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How to Understand the Nicaragua Crisis

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THE VENEZUELA NUMBERS

It is impossible to understand the contemporary crisis in Nicaragua without understanding the aid figures from Venezuela. Everything that has happened ultimately flows from these numbers and their annual sequence.

Technically, these numbers for the most part represent deferred payment terms for oil given by the state-owned Venezuelan oil company (PdVSA) to a PdVSA-owned subsidiary in Nicaragua (ALBANISA). The essential point, however, is that these “deferred payments” were never intended to be paid back. As a practical result, Daniel Ortega was thus handed a significant quantity of Venezuelan funds to use essentially as he pleased. The subsidies mirror the manner in which Ortega governed in the 1980s, when he had also relied on a foreign financial backer—the Soviet Union—to govern.

Table 1. Flow of Aid from Venezuela to Daniel Ortega

Year	Total (millions \$USD)
2008	301
2009	288
2010	522
2011	564
2012	556
2013	560
2014	502
2015	296
2016	134
2017	31

Source: Banco Central de Nicaragua, Informe de Cooperación Oficial External, I Semestre 2018 (Managua: October 2018).

ORTEGA'S NEW AUTHORITARIAN MODEL

"Fiscally Responsible Populism"

Instead of adopting Venezuelan President Hugo Chávez's model of "Twenty-first Century Socialism," Ortega—who had learned many lessons about how *not* to run an economy by presiding over the economic disaster of the 1980s—decided to use the Venezuelan funds to assemble a different model of authoritarian government. His model can be called "fiscally responsible populism," with four essential characteristics:

1. **Spend on your client base.** Spend funds to improve the day-to-day lives of your political client base (e.g., bonuses for government workers, zinc roofs for *campesinos*, and a plethora of similarly targeted client programs).
2. **Do not accumulate significant public debt.** Curry favor with the International Monetary Fund (IMF), international rating agencies, and foreign investors by avoiding significant government debt and by maintaining macroeconomic stability through fiscal discipline.
3. **Maintain public security.** Keep the *maras* (gangs) and the major drug cartels for the most part out of Nicaragua, so that the Nicaraguan public and foreign investors felt secure in comparison with other Central American countries.
4. **Form an alliance with the business sector.** Enter into a classic Nicaraguan "working alliance" or pact, but this time not with a political party, but instead with the nation's organized business sector, joined under the umbrella of the Superior Council of Private Enterprise (COSEP).

The alliance with the business sector was arguably the most innovative component of Ortega's new model—especially given his background as an armed guerrilla revolutionary. Ortega essentially agreed not to make any major economy-related decisions without first involving and negotiating with COSEP. One of the best writers on Nicaragua of the last decade, Tim Rogers, brilliantly described how this crucial alliance worked in a 2013 article on the constitutional changes that Ortega was forcing through at the time.

.... The most important decisions about the future of Nicaragua are negotiated privately between the president [Ortega] and COSEP, the nation's largest private business chamber. Unlike other opposition groups that complained about the [constitutional] reforms to no effect, COSEP was able to deftly negotiate a new bill that protects their own quota of power while substantially softening the Sandinistas' assault on Nicaragua's institutional democracy.... While that alliance is hardly an exercise in transparency or representative democracy, it is one that fosters negotiation and compromise, which is better than an unchecked



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autocracy.... COSEP, of course, is an imperfect counterweight to the Sandinista politburo, which represents a newly enriched capitalist class whose interests greatly overlap those of big business. But until Nicaragua's political opposition stops shirking its responsibilities to the nation, the plutocratic pacto is all that separates Nicaragua from the arbitrary rule of a connubial monarchy.¹

THE CONTRADICTIONARY DECADE (2008–2017)

Gross Political Decay amid Economic and Social Progress

Ortega's Venezuela-fueled decade of "fiscally responsible populism" produced several contradictory and ironic results. For democracy, the decade was a disaster. Starting with the 2008 municipal elections, Daniel Ortega decisively ended the free and fair elections that had characterized Nicaraguan political life since 1990. The Ortega regime used its control of the election-counting machinery to assert complete control of the National Assembly. That, combined with his executive power, gave Ortega control of every institution of government. This power was even eventually used to rewrite the constitution. Politically, the appearance of the structures and institutions of democracy were preserved, but it was a façade. The only practical restraint on Ortega was the non-institutional, informal agreement with COSEP to negotiate major decisions with them.

While democracy inexorably disappeared in all but empty form, Ortega's four-component governing model delivered consistent and impressive economic growth. This averaged close to 5 percent a year—energized by foreign direct investment, local investment, export growth, loans by multilateral banks, infrastructure and road improvements, the expansion of free trade zones (which increased employment in the formal sector)—all topped off by a booming

¹ Tim Rogers, "Nicaragua's New Pacto," *Nicaragua Dispatch/Confidencial*, December 17, 2013. <https://confidencial.com.ni/archivos/articulo/15348/nicaragua-039s-new-pacto>.

tourism sector. As the economy grew, there was also social progress, reflected in a reduction in poverty, the creation of more public spaces, an aggressive rural electrification program,

During the decade between 2008 and 2017, the Ortega authoritarian model appeared to be producing an increasingly prosperous and stable Nicaragua.

and falling homicide rates. Crucially, the range of positive economic and social trendlines generated a certain tolerance—both nationally and internationally—for the anti-democratic, authoritarian nature of the regime and for the degree of government corruption associated with the Venezuelan aid. In short, during the decade between 2008 and 2017 the four-component Ortega authoritarian model, tethered to Venezuelan aid, appeared to be producing

an increasingly prosperous and stable Nicaragua in a Central America otherwise beset by instability, poverty, and violence—all root causes of migration.

WAS THE ORTEGA MODEL SUSTAINABLE?

In mid-2013, in presenting a working paper at a Washington, D.C. think tank, I acknowledged that economic and social progress was occurring under the “fiscally responsible populism” model, but I raised some questions about whether this model was sustainable.² The paper asked what would happen to the model if any one, or all three, of the following challenges began to emerge:

1. **What if the funds from Venezuela started to dry up**, just as Soviet support had dried up during the first Ortega government in the 1980s?
2. What if the current generous **flow of multilateral bank loans began to diminish**?
3. What if the **growing number of “citizens”** (as opposed to “clients”) that were naturally being created by the economic and social growth **were to become more demanding** with respect to what they wanted from their government, in terms of things like more freedom and democracy and less corruption?

Could the Ortega model of authoritarianism survive one or a combination of all three of these challenges?

The first of these challenges to the model emerged decisively in 2016. Venezuelan aid was drying up. As the Chávez model of twenty-first century socialism was suffering its all-too-predictable demise, the funds available for Ortega from a crashing Venezuela economy started to significantly decrease. The \$560 million in 2012 had fallen to \$136 million in 2016; and the downward trend for coming years was clear.

² Arturo Cruz, “Political Reform in Central America,” Inter-American Dialogue Working Paper, July 2013.

Accordingly, in the first half of 2016, the Ortega regime was face with a strategic choice of great consequence for itself and for Nicaragua. The regime was at a classic fork in the road, characterized by two stark choices:

- **Electoral Legitimacy.** Ortega could take advantage of his current economic and social success, along with the very divided and weak opposition, and proceed in November 2016 with a free, transparent election observed and certified by civil society and the international community. Ortega would have won the presidency, albeit with a lower margin of victory than in previous, “managed” elections. The regime would also probably have had to put up with some real opposition in the National Assembly. However, Ortega would still be the undeniable hegemon of Nicaragua and, crucially, would be recognized nationally and internationally as a legitimate ruler. This, in turn, would give him the crucial room to maneuver in order to deal with the challenges of governing the nation with fewer resources in light of the decline in Venezuelan aid
- **Family Succession.** Ortega could choose the family succession route and attempt to create a dynasty (like the Somozas and other *caudillos* throughout Nicaragua’s history). This would require a much more centralized form of authoritarianism than the comparatively softer authoritarianism permitted by the availability of Venezuelan aid.

For the first half of 2016, it was not clear which of the routes the Ortega-Murillo regime would choose. (A number of us were pushing them hard to see the advantages of electoral legitimacy—something that would cement their legacy and create a secure future for their children and themselves in financial terms.) However, in the summer of 2016, Ortega and Murillo rejected the path of electoral legitimacy and came down decisively and dramatically in favor of indefinite family succession. International observers would not be allowed in for the November 2016 elections, the principal opposition candidate was stripped of his political party, and several U.S. government officials were kicked out of the country. All of this was topped off by Daniel naming his wife—Rosario Murillo—as the vice-presidential candidate and presumptive heir to a family dynasty. The decision was clear.

Soon after the November 2016 “managed elections,” the second challenge to Ortega’s governing model—a potential reduction in the continued flow of multilateral bank loans—began to emerge. The United States quietly but decisively blocked a “policy loan” to Nicaragua from the Inter-American Development Bank (consisting of funds to plug a hole in the budget from government over-spending in an election year). This constituted a shot across the bow in protest of the route the country was now on. More ominously, a “Nica

Act”³ had been introduced which, if approved, would require the United States to vote against most multilateral bank loans to Nicaragua.

2017: THE YEAR OF CENTRALIZATION OF POWER IN THE VICE PRESIDENT

The Pressure Begins to Build

To make the family succession route work, the Ortega-Murillo regime needed to concentrate power more than ever. For all practical purposes that meant concentrating more power directly in the hands of the vice president, as she was the administrative and management side (the details) of the “royal couple,” while Ortega was the presentation side (the leadership and charisma).

During 2017 several trends accelerated to place more and more authority in her hands, increasingly down to the smallest details. For example, certain government officials were now prohibited from talking with ministers without her prior authorization; all government communications had to be authorized by her; some officials who had traveled freely outside the country were now prohibited to do so without her personal permission, etc. More and more, independence and scope were reduced for anyone else in the government and transferred to her. Additionally, in 2017 the vice president largely completed the effort to sweep traditional Sandinistas from their positions and replace them with younger cadre loyal to her. Throughout 2017, in ways large and small but ultimately, comprehensively, power was concentrated to an unprecedented degree in the hands of Vice President Rosario Murillo. This, even though she had never enjoyed the levels of popularity of her husband, either in the country or in the Sandinista Party.

In 2017 the third challenge to the Ortega model came to the fore, from a Nicaraguan population that had comparatively more citizens and fewer clients: more citizens because of the relative economic prosperity of the previous decade, and fewer clients because social spending declined in tandem with the shrinking levels of Venezuelan aid. National discontent was building in multiple sectors. As the government slid further towards dictatorship, the business community became increasingly uncomfortable with its role in “alliance” with Ortega and Murillo. The traditional wing of the Sandinista party that had been sidelined by Murillo was not happy. The United States and the many in the international community were increasingly concerned about the country’s political direction. And perhaps most crucially in light of subsequent events, the country’s youth were not happy—and they were all connected on social media.

³ The final version of NICA Act, H.R. 1918, Nicaraguan Investment Conditionality (NICA) Act, introduced by Rep. Ileana Ros-Lehtinen, passed the U.S. Congress by unanimous consent on December 11, 2018..



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Social media was crucial to the buildup of pressure. According to the polling firm *Latinobarómetro*, in 2013 78 percent of Nicaraguans reported they had never used email or connected to the Internet. By 2017, 43 percent were connected, and in that year alone, 500,000 new users were added to Nicaragua's digital community. Ironically, the Ortega regime was increasing the impact of the expanding use of social media by providing free WIFI in public plazas as part of its program to improve public spaces. In addition, economic prosperity was sending more people to college; 200,000 young people were enrolled in college and many were finding that only way to get a job commensurate with their degree was either to have connections with wealthy elites or be a Sandinista Party member with connections. Many of these young people felt that the system was rigged.

2018: THE TIPPING POINT

The steady pressure building throughout 2017 continued into 2018. On the international front, the United States invoked its new Global Magnitsky sanctions⁴ against Roberto Rivas—who as head of the Supreme Electoral Council had reliably run the “managed elections” for Ortega since 2008—forcing the regime to remove him. U.S. displeasure was reinforced when, following action in the U.S. House of Representatives, the Nica Act was brought forward in the Senate, further threatening the long-term flow of multilateral bank loans to Nicaragua. This was followed by a reformist slate winning the American Chamber of Commerce (AMCHAM) elections, demonstrating growing business sector displeasure with the state of the “alliance.” Ortega and Murillo managed to rile up young people even further with talk of new government restrictions on the use of social media and then by mismanaging a large forest fire in an ecologically sensitive biosphere. The handling of the fire sparked a small youth street protest, something that had not occurred in a long time.

⁴ New authority was given to the U.S. president by Congress to sanction foreign individuals found to have committed serious human rights abuses or be involved in significant corruption. Sanctions block the person's assets in the United States and prohibit their entry into the United States. See <https://home.treasury.gov/news/press-releases/sm0243>.

By the first quarter of 2018, all three of the challenges to the Ortega model were in full bloom—the drying up of Venezuelan aid, threats to continued generous lending to Nicaragua by multilateral development banks, and most importantly, a population behaving more like citizens than clients. Newly-mobilized groups viewed Nicaragua’s new family dynasty as an assault on their dignity and their future. And this, from a government that no longer had the Venezuelan funds to satisfy as many of the population’s immediate needs.

Finally, in April 2018, a classic tipping point arrived. Tipping points by definition are unpredictable and this one came in a form few would have guessed: social security reform. A combination of mismanagement, corruption, and aging demographics had basically placed the Social Security Institute on the edge of bankruptcy, and there were no Venezuelan funds to remedy the situation. The government was going to have to increasingly channel funds from the national budget to shore up the social security system unless some tough, painful

The destruction of the Ortega-Murillo authoritarian model played out over five consecutive days.

reforms were instituted. The age of “fiscally responsible populism,” which satisfied the needs of political clients while easily keeping the budget in order, were gone. The destruction of the Ortega-Murillo authoritarian model played out over five consecutive days.

April 16. With the IMF’s Spring Session opening that day in Washington, D.C., and with no warning or preparation, the government announced a series of painful social security reforms that angered and surprised the public. Crucially, the reforms were devised without the proper negotiation with the business sector. This was the nail in the coffin of the government–business sector alliance, something that had been withering throughout 2017 under the relentless concentration of power in the hands of the vice president. COSEP and the business sector revolted and came out openly opposing the government action.

April 17. The next day a number of elderly people came out to protest the cuts to their pensions and were roughed up by government forces. This constituted one of the stupidest and most consequential acts of government repression in Nicaraguan history. Those in power clearly missed the fact that, with the new saturation of social media, roughing up old people was going to be captured on cellphone videos and distributed on social media.

April 18–20. Already restive students came out to protest the treatment of the elderly pensioners. The repressive apparatus of the government reacted by opening fire on and killing a number of students. In response, the country exploded.

What has happened in Nicaragua since April 2018 has been extensively chronicled in national and international media. The shocking killings of student protestors galvanized the majority of the country, which already opposed the succession route laid out by the Ortega family. Following a series of massive street protests and as the death toll mounted,

the government and an opposition coalition known as the Civic Alliance opened a national dialogue. The goal of the opposition was to negotiate the resignation of Ortega and Murillo or the calling of early elections to vote them out of office. This latter option came to be referred to as the “soft landing” alternative.

But those demands were not met. On the day of the largest anti-government march in the recent history of the country, the Sandinistas responded by killing over a dozen protestors. This had a dampening effect on future protests even as the Ortega regime embarked on a systematic and violent campaign of retaking control, using combined police and paramilitary forces personally loyal to Daniel Ortega. These forces were told they were fighting off a *golpe de estado* (coup) by shadowy international and national “rightists” determined to undo “the Revolution.” The combined forces systematically dismantled the roadblocks and killed more than 300 people, wounding thousands more in the process of the government’s regaining complete control.

WHERE WE ARE NOW – A POLICE STATE WITH A FREE PRESS

After regaining control, the regime quickly moved to what the Inter-American Commission on Human Rights (IACHR) calls “stage three repression.” Opponents of the government are now legally defined as “terrorists,” street demonstrations are illegal for all practical purposes, anyone can be detained and thrown in prison, and everyone knows it. The “fiscally responsible populism” model has now been replaced by a classic police state where the dominate political motif is that the opposition can be killed, imprisoned, or forced into exile at will and anyone thought to not be an enthusiastic Sandinista is being pushed out of his or her job. There is a tense calm enforced by a heavy armed police display of power and the harassment of and threats against opponents, all against a backdrop of fear and uncertainty typical of police states. The one exception to the classic police state model, for now, is that the press is harassed, but still largely free. *Confidencial*, *La Prensa*, *Nuevo Diario*, *100% Noticias*, and others can and still do criticize the government, with verve and determination. If the Ortegas move to shut this free press down, then the transition to a full police state model will be complete.

By its nature, the Ortega-Murillo family-succession police state is progressively degrading, taking with it the economic and social progress of a decade rife with contradictions. Just as in the end, Venezuela’s oil has not helped the Venezuelan people, it appears that all the Venezuelan oil money donated to Nicaragua will not end up helping Nicaragua either. This is a new twist on the notion of a “resource curse,” which ricocheted from Venezuela’s Chávez-Maduro regime to non-oil producing Nicaragua.

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