

Nicaragua

Status Index (Democracy: 3.0 / Market economy: 2.4)		5.4	Management Index		4.0
System of government	Presidential democracy		Population	5.2 mill.	
Voter turnout	n.a.		GDP p. c. (\$, PPP)	2,450	
Women in Parliament	20.7 %		Unemployment rate	9.8 % (2000)	
Population growth^a	2.8 %		HDI	0.643	
Largest ethnic minority	14 % ^b		UN Education Index	0.66	
			Gini Index	60.3 (1998)	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. ^b 68 % mestizo, 14 % white, 8 % Afro-Caribbean, 4 % indígenas, 1 % other. Source: UN Human Development Report 2003.					

1. Introduction

In January 2002, Enrique Bolaños assumed the office of president as the winning candidate of the governing liberal party. He is the third “civil” president since the end of the social-revolutionary Sandinista regime (1979–1990). The centerpiece of Bolaños’ first year in office was an anticorruption campaign that was directed primarily against his powerful predecessor, Arnaldo Alemán (1997–2002), and that triggered a severe parliamentary crisis.

Alemán, who has since been convicted of embezzlement and money-laundering, was in office through much of the evaluation period. This report also deals specifically with the policies of the new government. The report concludes that serious political-institutional, economic and social problems continue to exist in Nicaragua, despite (1) three peaceful transfers of power through elections and (2) successes in achieving economic stability. Though these problems do not pose a threat to the existence of democracy and a market economy, they do prevent democracy and a market economy from functioning properly. The management of transformation continues to face formidable difficulties.

2. History and characteristics of transformation

Democratic transformation: After the social-revolutionary Sandinista regime had already held technically correct elections in 1984 and initiated a political opening that began in 1987–1988 as part of the Central American peace process, the “opening elections” of 1990 led to a transfer of power to a “civil” government. Nicaragua thereby entered the ranks of the deficient and unstable liberal-

representative democracies in Central America. Legitimized through competitive elections in 1990, 1996 and 2001, “civil” presidents have been governing ever since: Violeta Barrios de Chamorro (1990–1997)—elected as candidate of the opposition coalition, Unión Nacional Opositora (UNO)—as well as Arnaldo Alemán (1997–2002) and Enrique Bolaños (since 2002), both of the Partido Liberal Constitucionalista (PLC).

The difficult process of reintegrating the rebels, the delayed depoliticization of the armed and security forces, and fierce conflicts with Parliament all fell within Chamorro’s term of office. The president’s policy of reconciliation toward the Sandinistas soon cost her parliamentary support of a large part of her governing coalition, thereby bringing about ongoing conflicts with Parliament, as well as considerable governability problems. The succeeding right-wing/liberal Alemán government, on the other hand, had a secure parliamentary majority. But Alemán’s autocratic-populist style of governance, rampant corruption and power-sharing arrangements with the Sandinistas (for occupancy of the Auditor General’s Office, the Supreme Electoral Council and the Supreme Court, as well as guaranteed parliamentary seats for Alemán and Sandinista leader Daniel Ortega) undermined the balance of powers and impaired the functioning of state institutions.

The first year of Bolaños’ likewise “liberal” government (January 2002 to present) was marked by an anticorruption campaign against Alemán, who had in the meantime built up a power base in Parliament. The power struggle between the Bolaños and Alemán has occasionally brought Parliament to a standstill. Alemán was ultimately convicted, but Bolaños lost his parliamentary majority and now depends, like Chamorro before him, on support from the Sandinistas. The ongoing conflict between government and Parliament threatens to enter another round.

Market-economic transformation: Following the revolution of 1979, the Sandinista regime nationalized the enormous wealth of the dictator Somoza, as well as the domestic banks and foreign trade. From 1978 to 1980, the state’s share in generating GDP had risen from 15 % to 41 %. The Sandinistas introduced drastic economic measures and adjustment programs during an internally and externally induced economic crisis at the end of the 1980s (hyperinflation in 1988: 33,603 %; foreign debt in 1988: 700 % of GDP). However, the transfer of power in 1990 spelled the end of the “mixed economy” of the Sandinista era.

In keeping with a strictly market-economic and export-oriented development model, the Chamorro government followed a rigorous program of stabilization and structural adjustment, abolished the foreign trade monopoly and most price controls, opened up the banking sector, and privatized some 350 state-owned businesses. The succeeding governments remained faithful to this development model and, in collaboration with international lenders, continued to pursue transformation to a market economy, though this transformation was impeded by

corruption and nepotism (Alemán) and by Parliament's partial paralysis (Chamorro, Bolaños).

3. Examination of criteria for democracy and a market economy

3.1 Democracy

Nicaragua has a representative democratic form of government that is threatened in substance, if not in form, and that shows serious functional problems.

3.1.1 Political regime

(1) *Stateness*: In principle, the state has a nationwide monopoly on the use of force, now that unintegrated and re-armed rebels and soldiers (*Recontras*, *Recompas*) are no longer causing the problems that they did during the Chamorro administration (1990–1997). However, there are parts of the country where the state has little presence. The two Atlantic coast regions, which have been autonomous since 1987, have traditionally been neglected. The incidence of violent crime, compared with El Salvador, is now astonishingly low.

All citizens formally possess equal citizen rights. State and church are formally separate, although the church exerts great political influence. Under the Alemán government, state and church were in fact tightly interwoven—even with respect to finances. The Bolaños government has distanced itself from the church and insists on the secular nature of the state. State infrastructure and administrative institutions are present almost everywhere in the country. However, partly due to social reasons, they are not accessible to all of the population, and functionally they are somewhat deficient.

(2) *Political participation*: The right to vote by general, direct, equal, secret and free ballot is constitutionally guaranteed, and democratic elections take place regularly on national and subnational levels. Presidential and parliamentary elections were last held in November 2001. In principle, the power to govern is vested in the elected representatives, but serious conflicts between state institutions (for example, the government vs. Parliament) continually push the country to the verge of ungovernability.

After the extensive depoliticization of the armed and security forces in the 1990s, extraconstitutional veto powers no longer exist, at least if one disregards the powerful influence of international lenders, whose assistance is linked to definite conditions. There is unrestricted freedom of association and of assembly under the constitution, as well as freedom of speech and of the press, and the public and media make ample use of them.

(3) *The rule of law*: There is a formal balance of powers, but this balance is compromised by the blatant politicization of state institutions. When state powers are in conflict, they block one another to some extent or exceed their authority. The judicial branch is institutionally differentiated and formally independent, but it is subject to political influence and demonstrates considerable functional deficiencies. Appointments of judges to the Supreme Court are a political issue and are decided according to political considerations.

Corruption is a fundamental evil in the country's political culture and has gone largely unpunished for a long time. In the course of President Bolaños' anticorruption campaign, however, high representatives of the (likewise liberal) preceding government, including former President Alemán, were prosecuted and sentenced for corruption. In 2002, the abrogation of Alemán's parliamentary immunity sparked a fierce conflict. To a lesser extent, civil freedoms have been compromised through threats against and harassment of human rights defenders, through the excessive use of force by public security forces, and through the administration's selective application of the laws that are in effect.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The democratic institutions are unstable and not particularly effective. Though they do operate essentially according to their functional purposes, institutional rivalries result in heavy efficiency losses. Political power struggles are perpetuated at the institutional level and regularly lead to political crises and stalemates. In 2002, Parliament's work was brought to a standstill because of a power struggle between the incoming president and the outgoing president (and their followers). Even the Supreme Electoral Council has been incapable of functioning at times.

Acceptance of democratic institutions is strongly linked to political power interests. Inter-elite arrangements like those the Alemán government made with the hostile Sandinistas served not least to safeguard positions and sinecures. Such arrangements also provided protection from prosecution for Alemán and the Sandinista leader Ortega in the form of guaranteed parliamentary mandates, and thus parliamentary immunity.

(2) *Political and social integration*: The landscape of political parties is highly polarized and exhibits characteristics of a two-party system, with the support of electoral law, which mandates high hurdles for small parties attempting to participate in elections. Although the parties are very much centered on personalities, the various political camps (during the evaluation period, these comprised primarily liberals and Sandinistas) have considerable social bases. This is promoted partly by clientelistic structures and the partisan infiltration of associations and interest groups.

Personal-power ambitions and inner-party conflicts occasionally lead to party split-offs that can affect parliamentary majorities—as happened in 2002, when the liberal party split between followers of Bolaños and followers of Alemán (*Bolañistas* and *Alemánistas*, respectively), and earlier during the administration of Violeta Barrios de Chamorro, when the UNO alliance of parties fell apart. Interest groups are able to organize themselves, but they are to some extent under the influence of partisan actors. Though approval of the democratic form of government declined during the evaluation period, it remains in the middle-to-high range. With all of the corruption, political-institutional crises and persistent social difficulties, politicians are perceived to be a problem. Self-organization among the population encounters socioeconomic barriers and is generally weak, although it finds expression every now and then in strikes, protests, street barricades and land occupations.

3.2 Market economy

3.2.1 Level of socioeconomic development

The country's development status is low. Nicaragua is among the most impoverished countries in Latin America. Social exclusion through poverty and social hardship is quantitatively and qualitatively very pronounced and structurally entrenched. The Gini index indicates extremely pronounced social inequality.

3.2.2 Market structures and competition

Since the 1990s the governments have been pursuing a strict market-economic and export-oriented development model based on the private economy and oriented toward the principles of free-market competition, even if the rules of the game are not always followed. To a certain extent the Alemán government nullified market-economic principles with its corruption and systematic allocation of overpriced or fictional state contracts to family members and accomplices.

In the first half of the 1990s, numerous state enterprises were privatized, and all state monopolies, except those in the utilities sector, were broken up. State enterprises in the energy sector were sold during the evaluation period, and the telephone company ENITEL was privatized after several failed attempts, including a first privatization phase in which there had been financial irregularities. Foreign trade has in principle been liberalized, but there continue to be considerable nontariff trade barriers and special duties.

Especially problematic are the customs duties of 35 % imposed in December 1999 on products imported from Honduras, which is embroiled in a border dispute with Nicaragua. The banking sector expanded during the 1990s with the founding of

new private banks. The state banks were closed or (partially) privatized during the evaluation period. Yet the banking sector cannot be considered stable. As a result of the banking crisis of 2000–2001, six of 11 banks were forced to close, including the semi-state-owned Banco Nicaragüense de Industria y Comercio (BANIC). The central bank lent its support by intervening to protect bank deposits.

3.2.3 Stability of currency and prices

During the evaluation period, a largely consistent inflation and exchange-rate policy was pursued. Since 1998 the inflation rate has declined almost steadily from 18.5 % to a level of about 4.2 %. The Nicaraguan currency (*córdoba*) is devalued annually; the crawling peg stood at an annual rate of about 12 % by the middle of 1999, 9 % between 1999 and 2001, and 6 % from July 2001. Pushed by international lenders and corresponding self-commitments, Nicaraguan governments have been pursuing a policy of continuous stability since the 1990s.

The devastation caused by Hurricane Mitch (1998) did, however, lead to an increase in public expenditures that was mostly externally financed. Despite successes in achieving stability, external debt is alarmingly high, as is domestic debt. In addition, the trade and budget deficits are large and chronic.

3.2.4 Private property

Because of expropriations and redistributions under the Sandinista regime and inadequately regulated resales in the course of the privatizations of the 1990s, ownership rights in Nicaragua often have not been settled in any binding manner—nor are they always adequately protected. Farmers suffer the most from the legal uncertainty. Land expulsions, forcible occupation of land and corrupt self-enrichment practices were chronic problems in the past. There is no assurance that the judiciary or the administration, which are often easily corruptible and not very efficient, will establish property rights or settle ownership conflicts.

In the 1990s, after the mixed economy during the Sandinista phase of the 1980s, a large number of state-owned enterprises were privatized; accordingly, private enterprises are again playing a major role in Nicaragua's economy. A second phase in the privatization of the formerly state-owned telephone company, which is to be transferred entirely to private hands, was initiated in 2002.

3.2.5 Welfare regime

Nicaragua faces grave social problems that the current agricultural crisis is exacerbating. Although the number of poor people in the population declined

continuously in relative terms during the 1990s (50.3 % in 1993, 47.9 % in 1998, 45.8 % in 2001), this number increased in absolute terms. The level of poverty is alarmingly high, especially in rural areas. People are suffering from hunger and chronic malnutrition in certain parts of the country. The officially disclosed unemployment figures (12.9 % in 2002) have little meaning, given the huge informal sector. Knowledgeable experts estimate the country's unemployment and underemployment in figures ranging between 60 % and 65 %.

Large segments of the impoverished population, especially in rural areas, are beyond the reach of the country's social safety net. Few Nicaraguans are beneficiaries of state or private aid programs. Efforts have been made, however, to ensure that the social welfare funds set up in the early 1990s, or similar social safety net programs, reach those most in need. Systematic efforts to reduce poverty have been under way since 2001 within the framework of the Poverty Reduction Strategy Papers (PRSP), which are coordinated with the International Development Association (IDA) of the World Bank and with the IMF. The effectiveness of these programs must still be improved.

The society is socially heterogeneous. There is a vast social gulf between the many poor and the few rich; there is also a clear divide between city and country. The two formally autonomous Atlantic regions are culturally very different from the rest of Nicaragua, and they are economically and financially disadvantaged. Women's literacy and school enrollment rates are as high as those of men, but on average women do not earn even half as much. Half of all enrolled students are female. Women head nearly one-third of all families. Numerous women fall victim to intrafamily violence, which is considered a private problem and as such largely a taboo subject.

3.2.6 Strength of the economy

The Nicaraguan economy is weak, in spite of a remarkable macroeconomic recovery and continuous economic growth in the 1990s, which started from a very low level. The economy is also extremely vulnerable, given the precarious financial situation and the dependency on a small number of export products. In addition, it is highly dependent on foreign aid. High unemployment and underemployment; chronic deficits in the state budget and, above all, in trade; a huge external debt; and a growing domestic debt reveal that, for all the successes in achieving stability, serious economic problems remain.

Inflation is quite low, however, especially in contrast to the hyperinflationary times toward the end of the 1980s. Starting in 2004, Nicaragua will be profiting from the debt-relief initiative for heavily indebted poor countries (HIPC), assuming that rigorous budget-restructuring measures and strict belt-tightening measures are followed. The country is already profiting from new international

loans. In addition to the international assistance, money transfers (*remesas familiares*) from Nicaraguans living abroad are of great economic importance.

3.2.7 Sustainability

Environmental consciousness is very underdeveloped in Nicaragua. Environmental concerns are completely subordinate to the push for growth. This is reflected not least in the exploitation, planned or already carried out, of natural resources in the Atlantic region. There is only local resistance, if any, to this exploitation.

State and private educational institutions exist in important segments (preschool, primary and secondary school, and higher education), but their overall quality is variable. Education is a constitutional right, and under the constitution the universities are entitled to a 6 % share of public budget funds. Primary education is the main focus of educational expenditures. Despite a comprehensive program of school construction and growing school enrollment rates (73.1 % in 1998 and 81.1 % in 2001 at the primary level; 32.0 % and 37.2 % respectively at the secondary level), there is still insufficient coverage, especially in rural areas. There is a lack of special programs for those children who live in rural areas and who do not attend school.

Juvenile illiterates in rural areas are a serious problem. The average length of school attendance for the population (over 10 years of age), which between 1993 and 1998 increased from 4.3 to 4.9 years, increased at only a moderate rate during the evaluation period (2001: 5.1 years). The number of students enrolled in the universities increased considerably during the 1990s and by roughly 50 % between 1998 and 2000 alone. In 2001, total educational expenditures amounted to 16.3 % of public budget expenditures.

4. Trend

(1) *Democracy*: The political regime fulfills the minimum conditions of a political democracy, but the functional problems associated with democracy and the rule of law were not overcome during the evaluation period. During Alemán's term of office, the constant conflicts between government and Parliament, which had presented the previous administration with serious governability problems, came to an end temporarily as a result of a new parliamentary majority. But the predominance of the executive branch, combined with Alemán's autocratic-populist style of governance and corrupt practices, led to problems with the balance of powers and the rule of law. Problematic in this regard was that Alemán made a pact with the hostile Sandinistas under which the Auditor General's Office, the Supreme Electoral Council and the Supreme Court were politicized and consistently filled with liberals and Sandinistas.

The pact also ensured Alemán, as it did Ortega, a seat in Parliament and thus parliamentary immunity after Alemán's presidency. Electoral reform also tied accreditation of small parties to insurmountable requirements, a strategy designed to solidify the *de facto* two-party system and preserve the prominence of the liberals and Sandinistas, thereby perpetuating the political polarization as well. The new president, Bolaños (January 2002 to present), was confronted in the first year of his administration with the persistent power ambitions of his predecessor and massive resistance to his anticorruption campaign. These conflicts led to a new round of political-institutional conflicts between government and Parliament. Overall, democracy's level of consolidation is essentially unchanged.

(2) *Market economy*: The country's development status, as measured against the HDI, improved only insignificantly during the evaluation period. There has been no fundamental change in the basic institutional conditions for a market economy, even if individual reforms have been initiated or are planned (Foreign Investment Act, tax reform, civil-service reform, etc.). Reconstruction, funded in part by international aid, in the wake of Hurricane Mitch (1998) resulted in economic vitality in 1999. This vitality has since leveled off. In 2002 Nicaragua had negative per capita growth for the first time since 1993, with an overall growth rate of 0.5 % of GDP. The Nicaraguan economy continues to suffer from the same chronic weaknesses: a heavy financial burden and one-sided, trade-related dependence; large budget deficits and trade deficits; high rates of open and hidden unemployment; and an enormous debt.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP Index	Gini index	UN Education Index	GDP per capita (\$, PPP)
1998	0.631	0.624	0.51	60.3	0.66	2,142
2000	0.635	0.629	0.53	n.a.	0.65	2,366

Sources: UNDP, Human Development Report, 2000, 2002.

Table: Macroeconomic fundamentals (1998–2002)

	1998	1999	2000	2001	2002
Growth of GDP in %	4.1	7.4	6.4	3.0	0.5
Growth of GDP per capita in %	1.4	4.6	3.6	0.3	-2.1
Inflation rate in %	18.5	7.2	9.9	4.7	4.2
Official urban unemployment in %	13.2	10.7	9.8	10.7	12.9
Budget deficit as % of GDP	1.9	4.9	7.8	11.5	9.0
Balance of payments deficit as % of GDP	n.a.	n.a.	n.a.	38	33

Source: CEPAL, *Balance preliminar de las economías de América Latina y el Caribe*, December 2002.

5. Transformation management

5.1 Level of difficulty

Nicaragua is a low-income country (LIC). Several factors create extremely difficult conditions for any development or transformation management: the low level of development; the precarious condition of the state's finances despite successes in achieving stability; the vulnerability to natural disasters and world economic influences; and the serious social problems such as widespread poverty and underemployment, especially in rural areas. Yet the educational level of the population, as measured against the UN Education Index, is in the middle range, and increased attention is being devoted to supporting primary education. Low enrollment rates among rural children are a serious problem, however.

With the exception of regionally concentrated minorities along the Atlantic coast (people of African origin; Mískito, Sumo and Rama indigenous peoples), Nicaragua is an ethnically homogeneous society of predominantly Spanish-speaking mestizos. The line of ethnic conflict (since the end of the Contra War, in

1990) has significance only in the Atlantic region, if at all. The prevailing lines of national conflict are politically and socially defined. The extreme political polarization and the socioeconomic disparities during the evaluation period led to political and social conflicts that are now usually waged without violence.

The high level of social mobilization during the Sandinista period subsided noticeably in the course of the 1990s. Civic engagement is relatively weak today. Formally, democratic government is not in danger, but it does demonstrate serious functional problems. The functionality of democratic institutions is occasionally undermined by the actors' undemocratic conduct, and institutional collaboration is difficult. The separation and balance of powers raise problems in constitutional practice with respect to democracy and the rule of law. On the whole, the level of institutional stability and of the rule of law must be assessed as low.

5.2 Reliable pursuit of goals

In consultation with the international donor community and with feedback from civil society, the government is pursuing, partly within the framework of the PRSP first presented in 1999 and reviewed by the World Bank and the IMF, the following goals: establishing macroeconomic stability in the medium term; reducing poverty; increasing—through structural reforms—the efficiency of public expenditures; and promoting foreign and domestic private investment. From the international lenders' standpoint (IMF, World Bank), the current government's medium-term strategy and action plans are consistent, and they are realistic with respect to the capabilities available, the prospects for success and the anticipated time horizon.

Risks remain as a result of factors such as the threat of political instability and of political obstructionism in Parliament; the weakness of the judicial system, which is also detrimental to the private investment climate; the vulnerability to natural catastrophes (hurricanes, earthquakes, droughts) and world economic influences (falling coffee prices, rising oil prices); and the instability of the banking system. The government's plans continue to pay too little heed to such risks, which are not altogether improbable. There also appear to be inflated expectations tied to further expansion of free-trade agreements, the promotion of tourism, and the implementation of further privatization plans in the telecommunications and energy sectors—all of which have, in addition, scarcely been examined for their social consequences.

In this sense the government is limited in its ability to ensure reliable expectations. Legal security and a stable economic environment are lacking or only partly present. Political reforms, such as consolidating the rule of law, have not been considered.

5.3 Effective use of resources

The government uses only a few of its available resources efficiently. On the revenue side, the civil governments have up to now been successful in attracting aid, especially following Hurricane Mitch (1998). However, the state's tax revenues have been in continuous decline since 1998 (25.8 % of GDP in 1998, 21.5 % of GDP in 2001). The tax system has a whole series of weaknesses. It is limited to only a few types of taxes and a limited group of taxpayers, provides for far-ranging exemptions and special provisions, and treats different economic sectors and goods unequally without following clear and consistent economic criteria.

International experts have recommended an effective, transparent and broader-based tax system, as well as greater tax equality. In August 2002, Parliament passed a two-phase tax-reform bill that incorporates some of the international recommendations.

On the expenditure side, public budgetary discipline has played a prominent role since the 1990s, given the chronic budget deficit, the large debt and the extreme dependence on foreign aid—although, with international aid, expenditures increased considerably following Hurricane Mitch. In view of the corrupt practices of Alemán (see below), it is doubtful whether the money has always been applied as intended. The Alemán government deliberately politicized the Auditor General's Office during the evaluation period. Alemán had the auditor general who was investigating him dismissed. Political appointments to the Auditor General's Office were also a part of the power arrangements made between liberals (Alemán) and Sandinistas (Ortega).

After the external debt declined from six times GDP (1993) to three times GDP (1999)—thanks to various debt-relief and debt-rescheduling initiatives (with the Paris Club in 1991, 1995 and 1998, for example)—it rose again slightly in nominal terms during the evaluation period. The less-noticed domestic debt stands at an alarmingly high level and is very costly for the state, partly as a result of reparations for earlier expropriations and insurance for savings deposits affected by the sometimes fraudulent bank failures during the Alemán regime. The entire debt service came to roughly 44 % of export revenues and 16.2 % of GDP in 2001. Efforts to have Nicaragua included on the HIPC list have proved successful.

International lenders have emphatically called for a strict savings policy from the government, but the present government does not have the secure parliamentary majorities to pass budgetary laws and reforms in Parliament. The technical and operative capabilities for formulating, coordinating and implementing economic- and social-policy reform steps have also been limited in the past. The government was able to implement only a part of its announced reform plans and has had to adjust them on various occasions. Also, the new government's plans are based on

assumptions that political problems and outside economic influences can quickly upset.

Given the budgetary situation and the disparate, inefficient administrations, the public services that the government was able, within its means, to provide have come up against tight quantitative and qualitative limits. The quality of public services (“value for money”) is in great need of improvement. A reform of the public sector has been called for internationally and is in preparation.

Corruption represents a special problem. It became clear in the course of the criminal investigations in 2002 that the Alemán government had set up a far-flung network of corruption and had conducted a full-blown “raid” by means of state-owned and semi-state-owned enterprises and institutions. In December 2002, Alemán was convicted of embezzling and laundering a total of \$11.5 million. Together with other accomplices, including the former head of the revenue authority, the former president was said to have embezzled almost \$100 million in all, which corresponds to roughly 4 % of GDP for 2001. Whether the successful anticorruption campaign will produce a lasting effect remains to be seen. Personalism, patronage and corruption are part of the country’s political culture, while the mechanisms to control these practices are poorly defined.

There is no body of democratic traditions to build upon. All the same, elements of the socio-political elite and of the population have taken their lessons from the negative experiences of war and economic hardship.

5.4 Governance capability

At the urging of international lending organizations, the current government has proved flexible enough to make planning corrections and improvements in its economic and sociopolitical programs, which it must also put through as a matter of domestic policy. Given the political-institutional conflicts and the Alemán government’s precarious parliamentary majority, the current government also lacks a secure political basis on which to continue its reforms. If one also considers the poor condition of the administration, then the government’s political authority is only partly sufficient to put its reforms into effect.

Misallocations of resources also occur time and again. The corrupt practices of Alemán and his accomplices provide the most blatant example. Apart from deficiencies of detail and the need to put things in more concrete terms, international lenders judge the new government’s adopted reform steps, instruments and strategies to be, on the whole, sensible.

5.5 Consensus-building

In the meantime all important political actors—even the Sandinistas, who were once social-revolutionary—agree on the goals: democracy and a market economy. Differences remain in matters of emphasis on social aspects of democracy and a market economy, and in connection with actual conflicts over distribution. The parties also differ on the economic competence ascribed to them. Characteristically, foreign investors and local businesses reacted very cautiously to the possibility of an electoral victory by the Sandinistas in 2001. Elements of the political elite also pursue their own economic interests and personal ambitions for power in a manner that is extremely detrimental to the functional capabilities of political institutions and to the public welfare.

The government can and must make efforts to de-escalate the political conflicts that escalated in connection with the anticorruption campaign in 2002. The socioeconomic differences can be reduced, at the soonest, over the long term. The politicians attempt, among other things, to foster a spirit of solidarity among citizens through emotional, patriotic discourse. They are only partially successful, however, given the generally poor image of politics and the precarious social condition of a large portion of the population. Reconciliation with respect to historical injustices remains to be achieved. Historical references (the Somoza dictatorship, Sandinista regime, etc.) are conflict-laden and are frequently used in political discourse, often in connection with serious accusations and insults. Even today such discourse sometimes assumes the rhetoric of violence. The actual risk of violence is small at present, however.

5.6 International cooperation

Nicaragua is extremely dependent upon support from abroad. Efforts to attract subsidies and investment and to reduce external debt have been the central foreign-policy themes since the beginning of the 1990s. The political actors make purposeful use of international assistance and align their reform policies to the conditions of the international donor community. The international donor community categorizes the current government as predictable, but the problems and risks of Nicaragua's economic and political development are evident.

The government is actively seeking to develop and consolidate cooperative international relationships; to further Central American integration, particularly through the creation of a customs union; and to integrate Central America into a free-trade agreement with the NAFTA nations to the north. In the revived conflicts with Colombia and Honduras over the use of contested ocean areas, the government has demonstrated a lack of political flair.

6. Overall evaluation

In view of the originating conditions, current status and evolution achieved, and the political managerial achievements, this assessment concludes the following:

Before the period of observation, Nicaragua already had, in principle, a liberal-democratic and market-economic regime, although it was severely limited in functionality and efficiency. In the political sphere, the political-institutional conflicts between government and Parliament and the resulting governability problems were overcome under the Alemán government. But the dominance of the executive branch and an autocratic-populist style of governance marked by abuse of office and corruption were detrimental to the principles of a balance of powers and the rule of law. Under the Bolaños government, the power struggles with and criminal prosecution of Alemán led to a revival of the conflicts between the executive and legislative branches, in which the judiciary has also been involved.

On the whole, the democracy's low level of consolidation has not improved. With respect to the economy, the liberal, market-oriented policies were continued, but market mechanisms were partially undermined by Alemán's corrupt self-enrichment practices. Given the structurally entrenched social exclusions, the country is still very far away from a "social" market economy. The organizational capability of the political actors has proved to be limited, was more strongly oriented to individual interests than to the public welfare, and was occasionally eclipsed by power struggles.

7. Outlook

After the power struggles of 2002, the political actors in Nicaragua must take quick action to ease tensions in the domestic political climate and to restore the functionality of the democratic institutions, particularly the electoral authority and a Parliament that has sometimes been obstructed in the past.

Key medium-term objectives for democratic and market-economic reforms include the following: overcoming a political culture defined by personalism, patronage and individual interests; the development and improvement of functional structures and institutions based on the rule of law; an increase in the effectiveness and efficiency of administrative activity; and kick-starting a sustainable economic development program that not only takes on the problem of macroeconomic stability, but focuses on the social and ecological problems as well.

Getting the upper hand on the widespread poverty and underemployment is of paramount importance for the quality and continuing development of democracy and a market economy. The growth strategies must be more decisively expanded into impoverished areas. This also means that rural development should not suffer further neglect. In view of past deaths by starvation, socially disadvantaged

population groups should receive more protection against the threatening consequences of natural disasters and foreign-trade problems.