



## **CRS Report for Congress**

# **Nicaragua: Political Situation and U.S. Relations**

Clare Ribando Seelke  
Analyst in Latin American Affairs  
Foreign Affairs, Defense, and Trade Division

### **Summary**

Nicaragua, the second poorest country in Latin America after Haiti, has had a difficult path to democracy, characterized by ongoing struggles between rival caudillos (strongmen), generations of dictatorial rule, and civil war. Since 1990, Nicaragua has been developing democratic institutions and a framework for economic development. Nonetheless, the country remains extremely poor and its institutions are weak. Former revolutionary Sandinista leader, Daniel Ortega, was inaugurated to a new five-year presidential term in January 2007 and appears to be governing generally democratically and implementing market-friendly economic policies. The United States, though concerned about Ortega's ties to Venezuela and Iran and his authoritarian tendencies, has remained actively engaged with the Ortega Administration. The two countries are working together to implement the U.S.-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), control narcotics and crime, and promote economic development through the Millennium Challenge Account (MCA). Nicaragua is receiving some \$28.6 million in U.S. assistance in FY2008 and could benefit from the proposed Mérida Initiative for Mexico and Central America. This report may not be updated.

### **Background**

Nicaragua is a Central American nation bordering both the Caribbean sea and the Pacific ocean between Costa Rica and Honduras. Slightly smaller than the state of New York, Nicaragua has a population of roughly 5.4 million. With a per capita income level of \$1000 (2006), Nicaragua is classified by the World Bank as a lower middle income developing country.<sup>1</sup> Nicaragua is still largely an agricultural country, but its non-traditional exports (textiles, tobacco products, vegetables, gold) have expanded rapidly in the last few years. Nicaragua's key development challenge is to boost growth rates to a level that can reduce poverty, which is especially severe in rural areas.

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<sup>1</sup> World Bank, World Development Report, 2008 and "Nicaragua Country Brief," December 2007.

Nicaragua has had a conflicted and anti-democratic past, dominated from 1936 until 1979 by the Somoza dictatorship. Anastasio Somoza and his two sons who succeeded him, though corrupt and authoritarian, were staunch anti-communists who maintained good relations with the United States. In 1979, the Somoza government was toppled by a revolution led by the Sandinista National Liberation Front (FSLN), a leftist guerrilla group that had opposed the regime since the early 1960s. That revolution resulted in the loss of some 50,000 lives. During the 1980s, Nicaragua was embroiled in a decade-long struggle between its leftist Sandinista government, which confiscated private property and maintained ties with rebel forces in neighboring El Salvador, and U.S.-backed counter-revolutionary forces. Since democratic elections were held in 1990, Nicaragua has adopted pro-market economic reforms, held free and fair elections, and worked toward building democratic institutions. Despite progress on those fronts, successive governments have made limited inroads in combating corruption and addressing the country's high levels of poverty and inequality.<sup>2</sup>

## Political Situation

On January 10, 2007, Sandinista leader and former President Daniel Ortega was inaugurated to a five-year presidential term. Ortega's previous presidency (1985-1991) was marked by a civil conflict pitting the government against U.S.-backed "contras." Ortega, who had lost the last three presidential elections, won only 37.9% of the vote in the November 2006 elections, but Nicaraguan law allowed him to avoid a run-off vote since he was more than 5% ahead of the next closest candidate, Eduardo Montealegre, then head of the Nicaraguan Liberal Alliance (ALN).

Ongoing disputes between powerful leaders, endemic corruption, and weak institutions have undermined the consolidation of democracy in Nicaragua. The 2006 elections followed more than a year of political tensions among then-President Enrique Bolaños, Ortega and the leftist Sandinista party, and allies of rightist former President Arnoldo Alemán. Alemán and Ortega, once longtime political foes, negotiated a power-sharing pact ("El Pacto") in 1998 that has since influenced national politics. In addition to a tendency to have caudillos like Ortega and Alemán dominate national politics, Nicaragua is known to have high levels of corruption. According to Transparency International's 2007 Corruption Perception Index, Nicaragua is one of ten Latin American countries where corruption is perceived as rampant. Currently, some opposition leaders are urging the Ortega government to publicly disclose how it is using the aid Nicaragua receives from Venezuela, including funds earned through the re-sale of Venezuelan oil bought on preferential terms through Petrocaribe. They are concerned that the president of Nicaragua's state-owned oil company, which distributes the Venezuelan oil, is also the treasurer of the Sandinista party.<sup>3</sup> Finally, the politicization of government entities, including party influence over the judiciary, is an obstacle to governance in Nicaragua.

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<sup>2</sup> U.S. Department of State, "Background Note: Nicaragua," January 2008; *Nicaragua: A Country Study*, Tim Merrill, ed. Washington D.C.: Federal Research Division, Library of Congress, 1994.

<sup>3</sup> "Opposition Accuses FSLN of 'Privatizing' Venezuelan Aid," *Central America Report*, Feb 1, 2008.

Since no single party won an outright majority in Nicaragua's 90-member National Assembly in the November 2006 legislative elections, President Ortega and the Sandinistas (FSLN) must form alliances in order to enact legislation. The FSLN has generally relied on an informal alliance with the Constitutionalist Liberal Party (PLC), dominated by jailed former President Alemán, to pass legislation. In December 2007, however, the PLC broke with the Ortega government by voting against its plan to increase the power of the country's Citizen Power Councils (CPCs), which are funded by the executive branch, over the existing municipal authorities.<sup>4</sup> The PLC has since aligned with Eduardo Montealegre, who, until recently was head of the ALN, to contest the ruling FSLN and its allies in the November 2008 municipal elections. Those elections will test the strength of the FSLN, which currently holds 87 of the country's 153 municipalities.<sup>5</sup>

**Economic and Social Policy.** In 2008, the Ortega government faces the challenges of boosting the country's moderate growth rates (GDP growth was 2.9% in 2007) and reducing poverty. According to the World Bank, although overall poverty has declined in Nicaragua since the country's return to democracy (from 50.3% in 1993 to roughly 46% today), more than two-thirds of the rural population is impoverished. While Nicaragua made some progress towards development in the 1990s, much of those gains were reversed by the devastation wrought by Hurricane Mitch in 1998. As a result of sluggish growth rates, some social indicators for Nicaragua have shown little or no improvement since 1993. Nicaragua is highly dependent on foreign aid, which contributed 26% of its budget in 2006. It is also dependent on remittances sent from Nicaraguans living abroad, which totaled some \$656 million in 2006 and accounted for 17% of the country's GDP. The official unemployment rate is about 5%, but underemployment is a major problem and some 60% of workers are employed in the informal sector, which doesn't provide social security and other benefits.<sup>6</sup>

The Ortega government has adopted a poverty reduction strategy and a 2008 budget in line with International Monetary Fund (IMF) recommendations. As a result, the IMF and the World Bank have cancelled roughly \$200 million and \$1.5 billion respectively in foreign debt owed by Nicaragua. President Ortega is expected to announce a development plan by mid-2008 that is likely to emphasize sustainable agro-industrial development. Obstacles to Nicaragua's growth prospects in 2008 will be the rising price of oil and the economic slowdown in the United States, which could affect trade and remittance flows.

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<sup>4</sup> "Government-Opposition Relations Deteriorate in Nicaragua," *Global Insight Daily Analysis*, December 10, 2007. In January 2008, the Nicaraguan Supreme Court upheld the legality of the CPCs, which are backed by President Ortega and organized by his wife, Rosario Murillo. See "Nicaraguan Politics: Sparring Abroad, Calm at Home," *Economist Intelligence Unit (EIU)*, February 20, 2008.

<sup>5</sup> "Alliances Ready for Nicaraguan Elections," *Latinnews Daily*, March 4, 2008; "Nicaragua: Country Report," *EIU*, March 2008.

<sup>6</sup> Poverty is defined as living on less than \$2 a day. Historical data is from World Bank, *Nicaragua Poverty Assessment*, June 2004. See World Bank, *World Development Report*, 2008; U.S. Department of State, "Background Note: Nicaragua," January 2008; "Remittances to Central America up to \$12.1 billion in 2007," *Latin America News Digest*, November 7, 2007.

Some economists have also warned that if Ortega should engage in an increasingly radical or authoritarian manner, foreign investment in Nicaragua could decline.<sup>7</sup>

**Foreign Relations.** President Ortega is working with the United States and the IMF to boost the country's long-term prospects for economic development, but is also seeking aid from Iran and Venezuela to meet more immediate needs. Iran has pledged to invest in Nicaragua's ports, agricultural sector, and energy network, with Venezuela co-financing many infrastructure projects. Venezuela has promised to build a \$3.5 billion oil refinery and to provide up to 10 million barrels of oil at preferential prices annually through the PetroCaribe program.<sup>8</sup> Ortega shares an ideological affinity with President Hugo Chávez of Venezuela and the other countries comprising the Bolivarian Alternative for the Americas (ALBA) trade block (Cuba and Bolivia). President Ortega generally maintains good relations with neighboring countries in Central America, but his government has been embroiled in a serious border dispute with Colombia. In December 2007, the International Court of Justice (ICJ) upheld Colombia's sovereignty over the islands of San Andrés and Providencia, but the ICJ is still determining the official maritime boundaries between the two countries.

## U.S.-Nicaraguan Relations

Despite initial concerns about the impact of Ortega's November 2006 re-election on U.S.-Nicaraguan relations, the bilateral relationship, though tense at times, appears to be generally intact. One cause of tension has been President Ortega's tendency to vacillate between anti-U.S. rhetoric and reassurances that he will respect private property and pursue free-trade policies. In September 2007, Ortega denounced the United States in a speech before the United Nations as "the imperialist global empire."<sup>9</sup> Rhetoric aside, Ortega's interest in cooperating with the United States has been reflected in his pledge to hand over 651 Soviet-made surface-to-air missiles in exchange for military and medical equipment. Ortega has continued cooperating with the IMF, which approved a new three-year poverty reduction package for Nicaragua in October 2007. His government is also implementing the CAFTA-DR. The United States provides significant foreign assistance to Nicaragua, and the two countries cooperate on counternarcotics, trade, and security matters. The United States responded to Hurricane Mitch in 1998 by granting Temporary Protected Status (TPS) to eligible Nicaraguan migrants living in the United States. In May 2007, the U.S. government extended the TPS of an estimated 4,000 eligible Nicaraguans through January 5, 2009. In response to Hurricane Felix, a category 5 hurricane that hit Nicaragua in September 2007, the United States provided hurricane assistance to Nicaragua to help with the recovery efforts.

**U.S. Aid.** The United States provided Nicaragua with \$50.2 million in foreign aid in FY2006 and \$36.9 million in FY2007, while an estimated \$28.6 million is being provided in FY2008. The Administration has also requested, but Congress has not yet

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<sup>7</sup> "Nicaragua: Country Report," *EIU*, March 2008.

<sup>8</sup> "Iran's Push Into Nicaragua," *San Antonio Express-News*, December 17, 2007; "Nicaragua, Esso Standard Oil Sign Accord," *Latin America News Digest*, January 11, 2008.

<sup>9</sup> "Nicaragua's Ortega Rips U.S. 'Tyranny,'" *Miami Herald*, September 26, 2007; "Ortega's Statements Put U.S. Ties to the Test," *Miami Herald*, September 15, 2007.

considered, some \$2 million in FY2008 supplemental assistance for Nicaragua as part of the Administration's Mérida Initiative to boost the region's capabilities to interdict the smuggling of drugs, arms, and people, and to support a regional anti-gang strategy. For FY2009, the Administration has requested \$38 million for Nicaragua, not including P.L. 480 food aid. Nicaragua could also receive roughly \$6.7 million of the \$100 million in Mérida Initiative funds for Central America included in the FY2009 budget request.<sup>10</sup> The FY2009 request includes increases in funds for security reform and combating transnational crime, democracy and civil society programs, and trade capacity building programs to help Nicaragua benefit from CAFTA-DR.

**Millennium Challenge Account (MCA).** In addition to traditional development assistance, Nicaragua benefits from its participation in the MCA, a presidential initiative that increases foreign assistance to countries below a certain income threshold that are pursuing policies to promote democracy, social development, and sustainable economic growth. In 2005, the Bush Administration signed a five-year, \$175 million compact with Nicaragua to promote rural development. The compact, which entered into force in May 2006, includes three major projects in the northwestern regions of León and Chinandega. Those projects aim to promote investment by strengthening property rights, boost the competitiveness of farmers and other rural businesses by providing technical and market access assistance, and reduce transportation costs by improving road infrastructure. During a recent visit to Nicaragua, John Danilovich, director of the Millennium Challenge Corporation, asserted that, despite some political differences, he believes that the United States and Nicaragua can work together to combat poverty.<sup>11</sup>

**Consolidating Democracy.** U.S. democracy programs aim to reform government institutions to make them more transparent, accountable and professional; combat corruption; and promote the rule of law. The United States provided some \$13 million to support the November 2006 elections in Nicaragua. Some 18,000 observers monitored the elections. Following the November 2008 municipal elections, USAID is expected to help increase the capacity and transparency of local governments. Other ongoing programs seek to increase citizen advocacy and the role of the media.

**Human Rights.** U.S. officials have expressed some concerns regarding respect for human rights in Nicaragua. According to the State Department's March 2008 human rights report on Nicaragua, civilian authorities generally maintained effective control of security forces, but there were some reports of unlawful killings involving the police. Some of the most significant human rights abuses included harsh prison conditions, arbitrary arrests and detentions, and widespread corruption in and politicization of government entities, including the judiciary and the Supreme Electoral Council. Human rights problems related to labor issues include child labor and violation of worker rights in some free trade zones. In October 2007, Human Rights Watch asserted that

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<sup>10</sup> U.S. Department of State Mérida briefing paper provided to Congressional offices. Country breakdowns for proposed Mérida funding were not included in the FY2009 budget request.

<sup>11</sup> "U.S. Official: Washington Can Work on Poverty With Nicaraguan President Ortega," *Associated Press*, January 24, 2008.

Nicaragua's current ban on all abortions, which includes cases where the mother's life is at risk, has put pregnant women's health at risk.<sup>12</sup>

**Counternarcotics Cooperation.** Nicaragua is a significant sea and land transshipment point for cocaine and heroin being shipped from South America to the United States, according to the State Department's February 2008 International Narcotics Control Strategy Report (INCSR). Trafficking occurs on both the country's Atlantic and Pacific coasts, with increasing trafficking occurring on the Pacific Coast since 2006. The INCSR report asserts that Nicaraguan law enforcement were "very successful" in their counternarcotics efforts in 2007. Seizures and arrests increased dramatically, with 153 kilograms of heroin and 13 metric tons of cocaine seized (compared to 23.4 kilograms of heroin and 9.72 metric tons of cocaine in 2006) and 192 traffickers arrested (up from 67). It also asserts that corruption, particularly within the judiciary, has been an obstacle to Nicaragua's counterdrug efforts. The Ortega Administration has asked the United States for more assistance to deal with drug gangs.<sup>13</sup> The FY2009 budget request includes an increase in U.S. counternarcotics aid to Nicaragua. As noted above, other assistance could be provided through the proposed Mérida Initiative.

**Trade.** Nicaragua's National Assembly approved the CAFTA-DR in October 2005 and passed related intellectual property and other reforms in March 2006. The agreement went into effect in Nicaragua on April 1, 2006. Compared to other CAFTA-DR countries, Nicaragua has attracted textile and apparel investors because of its relatively low wage costs. In addition, Nicaragua is the only CAFTA-DR country allowed to export a certain amount of apparel products composed of third country fabric to the United States duty-free. Foreign Direct Investment (FDI) in Nicaragua totaled roughly \$282 million in 2006, an 18.5% increase over 2005. In 2007, FDI rose again to some \$335 million. CAFTA-DR has also helped to accelerate U.S.-Nicaraguan trade. In 2006, Nicaraguan exports to the United States totaled about \$1.53 billion, up 29.2% from 2005. They rose again in 2007 to roughly \$1.6 billion, with particularly strong growth in exports of apparel, sugar, coffee, cigars, cheese, and fruits and vegetables. For the same period, Nicaraguan imports from the United States rose 20.6% in 2006 to \$752 million as compared to 2005, and by 18.5% in 2007 to \$890 million. Key Nicaragua imports from the United States include machinery, grains, fuel oil, textile fabric, plastics, pharmaceuticals, and motor vehicles.<sup>14</sup>

**Property Claims.** Resolution of property claims by U.S. citizens has been a contentious issue in U.S.-Nicaraguan relations since the Sandinista regime expropriated property in the 1980s. The Nicaraguan government has gradually settled many claims through compensation, including the claims of 4,500 U.S. citizens. Fewer than 700 claims registered with the U.S. Embassy remain unresolved. The Ortega government's willingness to continue processing those claims was rewarded in July 2007 by the Administration's renewal of a waiver that allows Nicaragua to continue receiving U.S. foreign assistance despite the past expropriation of property owned by U.S. citizens.

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<sup>12</sup> Human Rights Watch, "Nicaragua: Over Their Dead Bodies," October 2007.

<sup>13</sup> "Nicaragua Asks U.S. For Help in Drug War," *El País*, February 6, 2008; Data on seizure and arrests for 2007 provided by the U.S. Department of State.

<sup>14</sup> Trade figures are drawn from the World Trade Atlas; U.S. Department of Commerce, Fact Sheet, "Nicaragua: Trade and Investment Impact of CAFTA-DR," February 2008;