Sustainability

Environmental consciousness is underdeveloped in Nicaragua and subordinate to the push for growth. The country's main ecological problems are degradation and erosion of land, maritime protection, and uncontrolled logging. Although Nicaragua still has the largest acreage of rainforest in Central America, due to legal and illegal logging it may disappear within the next 10 years. This is especially apparent in the northeast. There, poor farmers and timber companies alike have cut back the natural forests. Economic growth usually stems from expanding the use of resources rather than from productivity gains, especially in the agricultural sector. Therefore,

Environmental policy

Nicaragua's environmental sustainability is at risk if the economy continues to grow without necessary adjustments made for sustainability. The country has an institutional and legal framework capable of addressing environmental matters, has signed all relevant international treaties, and has collaborated internationally on environmental matters. However, the lack of financial resources and the social patterns of skills and attitudes pose serious obstacles to an effective approach to environmental challenges.

Education is a constitutional right. Still, human capital levels are very low. About one out of four Nicaraguans is illiterate, while one out of five has not completed even one school year. The average level of adult schooling is 4.6 years. State and private educational institutions exist in all segments, from preschool to higher education, but their quality varies greatly. Expenditures on non-university public education amounted to 3.5% of GDP, or 15% of state expenditure, in 2008. Universities are entitled to an additional 6% share of public expenditure under the constitution. There is hardly any expenditure on research and development. Primary education is the main focus of educational spending. However, if per-student spending is considered, the focus is clearly on tertiary students, who receive about 10 times as much per-head funding as do primary or secondary students. Net enrollment rates for primary school increased to 90% in 2006, while gross enrollment rates have even exceeded 100%. The completion rate for primary school (through 6th grade) is 50%, and the net enrollment ratio for secondary school about 43%. One reason for the low completion rate is the high incidence of dropouts for economic reasons; another is the poor teaching conditions. The pupil-to-teacher ratio is 36 for primary school, and 45 for secondary school. Teachers in Nicaragua are often poorly qualified, and despite recent wage increases earn just half the average income of Nicaraguan workers, the lowest teacher salary in Latin America. Student achievement was evaluated for the first time in 2002. In third grade, only 30% of students had reached a minimum acceptable level in Spanish, and less than 14% had done so in mathematics. These figures did not increase for students in sixth grade.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

The level of difficulty at the beginning of the evaluation period in 2007 did not vary compared to 2005, despite somewhat better macroeconomic conditions and lower debt burdens. Structural constraints to governance were still high. Levels of per capita income and human capital were low, the national budget depended on donor contributions to a significant degree, the trade deficit was structurally very high, and the country remained vulnerable to natural disasters such as hurricanes and to global economic influences. The quality of transport infrastructure was poor, and serious social problems such as widespread, endemic poverty and underemployment persisted. The incidence of adults with HIV or AIDS was still very low.

Structural
constraints

Social mobilization reached a high level during the Sandinista period, but decreased to a certain extent over the course of the 1990s. Civic and public engagement was moderate at the beginning of the evaluation period. Social trust and trust in institutions were both low. Still, there are many self-help and non-governmental organizations which have built some social cohesion and social capital.

Civil society
traditions

With the exception of regionally concentrated minorities along the Atlantic coast, Nicaragua is an ethnically homogeneous society of predominantly Spanish-speaking mestizos. Ethnic conflict, therefore, has significance only in the Atlantic region. The prevailing lines of conflict are politically and socially defined. The continuing repercussions of the former armed conflicts, extreme political polarization and persistent socioeconomic disparities manifest in open political and social conflicts, but violent incidents are rare. One such occasion was after the municipal elections in 2008, when the opposition took its protest to the streets. If the strong polarization regarding Ortega should prevail or even increase in future, violent clashes may become more common.

Conflict intensity

II. Management Performance

14 | Steering Capability

The Ortega administration's primary goals in the international sphere were twofold. On the one hand, the government sought to retain investor and donor confidence, in order to avoid threatening economic development and stability. On the other hand, Ortega pushed for integration with the new leftist governments of Latin America, as well as with former allies such as Russia. In the national sphere, Ortega's main interests were to enhance anti-poverty measures and to strengthen its own power. These goals were pursued in a coherent framework. However, other important goals for the long-term development of Nicaragua, such as enhancing the rule of law, depoliticizing the administration and fighting corruption were missing from the agenda. The opposition too failed to maintain a long-term vision of reforms aimed at strengthening democratic and market oriented reforms, instead giving up those goals in favor of short-term personal gains when the Ortega administration was in need of support.

Prioritization

Ortega's international agenda was ambitious, seeking to strengthen ties with Venezuela, Cuba, Russia and Iran, while at the same time maintaining the backing of the IMF and the Western business community. Nevertheless, the administration maneuvered very successfully – at least until the internal conflicts of the elections 2008 which caused some donors to become more cautious. Domestically, some anti-poverty plans have been overoptimistic with respect to the capabilities and resources available, and to the prospects for success within the anticipated timeframe. The government wisely used its fiscal obligations towards the IMF, which the Ortega administration itself negotiated from a fairly strong position, to reject demands by other actors. Reforms aimed at strengthening the market economy – aside from social programs – have not been pursued. Due to the government's weak situation in parliament, the IMF did not press hard for such reforms in its agreement with the administration. As a part of its efforts to strengthen its power base, even at the cost of existing democratic institutions' effectiveness, the Ortega government established Consejos del Poder Ciudadanos (CPC) throughout the country despite political and legal opposition. However, the circumstances of the FSLN victory in the 2008 municipal elections may ultimately prove detrimental to the party's consolidation of power if a growing share of the population accedes to the fear of an emerging dictatorship, and the opposition finally feels compelled to join forces against the ruling party. To date, the Ortega

Implementation

administration has always been able to win over some opposition actors for its agenda in return for some minor, usually personal concessions.

The political leadership showed little willingness or ability to learn, at least in regard to furthering democratic and market economic reforms. The Ortega administration was realistic in its assessment of the economic situation and therefore did not substantially reverse previous reforms in this field. However, the FSLN under Ortega and the opposition have not been able to find common ground to promote reforms serving the country's long-term interests. Nor has the opposition been able to unite against the Ortega administration to find a balance of power, but rather has been easily divided in exchange for specific – usually personal – short-term gains. The most important and successful politicians have deinstitutionalized their own parties as well as state institutions.

Policy learning

15 | Resource Efficiency

In terms of generating revenues, the government was successful in attracting aid, including from new donors such as Venezuela. In terms of expenditure, budgetary discipline declined slightly during the evaluation period but was still under control. The quality of public service and of the bureaucracy, the competence of civil servants, and the independence of the civil service from political pressures remained low or even fell further during the evaluation period. This is illustrated in Nicaragua's percentile rank score of 15.2 for government effectiveness in the World Bank's 2007 World Governance Indicators report. The 2003 civil service law established merit-based compensation, career, and employment policies that have yet to be implemented consistently. In contrast, the Ortega administration replaced many civil servants with its own followers after taking office. The 2004 law on municipal transfer initiated a decentralization process. In 2008, about 7% of the central government's budget was channeled to municipalities. While decentralization will show some positive governance effects by empowering municipalities and fostering local participation, the law also has inadequacies: it does not transfer expenditure responsibilities along with the funds, and lacks proper auditing provisions.

Efficient use of assets

For the most part, the government coordinated its policies effectively during the review period. Although its public statements usually denounced economic liberalism, staying true to its party legacy, the government reassured investors and donors behind closed doors that earlier reforms would not be reversed and acted accordingly. The government also successfully balanced expenditures. Despite promises to increase measures aimed at poverty reduction, it bound itself in an agreement with the IMF to a spending ceiling, and kept paying its outstanding interest and principle on domestic and external debt over the protests of critics. With the help of increasing donor contributions and budget revenues from

Policy coordination

economic growth, new social programs such as “Zero Hunger” and free education and health services were introduced. At the same time, budget resources were diverted from environmental protection, and – in contradiction to the emphasis on social spending – from the ministry for family affairs.

Corruption is an acute and endemic problem in Nicaragua and within its political culture. The legal, political and administrative accounting structures and procurement systems may enable administrative transparency and integrity and punish criminal conduct, but enforcement is lagging in most instances. Due as well to the political exploitation of corruption trials, these mechanisms lack effectiveness and credibility.

Anti-corruption
policy

16 | Consensus-Building

All important political actors publicly agree on the goals of a market economy and democracy. However, this fragile agreement does not translate into agreement on the impartial institutionalization of democracy and a market economy in such a way to create a level playing field. In their electoral platforms, parties have a reasonable spectrum of difference on issues such as redistribution of wealth and the appropriate emphasis on social policy. But influential political leaders, though claiming to support democracy and the market economy, push these institutions to pursue their own economic interests and personal ambitions in a manner that is extremely detrimental to democracy, the functional capabilities of political institutions and the broader population’s welfare.

Consensus on goals

Anti-democratic veto powers had been largely integrated before the opening of the present evaluation period. The danger rather rests with political actors who, within the democratic framework, undermine Nicaragua’s democracy to further their personal aims. During the evaluation period, reformers within the opposition have not been able to prevent the Ortega administration and the parties to the pacto político from undermining democratic institutions, in cases such as the establishment of CPCs or the continued politicization of the judiciary.

Anti-democratic
veto actors

The political leadership, despite pacts made behind closed doors, displays strong polarization along political and social cleavages. The low level of social cohesion due to socioeconomic differences can only be reduced over the long term. The political divide created during the Sandinista regime and the injustices of the Contra war has yet to be closed. Nevertheless, politicians have largely prevented these cleavage-based conflicts from escalating, and sometimes use patriotic rhetoric to achieve greater unity and to foster a spirit of solidarity among citizens. Without accompanying action to fortify these appeals, they remain largely unsuccessful, however. Despite some violent conflicts during the evaluation period, especially after the municipal elections in 2008, the actual risk of large-scale violent conflict remains low.

Cleavage /
conflict
management

The government decreased opportunities for the participation of civil society during the evaluation period. Even organizations typically aligned with the Sandinistas have been excluded. Instead, the Ortega administration introduced CPCs to implement direct democracy functions, although mainly on the part of its own followers. Related to the establishment of CPCs, the previously relatively influential presidential advisory body on economic and social programs (CONPES), which had been made up of a variety of interest groups and organizations, was subsumed in the CPC structure led by Ortega's wife. Nevertheless, a fairly vibrant, active, and critical civil society persists in public life, particularly in comparison to other countries in the region.

Civil society participation

Political leaders have little incentive to redress historical injustices of the Sandinista era in any serious manner, because they provide a useful issue with which to mobilize the population for their respective causes. However, President Ortega ran on a platform of reconciliation in 2006, and made some achievements in this regard during the evaluation period. A reconciliation commission headed by a former cardinal was created. This commission has primarily focused on solutions to the unresolved land claims by demobilized former rebels, but has only achieved minor progress up to now. Other forms of reconciliation affecting the broader population have not yet been sufficiently addressed.

Reconciliation

17 | International Cooperation

Nicaragua is extremely dependent upon support from abroad. In 2007, ODA accounted for almost 20% of GDP, or \$200 per capita. Efforts to attract international assistance and to reduce the external debt have been central foreign policy themes since the beginning of the 1990s. The Ortega administration has been able to diversify the donor landscape by cooperation with Venezuela and Iran, giving it more leeway in its decisions and increasing competition between donors. This has led to agreements with the large multilateral financial institutions which do little to press for more institutional reforms furthering democracy and the market economy. Yet the Ortega administration's authoritarian tendencies have alienated some donors, even before the municipal elections in 2008. For example, Sweden announced the end of its bilateral cooperation in August 2007. This development may intensify in the aftermath of the election crisis, which drew serious criticism by the donor community. If more donors should end or reduce their assistance, this would represent a very serious concern for the Ortega administration; especially since this would coincide with falling oil prices which will limit Venezuela's and Iran's future assistance.

Effective use of support

Up to the election crisis in 2008, the international donor community mainly regarded the Ortega administration as credible and reliable, with the U.S. administration serving as the most outspoken critic. However, many more donors

Credibility

began voicing concerns after the election crisis, with many donors holding back or even canceling funds. Due to its strong dependence on external assistance, the government must regain the donor community's trust. Yet donors are unlikely to risk a major economic crisis by completely cancelling aid flows, which would have a very negative impact on the poor population. It is more likely funds will be channeled away from budget to project aid, if any change is deemed necessary. FDI inflows amounting to \$335 million, or 5.8% of GDP in 2007, confirmed the trust of international investors. However, negative commercial risk ratings illustrate the problems and risks of Nicaragua's economic and political development.

The government has actively sought to develop and consolidate cooperative international relationships. Nicaragua is a member of all important international organizations. The country has actively furthered Central American integration efforts, and has taken part in the DR-CAFTA and EU-Central America association agreement negotiations. Seeking closer ties with the new leftist governments in Latin America, Nicaragua also has joined the Latin American Bolivarian Alternative (ALBA). During the observation period, one territorial dispute with Honduras was settled under the auspices of the International Court of Justice (ICJ), but two cases with Colombia and Costa Rica remain contentious. Even though diplomatic relations with both countries can be strained at times, these situations are usually quickly defused.

Regional
cooperation

Strategic Outlook

President Ortega's increased focus on the social sector – especially on improving access to health and education services – may positively influence Nicaragua's development. These policies may directly alleviate poverty, while improving Nicaragua's human capital, provided that the services' efficiency and reach can be increased. However, for further economic growth it also will be important that policies implemented before the current presidency remain largely in place, and that further steps are taken to increase market competition, strengthen the legal framework, and overcome infrastructural bottlenecks.

The most critical issue for Nicaragua's democratic development will be whether the pacto político can be overcome by political dialogue. For this to happen, the opposition parties would have to unite and use their collective parliamentary power to engage the Ortega administration on policy matters, rather than simply acting to obstruct government goals or further their own personal gains. This level of coordination may be unlikely, however. To date, all opposition shows of unity have been short lived and purely confrontational. Moreover, if the FSLN wins the parliamentary elections and the presidential election in 2010 – whether by vote or fraud – the pacto político may vanish at the same moment as Nicaragua's hopes for a consolidation of democracy. The reforms necessary to consolidate democracy would still be daunting even if partisan divides could be overcome, or if reform minded actors win the 2010 elections.

To strengthen democracy, several reforms must be pursued. The politicization of the judiciary has to be reversed and the fight against corruption resumed. The electoral commission has to be staffed by representatives of all parties. Although this would be better than the current situation, it would still be far from true neutrality, in which civil servants would act without their party affiliation in mind. The participation of civil society in the decision-making process must once again be fostered, and the councils for direct democracy should – if they persist – broaden their membership and complement instead of bypass existing institutions. In the aftermath of the 2008 election crisis, international donors should seriously engage on these issues with the government without harming the poor population. In the course of this process, the international community can work with Nicaraguan actors and organizations that are committed to these causes. If no progress can be made with the government on these reforms, projects should be devised which target the poor population directly or which support reform-minded actors.