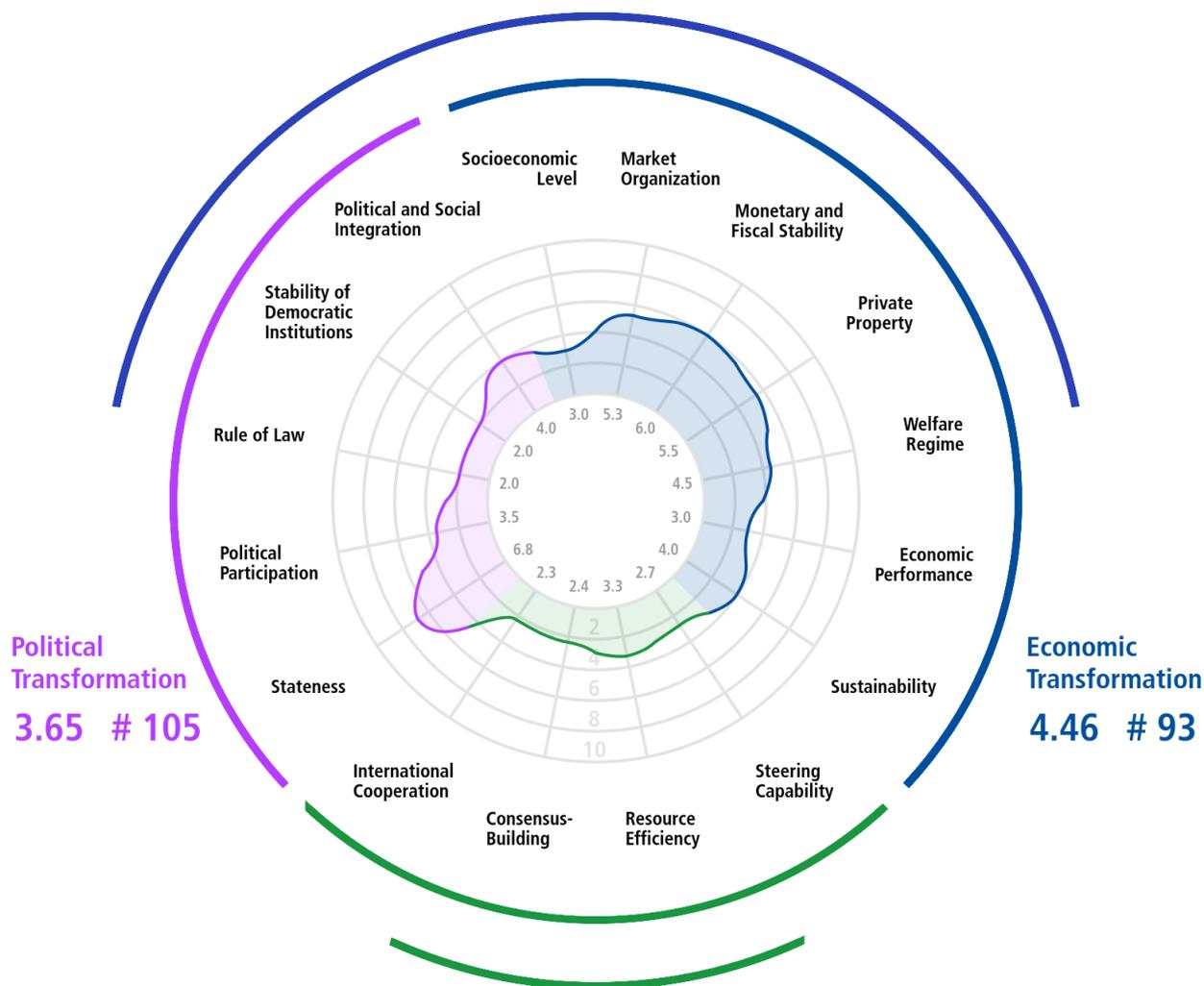


Nicaragua

Status Index

4.06 # 107

on 1-10 scale out of 137



Political Transformation
3.65 # 105

Economic Transformation
4.46 # 93

Governance Index

2.45 # 127

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Claudia Härterich

Phone +49 5241 81 81263
claudia.haerterich@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	6.6	HDI	0.660	GDP p.c., PPP \$	5570
Pop. growth ¹	% p.a.	1.2	HDI rank of 189	128	Gini Index	46.2
Life expectancy	years	74.5	UN Education Index	0.573	Poverty ³	% 13.1
Urban population	%	59.0	Gender inequality ²	0.428	Aid per capita \$	59.5

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

The situation in Nicaragua today is dramatic from a social, political, economic and public-health point of view. From a political perspective, the situation in the country has only worsened since the April 2018 crisis, when the largest demonstrations in Nicaragua's recent history led to significant political violence perpetrated by police and paramilitaries, leading to hundreds of deaths, injuries and detentions. But even under international pressure, the Daniel Ortega government has continued to rule the country with a heavy hand, intimidating and persecuting opponents, banning demonstrations, prohibiting foreign ties (through the Foreign Agents Law) and increasing its own armed presence throughout the country. The government has intensified its crackdown on civil society and the free press by revoking the legal registration of NGOs, closing media outlets, arresting journalists and ending the mandates of several international human rights monitoring organizations.

With regard to the economy, Nicaragua is in the midst of an aggravated economic crisis that began in 2018 in the wake of the political crisis and only worsened with the impact of the health crisis in 2020. This has produced a major economic recession and an increase in poverty and extreme poverty. Seeking to address the pandemic and the recession, the government strongly increased the country's external debt and drew on international aid, but without resolving major problems such as the increase in unemployment and business bankruptcies and a drop in agrarian exports.

The pandemic crisis has offered further signs of Ortega's indifference to the suffering of Nicaraguans, with the government initially downplaying the health crisis. It organized a minimum of measures to combat the pandemic and refused to close schools or inform the World Health Organization about the spread of COVID-19 in the country. Nicaragua is one of the few countries that has not taken serious measures to manage COVID-19. Recently, there has been some international concern about migration problems at the border, as many Nicaraguan migrants in Costa Rica have not been allowed to return to their own country without an expensive COVID-19 test that they could not afford. Furthermore, the government, which recently approved the Sputnik V vaccine, had not as of the time of writing provided details of its vaccination strategy.

International observers fear that intransparent and most likely fraudulent presidential elections will be held in 2021. Moreover, a few months before the elections, the political opposition is still divided into two main coalitions, Alianza Cívica and Unión Nacional Azul y Blanco, and has not yet found a way to present a clear candidate against Ortega.

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 Frente Sandinista de Liberación Nacional (FSLN) had consolidated its leadership of the new government, of the military and police forces, and of organized interest groups. However, the new government faced a severe economic and social crisis. Although most Nicaraguans were in favor of the revolution, the emerging dominance of the Sandinistas provoked dissent. In the meanwhile, the U.S. administration under President Reagan suspended all aid to Nicaragua and instead funded the counterrevolutionary Contras. Nicaragua became one of the most active stages for Cold War confrontation. The Contras’ raids eroded the revolutionary Sandinista regime. As part of the Central American peace process initiated in 1987, the government accelerated a process of political opening and sought a negotiated solution for the armed conflict with the Contras.

The elections of 1990 marked an important turning point in Nicaragua’s history: the country’s first peaceful transfer of power through free elections was achieved, and a civil government that had not earned its merits in armed conflict assumed office, headed by Violeta Barrios de Chamorro. The Chamorro government followed a rigorous program of stabilization and structural adjustments based on a strict market-economy and export-oriented development model. Succeeding governments have remained faithful to this development model, and in collaboration with international lenders, continued to pursue transformation toward a market economy.

The 1996 elections gave victory to Arnoldo Alemán (1997 – 2002) of the Liberal Constitutional Party (PLC) with a broad parliamentary majority. However, Alemán’s autocratic-populist style of governance, rampant corruption, and power-sharing arrangements with the Sandinistas undermined the balance of power and impaired the functioning of state institutions. Once in power, the Enrique Bolaños government (2002 – 2007) initiated an anti-corruption campaign against Alemán. Although ultimately convicted of embezzlement, Alemán maintained his parliamentary power base and struck additional power-sharing agreements with Sandinista party leader Ortega – with the most famous agreement being “El Pacto” in 2000. As a result of this pact, the institutions in charge of oversight and accountability have fallen under the sway of both PLC and FSLN. The judiciary and the Supreme Electoral Court (CSE) acquired an evident two-party bias, excluding other political formations. The pact had also strong consequences on the electoral process: it modified the electoral system allowing the first party obtaining more than 35% and with a 5% difference with the second party to win the election in the first round. This reform of the electoral process helped the FSLN to return to power in 2006. However, since the FSLN won all elections and dominates all public administration, the two-party logic of control 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, under Ortega’s straight control, was able to control the entire political system reinforcing “electoral authoritarianism.”

In April 2018, the country entered in its first major crisis since the civil war in the 1980s, when demonstrations against the reform of the national social security system expanded into more general protest against the Ortega government with the ultimate demand of early elections. Since then, all the political protesters have been persecuted and all kind of contention repressed. Ortega’s regime turned to a violent authoritarian regime that has maintained permanent pressure on the opposition.

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

Established nationwide in principle, the state's monopoly on the use of force is unchallenged in the Pacific part of the country, where most of the country's large cities, industry and agricultural production are located. Since the 1987 Autonomy Law that created the Atlantic Coast autonomous regions (north and south), relations with the central government have become more peaceful. However, the political crisis of 2018 profoundly changed the situation, leading to major problems including increasing violence in the Caribbean region, violence and political protests in the north, drug trafficking and illegal migration. The expansion of police forces and paramilitary forces throughout the country has not solved these issues.

Since April 2018, the police and paramilitary presence has expanded to all areas. The presence of paramilitary forces defending Ortega's interests has been confirmed throughout the country. According to Confidential reporters, the paramilitary groups have used high-caliber weapons of war since their first appearance in May 2018. They have access to resources provided by various state institutions, such as food, vehicles and fuel. They act in concert with the police, including in public actions, arrests and abductions, and surveillance and intimidation operations, and have organizational structures, a line of command and the ability to conduct military operations. The very existence of these parallel forces poses a major challenge to the state's legitimate monopoly on the use of force.

Violence between indigenous and Ladino farmers has increased in the northern Caribbean region. From April 2018 to January 2021, settler attacks have increased, with 17 indigenous people murdered and no known arrests or convictions of those responsible to date. In 2020, a total of 13 indigenous people were killed, according to the Nicaraguan Center for Human Rights (CENIDH) report. In recent years, the Mexican drug mafia has penetrated deeply into Nicaragua, although to a lesser extent than in El Salvador, Guatemala and Honduras. Most vulnerable to drug trafficking is the southern Caribbean region, where state presence is very weak and the rain forest makes enforcement difficult.

Question
Score

Monopoly on the
use of force

6



As in almost all countries in the region, most citizens do not question their national identity. Likewise, all citizens have access to the status of “citizen” without discrimination once they are registered as such in the civil registries. However, not all Nicaraguans have equal access to civil registry offices, due to low coverage, poor office facilities and – particularly in the case of voter registration – political reasons. Even today, there are children who cannot be registered because of the difficulty of accessing administration facilities, especially in remote areas on the Atlantic coast.

Various ethnic groups, considered Nicaraguans by others and generally by themselves, sometimes question the fact that Nicaraguan identity is exclusively Ladino, denying the indigenous (Mayangna, Miskito and Rama) and African American (Creole) roots of the population. The 1987 Autonomy Law, which gave political autonomy to the two Caribbean regions and expressed Nicaragua’s multicultural identity, did not change the negative perception or eliminate discrimination against Caribbean Nicaraguans. Despite this situation, there have been no “secessionist” or “separatist” movements on the coast, although a different identity is increasingly becoming evident. This in turn has found political expression in the creation of an indigenous party (Yatama) and an Afro-American formation (Coastal Power).

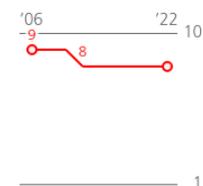
The protests and divisions since 2018 have added further complexity, with protesters using the Nicaraguan flag in their demands, and calling for a genuine democratic Nicaraguan identity against a national identity “stolen” by the current authoritarian regime. This makes it more difficult for the regime to play a nationalist card.

By law, Nicaragua is a secular state. The constitution asserts the state’s nonreligious character and mandates a separation between church and state. Nevertheless, the Catholic Church has regained strong political influence since 2007, when the Ortega government, at the church’s request, repealed Article 165 of the penal code, which had allowed “therapeutic abortions” in specific cases. Until 2018, the Catholic Church was represented at official government events by Cardinal Obando y Bravo, a figure instrumental in the increasing power and sharpening rhetoric of the conservative church. During this period, the Catholic faith also played a central role in public statements made by Ortega and Rosario Murillo, his wife and vice president. After the 2018 crisis, new leaders of the Catholic Church challenged Ortega’s power, and prosecutions against the church have occurred regularly.

The Catholic Church sided with the citizens who staged the April 2018 uprising, creating the Civic Alliance for Justice and Democracy to provide an interlocutor representing citizens in the national dialogue. In May 2018, Cardinal Brenes led negotiations between the government and the opposition, a sign of the Catholic Church’s considerable political influence, even though the negotiations failed. Since then, the Catholic Church has accompanied the political opposition and called for unity. In contrast, the government is trying to undermine the Catholic Church’s role as mediator. In early 2019, Bishop Silvio Báez and the Episcopal Conference of

State identity

8



1

No interference of religious dogmas

8



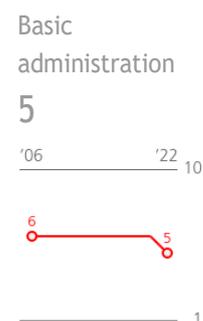
1

Nicaragua (CEN) were persecuted by the government; in July 2020, an attack took place on the Blood of Christ Chapel in Managua Cathedral. Nonetheless, the crisis has helped the Catholic Church regain some of its lost influence within Nicaraguan society after evangelical churches gained prominence in recent decades (30% of Nicaraguans describe themselves as evangelical), especially on the Atlantic coast and in rural areas.

Basic administration (both civilian and military) is present throughout the country, but more so in the urban zones of the Pacific than in the rural zones, and even less so in the Atlantic zone. In terms of goods and services, the state provides education and health care throughout the country, especially in departmental and municipal capitals, with more attention paid to these areas since Ortega took office. In rural areas and in the jungle, access is much more limited. In general, the quality of administrative services is very low, and is further undermined by rampant corruption. The administration of justice suffers from similar difficulties. Moreover, because the administration is highly politicized through the citizen-power councils (CPCs), the state administration is heavily dependent on the Ortega regime.

According to the World Bank's development indicators, only 68% of the population has access to sanitation and 87% to a water source (both figures are stable compared to the last decade). Access to both sanitation and clean water is significantly deficient in peri-urban areas, almost nonexistent in rural areas, and even worse in the Caribbean region. The government's capacity to collect taxes is limited. The prevalence of informal labor and limited control over wealth generation in the formal sector means that tax revenues are almost entirely indirect.

The pandemic crisis could have a dramatic impact on basic administrative structures, which were already vulnerable due to the economic recession along with limits on government spending and international aid. But even if the real situation of the health system is disastrous, it is hard to evaluate, as the government is not at all transparent on this issue. Moreover, amid its terrible crisis management, the government has persecuted doctors and medical personnel who have criticized the government's weak pandemic response, further curtailing the presence of health workers in the country.



2 | Political Participation

The democratic process has gradually deteriorated over the past decade. Since 2006, and especially since the 2008 municipal elections, which have been criticized as being fraudulent, the FSLN has won all elections. The most recent 2016 presidential elections were the last in a series of restricted elections and were no longer deemed free and fair. Moreover, these 2016 elections set a precedent: For the first time in Nicaragua's democratic history (since 1990), a presidential election was held without a genuine party contest. Against the backdrop of a hegemonic FSLN and the absence of genuine opposition parties, the FSLN was able to garner 72% of the vote.

After the April 2018 rebellion and during the May 2018 negotiation process, opponents called for early elections in March 2019, but Ortega's government simply responded that future elections should not be organized until November 2021. Since then, and under targeted pressure since early 2021, the opposition has been trying to find a single candidate to run against Ortega for president. In a context of repression and persecution that is still ongoing, no one knows how fair and transparent these 2021 general elections could be. In mid-July 2020, the Supreme Electoral Council (CSE) announced that general elections would be held on November 7, 2021 and extended the deadline for registering new political organizations until June 2021, citing disruptions to the electoral process due to COVID-19.

In December 2020, Congress passed the Law in Defense of the Rights of the People to Independence, Sovereignty and Self-Determination for Peace, which prohibits so-called traitors from running for or holding public office, and which, according to Human Rights Watch, appeared to be designed to bar opposition candidates from participating in the 2021 elections. (Approaching the registration deadline in early August 2021, seven opposition candidates for the presidency and one for the vice-presidency had been detained.)

In principle, the government has the effective power to govern without undue obstruction by classic veto players, but since the 2016 election it no longer has legitimacy through free and fair elections. Since 2007, and increasingly after the 2011 and 2016 elections, power has been concentrated in the executive branch around Ortega and his wife Rosario Murillo. Since the 2016 presidential elections, Murillo has served as vice president, further strengthening her power.

Veto power was curtailed by the 2018 uprising and the subsequent repression directed at various sectors of the country. The Catholic Church, which has been very active politically since the 2018 uprising, has no veto power, and on the contrary is trying to promote the return of the democratic process, as yet without success. This crisis has also led to changes that allow the presidential couple to exercise tight control over the national police. While the military has not intervened directly in the conflict, the military leadership shares economic interests with the presidential couple, which currently further limits the military's veto power over the government.

Free and fair elections

5



Effective power to govern

3



The government closely controls the administration and its ability to set priorities, draft policies and implement them. However, these policies, once drafted and enacted, are often difficult to implement due to three factors: the fragility and weakness of the public administration; the lack of professionalism within the civil service and the difficulty of overseeing tasks; and the scarcity of available resources.

The constitution guarantees the right to political association and other individual and collective rights and freedoms. However, the Ortega regime exercises all kinds of control over citizens, the media, civil society organizations, human rights organizations and social movements by monitoring and spying on all political, labor-related and economic activities. Since the April 2018 uprising, the population has been systematically victimized by state violence through the disproportionate use of force by the police, special forces (anti-riot) and paramilitary forces. To date, the Supreme Court has not ruled on the protection and constitutional complaints filed by the victims of this aggression. Since the National Police Note 114 of September 2018 declared protests and demonstrations to be illegal, only public government events are allowed.

In response to international pressure, the Ortega government has declared itself the victim of a coup d'état and has rejected all international proposals. In addition, relations with international agencies have been made even more fragile by the recent Law for the Regulation of Foreign Agents, which allows the state to prevent organizations or individuals funded by international actors from interfering in domestic politics. Nicaraguan citizens are classified as “real” or “foreign agents” depending on whether or not they have received foreign funds. The law suspends the political rights of the so-called foreign agents and allows for the confiscation of their assets on the grounds of defending the sovereignty and security of the state.

The criminalization of social protests was the government's first strategy for demobilizing citizens through a systematic campaign in the official media, calling it “coup-driven terrorism.” The Law against Money-Laundering, Financing of Terrorism, and Financing of the Proliferation of Weapons of Mass Destruction (Law 977) creates a permanent state of intimidation, allowing individuals who have participated in civic protests to be prosecuted on charges of terrorism and altering the constitutional order. According to the Nicaraguan Center for Human Rights (CENIDH), in September 2020, opposition activists reported being victims of arrests, excessive use of force, house searches, criminalization, harassment, death threats, damage to their property, defamation campaigns and stigmatization on social media.

The second stage of the government's strategy is the Amnesty Law (Law 996), which aims to guarantee the Ortega government impunity for its crimes. The law was approved by the National Assembly without prior consultations in June 2019. The UN High Commissioner for Human Rights, Michelle Bachelet, immediately warned that amnesties for serious human rights violations are prohibited under international law, referring to the United Nations documentation of serious human rights violations in Nicaragua.

Association /
assembly rights

2



Freedom of expression is guaranteed in the 1987 constitution (Article 30). In practice, the 2018 political crisis has changed the nature of freedom of expression in the country, with repression of independent media increasing steadily during the review period. At the same time, the government conveys its own version of events to the public through television and radio, as the presidential couple and their closest circle produce their own media.

The government uses various repressive measures to undermine freedom of expression and the press, and thus citizens' freedom of information. It has closed spaces for citizen participation, engaged in media censorship, harassed the independent press, occupied media houses such as 100% Noticias and Confidencial during the crisis, operated a customs blockade against La Prensa and El Nuevo Diario (which had to close in 2019), and suspended operating and broadcasting licenses. The harassment and stigmatization of journalists has driven dozens of journalists into exile, such as Carlos Fernando Chamorro, director of El Confidencial. Throughout the review period, journalists continued to be victims of threats, intimidation, assaults, defamation and illegal detention, and faced constant persecution. The government also intensified defamation campaigns against independent media organizations. As of March 2019, the Fundación Violeta Barrios de Chamorro recorded a total of 712 violations of press freedom and attacks on the independent media in Nicaragua since the repression began. In October 2019, police attacked journalists covering a peaceful protest.

In sum, a few independent media organizations still exist, but they are under threat. While an alternative public sphere is maintained via social media, there is also an increasing number of digital platforms; however, these also operate under difficult economic and political conditions. Moreover, there has been little reliable information related to the pandemic, as official figures were incomplete, and the government provided sparse information only under international pressure. In August 2020, journalists in Nicaragua denounced being attacked while covering the COVID-19 pandemic.

3 | Rule of Law

Since the last elections in 2016, which featured no real political competition, and after the constitutional amendment of 2014 that allows Daniel Ortega to be re-elected indefinitely, Nicaragua can be considered an authoritarian regime. After a decade in which institutions lost their autonomy and the administration was politicized by the Sandinistas, all national institutions are now dependent on the executive branch. The separation of powers that did exist (albeit in a flawed state) during the democratic era no longer exists, and checks and balances have been undermined. The legislative and judicial branches lack independence because they are subject to the political influence of the FSLN. The legislative branch is completely controlled by the FSLN. The

Freedom of expression

4



Separation of powers

2



judiciary, especially the Supreme Court, is completely politicized and allied with the Ortega family. Since the 2016 election, the executive branch has been in the hands of a couple, with Ortega as president and his wife Murillo as vice president. The entire family, especially the couple's children, hold central positions in the administration and the media.

The country's fourth locus of power, the electoral authority, has long been dominated by a very close supporter of Daniel Ortega, Roberto Rivas, who has allowed the FSLN to hegemonize the electoral processes since 2008. In this context, accountability mechanisms no longer exist, a situation the crisis has only exacerbated.

The government did not declare a state of emergency with the emergence of the pandemic crisis, and in fact denied the existence of the pandemic for weeks. According to Amnesty International, no real action was taken on COVID-19 in 2020. The government downplayed the risks and organized mass events and political rallies. In June 2020, the Pan American Health Organization described the situation as "very worrying." International human rights organizations have called the lack of response to the pandemic "reckless."

The judiciary has gradually lost its independence during Ortega's period in office. Since 2007, the judiciary has been heavily subject to political influence, as the FSLN government appoints magistrates and judges who are politically aligned with Sandinista positions. The judiciary is also subject to corruption, and corrupt practices are found at all levels. But since the 2018 crisis, the main problem has been the involvement of the judiciary in the criminalization of protest.

Since that time, murders and other serious violations of rights such as disappearances or torture have been reported to the relevant authorities without any response from the judiciary, making impunity the norm. In the last 10 years, the Ortega government has managed to limit the autonomy of the judiciary to the point that it has become an apparatus of repression dependent on executive orders, condemning the innocent and failing to investigate the crimes committed.

According to CENIDH, the prosecutor's office has demonstrated complicity with the Ortega government. Its double standard is expressed in a high level of effectiveness in the indictment of 417 people, but none of the cases have involved the government's repressive forces or state employees. Relatives of more than 70 people murdered during the protests were not informed of investigative actions until December 2018. The prosecutor's actions have led to the resignation of prosecutors who have refused to handle cases that show a clear intention of criminalizing social protest.

Independent
judiciary

2

'06 '22 10



Political corruption is widespread in Nicaragua, and is particularly concentrated within the Ortega family, which is at the center of the system of corruption. Although corruption has long been a fundamental problem in Nicaraguan political culture, it has become more pervasive. Most officeholders who violate the law and engage in corruption are never prosecuted. In December 2020, the NGO Hágamos Democracia lost its legal status, accused of using its resources for terrorist acts. Among other things, it had specialized in monitoring corrupt practices in the country and reporting on them annually. Its president and other NGO members went into exile to avoid prosecution, so reporting on corruption is no longer possible. As a result, corrupt practices are extensive, with no possibility of obtaining reliable data on their extent.

Nicaragua has also become a haven for politicians accused of corruption and other crimes. The best-known current case is that of former Salvadoran President Mauricio Funes, against whom Salvadoran authorities have initiated four criminal cases and issued an extradition request. Apart from other cases of politicians prosecuted for corruption (another example is former Thai Prime Minister Thaksin Shinawatra, who was sentenced to two years in prison in 2008), the Ortega government has also offered political protection to various other types of prosecuted actors, such as Italians linked to the mafia, Spaniards linked to the ETA and FARC guerrillas.

In theory, civil rights are guaranteed in the constitution, but basic civil rights have not been guaranteed in Nicaragua since the 2018 political crisis. Human rights violations once again became more common during the 2020 pandemic crisis. According to Human Rights Watch, Ortega's excessive use of force in 2018 resulted in 328 deaths and nearly 200 injuries, as well as hundreds of arrests. Human Rights Watch has also documented the use of brutal force in the streets, mistreatment of detainees that in some cases amounted to torture and retaliation against medical personnel who cared for victims. Many of the assaults and abuses were committed by the National Police or pro-government armed groups. Since 2018, the Ortega government has instituted a state of terror in which even basic civil rights are no longer guaranteed if you are not an Ortega partisan. As a result, legal protection is no longer guaranteed, there is complete impunity for these crimes, and emigration seems to be the only way for many people to secure their right to physical integrity and life.

Although the government released many political prisoners in response to U.S. and Canadian sanctions in 2019, it has continued to crack down on political opponents, arbitrarily arresting protesters, journalists and human rights defenders. According to the Civic Alliance for Justice and Democracy, 86 people were still arbitrarily detained as of May 2020. In 2020, authorities had fired at least 21 health professionals for raising concerns about the government's pandemic response. More than 100,000 Nicaraguans, including at least 90 journalists, had gone into exile, mostly to Costa Rica. In June 2020, after expressing "grave concern at the continuing reports of serious human rights violations," the UN Human Rights Council issued a resolution giving High Commissioner for Human Rights Michelle Bachelet a specific mandate to continue reporting on violations.

Prosecution of office abuse

2



Civil rights

2



In addition, civil rights protections remain inadequate for part of the population due to widespread poverty. Gender inequality fostered by patriarchal cultural patterns renders women and the LGBTQ+ population particularly vulnerable. Feminist organizations are calling for more attention to women's rights in Nicaragua, where many women face gender-based violence. According to Confidential, the COVID-19 pandemic has exacerbated existing gender-based and sexual violence and abuse, including an increase in femicides compared to 2019. In addition, the Atlantic Coast population, indigenous communities and Afro-descendants who have experienced decades of racial discrimination and face social, political and economic discrimination on a daily basis, must flee violence by mestizo peasants who have been emboldened by the Ortega government to engage in land rights violations.

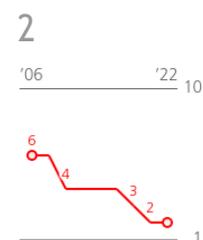
4 | Stability of Democratic Institutions

Within the current political context, democratic institutions are only a formal shell. The decline of democratic institutions has been underway since the early 2000s and gradually intensified with Ortega's second, third and fourth terms. Since Daniel Ortega's electoral victory in 2006, the FSLN has become the hegemonic power and has secured control over Nicaragua's democratic institutions and administrations. This is most evident in the conduct of elections. Ortega and the FSLN have gradually managed to transform democratic institutions into authoritarian ones, marked by two important moments: the amendment of the constitution in 2014 allowed Ortega to be re-elected indefinitely, and to run for his fourth mandate in the 2016 elections; and after the 2018 uprising, the intensity of repression definitively transformed the regime into a repressive and authoritarian one, very similar in its practices to the Somoza regime. Control by Ortega and his wife and vice president Murillo over the National Assembly, local governments and state institutions (e.g., the Supreme Court of Justice and the Supreme Electoral Tribunal) has contributed to the state's limited ability to dispense justice, undermined the transparency and democratic character of elections, eliminated the independence of the public administration, and ultimately imposed Ortega's and Murillo's views on all institutions.

The 2020 pandemic crisis highlighted the extraordinary powers held by the Ortega-Murillo couple, who for months ignored what was obvious to the whole world: the danger to the population posed by COVID-19. Neither opposition parties, civil society organizations, powerful interest groups such as Consejo Superior de la Empresa Privada (COSEP), the clergy nor medical institutions were able to dissuade the government from its inattention to the pandemic. This governmental closure to relevant actors is indicative of a very profound disinterest in either legitimizing democratic actors or promoting a diversity and plurality of opinion.

The commitment of relevant actors to democratic institutions has increasingly shifted instead toward neglect over the past 14 years, due to the presidency's monopolization of power. Actors committed to democracy have become increasingly weak since

Performance of democratic institutions



Commitment to democratic institutions



2006 and have been widely persecuted since the political crisis. In the current political context of state violence against opposition figures, there is no counterweight to the president's authoritarian and violent practices. Nevertheless, the remaining "relevant actors" – such as civil society organizations, parts of the business sector, and figures within the Catholic Church and academia – although currently repressed, are calling for a return to democratic institutions.

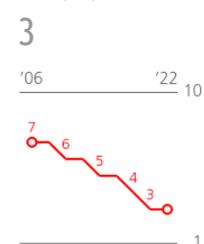
5 | Political and Social Integration

The Nicaraguan party system has increasingly become dominated by the (nominally) leftist FSLN of governing Daniel Ortega, though predominantly by autocratic and repressive means. Therefore, while fragmentation is rather low, polarization has increased throughout the past decade. Social rootedness is weak, if one excludes clientelist modes of shaping citizens' preferences. Operating in an increasingly authoritarian environment, the party system is no longer able to articulate and aggregate societal interests.

Before the 2018 crisis and since the 1980s, the Nicaraguan party system has been characterized by a latent polarization between Sandinistas and anti-Sandinistas. This created and maintained a unique two-party system: the FSLN on one side, and whichever party led the anti-Sandinistas forces on the other. Between 2007 and 2016, the FSLN developed a largely clientelistic style of politics that reinforced its social roots among the lower classes. The 2016 elections changed the two-party system, as the FSLN was able to eliminate all major opposition parties before the election. This left it as the only real party running in the election, facing a very weak, divided and suppressed opposition, and enabling it to win 71 out of 92 seats in the National Assembly. Apart from the FSLN, only the Constitutionalist Liberal Party (PLC) with 14 seats was able to garner more than 10 seats, while five other parties shared the remaining seven.

With respect to the presidential and parliamentary elections to be held in November 2021, the FSLN is the only real party, as all other parties have been gradually restricted and prosecuted since 2018. After the 2018 uprising, two major opposition alliances were formed: the Citizens' Alliance for Freedom, headed by the Citizens for Freedom (CxL) party; and the National Coalition consisting of the Democratic Restoration Party (PRD), the Nicaraguan Democratic Force (FDN), Blue and White National Unity and the peasant movement EFE. CxL and PRD, which were founded in 2017 for the municipal elections, were then reactivated by the two opposition groups, since they still had legal status and could run for the presidential elections. (However, following the end of the review period, the PRD was canceled in May; in August 2021, the last genuine opposition party Alliance for Freedom was banned from participating in the elections.)

Party system



The spectrum of interest groups is relatively limited, although it has long represented a plurality of interests. The most potent group of all is also the oldest, and represents the private sector, the Consejo Superior de la Empresa Privada (COSEP). Since 1990, COSEP has maintained direct contact and communication with all governments, including the Ortega government, even though relations between interest groups and the state were increasingly dominated by Sandinista hegemony.

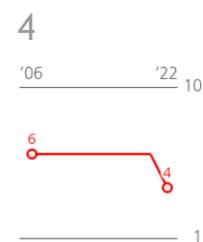
Another organization of particular importance to the peasants is the Unión Nacional de Agricultores y Ganaderos (UNAG), which has a relatively pluralistic set-up, and was originally Sandinista. In sharp contrast to the 1980s, the unions have long been comparatively autonomous, although one sector (Frente Nacional de Trabajadores, FNT) has retained strong ties with 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 represented through personal contacts. In general, the interaction between private and public interests in the economic sphere is predominantly unorganized and informal, and conforms to personal, patronage and corporate logics.

However, the 2018 political crisis changed the relationship between interest groups and the state when most of them declared their opposition to the government. For example, COSEP rejected the repression, and called on the presidential couple to organize early elections. New coalitions such as the Unidad Nacional Azul y Blanco and the Civic Alliance, which are the broadest coalitions of opposition groups and actors, have initiated serious anti-government activities and have tried to defend their interests. Thus, instead of forming a solid ground of sound political mediation, interest groups have increasingly become part of a decidedly political power game.

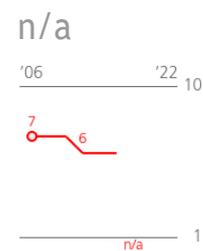
The 2018 crisis showed how important it was for Nicaraguans in opposition to Ortega to defend democracy against an authoritarian regime that uses violence and repression to control its population. The pandemic crisis exacerbated Nicaraguans' very low level of trust in their institutions, as there has been a lack of information since the beginning of the health crisis.

In general, there is a significant lack of data on Nicaragua, and in the current political context it is very difficult to produce statistics and conduct opinion polls. Therefore, the most recent data on support for democracy in Nicaragua comes from the latest Latinbarómetro report, conducted in 2018. According to this survey, support for democracy had steadily declined since 2007, from 61% at that point to 40% in 2017, but had recovered to 51% in 2018 (slightly above the regional average of 48%). This increase was explained by the politicization of support for democracy in the context of polarization between government and opposition. The percentage of those saying that democracy was comparatively the best political system, at least better than all others, was 66% in 2018 (which is around the Latin American average).

Interest groups



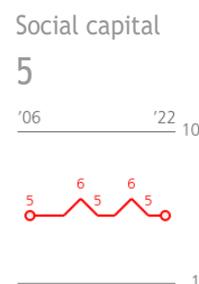
Approval of democracy



Trust in specific institutions was also rather low, and consistently situated below the regional average: in the same survey, this was 20% for the government (LAC: 22%); 14% for the election authority (LAC: 28%); 15% for the parliament (LAC: 21%); 15% for the judiciary (LAC: 24%); 10% for political parties (LAC: 13%); 22% for the military (LAC 44%); and 21% for the police (LAC: 35%). The most-trusted institutions were the church, with a trust level of 69% (LAC 63%) and the media, 46% (LAC: 44%).

There is a considerable tradition of trust, cooperation and solidarity between citizens at the very local level in Nicaragua, indicating a more “bonding” than “bridging” version of social capital. Most Nicaraguans are members of a civil society group such as a women’s association, peasants’ association or trade union. In the absence of the state, many sectors and areas have developed a strong level of self-organization through the decades. Nonetheless, self-organization and politics are usually interlinked, since party membership is often the basis of local organization. In the context of the crisis, this strong politization and repression have created strong cleavages in the local civil society. According to the Latinobarómetro 2018 survey, 12% of Nicaraguan respondents agreed that most people can be trusted, slightly below the regional average (14%)

Since social capital in Nicaragua tends to be based on proximity, neighborhood and family ties, there is no evidence that the pandemic has affected civil society’s sense of solidarity and trust, or its ability to self-organize. As the government did nothing to help people fight against the coronavirus, people started to organize themselves in communities, even if not everywhere. They started to agree to wear masks without government recommendations, began to use home offices without being asked to, established rules to make local markets safer and so on.



II. Economic Transformation

6 | Level of Socioeconomic Development

Despite some successes achieved by the Sandinista government in the 2000s with the expansion of social policies (such as social housing, food, education, health...), Nicaragua remains a poor and very unequal society, one of the poorest countries in Latin America. Before the pandemic crisis, it was the third-poorest. Although it is difficult to obtain accurate data in the current context, the poverty rate was expected to increase to 52.7% and the extreme poverty rate to 22.2% in 2020.

Before the pandemic, according to the Human Development Report (HDR) 2020, the country’s Human Development Index (HDI) score was 0.660 (as compared to 0.658



in 2018), with Nicaragua ranking 128th out of 188 countries, ahead only of Honduras (132) and Haiti (170) in Latin America. The country's Gender Inequality Index score was 0.428, worse than the Latin American average.

Social exclusion due to poverty and hardship is quantitatively and qualitatively very pronounced and structurally entrenched. Poverty persists as a rural phenomenon. About 70% of the rural population is poor, compared to 30% of the urban population, according to the poverty report of the World Bank. In 2014, the Gini index value reached 46.2 (49.5 according to ECLAC). According to the World Development Indicators 2020, 13.1% of the Nicaraguan population lives on less than \$3.2 a day, down from 17.1% in 2016. According to the Human Development Report 2020, overall loss in HDI due to inequality was 23.5% in Nicaragua in 2018.

The political crisis worsened the situation in 2018, as around 417,000 people were dismissed or suspended from their jobs. In 2020, the pandemic crisis deepened the already-disastrous levels of Nicaraguan poverty, though exact poverty numbers are still not available. In the context of the pandemic, Costa Rica strengthened its border regime in 2020 to prevent the entering of (untested) Nicaraguans, even though many depend economically on regular migration between the two countries.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	13785.9	13025.2	12611.2	12621.5
GDP growth	%	4.6	-3.4	-3.7	-2.0
Inflation (CPI)	%	3.9	4.9	5.4	3.7
Unemployment	%	3.3	5.2	5.1	5.8
Foreign direct investment	% of GDP	7.5	6.4	4.0	-
Export growth	%	10.1	-1.6	5.6	-8.8
Import growth	%	3.3	-15.1	-3.9	1.0
Current account balance	\$ M	-987.1	-234.1	754.1	957.8
Public debt	% of GDP	34.1	37.7	41.7	47.9
External debt	\$ M	11521.3	11678.8	11680.5	12050.4
Total debt service	\$ M	1142.2	1071.8	1144.9	1210.8

Economic indicators		2017	2018	2019	2020
Net lending/borrowing	% of GDP	-0.6	-1.9	0.3	-
Tax revenue	% of GDP	16.6	15.7	17.5	-
Government consumption	% of GDP	14.4	14.8	15.6	15.9
Public education spending	% of GDP	4.4	3.6	3.4	-
Public health spending	% of GDP	4.8	5.1	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.6	0.6	0.6	0.7

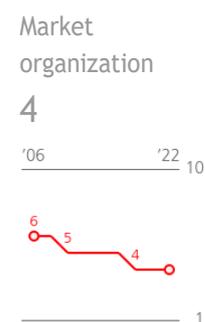
Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Since the return of the Sandinistas in 2007, which ensured the continuity of the reforms of the 1990s, the government has pursued a strictly market- and export-oriented development model based on the private sector and guided by the principles of free-market competition. However, Nicaragua's economy is characterized by a weak institutional framework that does not guarantee full participation in the market. The low independence of the judiciary, a weak regulatory framework and a very high level of corruption contribute to a lack of legal certainty for private investors. This affects free and fair competition, which has further been limited by the increasing level of control exerted by the Sandinista government since the 2018 crisis. During Ortega's tenure, market competition has been undermined by the emergence of strong Sandinista-tied businesses.

In the Doing Business 2020 Report, Nicaragua was ranked 145th out of 190 countries in the subchapter on starting a business; this action takes seven procedures and 14 days, and costs 65.7% of per capita income, figures that have remained relatively stable in recent years. In addition, Nicaragua performs particularly poorly in the areas of paying taxes (162nd place), protecting minority investors (170), registering property (160), and processing construction permits (176). According to the latest World Bank report, all indicators are on the decline.

According to a World Bank report in 2020, businesses in the country face an elevated level of risk. Nicaraguan economic activity could be dragged down further by a failure to slow the spread of the pandemic, a resurgence of political unrest, strains related to debt and external financing, deeper-than-expected economic damage from the pandemic in the medium term, and disruptions related to climate change and natural disasters. In addition, there are still numerous difficulties limiting the



Nicaraguan economy, such as a high level of informal employment (up to 75% of jobs according to ILO data), an inefficient government bureaucracy, a low-skilled labor force, corruption, and a small and highly concentrated financial system with low volumes of private credit and strikingly short maturities of mainly up to three years. The large infrastructure gap (Nicaragua has the least developed road infrastructure in the region) and the highest electricity prices in Latin America also significantly reduce opportunities for business.

In 2007, a law on promoting competition and combating monopolies came into force. Law 601 aims to promote and protect free competition among economic operators; ensure market efficiency and consumer welfare by promoting a culture of competition; and prevent, prohibit and sanction anti-competitive practices. The law created a National Institute for the Promotion of Competition (Procompetencia) for its enforcement. Between 2009 and 2016, Procompetencia took a number of concentration cases to court, but most were dropped in favor of the companies, which were able to continue their practices. Since that time, there has been no information about cases handled or Procompetencia's continued activities. Even if Procompetencia does have the competency to conduct investigations, it has no effective power.

As a result of this poor record, Nicaragua still has numerous and strong oligopolies, common in small economies where two or three companies control the majority of a sector. According to Procompetencia, anti-competitive practices prevail in sectors such as milk, flour, wood, tourism, air transport and telecommunications. In many of the main economic sectors, there is one company that controls more than 50% of the sector.

One factor related to Nicaragua's development model is the significant state interference in economic activity. The collaboration and complicity between the Sandinista government and the business sector has resulted in a situation in which a small group, usually based on strong ties of friendship or family, makes economic decisions in its own favor and enables anti-competitive practices. In October 2018, parliament approved the controversial law for the creation of the Nicaraguan Imports and Exports Company (ENIMEX). In Article 2, this law states that ENIMEX "...shall have as its object to carry out transactions of goods, merchandize, products and services in general, acting even as buyer agent and discretionary seller of the state." The private sector has voiced concerns about the prospect of undue competition by the Nicaraguan state.

Competition policy

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Since the 1990s, Nicaragua has largely liberalized its foreign trade. It is a member of several regional and bilateral trade agreements with other Central American countries and the United States, including the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR). The country is a member of the Central American Common Market (CACM) and has signed bilateral investment agreements with Argentina, Chile, Czechia, Denmark, France, Germany, Italy, the Netherlands, the Russian Federation, South Korea, Spain, Switzerland and the United Kingdom.

Nicaragua is also an important free trade zone with few protectionist barriers. International investment is largely protected by the free trade zone regime. In addition to export incentives and duty-free capital imports granted by the Tax Concentration Law and the Temporary Authorization for Export Promotion Law, the Decree on Free Zones for Industrial Exports (1991/46 and amendments) provides a 10-year income-tax exemption for Nicaraguan and foreign investments in the free zones. A government agency, the National Commission for Free Trade Zones (FTZ), regulates FTZ activities. According to the U.S. Department of State, 225 companies with FTZ status operate in Nicaragua in 2018, employing 118,087 people. Nicaragua's customs services oversee all FTZ imports and exports. Most free zones are located in Managua, and about 40% are in the textile and clothing sector.

The Global Competitiveness Report ranks Nicaragua 109th out of 140 countries. According to the WTO, the country has a relatively open trade and investment regime. The average applied tariff rate is 2.0%, according to the Heritage Foundation. The United States is Nicaragua's largest trading partner for both imports and exports, followed by Mexico. According to the U.S. Department of Commerce, trade with the United States accounts for about a quarter of imports and two-thirds of exports (including exports from free trade areas). In 2006, CAFTA-DR went into effect for the U.S. and Nicaragua, making all U.S. exports of consumer and industrial goods duty-free. Tariffs on most U.S. agricultural products were originally scheduled to be eliminated by 2024, and all tariffs to be eliminated by 2026. However, the Nicaraguan Investment Conditionality Act signed by the Trump administration in December 2018 changed the nature of the agreement, sanctioning all investments and restricting trade. Venezuelan investment in Nicaragua, which was important during Chávez's presidency, has all but disappeared. As a result, the country has attempted since 2013 to develop new trade partnerships, particularly with China, without significant results since the 2018 political crisis.

Foreign direct investment has all but stopped since the outbreak of the political crisis. However, the government continues to seek foreign direct investment (FDI). Investment incentives target export-oriented companies that require large amounts of unskilled or low-skilled labor. The government also encourages investors to work through ProNicaragua, the country's investment and export promotion agency. However, its reputation for professionalism has deteriorated, and it has become increasingly politicized after Ortega's son was nominated to serve as the organization's figurehead. As a result, all investments are de facto subject to approval by the presidency.

Liberalization of foreign trade

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The national financial system and stock market are relatively young, small and undercapitalized. Although the banking system has grown and developed over the past two decades, Nicaragua remains underbanked compared to other countries in the region, with only 19% of Nicaraguans aged 15 or older having a bank account. As we enter 2021, the country has been severely impacted first by the 2018 political crisis and then by the ongoing pandemic crisis.

Nicaragua's central bank was established in 1961 with the sole right to issue the national currency, the córdoba. In 1990, the National Assembly reintroduced private banking in the country, which remains the current system today. The banking system is also regulated by the Superintendence of Banks and Other Financial Institutions (SIBOIF), which requires regulated entities to submit regularly audited financial statements prepared in accordance with international accounting standards, but SIBOIF's dependence on commercial banks limits its transparency and independence.

The banking sector remains conservative and highly concentrated, with five banks (BANPRO, Lafise, BANCENTRO, BAC and FICOHSA) accounting for 77% of the country's market share. Bancorp, a subsidiary of ALBANISA, a joint venture between Nicaragua and Venezuela's state oil companies, began accepting deposits in 2015. Because U.S. sanctions against Venezuelan oil company PDVSA also apply to Bancorp, in March 2019 the National Assembly approved the sale of Bancorp to the state of Nicaragua through the creation of a new national bank.

In an attempt to shore up their liquidity, private banks stopped making most new loans immediately after the political crisis began in 2018, as banks have limited funds to cover withdrawals. Nicaragua's central bank figures also show that 49 bank branches were closed in 2018, and that 56 more were closed between January and June 2019. In addition, the value of the financial system's gross portfolio was 20% lower in June 2019 than in the same month last year. Since the 2018 crisis, the central bank has applied a policy of secrecy, and has not published reliable national banking and economic data. According to the World Development Indicators (WDI), the rate of bank non-performing loans respectively rose to 2.4% and 3.1% in 2018 and 2019, while the capital-to-assets ratio to a still meager 9.0% and 9.3% in these years.

In early 2021, the Association of Private Banks of Nicaragua (Asobanp) expressed its opposition to the reform initiative and the amendments to Law 842, the Law for the Protection of the Rights of Consumers and Users. According to the association, the measure violates the principle of autonomy of private banks and puts the country at risk of being blacklisted by the Financial Action Task Force (FATF) as a high-risk country for money laundering, which would lead to the closure of international banking correspondents and prevent the remittance of funds to Nicaragua.

Banking system

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8 | Monetary and fiscal stability

According to the World Bank's World Development Indicators 2020, the inflation rate in Nicaragua had reached 5.4% in 2019. According to ECLAC, the country's GDP contracted by 8.3% in 2020, and the poverty rate increased (by about 5%). Since the 2018 political crisis, central bank data and reports have been neither transparent nor reliable, leading to a lack of information on Nicaraguan fiscal and monetary stability.

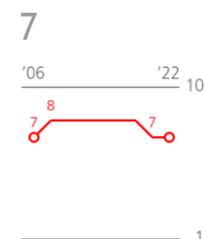
According to the IMF, the crisis generated in 2020 by the pandemic forced the government to seek a balance between lower revenue collection and higher spending as it sought to address the effects of both the pandemic and hurricanes. The fiscal policy actions were aimed at three primary goals: allocating resources to meet the increased spending in health, maintaining social and public investment programs and safeguarding job stability, and actively managing public financing by drawing on external resources and selling national bonds. On March 2020, the central bank updated its Business Continuity Plan COVID-19 to guarantee the continuity of financial, treasury, accounting and administrative operations.

In 2020, external loan disbursements totaled \$829.5 million, and the state issued \$219.8 million in bonds. The mobilization of new external financing in 2020 included loans from the IMF, the World Bank, the Inter-American Development Bank and the Central American Bank for Economic Integration (CABEI). Much of this was used to finance COVID-19 related expenditures. There have been no assessments of exchange rate and balance of payments changes since the onset of the pandemic crisis.

Driven both by international lenders and its own self-commitments, the government has 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 vulnerable to permissive policy changes. However, fiscal stability has not been guaranteed since the 2018 political crisis, as government debt has been growing steadily. In 2020, the pandemic crisis negatively affected the Nicaraguan economy, debt and export prices, forcing the central bank to create a Business Continuity Plan COVID-19 to ensure the continuity of financial, treasury, accounting and administrative operations.

In November 2020, Nicaragua received up to \$185.3 million in emergency assistance from the IMF to address the COVID-19 pandemic, to help the country meet urgent balance of payments needs and undertake much-needed health and social spending. According to the World Development Indicators 2020, external debt has been quite stable in recent years, reaching about \$11.7 billion in 2019. As a result, Nicaragua does not qualify for a temporary suspension of debt service payments to its official bilateral creditors, as the country is at no more than moderate risk of external and

Monetary stability



Fiscal stability



general debt distress. However, the central government's public debt has increased steadily over the past decade, reaching 42.3% of GDP in 2019 (after levels of 37.6% in 2018 and 34.0% in 2017, according to ECLAC); for 2020, ECLAC estimates total government debt of 43.5%. The fiscal balance was slightly negative after 2014, dropping to -1.9% of GDP in 2018, but recovered in 2019 to 0.2%.

9 | Private Property

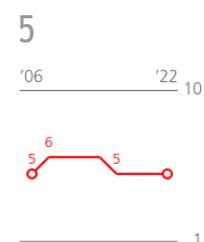
In principle, property rights are well defined. In 2006, the Capital Markets Act (587) created a legal framework for the securitization of movable and real property. The banking system is expanding its credit programs for the purchase of houses and cars, but there is currently only a limited secondary market for mortgages. In addition, poorly enforced property rights and property disputes remain among the serious obstacles to economic development in Nicaragua; as a consequence, many investors have difficulty defending their property rights. The government regularly fails to enforce court decisions regarding the seizure, restitution or compensation of private property. Enforcement of court decisions is often subject to extrajudicial considerations, and members of the judiciary are widely viewed as corrupt or subject to political pressure.

After the 2018 crisis, the situation regarding private property worsened, as peasant members of the FSLN illegally seized private land with both implicit and explicit support from municipal and national government officials. Some land seizures were politically targeted at specific individuals, such as businessmen traditionally considered independent or opposed to the ruling party. In August 2020, the private sector claimed that about 15,000 hectares remained seized. Observers have also interpreted such actions as a warning from the regime to private owners and entrepreneurs to avoid engaging openly in opposition activities.

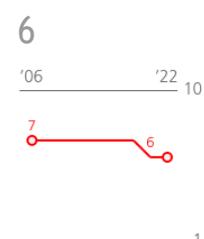
Prior to the crisis, problems related to property rights were concentrated in four areas: the urban fringes, due to the continuous arrival of rural migrants settling on the outskirts of cities; areas where tourism is promoted by national and international companies (the RAAS region); Indigenous lands on the northern Atlantic coast and in the north; and lands held by peasants and Indigenous people along the Strait of the Inter-oceanic Canal on both sides of the country.

The coronavirus crisis has had a very strong impact on the country's economy, which was already profoundly affected by the 2018 political crisis. As a result, most of the country's economic activity is supported by the state in some way. According to the Nicaraguan Stock Exchange (BVN), transaction totals on the exchange increased by \$231 million between January and August 2019 and the same period in 2020, from \$190 million to \$421 million. Since then, BVN figures have shown a regular increase in monthly totals. In the first eight months of 2020, BVN economists explain this growth mainly in terms of short-term placements by the central bank of Nicaragua

Property rights



Private enterprise



and treasury issues. As a result, in January 2021, 97.5% of the negotiated amounts on the national stock exchange were public investments, with only 2.5% coming from the private sector, which has been weakened since the political crisis and is less protected by the existing legal protections.

Prior to the political crisis, the relationship between private companies and the executive branch was increasingly close, as the Supreme Council of the Private Sector (COSEP), representing the majority of business groups, had become one of Ortega's main allies. Private companies were thus not only allowed to operate, but some of the largest national firms were supported and protected by the Sandinista state, as government actors increased their personal interest in private companies. These close relationships changed when COSEP supported the demands of the demonstrators in 2018 and denounced the state-led violence and repression. Throughout his presidency, which began in 2006, Ortega has increased the state's presence in the economy. The government owns and operates several companies such as the National Sewerage and Water Company, the National Port Authority, the National Lottery, and the National Electricity Transmission Company, to name a few.

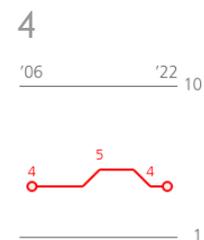
10 | Welfare Regime

According to the Fundación Internacional para el Desafío Económico Global (FIDEG) 2019 survey, the incidence of poverty at the national level increased in 2019. For both general poverty and extreme poverty, the proportion of poor residents was higher than in 2017 and similar to 2009. In addition, Nicaragua has very high degree of inequality in the distribution of consumption: in 2019, the average consumption of the highest quintile was 5.6 times higher than the average consumption of the lowest quintile. In terms of basic needs, the main deficiencies of Nicaraguan households include overcrowding, inadequate basic services and economic dependency. The government has not introduced additional social policies to compensate for the socioeconomic impact of the pandemic. While the government has distributed hundreds of food baskets in recent months, it did so before the pandemic.

The FSLN government has made some efforts since 2007 to solve the poverty problem. The state increased its social spending in the areas of education, health and housing. The poverty reduction strategy has had some success in terms of three major social programs: Zero Hunger (Hambre Cero), Zero Unemployment (Desempleo Cero) and the microcredit program Zero Usury (Usura Cero). According to FIDEG, there was a downward trend in the poverty rate from 44.7% in 2009 to 39.0% in 2015, but this trend later reversed, with the rate reaching 41.2% in 2017 and 44.4% in 2019.

Moreover, social programs are usually designed with a preference for FSLN sympathizers. As a result, one of the distinctive features of the Ortega government is its patronage-based vision of the welfare regime. In 2018, the political crisis began

Social safety nets



with the Institute of Social Security (INSS) pension reform, provoking large protests. The INSS reportedly covers about one-third of all workers and provides pay-as-you-go pension insurance and basic health insurance, meaning that 60% to 70% of Nicaraguans live without any kind of social protection. While the government decided to withdraw the pension reform after five days of protests, social protection from the state is still not guaranteed.

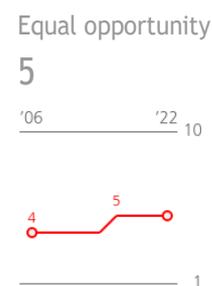
On the Atlantic coast, poverty rates are particularly high among people of African and Indigenous descent, who face extreme poverty as well as political and administrative discrimination. Few government social programs have reached the Atlantic Coast, which remains neglected by redistributive policies. In addition, many residents do not have access to national ID application processes and are excluded from administrative processing and statistics, which certainly underestimates the extreme poverty of Indigenous and Creole communities. As of 2018, life expectancy at birth was 74.3 years.

According to the 2019 Global Gender Gap Report, Nicaragua has closed nearly 80.4% of its total gender gap, ranking fifth in this regard out of the world's top ten countries. It remains the country with the smallest gender gap in Latin America and the Caribbean. Nicaragua continues to maintain gender parity in ministerial positions and has one of the highest percentages of women in parliament in the world. This is the result of the country's efforts to implement the Law on Equality of Rights and Opportunities (Law 648) in 2008; and the Law 50-50 for Parity in 2012, which reformed the Municipal Code and established gender equality in the election of mayors and vice-mayors. The representation of women in the National Assembly and local governments is comparatively high by international standards.

In education, the enrollment rate is almost the same (although the overall enrollment rate in tertiary education remains very low). The gross enrollment rate for Nicaragua shows parity between girls and boys (1.0) at the primary level and a small advantage for girls at the secondary and tertiary levels (1.1 each). While the overall adult literacy rate is comparatively low for Latin American countries, there are no significant gender differences (males: 82.4%; females: 82.8% in 2015).

Despite this limited progress, equality of opportunity is far from being achieved in Nicaragua. While the percentage of women in the total population is rather low at 38.7% in 2020 (stable over the last decade), many women in Nicaragua work in informal jobs, without social protection and with additional family constraints that limit their careers. In addition, feminist organizations are calling for more attention to women's rights in Nicaragua, for instance with regard to the 2006 ban on therapeutic abortion.

Indigenous and Afro-Caribbean peoples also suffer from less equality of opportunity. Both groups, mostly living on the Atlantic coast, receive no public attention and are regularly subject to racial discrimination.



11 | Economic Performance

Historically, Nicaragua has faced high levels of poverty, being the third-poorest country in the hemisphere. GDP per capita (PPP) increased steadily from \$3,782 in 2009 to its peak of \$6,004 in 2017 but declined after the 2018 crisis to \$5,631 in 2019 (-5.1%). ECLAC reports a further decline of 5.3% in 2020. In recent years, the inflation rate has steadily increased, from 3.6% in 2016 to 5.4% in 2019.

After the political crisis, the pandemic crisis, and hurricanes Eta and Iota, the country is even more vulnerable to external shocks due to the decline in foreign direct investment, its reliance on a small number of export products, and spillover effects related to U.S. and international policies. Even though the current account is positive in 2019 for the first time in the last decade, the relative macroeconomic stability that characterized the country over the last 10 years is now looking more fragile. While the central government's public debt increased to 42.3% of GDP in 2019 and 43.5% in 2020, the fiscal balance fell sharply to -1.9% of GDP in 2018 but recovered to 0.2% in 2019.

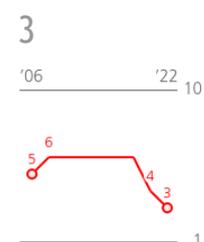
According to ILO estimates, the unemployment rate remained stable at 4.5% for years (4.4% in 2017) until it began to rise in 2018, reaching 7.4% in 2020. Underemployment remains a key problem. Labor-market-related indicators suggest that labor-force participation rates were lower in 2019 than in 2017, and that quality of jobs deteriorated. Informality of work increased, while the share of wage earners and employers/entrepreneurs decreased. In 2019, 74.5% of workers nationwide belonged to the informal sector, compared to 70.4% in 2017. This indicates greater job precarity.

12 | Sustainability

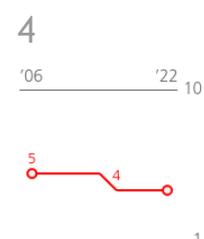
Nicaragua is highly vulnerable to climate change and is regularly hit by major environmental disasters, most recently hurricanes Iota and Eta, which devastated the north of the country in November 2020. Despite this, environmental consciousness – within both the state and citizens – remains underdeveloped, and the government rarely engages in measures adapted to climate change, even though the country relies heavily on its agricultural exports.

Environmental concerns are considered only sporadically and are often subordinated to growth aspirations. According to Centro Humboldt, environmental regulation is in some respects more advanced than in most neighboring Central American countries (e.g., water law, approximately 150 protected areas and three biosphere reserves), but implementation and enforcement are still very weak, partly due to economic policy considerations. The organizations responsible for public administration related to the management and protection of the environment (MARENA, INAFOR, ANA) are not

Output strength



Environmental policy



very proactive in fulfilling their mandates. Moreover, the budget allocated to these organizations does not exceed 1% of the state budget. It is noticeable that the average budget allocation is decreasing year by year, which shows the low priority that the government gives to the environmental sector.

In August 2017, a presidential decree titled Updating the Environmental Assessment System of Permits and Approvals for the Sustainable Use of Natural Resources was issued, establishing environmental regulations that allowed for mineral extraction, forest harvesting and the exploitation of biodiverse resources, and additionally providing advantages for natural resource businesses. This decree restricts previous agreements and laws on the protection of protected areas, and allows companies to legally exploit protected areas, natural areas and biosphere reserves.

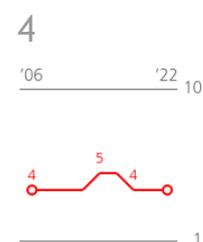
Centro Humboldt also points out the following environmental problems in Nicaragua: The country continues to lose its forests, mining concessions are still being granted, agricultural slash-and-burn practices and forest fires are increasing, while climate change is increasingly affecting Nicaragua. After standing on the sidelines for some time, the government announced in October 2017 that it would join the Paris Agreement. Nicaragua ranks 97th out of 180 countries in the 2018 Environmental Performance Index (EPI).

Education is a constitutional right in Nicaragua, with primary education being both compulsory and free. Before the crisis, some selective efforts were made in education policy and in developing the very low level of human capital. The country still has the highest percentage of children out of the education system in Latin America, with a UN Education Index score of only 0.573 in 2020, 18th in the region and ahead only of El Salvador, Guatemala, Honduras and Haiti; and the lowest completion rates for both primary and secondary education. In terms of education spending, the most recent data is from 2017, at 4.4% of GDP. Even though the literacy rate was 82.6% in 2015, the illiteracy rate of the population aged 10 and above in 2019 was still 14.9% at the national level and reached 21.4% in rural areas, where illiteracy is most prevalent.

Net enrollment rates by region show that they are higher in the Pacific region than in the rest of the country. According to FIDEG, the net primary education enrollment rate in 2019 was 91.8% in the Pacific region, and 85.5% and 79.7% in the Central and Atlantic regions, respectively. On the Atlantic Coast, Indigenous and Creole communities are supposed to have access to bilingual education in school, both in Spanish and in the Indigenous or Creole native language. However, many schools do not have books and materials, and have difficulty recruiting and retaining teachers due to very low salaries.

FIDEG notes that at the national level, secondary net enrollment increased from 62.8% in 2017 to 64.6% in 2019. In contrast, the net enrollment rate at the university level decreased by 1.5 percentage points to 15.3% in 2019. This can be explained by

Education policy /
R&D



the high level of repression during the 2018 political crisis, leading to high dropout rates. In addition, the independent student organization Expresión Organizada de Universitarios estimates that 85% of exiled university students were unable to resume their education.

Overall spending on research and development is insignificant (0.1% of GDP in 2015), and a research sector has only recently begun to emerge. Against the backdrop of a severe crisis, the parliament ironically passed a law in February 2021 that allowed for the creation of the National Secretariat for Space, the Moon and Other Celestial Bodies, a decision that caused surprise in the scientific community. The new agency “will promote the development of space activities to expand the country’s capabilities in education, industry, science and technology,” prompting numerous criticisms from the opposition, which pointed out that Nicaragua lacks scientific research capabilities in these areas.

Governance

I. Level of Difficulty

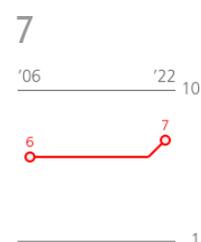
Nicaragua is subject to a variety of structural constraints that have only worsened since the early 2010s. Poverty and extreme poverty, already a long-standing problem in the country, have been on the rise since the political crisis, and even more so with onset of the pandemic. GDP per capita contracted by 5.1% in 2018 and 2019, and by another 5.3% in 2020. The pandemic also had terrible consequences within the population even if information on infection rates is not reliable. The Health Ministry (MINSa) established a system to report cases, but its incomplete and whimsical reporting also lagged behind independent monitoring. For instance, when MINSa reported 6,582 cases with 176 deaths, the Observatorio Ciudadano COVID-19 reported 13,278 cases and 3,009 deaths. Furthermore, the disruptive shock caused by the pandemic further undermined the already struggling economy.

As a result of both crises, some share of the highly skilled portion of the workforce has left the country. Another problem is the state repression, which instills fear in the Nicaraguan population, since they do not have the possibility to express themselves and move around the country.

There are problems with infrastructure, as part of the country is not connected to the capital and important cities on the Pacific coast. The Atlantic coast and the islands are not connected by roads. Public road transportation is very poor, and the rail network leading inland and to the Atlantic coast does not function during the rainy season.

In addition, natural disasters are frequent. Because the country's resources are not exploited in a mindful or respectful manner, the country is even more vulnerable to natural disasters despite its great ecological wealth. In November 2020, hurricanes Eta and Iota devastated the north of the country.

Structural
constraints



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, ongoing social polarization and the civil war. The mobilization that took place over 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 a high level of social trust.

In the last few years, the most visible movement has been against the inter-oceanic canal, creating a very strong awareness of the environmental and social impacts of this government project. There has also been organized movements of university students, of pensioners defending their interests and of feminist organizations pushing back on violence against women. These organizations were very mobilized in years before the crisis and met to participate in the big protests of spring 2018.

This culture of civil society organization formed the background of the April 2018 protests, which included several organized groups that were in opposition to the Ortega government before the crisis, such as the Nicaraguan Center for Human Rights (CENIDH). The protests were joined by groups of newly organized citizens, mothers of the victims of repression and thousands of Nicaraguans who took part in the marches even though they had previously not been politically active.

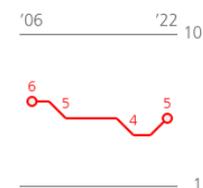
Since then, civil society has organized around two large social platforms: the Unidad Nacional Azul y Blanco and the Alianza Cívica. Both are diverse and heterogeneous movements in which businessmen and members of the church also participate. Their goal is to support vulnerable populations with material aid (e.g., they distributed clothing and food to affected populations after the November 2020 hurricanes). They also aim to produce reliable information on the impact of the pandemic in the country. The Observatorio Ciudadano COVID-19 and the Comité Científico Multidisciplinario register statistical information for the World Health Organization and the Central American Health Platform. Such organizations have survived despite the government's repressive actions.

Since the April 2018 crisis, conflict intensity in Nicaragua has been higher than at any time since the civil war of the 1980s. Management of the pandemic only exacerbated the situation, as the government openly denied the health crisis for weeks and even promoted the holding of large-scale public events, contrary to international recommendations and the recommendations of the country's medical sector.

Since 2018, society and the political elite have been deeply divided, mainly for political reasons, into two major groups: the pro-Sandinistas, who defend the Ortega government and support or even participate in the repression, and the anti-Sandinistas, who now represent the majority of the population. The state repression of the protests in the spring was so violent that it provoked resistance from among a large part of the population. The country was in a situation of widespread violence at the time, as protesters resisted repression with barricades.

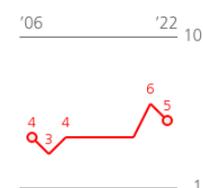
Civil society traditions

5



Conflict intensity

5



However, confrontations in the streets have died down as the government has shown that it is willing to use harsh force against protests. In recent months, for example, many protesters have been forced to leave the country. Since then, demonstrations have been banned and a number of laws have been passed restricting the expression of dissent. The intensity of the repression has greatly reduced the scale of the conflict, which declined sharply in 2019 before disappearing from the public arena in 2020. In fact, the emergence of the health crisis has shifted the political conflict into the electoral arena, as the upcoming presidential elections in November 2021 will take place in a very tense climate where there is great uncertainty about the transparency and effectiveness of the democratic electoral process.

II. Governance Performance

14 | Steering Capability

Since its return to power, the FSLN government's main priority has been to concentrate power in the hands of the presidential couple and to develop a model of market economy that benefits only the Sandinista leadership, rather than strengthening democratization and the rule of law. It claims to set strategic priorities but does so only in certain policy areas (e.g., social policies) and often replaces strategic priorities with short-term interests or fails to adequately prioritize and organize its policies. The government has increasingly become personalized and less institutionalized by concentrating powers in the hands of the Ortega family – therefore, the strategic capacity to prioritize and organize its policy measures is an idle question.

Before the 2018 crisis, Ortega continued to pursue macroeconomic policies developed in the 1990s, emphasizing pro-poor policies more than previous governments had, but without making major long-term efforts to strengthen the rule of law, depoliticize public administration or fight corruption. Since the 2018 crisis, the situation has changed, with neither macroeconomic nor pro-poor policies being implemented and repression becoming a key tool for enforcing government policies. The emergence of the pandemic has only increased the use of short-term measures that already emerged in a context of economic, political and health crisis.

The COVID-19 health crisis has shown that Nicaragua has little capacity to develop long-term plans to address the new constraints. The FSLN government denied the existence of the pandemic for a very long time, and when it finally accepted the reality the situation, it implemented very few health measures designed to limit the short-, medium- and long-term effects of the health crisis. As of the time of writing, it had not yet made any vaccination plan. It demonstrates a very weak ability to analyze changing needs and adjust the priorities of its agenda.

Question
Score

Prioritization

3

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The health crisis has not had a noticeable impact on the development of the Ortega government's public policies. It governs on the basis of decrees that adjust to specific problems, for instance a few and limited measures to respond health crisis, without a long-term strategy. Despite this, the concentration of power between the executive, legislative and judicial branches around decisions issued by the executive allows for relative homogeneity in government actions and a strong ability to impose the government's views. This was especially the case in the 2010s, when the government benefited from a large amount of money from Venezuela's petrodollars while developing specific policies particularly aimed at combating poverty.

However, since the political crisis of 2018, the broad-based nature of the protests, the cruel lack of financial resources (with the decrease in and then disappearance of Venezuelan funds) and the unraveling of the Sandinista fabric have limited the state's ability to implement its public policies, given that social policies had produced the base for its clientelistic style of governing. The Nicaraguan state, which became a "Sandinista state" in the 2010s, is now in a situation of structural weakness. However, the Ortega government has engaged in a very high level of repression, in which the police play a central role, thus producing a high level of fear among state employees; this allows the FSLN to remain in power and continue to impose its policies on the government.

Since Ortega's return to power, there has been very little policy learning in Nicaragua. The FSLN has shown very little willingness to offer explanations or learn from past experiences and observations. Experiential learning has diminished as international relations have become more strained. The government has not listened to international or even national advice from groups that disagreed with FSLN discipline and remains hostile to any advice from national and international independent experts. In this context, the political elite has shown little interest in strengthening the rule of law or in building a professional and neutral public administration. While intellectuals and segments of the academic community, as well as several international agencies, have regularly addressed accountability issues in Nicaragua, politics in Nicaragua remains dominated by short-term, patronage, zero-sum and patrimonial practices.

Since 2011, Ortega has focused on controlling the country's main political institutions, such as the legislature, the courts, the electoral authority, the Office of the Comptroller General (the nation's auditor), the army and the police. This situation has created a highly politicized administration in which Daniel Ortega and his wife Rosario Murillo control, appoint and replace officials almost at will. Policy learning, if it takes place at all, therefore tends to be haphazard, as there are no institutionalized mechanisms that allow for innovation and flexibility in policymaking.

During the last FSLN mandate, two events highlighted the government's unwillingness to respond to Nicaraguan demands. In 2018, the political crisis in April demonstrated the government's determination to crack down on all social groups

Implementation

3



Policy learning

2



organized in or supportive of protests, along with its inability to listen to and learn from Nicaraguans' demands. This determination led it to unleash disproportionate state violence. In 2020, the pandemic demonstrated the government's poor ability and willingness to protect the population and organize public policies to combat the effects of COVID-19 crisis. These two events have had a negative impact, hastening the country's transformation into an autocracy with a reduced market economy that mainly benefits a small group of the FSLN elite.

15 | Resource Efficiency

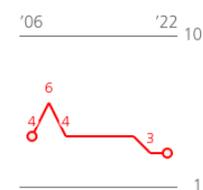
The public resources available to the Nicaraguan government are limited, as the country is the second-poorest on the continent. That said, from the 2000s until the 2018 crisis, Nicaragua was doing relatively well economically and benefited from Venezuela's financial support (especially from 2007 to 2014), which allowed the country to allocate significant financial resources to public programs and policies. But this budget increase has not led to better redistribution among the population, and corruption remains a key problem in the administration. As a result of the 2018 crisis, since exacerbated by the pandemic, the Nicaraguan economy is no longer healthy: the country's debt continues to rise, and the state budget is under pressure.

Moreover, the centralized and highly politicized control of the state means that policies of strategic interest are implemented and monitored in secret, and made solely to benefit Ortega's power and that of his immediate family interests. Additionally, nepotism has developed greatly during Ortega's tenure, as his wife is vice president and many of his sons and daughters occupy central political and administrative responsibilities within the state.

The low level of efficiency of the public administration can be attributed to four main reasons. The first relates directly to the consequences of the 2018 crisis, which forced the state to cut its budget and eliminate public jobs. In 2020, it did not reallocate funds to fight COVID-19. The second reason is the politicized nature of the public administration and the lack of career-oriented public servants. The third reason is structural. This concerns, first, the minimal presence of the state in some areas of the country such as the Atlantic coast, and second, the lack of "responsible" decentralization. The fourth reason is related to Ortega's administration, in which a cabinet led by the presidential secretary and his advisers depends on the decisions of the president and his wife. The extreme centralization of decision-making results in very slow policy implementation, as it allows ministers very little autonomous decision-making power. Since the 2018 crisis, the public administration dependence has increased even more, as the Ortega couple has increased control over all institutions, using repression to silence any opposition within the administration.

Efficient use of assets

3



Finally, the health crisis has demonstrated the inefficiency and absurdity of certain political decisions: When doctors began to alert authorities to the need for widespread health measures to combat the pandemic, the Ortega government preferred to imprison all medical professionals known to be protesters, at the risk of putting the country in an even more delicate health situation

The health crisis has not fundamentally changed the coordination of public policy, which is concentrated in the hands of the presidency. In fact, there has not been a major public policy response to the pandemic, because the government initially refused to acknowledge the health crisis and then downplayed the impact of COVID-19 on the population. As a result, there have been few coordination problems.

As for health policy, Ortega and Murillo have total control over government decisions. Since 2007, there has been an attempt to centralize political power and decision-making in the hands of the Ortega family. However, the price of centralization has been inflexibility, a lack of autonomy and debate, and even paralysis on occasion. The purely personalistic style of government also means that there are no horizontal forms of coordination to mediate between the various departments of the state administration, which has led to a further deprofessionalization of the administration. What horizontal coordination exists is supposed to take place in the Ortega-Murillo kitchen cabinet.

Since the 2018 crisis, centralization has increased even more, as the use of force has created a situation in which there is no turning back for the government. The importance of repression and the scale of the opposition inside the country forced the Ortega government to focus its policies on security. The government accused the opposition of a coup and mobilized the police and paramilitaries to pursue opponents throughout the country. So-called citizen-power councils (CPCs) are used to provide information (identification and location) about protesters and serve repressive purposes.

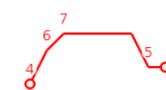
Corruption is an acute and endemic problem in Nicaragua, particularly within the political culture, and anti-corruption policies have never been strong. Although the only major anti-corruption campaign initiated by the Bolaños government in 2002 resulted in the successful prosecution of former President Arnoldo Alemán, a pact between Daniel Ortega and Arnoldo Alemán ended that campaign. Since then, and increasingly during the Ortega government's term, anti-corruption policies have been nonexistent, because the Ortega government has had no interest in integrity mechanisms.

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, a decrease in the belligerence of watchdog organizations, an increase in the selective application of legal safeguards, and the limited application of legislation regarding access to information and other mechanisms.

Policy coordination

5

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1

Anti-corruption policy

2

'06 '22 10



1

In theory, the state is meant to enable transparency and integrity in the administration and punish criminal behavior. There are a number of laws that address the practice of bribery. Article 429 of the Criminal Code (Law 641), published in 2008, contains sanctions against bribery equivalent to those for crimes against freedom of expression. Article 449, entitled International Bribery, sanctions foreigners residing in Nicaragua who offer, promise, give or concede money to a public authority, official or public employee to perform or refrain from performing duties related to their function. Article 475 states that bribery (Article 476), bribing witnesses (Article 478), and facilitating tax evasion (Article 482) carry the same penalties as giving false testimony or reports. Article 5 of Decree No. 124-99 requires that the public officials referred to in Article 1 of the decree refrain from accepting gifts, benefits or monetary payments made due to an interest in the outcome of their decisions. Likewise, the public function may not be used for the benefit of any party. But none of these measures are applied in practice.

16 | Consensus-Building

The major political actors are in fierce conflict over the very meaning of democracy, as reflected in the conflict around the 2021 presidential elections. The Ortega regime uses the term democracy in a strategic sense to tighten the screws of a nondemocratic regime. Consequently, the political actors are strongly divided in two groups, between support of the government and anti-regime forces. In the first group, political actors claim that democracy has been undermined by opponents that were organizing a coup against Ortega's government. They also accuse opponents of anti-democratic practices. On the other, the second and major group is composed of opponents to the ruling-party government. They have accused the government of state-sponsored violence against pacific protesters. They also claim to be representing democratic principles, as they consider Ortega to be an illegitimately elected president and an authoritarian ruler. Since the 2016 elections, the opposition parties have been campaigning for greater transparency and respect for free political competition. The massive use of force during the spring of 2018 consolidated their positions, which are now supported all around the world by international organizations and countries pressing for more democracy in the country. For the 2021 elections, the two main opposition coalitions, the Alianza Cívica and Unidad Nacional Azul y Blanco, are trying to create a measure of unity in order to field a single candidate in the presidential elections against Ortega, but they still fear massive fraud and an absence of transparency.

Major political actors mostly agree on a market-economy strategy but disagree about its basic features. Opposition parties (PLI, PLC) and oppositional coalitions (Unidad Nacional Azul y Blanco, Alianza Cívica) all claim to be in favor of a market-based economy. Before the crisis, the Ortega administration combined a market-based economy with monopoly sectors related to ALBANISA (a private company original

Consensus on goals

3



created to manage external investment funds, largely from Venezuela), favoring an economic group that is politically like-minded, and uninterested in the laws of competition and the free market. After the reduction in Venezuelan support, the Ortega administration drew increasingly close 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. Those that have held power since 1990, including during the Ortega administrations, have not hesitated to use privileged information, legal instruments and networks of favors to benefit themselves, either directly or via friends. Since the crisis, the COSEP and a significant number of companies have decided to support the opposition. As a result, the state presence in the market economy has increased in recent years as a response to the crisis and to the fragility of a private sector that has been limited by the FSLN government.

Nicaragua is no longer a democracy, since the 2016 elections transformed the country into an electoral autocracy in which anti-democratic actors hold government positions, and the 2018 crisis transformed the country into an authoritarian regime that uses violence exerted through paramilitary forces to control its population. The pandemic has confirmed the authoritarian nature of the regime. Since 2007, the FSLN, under Ortega's control, has become the hegemonic political power, taking control of the administrative, executive, legislative and judicial powers. It has also changed the constitution in its favor and coopted the military and most influential economic actors. Reformers have no control over anti-democratic actors.

Nicaragua is an extremely polarized country, largely divided between Sandinistas and anti-Sandinistas. Ortega's most recent term has been characterized by a substantial increase in political conflict, resulting in the political crisis of 2018, aggravated by the 2020 pandemic.

Even before the crisis, the political opposition experienced repression, with the government harassing opposition street protests, retracting opposition parties' legal status (in the case of MRS in 2008), and sabotaging or manipulating internal party conflicts (as with the PLI during the 2016 elections). Since the 2018 crisis, the main change has been the now-widespread use of force, as the repression has extended to the incarceration, torture or even killing of opponents, forcing many of them to flee the country. The evident strategy today is one of terror conducted by the Ortega government against protesters, but also against the media, human rights activists and others, with the goal of ending the political conflict.

On the contrary, ethnic, class, regional and religious conflicts are of minor importance in the country. Only on the Atlantic coast have ethnic and regional conflicts recently emerged, initiated by Ladino peasants invading Miskito lands, and resulting in armed confrontations and an increasing number of deaths.

Anti-democratic actors

2



Cleavage / conflict management

2



The management of the 2020 health crisis offers a good example of how civil society actors are now totally excluded from the elaboration and implementation of the political agenda. In fact, since its return to power, the Ortega government has systematically minimized the role of civil society actors and has not involved civil society actors in policy deliberation or decision-making processes. Agenda setting, policy formulation, implementation and performance monitoring has been controlled exclusively by the Sandinista government, leaving civil society without any way to intervene in public decisions. On the contrary, the Ortega government has systematically downplayed the role of civil society actors, who have regularly mobilized since 2010 to demand a number of rights and defend their own political agenda. The only response from the public authorities has been repression and, starting with the 2018 crisis, the disproportionate use of violence. Since then, the situation has grown even worse, as civil society actors have been persecuted by the Ortega government, with measures up to and including the prohibition and criminalization of civil society groups.

In 2007, the Ortega government introduced citizen-power councils (CPC) that are charged with implementing “participatory” democratic functions but are in fact para-state organizations. These are organized in a hierarchical way and tightly controlled by Vice President Murillo, with the objective of ensuring loyalty and distributing funds and resources associated with tightly focused social policies. The CPCs generate essentially patron-client political linkages.

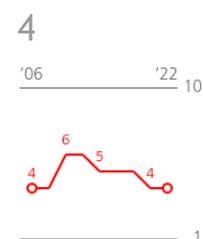
The Ortega government’s recent amnesty law is one more sign of its total lack of willingness to provide justice for the traumatic acts of the past. In fact, in the recent history of the country, no political actor has had a strong position on reconciliation. All have had little incentive to redress the historical injustices of the revolutionary era (whether on the part of the Contras or Sandinistas) in any serious manner. The only experience in that direction was the platform of reconciliation launched by Ortega during his second and third election campaigns. However, the Commission of Verification, Reconciliation, Peace and Justice that was subsequently created engaged in no real activity. Since then, the violent events of spring 2018 have created a climate of serious injustice in which the state has rejected any form of reparation.

Reconciliation seems unlikely in the near term with regard to the 2018 human rights violations. In May 2018, the Catholic Church organized a negotiation round between the government and various sectors of the opposition (students, COSEP, peasant groups, feminist groups, political opposition, etc.). All participated in the negotiation without any results, the government blocking any discussion and rejecting all opponents’ propositions, including the anticipated elections in March 2019. After several weeks of blocked negotiations, they were stopped, as the state-led violence was increasing at the same time. As a result, it appears clear that the government has no intention of responding to recent injustices and recent state-led violence. In June 2019, the Nicaraguan Congress approved an amnesty law – with a large majority –

Civil society participation



Reconciliation



that allows for the acquittal of those participating in protests that have taken place since April 2018. As a result, this law allows for the absolution of all Sandinista participants involved in the repression. It intends to leave unpunished the highest authorities of the security services and paramilitary forces who have been identified by the Inter-American Commission on Human Rights as being responsible for hundreds of deaths and injuries since the beginning of the protests.

According to the OAS, the numerous crimes committed during the months of repression constitute crimes against humanity. Therefore, there is the possibility that they may be investigated within the jurisdictions of other states under the principle of universal jurisdiction. In order to avoid impunity, the OAS requests that the international system, such as the United Nations, initiate investigations and, where appropriate, prosecute those responsible for crimes within the framework of universal jurisdiction, in accordance with current international law and the domestic legislation of each country.

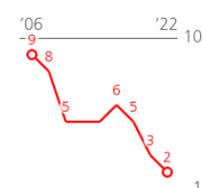
17 | International Cooperation

During its second and third mandates, the Ortega government was successful in attracting international support from a number of sources. The National Human Development Plan (PNDH) 2018 – 2021 marks the best example of the government’s ability to attract international resources to finance its development policies, achieving the consensus of a majority of multilateral donors on its project for poverty reduction and human capacities improvement. But this well-developed plan cannot hide the reality of much more disorganized public policies, the absence of any real long-term development strategy and even the lack of any clear roadmap apart from consolidating the Ortega government’s power. Since the 2018 crisis, the majority of donors have left the country, and international aid has decreased dramatically. This is a dangerous development, given that the country has been extremely dependent on aid since the 1980s.

This latest development is at the end of a downward spiral that has been taking shape for some time under the Ortega governments. The government has paid increasingly less attention to international cooperation, knowledge exchange and consultancy, and has increasingly objected to donors’ alleged interference in the area of democratic governance. As the Ortega administration alienated its donors, official development assistance gradually decreased. The government has also had a difficult relationship with international organizations, for example accusing UNDP of engaging in political interference. In response, UNDP cut 86% of its programs before disappearing totally after the 2018 crisis. The Nicaragua Investment Conditionality Act (NICA) is another example of the degradation of international cooperation, in this case with the United States.

Effective use of support

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After 2018, the Ortega government has continued to lose credibility, and is no longer seen as a reliable partner by the international community, which has denounced the state's use of violence. As a result, Nicaragua has become increasingly isolated from the international community. Although international disapproval is strong, the government has not stopped the regular use of international spaces that it continues to view as legitimate.

Criticism of Ortega's regime is now unanimous. The United Nations Security Council has denounced the country's human rights abuses and has stated that it cannot remain a mere observer considering a possible further escalation of the crisis and its likely impact on Central America. The Office of the United Nations High Commissioner for Human Rights (OHCHR) reported in 2019 that the government was responsible for human rights violations. OHCHR also made recommendations, including on elections and institutional reforms. Recently, it again called on the government to implement these recommendations, particularly with regard to elections scheduled for November 2021, and to allow an international mission in the country (the Supreme Electoral Council rejected this in June 2021). In addition to international organizations, various human rights organizations such as the International Federation for Human Rights (FIDH), the World Organization Against Torture (OMCT), Amnesty International, WOLA, Front Line Defender and Human Rights Watch have all condemned the violence and repression.

According to private sector groups, 417,000 Nicaraguans – more than 14% of the labor force – have lost jobs since the 2018 crisis. If the economic decline continues, Ortega could counter pressure from the West by leaning more heavily on China (its second-strongest commercial partner after the United States in recent years) and Russia (e.g., for military cooperation).

Over the 2007 to 2018 period, the Ortega government actively developed and consolidated cooperative international relationships. Nicaragua is a member of all important regional organizations and has actively furthered Central American integration efforts. It has taken part in the CAFTA-DR and the EU-Central America association agreement negotiations. However, the recent political and pandemic crises have isolated the Ortega government.

Relations with the United States, its major trade partner, have become more tense due to Ortega's authoritarian excesses and his refusal to compromise. The 2018 vote by the U.S. Congress on the Nicaragua Human Rights and Anti-corruption (NICA) Act has further complicated relations. The act directs the U.S. executive to block any new loans to Nicaragua from multilateral lending institutions until the implementation of electoral and transparency-enhancing reforms. It also demands the reestablishment of diplomatic institutions and the restoration of the fight against corruption. The Trump administration imposed financial sanctions on Murillo and on top adviser Nestor Moncada. This, in turn, has been – rhetorically – rejected by the government as imperialist interference.

Credibility

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Regional cooperation

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Nicaragua's recently passed Law for the Regulation of Foreign Agents, which criminalizes any kind of relations with foreign agents, is intended to limit regional as well as international cooperation, and could isolate Nicaragua even further. As a response, the government has tightened its relations with China and Russia.

Strategic Outlook

Nicaragua's transformation prospects, which were already severely clouded following the 2018 political crisis, darkened further during the review period. The profoundly altered character of the political regime due to the massive use of violence and systematic human rights violations, which has also affected the country's economy, has now been solidified by further repression. There have been several attempts to pressure the Ortega government to engage in dialogue with the opposition, but all have been unsuccessful.

Since both domestic and international pressure have failed to "persuade" Ortega to step down, the domestic opposition has attempted, but failed, to unite for the 2021 presidential elections. Moreover, recent developments – including the detention of opposition candidates and the banning of opposition parties from participating in the November 2021 elections, as well as the rejection of international observers – make it all the more likely that the elections will be conducted in a rather fraudulent, nontransparent manner, with the ruling party placing violent pressure on voters to keep the FSLN in power.

Given this scenario, a return to democracy in the context of a negotiated transition with Ortega and/or Murillo as "strategic partners" is virtually impossible, since the regime has committed a multitude of human rights violations that make any participation in a thorough negotiation process impossible. From a normative perspective, therefore, there will have to be either a new democratic regime or a nondemocratic Sandinista regime. More realistically, given the regime's chances of survival, any such transition process is likely to be far off, which also means that there is likely to be more victims of repression in the near future. Since the domestic opposition is unable to force regime change without the help of Nicaraguan security forces, which is currently unlikely, international pressure may be the only viable solution to "persuade" Ortega to step down. This too seems unlikely at present. However, the new U.S. administration seems more inclined than its predecessor to promote democratic processes and could count on the cooperation of its Latin American partners and the European Union if it moved in this direction.

Regarding economic transformation, the Ortega dynasty, with its fused clan/state approach, has gradually occupied core economic institutions and severely weakened the market economy. Ways out of this impasse are linked to the political prospects for transformation and also depend on the potential pressure exerted by the country's economic sector and middle classes, as well as on economic performance. In reality, the country's economic situation has continued to deteriorate, leading to business bankruptcies, rising unemployment and massive economic outmigration – all of which have been exacerbated by the onset of the health crisis. Solutions to Nicaragua's disastrous economic and especially social situation will be difficult to find as long as democratic discussion is impossible.

The Ortega government's denial of the reality of the pandemic and the lack of public-health measures for several months allowed COVID-19 to spread in the country, although the exact extent of the pandemic is unknown due to the lack of reliable data. The government, which approved the Sputnik V vaccine, began vaccination in April 2021, but did not provide details on its vaccination strategy. In an election year under an increasingly authoritarian regime seeking re-election, doubts remain as to whether the vaccination program – which is reportedly slow and opaque – is free of political considerations.