

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The text is centered within the hourglass.

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*Nicaragua: Country Brief*

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**Abstract.** Once plagued by dictatorial rule, civil war, and economic chaos, since 1990 Nicaragua has developed democratic institutions and a framework for economic development. Progress has been made in social and economic reforms. Nonetheless, significant challenges remain: Nicaragua is still very poor, and its institutions are weak. Elections for the presidency and National Assembly will be held on November 4, 2001. Major candidates include Sandinista leader and former President Daniel Ortega, and former Vice President Enrique Bolanos of the ruling Liberal Constitutional party. U.S. policy toward Nicaragua has been hotly debated over the last several decades, with U.S. concerns focusing on social, judicial, and economic reform, respect for human rights, and resolutions of property claims.

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## Nicaragua: Country Brief

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### Summary

Once plagued by dictatorial rule, civil war, and economic chaos, since 1990 Nicaragua has developed democratic institutions and a framework for economic development. Progress has been made in social and economic reforms. Nonetheless, significant challenges remain: Nicaragua is still very poor, and its institutions are weak. Elections for the presidency and National Assembly will be held on November 4, 2001. Major candidates include Sandinista leader and former President Daniel Ortega, and former Vice President Enrique Bolanos of the ruling Liberal Constitutional party. U.S. policy toward Nicaragua has been hotly debated over the last several decades, with U.S. concerns focusing on social, judicial, and economic reform, respect for human rights, and resolution of property claims.

### Background and Current Situation

Nicaragua has undergone a dramatic transformation in the past decade. A country plagued by generations of dictatorial rule, civil war and poverty has, since 1990, developed democratic institutions and a framework for economic development. Nonetheless, Nicaragua remains poor, and its institutions are weak.

Nicaragua was essentially ruled by the Somoza family for over 4 decades (1936-1979) until dictator Anastasio Somoza Debayle was ousted in July 1979 by a coalition of forces led by the Sandinista National Liberation Front (FSLN) guerrillas. When the pro-Soviet Sandinistas gained control of the government and pursued increasingly radical social policies, including redistribution of land and wealth, the opposition "contras," with U.S. backing, launched an 8-year war (1982-1990) against the government.

In the context of the Central American Peace Plan, the Sandinistas agreed to internationally monitored democratic elections in February 1990. In those elections, Violeta Chamorro, backed by the National Opposition Union (UNO), won the presidency on a generally conservative campaign with 55% of the vote to 41% for Sandinista candidate Daniel Ortega. Inheriting an impoverished and severely polarized country, Chamorro pursued national reconciliation as her top priority. Toward the end of her 6-year term, Nicaragua began to develop the institutions that contribute to a pluralist system

and carry out political and economic reform. In January 1997, she transferred power to the newly elected President, Arnaldo Aleman.

## Economic Conditions

Nicaragua began free market reforms in 1991, after what the State Department has described as “12 years of economic free-fall under the Sandinista regime.” Significant progress has been made by the Chamorro and Aleman governments: the government has privatized 351 state enterprises; reduced inflation from 13,500% to 12%; and cut foreign debt in half. By 1994 the economy began to expand, and in 2000 grew 5%. Significant challenges remain: although unemployment is dropping, it currently is at 16%, with another 36% underemployed. Persistent trade and budget deficits, and high debt-service make the country highly dependent on foreign aid: according to the Department of State (*Background Note: Nicaragua*, April 2001), foreign aid constituted as much as 45% of Nicaragua’s GDP in 2000. In 2001, extreme drops in export coffee prices and a drought have reportedly brought increased unemployment and starvation to parts of Nicaragua.

According to the World Bank, Nicaragua’s economy had been performing well, with sustained improvements in stabilization and economic growth, prior to Hurricane Mitch. The Hurricane, which struck in 1998, cut Nicaragua’s gross domestic product in half, and killed more than 3,000 people. Key roads and productive agricultural lands were also damaged by the hurricane. The international community responded with large-scale assistance for reconstruction efforts. U.S. reconstruction assistance focused on agricultural recovery, natural disaster mitigation, public health promotion and disease prevention, restoration of schools, public works, and micro enterprise financing.<sup>1</sup>

One of the principal sectors spurring economic growth has been export production. Top exports include the traditional exports of coffee, meat, and sugar; fastest growing exports include nontraditional products such as apparel, bananas, gold, seafood, and new crops such as sesame, melons, and onions. According to the World Bank, accelerating growth of the rural economy is key to reducing poverty in Nicaragua because the majority of Nicaragua’s poor reside in rural areas. The Bank also says Nicaragua has the basic conditions to achieve such growth: good natural resources, and low population density. Nicaragua has a population of about 4.9 million people.

## Political Conditions

According to its constitution, Nicaragua is a democracy with four equal branches of government: the executive, legislative, judicial and electoral branches. The current constitution went into effect in January 1987, and has undergone major reforms aimed at strengthening democratic institutions and distributing power more equitably among the four branches. Drafted during Sandinista rule, the 1987 constitution established a presidential form of government, although in reality actual power lay with the nine-member directorate of the FSLN party, in conjunction with the president, and the National Assembly generally operated as a rubber-stamp for directorate initiatives.

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<sup>1</sup> The World Bank Group, *Nicaragua: Country Brief*, at [<http://worldbank.org/>], May 1999. Also, U.S. Agency for International Development, *Budget Justification Fiscal Year 2001, Annex IV: Latin America and the Caribbean: Nicaragua*.

President Arnaldo Aleman was elected on October 20, 1996, to a 5-year term. Aleman, leader of the conservative Liberal Constitutionalist party and mayor of Managua from 1990-1995, defeated leftist Daniel Ortega, head of the Sandinista National Liberation Front (FSLN) and president from 1985-1991, and 21 other candidates by a wide margin. Although Ortega lost both the 1996 and the previous presidential elections, he garnered a seat in the National Assembly both times as the second-place candidate with a certain percentage of votes.

The presidential election campaign had been highly polarized, with Aleman and Ortega each vilifying the other. Although Aleman won the presidential race, the Sandinistas retained substantial political power through their various organizations nationwide, and emerged from the elections with the second largest bloc in the legislature. The Aleman Administration, lacking an outright majority in the legislature, included the Sandinistas informally in the political process, including negotiating agreements on the controversial property claims issue, and on electoral law reform. Many critics have charged that the two former antagonists have worked out mutually beneficial sets of reforms throughout Aleman's term. Early electoral law reforms had the effect of working toward a two-party system – one which favors larger parties such as theirs over smaller ones.

Constitutional reforms passed in January 2000 also benefitted both Aleman and Ortega. President Aleman, who is prohibited by the constitution from running for a second term, was awarded a lifelong seat in the National Assembly when his term expires. Some observers note that the immunity from prosecution accompanying the legislative seat may be of considerable significance to Aleman considering the suspicions surrounding his sizeable accumulation of wealth while in office. Other changes provided that candidates could win the presidency with a plurality of only 40% of the vote without having to have a runoff election. First place candidates can win in the first round with only 35% of the vote if they are ahead of the next candidate by at least 5 percentage points. Critics see these changes as trying to give an advantage to Ortega, who is running again for president in the November 2001 elections. He lost the presidential race in 1990 with 38.4%, and in 1996 with 39.5% of the vote.<sup>2</sup>

**November 2001 Elections.** Elections for the presidency and National Assembly will be held on November 4, 2001. These will be the third democratic elections since the Sandinista government passed the presidential baton to Violeta Chamorro in 1990. The faces in this election are familiar ones to Nicaraguans.

Front-runner Daniel Ortega was a leader of the FSLN when it overthrew dictator Anastasio Somoza in 1979; he was elected president in 1985 in elections which much of the international community deemed fair, but which were boycotted by much of the opposition and deemed unfair by the Reagan Administration. Ortega's administration was marked by a bloody civil war with the "contras," authoritarian tendencies, and charges of corruption. Some critics worry that a victory for the former revolutionary socialist Ortega would trigger capital flight and scare off investors. But FSLN spokesman Silvio Mora

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<sup>2</sup> Filadelfo Aleman, "Sandinistas hold lead in polls ahead of presidential elections", Associated Press, July 23, 2001.

says the party has changed, respecting private property, and now willing to compensate some people whose properties were confiscated in the 1980s by the Sandinista regime.<sup>3</sup>

Ortega's vice-presidential candidate is Agustin Jarquin, former Comptroller General under Aleman, and a member of the Social Christian party. Praised internationally for his anti-corruption work, Jarquin charged Aleman in 1999 with increasing his personal wealth by 900% while in office.<sup>4</sup> Jarquin was subsequently jailed on charges of misappropriation of public funds, charges that were eventually dropped, and which many observers believe were an attempt by Aleman to deflect investigations into his own finances.

Enrique Bolanos, of the ruling Liberal Constitutional party, is second in current polls. A businessman in his seventies, Bolanos was imprisoned by the Sandinistas in the 1980s. He was Vice-President under current President Aleman but resigned last year in accordance with the law, in order to run for president. As perceptions of corruption in the Aleman Administration rise and the President's popularity plummets, Bolanos has distanced himself from Aleman, denouncing the January 2000 agreement between Aleman and Ortega on constitutional changes that have been criticized as benefitting the two of them most (Bounds, op. cit.).

Noel Vidaurre of the Conservative party, the candidate who had been in third place, quit the race suddenly in July, after failing to create a coalition with several small parties also opposed to Ortega and the Sandinistas. Some observers believe his withdrawal could hurt Ortega's chances, throwing anti-Sandinista voters of the Conservative party to Liberal candidate Bolanos.

**Bush Administration Concerns about a FSLN Victory.** Several Bush Administration officials have made clear that the Administration has strong concerns about a possible Sandinista victory in the November elections. A press statement by the U.S. Department of State said the Administration has "grave reservations about the FSLN's history of trampling civil liberties, violating human rights, seizing people's property without compensation, destroying the economy, and ties to supporters of terrorism."<sup>5</sup> In all their remarks, however, Administration officials have said the United States will respect the result of a free and fair election that expresses the will of the Nicaraguan people.

State Department officials have summarized Administration concerns about Sandinista party links to terrorism as being caused by Sandinista relationships with terrorist groups in the past. Officials see no indications that those relationships have been severed, or that the FSLN intends to sever those relations. Officials cite their concern about the

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<sup>3</sup> Andrew Bounds, *Veteran Sandinista seeks to shed old revolutionary image: Daniel Ortega could soon be Nicaraguan leader again but this time round he's unlikely to be vilified by the US*, The Financial Times, June 6, 2001, p.3.

<sup>4</sup> Latin American Regional Reports: Caribbean and Central America, *Aid donor countries demand results; but there are few signs of greater 'transparency'*, May 9, 2000, p. 2.

<sup>5</sup> Richard Boucher, spokesman, "*Secretary Powell's meeting with Nicaraguan Foreign Minister Aguirre*", U.S. Dept. of State press statement, Oct. 5, 2001. Similar remarks were made by Marc Grossman, Under Secretary for Political Affairs, in Remarks to the Inter-American Press Association General Assembly, Washington, DC, Oct. 16, 2001; by Acting Deputy Assistant Secretary for Western Hemisphere Affairs John Keane in Remarks to University of Pittsburgh on Oct. 5, 2001; and by State Dept. spokesperson Eliza Koch on Oct. 6, 2001.

Sandinista party's long-term ties to Cuba, Libya, and Iraq – all designated as state sponsors of international terrorism by the Administration – and to the ETA Basque separatist movement in Spain, and the leftist Revolutionary Armed Forces of Colombia (FARC) – both designated as foreign terrorist organizations.

Gunrunning to the Colombian guerrillas is a problem throughout the region, with weapons reportedly coming from Mexico, Guatemala, El Salvador, and Panama, in addition to Nicaragua. A State Department official stated that concerns regarding the Sandinista party's relations with FARC rebels involved exchange of equipment and personnel, possibly involving training. According to a press report, in December 2000 Colombian police seized 20 AK-47 rifles, two mortars, and two surface-to-air rocket launchers manufactured in Jordan that “originated in Nicaragua” and “were destined to the FARC.”<sup>6</sup> The Panamanian police reportedly seized a “large shipment of war materiel” in September 2000 that had been bought from former Nicaraguan “contras” by Panamanians planning to resell the arms to the FARC.<sup>7</sup>

Sandinistas and others in Nicaragua have reportedly accused the Bush administration of intervening to stir up opposition to Ortega in the elections. Sandinista officials, including Ortega, have said that the United States needs to prepare to work with a new Sandinista-led government, and that Ortega, if elected, plans to work cooperatively with Washington. Ortega says that, although still influenced by Marxist theory, his personal and political philosophy is becoming increasingly influenced by Christianity.<sup>8</sup> The Sandinista party has made two statements to the Bush Administration regarding its stance against terrorism in the past two months. The first was a letter to President Bush condemning the September 11 attacks against the United States. A second letter stated that the Sandinista party would act as allies in the fight against terrorism.

## Relations between Nicaragua and the United States

Over the last several decades, U.S. policy toward Nicaragua has been hotly debated. During the 1970s, the debate was primarily over how much assistance the United States should provide to the Somoza government, which was criticized for dictatorial tendencies and human rights abuses. In the 1980s, the controversy centered on whether the United States should provide aid to the contras battling the Sandinista government, which overthrew the Somoza dictatorship in 1979. In the early 1990s, the debate focused on the extent to which the United States should support President Violeta Chamorro's “national reconciliation” policy, which sought cooperative relations with the defeated Sandinistas. Since the mid-1990s Congress has restricted U.S. assistance to Nicaragua, pressuring the government there to make greater progress in such areas as prominent human rights cases, resolution of property claims, and military, judicial, and economic reform.

**U.S. Assistance to Nicaragua.** The United States has provided Nicaragua with \$1.2 billion in assistance since 1990. Approximately \$260 million was provided for debt

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<sup>6</sup> FBIS, “*Authorities Seize Jordanian Arsenal Shipped to FARC*,” Bogota Caracol Colombia Radio, Dec. 16, 2000.

<sup>7</sup> FBIS, “*Panama Convokes Meeting to Curb Gunrunning to FARC*,” Panama City ACAN-EFE, Oct. 2, 2000.

<sup>8</sup> See, for example, George Gedda, op. cit.; and Agence France Presse, “*US Blasts Sandinista Past, but Pledges Respect for Nicaragua Free Elections*,” Oct. 5, 2001.

relief, and \$450 million for balance-of-payments support. U.S. yearly assistance has decreased as conditions in Nicaragua have improved. FY2001 assistance is estimated to be \$28.1 million, including \$3 million in food aid. U.S. assistance aims to promote greater citizen political participation, compromise, and government transparency; simulate sustainable growth and income; and foster better educated, healthier, and smaller families. In addition, from 1999 through 2001, \$93 million was provided to assist in reconstruction efforts following the massively destructive Hurricane Mitch (U.S. Department of State, *Background Note: Nicaragua*, April 2001). The Bush Administration states that strengthening democracy is its first priority. Over \$5.5 million in U.S. assistance has been allocated to support the 2001 election process. The Bush Administration has requested \$35.9 million for Nicaragua in FY2002, including \$10.4 million in food aid. U.S. law prohibits aid to countries that have confiscated assets of U.S. citizens, but U.S. administrations have granted annual waivers to allow Nicaragua to receive aid.

**Resolution of Property Claims.** Resolution of property claims by U.S. citizens regarding expropriations carried out by the Sandinista government in the 1980s remains the most contentious area in U.S.-Nicaraguan relations. The Nicaraguan National Assembly passed a law in November 1997 establishing new property tribunals with the goal of resolving longstanding property disputes. In December 1997 the previous method of processing such cases in district courts was suspended. A three-year freeze in property-related lawsuits followed. In July 2000, the new property tribunals were finally fully staffed and operating, and began accepting cases. Their procedures include mediation, binding arbitration, and expedited trials. By December 2000, almost 100 cases had been filed, and 35 settled through mediated settlement agreements. According to the State Department, however, “it was too early to judge [the tribunals’] fairness and efficiency (U.S. Department of State, *Country Reports on Human Rights Practices 2000: Nicaragua*, February 2001). Through technical assistance for judicial reform, U.S. assistance is helping to improve the mechanism for settling property disputes.

**Human Rights Issues.** Under Nicaragua’s authoritarian regimes, and during its civil war, human rights abuses were widespread. Since the end of the civil war in 1990, however, respect for human rights has improved, and human rights observers no longer accuse Nicaraguan governments of systematic human rights violations. According to the State Department’s report on Human Rights Practices for 2000 (cited above), the Nicaraguan government “generally respected many of its citizens’ human rights...,” although serious problems remained. For example, there were no reports of political killings by government officials, but police did report six cases of extrajudicial killings by members of the police force, and there were allegations of torture and other mistreatment of detainees by police. The government punished some members of security forces who committed human rights abuses, but, according to the report, “...a degree of impunity persisted.” The country was engaged in a structural reform program of the judicial system, but the system remained weak and susceptible to corruption and political influence.

Other persistent problems include violence against women and children; child labor; trafficking in persons for forced labor, and in women and children for forced prostitution; and discrimination against indigenous people. Also, according to the report, “the rule of law and basic infrastructure do not extend to all rural areas. Despite the Government’s disarmament campaigns [since the formal end to the civil war in 1990] many citizens, especially in rural areas, are heavily armed.” Both domestic and international human rights monitors are allowed to operate freely in Nicaragua.