



Fall 2007

Based on structural and event data available as of August 2007

This follow-up report is produced as part of the CIFP governance and democratic processes project. It is intended as a baseline analysis, assessing structural and dynamic facets of democratic governance in Nicaragua, and includes a second period of events monitoring (January to August 2007), adapted scenarios, and a complete structural profile. New sections for the analysis of key issues and regional comparisons have been added. The overall project aims to support informed, evidence-based decision making for Canadian foreign policy and development assistance related to democratization and good governance.

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## Nicaragua

### EXECUTIVE SUMMARY

Nicaragua has witnessed some key political changes between January and August 2007. Daniel Ortega from the FSLN party has returned to the Presidency of the country and has shifted the politics of Nicaragua to the left.

On the one hand, in his first six months in office, Ortega has centralized power, campaigned in favour of constitutional amendments that would allow presidential re-election and created new Citizenship Councils with the goal of introducing the concept of direct democracy to Nicaragua. These developments have been polarizing, and have negative implications for governance and democratic processes, especially in terms of political stability and democratic participation. On the other hand, Ortega has introduced new social programs in health and education, including a literacy campaign and a program called *Hambre Cero*, with the goal of reducing poverty and hunger. Ortega has also tackled the problem of energy shortages and secured a source of oil for Nicaragua by joining ALBA and signing the Petrocaribe Act. These new policies should have positive consequences in terms of government and market efficiency and should improve Nicaragua's standard of living if managed efficiently. Ortega has begun to address corruption by cutting

TABLE 1: KEY FINDINGS

- Diplomatic shift towards the non-aligned movement could bear consequences for Nicaragua's development and trade balance
- Ortega's centralization of power and the creation of Citizenship Councils could upset Nicaragua's robust though youthful political system
- The ongoing energy crisis continues to hamper industrialization and foreign investment
- Announcements of government investment in social programs, especially health and education, could impact poor people's standard of living if managed efficiently

benefits and foreign travel for bureaucrats but has also limited press freedom, which will most likely affect government transparency and accountability. In terms of diplomacy, Nicaragua has maintained ties with former allies such as the United States, Taiwan and the EU, but has also initiated new ties with Venezuela, Iran, Libya and North Korea.

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TABLE 2: UNDERLYING CONDITIONS

Political Stability & Violence	Government & Market Efficiency	Rule of Law
3.28	5.75	6.85
Human Rights	Government Transparency & Accountability	Democratic Participation
4.78	5.04	3.77

TABLE 3: EVENT MONITORING RESULTS JANUARY-SEPTEMBER 2007

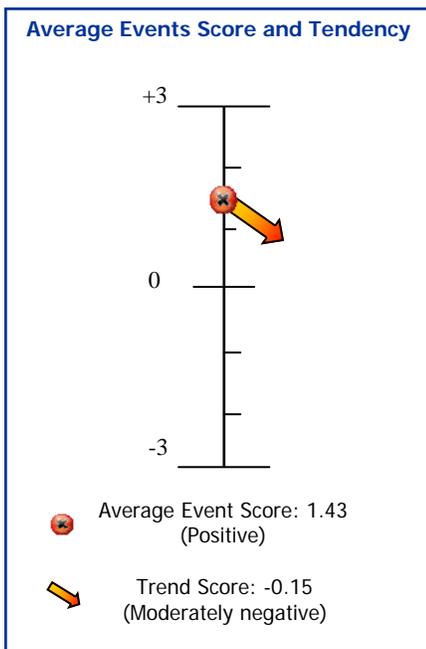
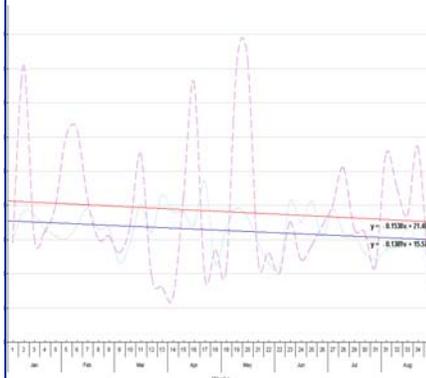


TABLE 4: AGGREGATE OF EVENTS RECORDED



Political inconsistencies mean that it is difficult to substantiate a single definitive trend in governance processes. Dramatic political shifts feared by foreign investors and international donors prior to the elections have not yet materialized. Nicaragua's dependence on foreign aid should attenuate the President's desire to make major changes to the political system or to revert to Chavez's style of governing. Increasing political uncertainty and instability is expected.

**UNDERLYING CONDITIONS**

The structural data illustrates the fact that Nicaragua is still a country facing governance and democratization challenges (See Table 2). While four of the six clusters have an average score that represents a medium risk, the political stability and violence cluster has a low risk score, which can be explained by the absence of conflict, low military expenditure and low instances of acts of terrorism. The rule of law cluster, on the other hand, has a high-risk score of 6.85, which is attributable to the challenges faced by the legal system.

**DYNAMIC EVENTS ANALYSIS**

Between the second of January 2007 and the twenty-ninth of August, 2007, CIFP recorded 509 events that either affected or reflected the levels of good governance and democratic processes in Nicaragua. A statistical analysis of the recorded events from this 35-week period shows that, on average, events tend to be moderately stabilizing. Events recorded during this period had a

positive average score (1.43) but a slight negative trend (-0.15); these results can be explained partly by a greater number of positive events recorded at the beginning of the observation period compared to the end. (See table 3).

The main source of this trend rests with political stability and violence, rule of law, government and market efficiency, and democratic participation clusters, which had the most events recorded over the monitoring period. Most of the positive events occurring at the beginning of the observation period relate to encouraging announcements made following the November 2006 election and January 2007 inauguration. Destabilizing events relate to Ortega's attempt to centralize political power in his office, the conflict with the company Union Fenosa over electricity shortages and the degradation of relations between Nicaragua and the United States. These events combined to slowly shift the governance trend downward. Ortega's oscillation between rightist and leftist positions, conservative and revolutionary policy, and finally between alliances with Venezuela and the United States have influenced the trend in each cluster by creating a great deal of fluctuation and uncertainty (See Table 4).

**READING THE EVENTS CHART**

- Red line (solid):** Trend line for events; downward slope left to right is negative
- Blue line (solid):** Trend line for number of events
- Purple line (dotted):** This indicates the sum total scores of events (positive or negative), as coded in the event monitoring process; the red trend line is derived from these values.
- Blue line (dotted):** The total number of events; the blue trend line is derived from these values

## KEY EVENTS

### Nicaragua joins ALBA

On March 27<sup>th</sup>, 2007 the Nicaraguan parliament ratified the integration of Nicaragua into the *Alternativa Bolivariana para las Américas* (ALBA) an arrangement that Ortega had signed onto in his first day in office (January 11<sup>th</sup>, 2007). Several initiatives followed the Nicaragua's membership in ALBA. On May 29<sup>th</sup>, 2007, Venezuela and Nicaragua signed the ALBA energy treaty in which Venezuela agreed to supply 27,000 barrels of crude oil daily to address Nicaragua's energy crisis. On June 6<sup>th</sup>, 2007, the four members of ALBA (Venezuela, Bolivia, Cuba and Nicaragua) agreed to create a Bank for ALBA to increase funds available for development projects and economic initiatives.

### Creation of the Citizenship Councils

The project to form Citizenship Councils was launched by Presidential decree 03-2007,

released on January 10<sup>th</sup>, 2007. The Councils were created to manage the funds of the program *Hambre Cero*, which is aimed at reducing hunger and poverty in the country, and to provide micro-credit. By July 19<sup>th</sup>, First Lady Rosario Murillo announced that 6,334 Councils had been formed and had integrated 500,288 Nicaraguans. The creation of these Councils has generated a great deal of opposition in Nicaragua. Civil society manifested its opposition on July 17<sup>th</sup> when it asked the opposition to unite and prevent the creation of this new institution.

*"Nicaragua's dependence on foreign aid should attenuate the President's desire to make major changes to the political system or to revert to Chavez's style of governing. However, more uncertainty and instability is expected."*

### Conflict with Union Fenosa

The conflict arising over electricity shortages between the government of Nicaragua and the Spanish-owned company Union Fenosa has already lasted for over

a year. Blackouts have forced the government to reduce the workday by several hours and have reduced the potential for foreign investment and industrialization. Union Fenosa has maintained that difficulty in increasing the price of electricity is responsible for electricity shortages and blackouts while the government has claimed that the company's bad management and lack of investment in infrastructure was responsible for the crisis. The government has threatened the company with fines and contract termination. On August 2<sup>nd</sup>, the two parties finally reached an agreement.

Meanwhile, Ortega has obtained commitment from international donors to built electricity plants and has attempted to secure alternative sources of energy to prevent another crisis.



## SCENARIO FORECASTING

Scenario analysis is one of the primary analytical tools used by CIFP to set the stage for policy evaluation. Scenarios evaluate interactions between stakeholder agendas and grievances, baseline structural features, and dynamic events. Each scenario is an assessment based on hypothetical projections (positive or negative) of stakeholder behaviour and events.

The best-case assumes that the strongest positive trends will dominate over any negative trends in the near future. Conversely, the worst-case scenario assumes the opposite. Finally, the most likely case scenario extrapolates future tendencies based on the overall trend within the state. The exercise thus highlights both opportunities and challenges facing policymakers in the short- to medium term.

### Most Likely Scenario

Ortega continues to vacillate between conservative and revolutionary policies, trying to take advantage of both new and former allies in order to improve economic conditions in Nicaragua. His strategy is successful to the extent that Nicaragua continues to benefit from a massive influx of foreign aid. However, his policies are also detrimental to progress in sectors of accountability and transparency as well as democratic participation.

### Best-Case Scenario

Ortega acknowledges Nicaragua's dependence on international aid and foreign investment and designs his policy in a way that will not alienate international donors



and organizations, especially the United States and the International Monetary Fund. Investments in social programs benefit the poor and slowly increase their standards of living while investment in energy allows for further industrialization and foreign investment in tourism and manufacturing. Ortega succeeds at centralizing his power to a certain extent, thereby improving government efficiency, but fails to amend the Constitution to allow presidential re-election. His term in power shifts political alliances and policies to the left of the political spectrum but does not endanger the basis of the political system already consolidated.

### Worst-Case Scenario

Ortega begins to use the newly created Citizenship Council to

consolidate his political support at the municipal level by distributing more funds to his allies and limiting funds available to his political opponents. Using this newfound power, he introduces constitutional amendments that allow for presidential re-election and a revamp of the governmental structure. These changes permit his re-election and his shift toward the Venezuelan model. By investing heavily in social programs, he will secure support from the poor for his policies. International donors, especially the United States, will reduce aid and diplomatic support and Nicaragua will become heavily dependent on Venezuela. The results in the long term will be the destruction of the basis for democracy, good governance, and long-term economic growth.

## 2. Analysis: Key Issues

### POLITICAL STABILITY AND VIOLENCE

#### Ortega on the International Scene

Following Ortega's election last November, Nicaragua has moved considerably to the left on the international spectrum, first by joining ALBA and then by initiating alliances and bilateral relations with new partners.

Nicaragua's relationships with Venezuela and Cuba have been expanded significantly thanks to Nicaragua's integration into the Bolivarian Alternative for Latin America and the Caribbean (ALBA). On March 27<sup>th</sup>, 2007, the Nicaraguan parliament ratified the integration of Nicaragua into ALBA. On May 29<sup>th</sup>, 2007, Venezuela and Nicaragua signed the ALBA energy treaty, in which Venezuela agreed to supply 27,000 barrels of crude oil daily to address Nicaragua's energy crisis. On June 6<sup>th</sup>, 2007, the four members of ALBA (Venezuela, Bolivia, Cuba and Nicaragua) agreed to create a Bank for ALBA in order to strengthen their economic cooperation and increase funds available for development

projects and economic initiatives.

Ortega also sought closer ties with Iran. On February 15<sup>th</sup>, 2007 Nicaragua and Iran agreed to consult and support each other on a variety of emerging global issues in international fora. Following this agreement, Aldo Diaz Lacayo (ambassador to the United States) criticized UN sanctions against Iran and stressed Nicaragua's support for the Government of Iran's nuclear energy program. During Ortega's visit to Iran in June, the two countries signed an agreement on economic cooperation. Later that month, Ortega established relations with Uzbekistan and, in May 2007, he initiated diplomatic relations with Russia and North Korea in hopes of strengthening bilateral relations with these three countries.

Cooperation with Venezuela and other new international allies has not been limited to the economic and energy sectors. On January 7<sup>th</sup>, 2007, Raul Baduel declared that the Venezuelan national Army was having talks with Nicaragua and was hoping to sign a technical

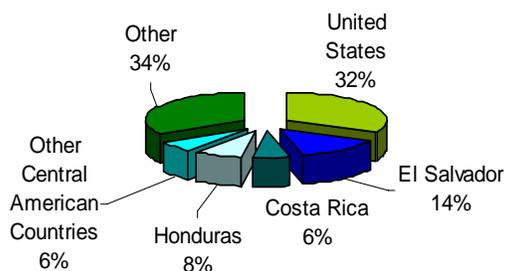
#### ALBA (BOLIVARIAN ALTERNATIVE FOR LATIN AMERICA AND THE CARIBBEAN):

- Proposes alternative to the U.S.-sponsored Free Trade Area of the Americas
- Advocates a socially-oriented trade block rather than one strictly based on the logic of deregulated profit maximization
- Suggests the creation of a "Compensatory Fund for Structural Convergence", which would manage and distribute financial aid to the most economically vulnerable countries
- Favours endogenous development and rejects the type of employment that the sweatshop (*maquiladora*) industry generates because it does not contribute to the upsurge of the agricultural and industrial sectors of the poor countries and does not contribute to the elimination of poverty

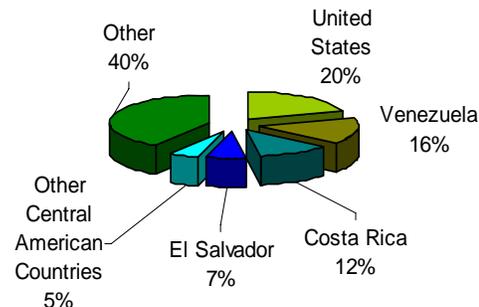
military pact. In June, it was reported that Nicaragua's Armed forces would also request materials from Iran and Libya.

Meanwhile, relations with the United States have been tense. Although the United States sent a delegation to President Ortega's inauguration in January 2007 and

**Table 5: Nicaragua's Main Trading Partners in 2005 (Exports)**



**Table 6: Nicaragua's Main Trading Partners in 2005 (Imports)**



President Bush himself visited Nicaragua in March, Ortega adopted a hard position with the United States, calling for the indemnization of civil war victims on March 15<sup>th</sup>. He also harshly criticized the US position on Iran. Given the degree to which Nicaragua depends on the US economically — as its most important trading partner and a significant provider of bilateral aid — and the influence that the US enjoys over global financial institutions such as the World Bank and the IMF, Ortega's realignment may yet prove costly in the near future (see scenarios).

#### Civil-Military Relations

Traditionally, the military has played an active role in shaping Nicaragua's political history. Upon independence, several military juntas ruled the country, including General Jose Santos Zelaya who assumed the Presidency of the country between 1893 and 1909 before being deposed by the United States. Political and military power continued to be closely connected over the years, especially during the dictatorship of Anastasio Somoza when the Nicaraguan National Guard was instrumental in keeping him in power. Somoza was succeeded by his two sons, Luis Somoza and Anastasio Somoza Debayle; the latter eventually deposed by the *Frente Sandinista de Liberacion Nacional* (FSLN).

The FSLN took power in July 1979. Daniel Ortega, leader of the FSLN, ruled the country first

as part of a five-member military junta and then as the de facto ruler. Ortega reorganized the entire security forces, disbanding the National Guard, and creating the Sandinista's People Army and a new police force. The two organs were armed and financed by the Soviet Union. The United States intervened in the conflict in 1981 and began financing and arming the contras fighting against Ortega's regime; a number of the contras were former National Guard Officers that had operated under Somoza.

Upon the defeat of Daniel Ortega in 1990, a series of reforms of the armed forces were initiated. The structure of the army was dramatically changed in 1990 when Violetta Chamorro's government passed a law making the elected President Commander-in-Chief of the armed forces as well. The size of the armed forces was also dramatically reduced in 1993 when it went from a total of 97,000 troops to 15,200. Although these reforms were important,

they did not immediately guarantee civilian control over the military. The minister of defence remained weak and proved unable to influence, the well-established military hierarchy. Several Sandinista generals retired in 1998, which then opened the door to even greater changes in the military's power structure.

In 2005, the number of troops totalled 14,000 (12,000 in the army, 800 in the navy and 1,200 in the air force) and military expenditures were estimated at US\$32,000 million. The new functions of the army included border surveillance, internal security, and assistance to the Nicaragua National Police for the prevention of violence and narco-trafficking activities.

#### RULE OF LAW

##### Security Sector Reforms in Nicaragua

After the 1979 Revolution, the national guards were disbanded and the National Police was created. Although police reforms were not mandated by the



Accords that put an end to the civil war, some reform of the Sandinista police did occur. Under the government of Violetta Chomorro, the police force was reformed thanks to the 1992 Police law (144). Under that law, the police were to be directed by the Governance ministry and were assigned tasks related to maintaining public order while counterinsurgency tasks were taken away from its mandate.

*“Conscious that the force was still perceived as a tool of the Sandinista party, the police force attempted to change its image by adopting a new mission.”*

Conscious that the force was still perceived as a tool of the Sandinista party, the police force attempted to change its image by adopting a new mission of public security, citizen protection, and prevention and prosecution of crime. The police turned to different sources of legitimacy and promoted its battle against the rising crime rate, protection of the private sector, and support for governmental decisions. This new image went along with the goal of post-war Presidents who had decided to make Nicaragua the safest country in Central America, believing that this would attract foreign investment.

Unfortunately, the transformation was formulated at higher echelons within the police force and did not always translate into action at the lower levels. Officers investigating the affairs of the elite were susceptible to corruption and unfairness because of the links that they maintained with businesses, which would often hire them as consultants when they retired. Meanwhile, officers loyal to the Sandinista party retained links

with government officials, similarly decreasing their independence. The abuse of force and a lack of respect for human rights were also common practice. Reports of torture, arbitrary detention and ill treatment were filed each year.

In 2005, the Government of China began funding the project: “Strengthening of the Operative Capacity of Nicaragua’s National

Police 2005” (*Fortalecimiento de la Capacidad Operativa de la Policía Nacional de Nicaragua 2005*) for a total amount of US\$1,670,839. The initiative aimed to introduce institutional measures to reduce crime threat and maintain public security.

**Sources:**

Cuarez Teran, Sergio J. and Roxana I. Zapata Lopez. “La Policía en el Estado de Derecho Latinoamericano: el caso Nicaragua”

JSCA. *Report on Judicial Systems in the Americas 2004-2005*. Available at: [http://66.102.1.104/scholar?hl=en&lr=&q=cache:T7RjHPurjgUJ:www.cejamerica.org/reportes/pdfing/23-NICARAGUA\\_ING.pdf+JSCA.+Report+on+Judicial+Systems+in+the+Americas+2004-2005](http://66.102.1.104/scholar?hl=en&lr=&q=cache:T7RjHPurjgUJ:www.cejamerica.org/reportes/pdfing/23-NICARAGUA_ING.pdf+JSCA.+Report+on+Judicial+Systems+in+the+Americas+2004-2005)

Rocha Gómez, José Luis “The Political Economy of Nicaragua’s Institutional and Organizational Framework for Dealing with Youth Violence” Crisis State Programme Working Paper Series no.1. 2005.

**DRUG TRAFFICKING**

The geographic location between drug suppliers and consumer markets makes Central American countries vulnerable to organized crime. Drugs which used to be flown by Colombian cartels and

**STATISTICS: SECURITY SECTOR**

1990:	7 000 police officers
2000:	6 500 police officers
2003:	7680 police officers (1/380 people)
2005:	8 360 police officers
2001:	2,3% of the total state budget
2005:	3,79 of the total state budget
2003:	1731 crimes committed
2004:	1934 crimes committed
2003:	294 courts
2000-03:	15% increase in the number of judges

transported through the Caribbean before reaching the United States, are now shipped mostly by boat. Transportation through Central America has increased along with the increasingly central role played by Mexican cartels in drug trafficking. While a large percentage of the cocaine and heroine headed to the United States is transported through Central America, local drug use is very low. The implication is that Central American countries spend vast sums of money combating drug trafficking but are neither suppliers nor consumers. They are victims of their geographic location.

According to the UN Office on Drugs and Crime, “In 2003, some 88% of the cocaine destined for the United States was transiting through the Central America/

Mexico corridor from South America which was producing an estimated 900 tons of cocaine annually - worth some US\$60 billion."

The relentless pressures of North American demand and South American supply, combined with limited local state capacity, a lack of police personnel, opportunities for corruption, regional histories of legal impunity and violent conflict, and authoritarian rule all account for the inability of Central American countries to effectively fight crime and drug trafficking.

In the case of Nicaragua, drug trafficking was allowed to penetrate the region during the civil war because it financed the activities of the guerrillas. The networks are now well established, involving a number of stakeholders in practices counter to the rule of law but providing important economic resources in a country where the majority of the population is poor and unemployment among young people remains high. Although the problem is less entrenched than in Guatemala or El Salvador, the persistent lack of economic licit domestic economic opportunity suggest that the country remains vulnerable to increasing drug-related activities.

**Source:**

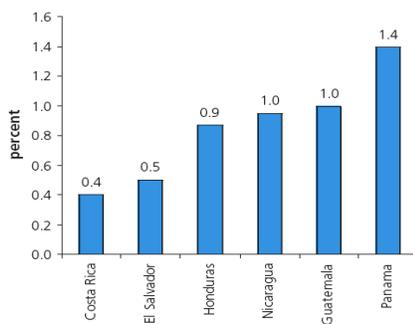
UN Office on Drugs and Crime. *Crime and Development in Central America; Caught in the Crossfire*. May 2007

**HUMAN RIGHTS**

**Children's Rights in Nicaragua**

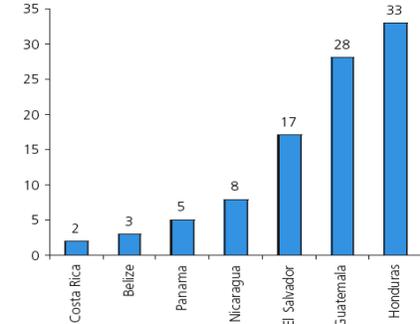
In 1998, Nicaragua signed and

TABLE 7: ESTIMATED % OF THE POPULATION WHO USE COCAINE ANNUALLY



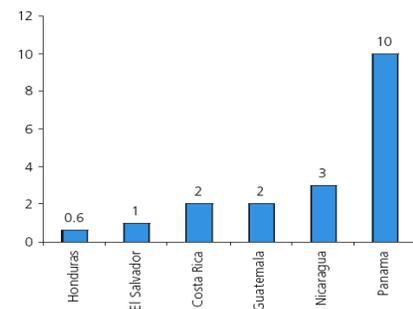
Source: UNODC Delta Database estimates

TABLE 9: NUMBER OF CENTRAL AMERICANS ARRESTED FOR DRUG TRAFFICKING IN THE US IN 2004



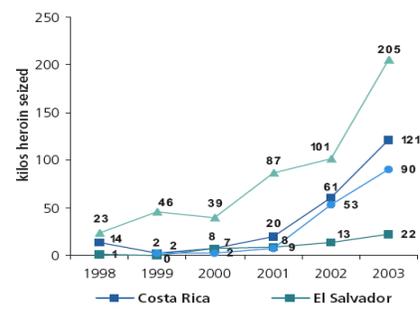
Source: UNODC ARQ 2004

TABLE 8: RATIO OF GANG MEMBERS TO CHRONIC COCAINE USERS



Source: Calculated from UNODC Delta Database estimates and Hernández, 2005

TABLE 10: KILOS OF HEROIN SEIZED IN FOUR CENTRAL AMERICAN COUNTRIES, 1998-2003



Source: UNODC ARQ

*"Drug trafficking networks are well established, involving many in practices counter to the rule of law, but providing important economic resources in a largely poor country."*

ratified the Convention on the Right of the Child and, in accordance with its obligations under the document, passed a national legislative charter on children's rights, or the Code of Childhood and Adolescence (Código de la Niñez y la Adolescencia, henceforth referred to as "the Code").

The Code contained principles stating that all children and adolescents were entitled to equal treatment before the law and to equal and full access to basic social services. It also stipulated that the state and civil society must refrain from stigmatizing impoverished children and adolescents as living in "irregular

situations" and rendering them subject to arbitrary detention and treatment. Finally, it assigned responsibility for application of the principles of the Code to the different organs of the state and civil society at national and municipal levels. (Article 1-11)

While the government promised subsequent policies to protect and promote the rights of children, concrete results and improvements were slow to materialize. This delay comes from a lack of financial resources with which to implement programs and a lack of willingness on the part of politicians to prioritize social policies benefiting children.

Children thus continue to work as low wage laborers or remain underemployed, while many others are engaged in prostitution, drug trafficking and various other forms of extra-legal activity. Despite the heightened profile of children's welfare that resulted from the passage of the Code into law in 1998, total public spending on education actually declined subsequently. Between 1997 and 1999, public spending on education decreased from 15.5% to 11% of total government allocations. Between 1998 and 2000, overall recurrent spending on public education fell from 4.2% to 2.7% of GNP. In 2002, public expenditure on the entire formal education system was reduced by US\$4 million from the previous year, and in 2003 it has once more fallen by an estimated 10%.

Today, one of every three children has some degree of chronic malnutrition and the maternal mortality rate of 150 per 100,000 live births is considered high. Adolescent pregnancies account for one of every four births nationwide. Safe water and sanitation coverage continues to be low, particularly in rural areas and those with dispersed populations.

Access to early childhood development interventions is limited. An estimated 76% of children complete primary school. The quality and relevance of education are significant problems. It takes an average of 10.3 years to complete the mandatory six years of schooling. Poverty affects school participation, with many families

unable to afford the direct or hidden costs. Poverty also results in child labour, which affects more than 167,000 children and adolescents.

**Source:**

UNESCO. Available at: [http://portal.unesco.org/en/ev.php-URL\\_ID=29008&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=201.html](http://portal.unesco.org/en/ev.php-URL_ID=29008&URL_DO=DO_TOPIC&URL_SECTION=201.html)

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MacLure, Richard and Melvin Sotelo. "Children's rights as residual social policy in Nicaragua: state priorities and the Code of Childhood and Adolescence." *Third World Quarterly*, Vol 24, No 4, pp 671-689, 2003.

**Migrants' Human Rights**

The government of Nicaragua has been active in promoting the rights of Nicaraguan migrants currently working in the United States and Costa Rica. Several

discussions have taken place among high officials to ensure better treatment for Nicaraguan citizens.

The Nicaraguan Health Survey indicates that 11% of Nicaraguan households have at least one person residing abroad. Approximately 1 million Nicaraguan migrants are now working in Costa Rica, which is currently the most common destination for Nicaraguan migrants, followed by the United States.

Although migration from Nicaragua to Costa Rica is more important now, it is not a new phenomenon. At the end of the 19th century and beginning of the 20th, Nicaraguans began migrating to work in the banana plantations on Costa Rica's Caribbean coast and in the mines of Abangares. In the 1950s, a second wave of workers went to

TABLE 11: CHILD LABOUR IN CENTRAL AMERICA

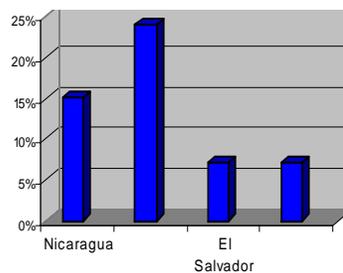


TABLE 13: INFANTS WITH LOW BIRTH WEIGHT IN CENTRAL AMERICA

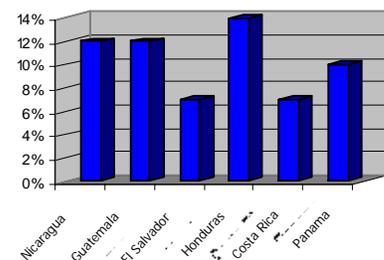


TABLE 12: POPULATION USING IMPROVED DRINKING WATER

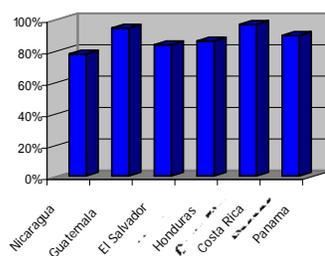


TABLE 14: NET PRIMARY SCHOOL ATTENDANCE

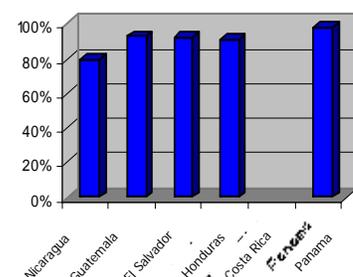
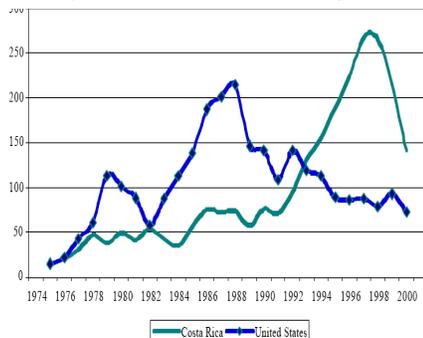


TABLE 15: MIGRATION RATE BY COUNTRY OF DESTINATION & YEAR (1000S—3-YR AVERAGES, 2000-2002)



Costa Rica to work on cotton plantations, filling a labour demand that Costa Ricans could not. Migration increased during the Somoza dictatorship when 280,000 people left Nicaragua, and at least 80,000 headed for Costa Rica. Finally, approximately 100,000 to 125,000 Nicaraguans sought refuge in Costa Rica during the civil war.

Many returned home after the signing of the peace process but waves of permanent and temporary workers continued to arrive in Costa Rica in subsequent years. According to Costa Rican censuses, the population born abroad between 1984 and 2000 grew from close to 90,000 to around 300,000 foreigners, of whom 226,000 were Nicaraguan-born. In relative terms, this growth implied that the percentage of foreign population doubled, growing from 4 to 8% of the total population, and the proportion of Nicaraguans grew to three-quarters of all foreigners residing in Costa Rica.

Nicaraguan migrants are divided into three categories: 1) seasonal migrants, who come for up to a year, mainly to harvest export

crops; 2) semi-permanent migrants, who leave part of their family behind and go back to Nicaragua for visits every year or two (they are mostly involved in economic activities that require a longer stay, such as construction, private security, domestic labour, commerce and services) and 3) permanent migrants, who tend to hold the same kinds of jobs as semi-permanent migrants, but often accompanied by their families.

Many migrants are undocumented and live in appalling conditions. According to studies conducted at the University of Costa Rica, 30 percent of Nicaraguans in Costa Rica live in extreme poverty. Children are often not registered in school and housing conditions are rudimentary. Besides being badly paid, the Nicaraguan community in Costa Rica is often the target of racism and criminality.

#### Source:

Cortés Ramos, Alberto. "Nicaragua's Indispensable Migrants and Costa Rica's Unconscionable New Law." *Revista Envio*. April 2006. Available at: <http://www.envio.org.ni/articulo/3253>

Vargas, Juan Carlos. *California Center for Population Research The Population of the Central American Isthmus in 2003. Conference Papers*. «Nicaraguans in Costa Rica and the United States: Data from Ethnic Surveys» (Translation of Spanish Version). Available at: <http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1104&context=ccpr>

#### GOVERNMENT TRANSPARENCY & ACCOUNTABILITY

##### Persistent Fund Mismanagement

In 2006, Nicaragua was ranked 111 of 163 in the Transparency International Corruption Index. According to the 2005 Global

Corruption Barometer survey, administered by Transparency International, Nicaraguans perceived the political parties as the most corrupt organs of government. Respondents also identified medical services and education as being subject to corruption, although to a lesser extent. 31-50 percent of respondents indicated that corruption affected political life to a large extent and more than 6 out of 10 believed that the situation would get much worse, making Nicaraguans the most pessimistic respondents in Latin America. Freedom House scores also assigned Nicaragua a poor corruption score, with 2.69 out of 7 for Anticorruption and Transparency. Its score for Accountability and Public Voice was stronger, at 4.56.

Given the long tradition of fund mismanagement by political figures, these scores and the population's perception of rampant corruption are not surprising. While former President Arnaldo Aleman's case is the most famous and earned him a 20-year prison sentence, several other political figures have been accused or convicted of fund misappropriation in the last decade. Along with Aleman, Byron Jerez, the ex-Director General of Revenue, Esteban Duquestrada, the ex-Minister of Interior, and Jorge Solís, the ex-president of ENTEL, were all accused of fraud, mismanagement of public funds and money laundering in what was known as the *Caso de Canal* in Nicaragua. More recently, in 2006 the Minister of Transportation and Infrastructure Pedro Solorzano was accused of fund misappropriation.

*Main Problems:*

- Although there is an institution charged with monitoring government allocations, the *Contraloría General* does not have the necessary staff to audit all public spending. In 2001, only 351 audits were conducted, with 38% of those conducted by private, sub-contracted firms.
- Access to information remains difficult for ordinary citizens and organizations calling for increased state accountability and transparency.

*Positive Initiatives & Developments:*

- Thanks to a public campaign against corruption and former President Bolaños' efforts to fight it, citizens are more aware of the drawbacks of corruption and are pressuring elected officials to make anti-corruption a priority within the government and the public service. Non-government and community organizations are also beginning to demand more accountability and transparency by calling for greater citizen participation.
- There are laws defining what public servants can accept as gifts, commissions or free services. The laws also establish a range of sanctions and fines for public servants disobeying the law.
- In 2000, a law (331) was passed forcing political parties to respect organizational and functional rules, and to declare all sources of financing to the Supreme Electoral Council.

- In 2002, the reform of the penal code (law 419) included new punitive measures for acts of corruption committed by public servants such as fraud, illicit enrichment, etc.
- An Integrated System of Financial and Administrative Management (SIGFA) was adopted in order to centralize information related to state revenue and spending, and to achieve more effective management of transactions.

**Source:**

Global Corruption Barometer 2005, Transparency International Segundo Informe sobre Desarrollo Humano en Centroamérica y Panamá. *Perfil del Sistema Nacional de Integridad de Nicaragua*, 2003.

**Freedom of Speech & of the Press**

Nicaragua has a CIFP score of 4.6 for media freedom, which places it approximately at the global median, and represents a moderate risk for governance and democratic processes. Unfortunately, some reforms following Daniel Ortega's election represent cause for concern, as they threaten to further reduce

government accountability and transparency.

On January 29, 2007 the Finance Ministry issued a policy ordering that all government advertising be frozen. The allocation for advertising in the 2007 budget was worth 90 million cordobas, or about US\$5 million.

Freezing advertising harms small media, as they lose an important source of revenue. Many have suggested that freezing the advertising would allow government to use it as leverage with which to reward or punish over media outlets and journalists, a violation of the Declaration of Chapultepec, signed by Ortega in July of 2001. Journalists have been protesting loudly against the new rules and the Inter-American Press Association has also raised concerns over this centralization of communication.

Nicaragua has two national newspapers, with an average daily circulation of some 80,000 copies between them. There is a local daily in Managua, 5 open TV channels, 3 UHF channels, over 40



#### CONSEQUENCES OF THE FIRST LADY TAKING CONTROL OF PRESIDENTIAL COMMUNICATIONS:

- Tighter media control
- More control on the message
- Retribution against journalists printing articles without the approval of Senora Murillo
- Journalists complaining in newspaper editorials

#### CONSEQUENCES FOR ACCOUNTABILITY & TRANSPARENCY:

- Reduced press freedom
- Less objective knowledge disseminated to the public
- Weaker basis of information with which to evaluate government performance

local channels distributed by cable, two subscription bulletins, 160 FM radio stations and more than 30 AM stations. Finally, there are two weekly newspapers and around a dozen monthly magazines whose print runs range between 500 and 2,000 copies. FSLN supporters have little influence on television and the written media. However, they have a considerable influence on radio stations. Although pro-Sandinista stations are the most influential and listened-to, they are not numerically the majority, since no more than 15% of radio stations are Sandinista-owned.

Rosario Murillo, Daniel Ortega's wife, is now in charge of the Presidential Communication and Citizenship Council and she was given the responsibility for coordinating and supervising the implementation of this directive. Murillo is also responsible for tightening the communication coming from the Presidential office and exercising a greater control on media. In one

declaration, she said: "We will use our media outlets so that our information gets out uncontaminated, directly, as we did during the campaign."

#### Source:

Interamerican Press Association. Available at: [http://www.sipiapa.org/publications/informe\\_nicaragua2007\\_ca.cfm](http://www.sipiapa.org/publications/informe_nicaragua2007_ca.cfm)

Revista Envio. March 2007. Available at: <http://www.envio.org.ni/articulo/3519>

### GOVERNMENT & MARKET EFFICIENCY

#### Diaspora and Remittances

A significant percentage of Nicaragua's population resides outside the country, having fled during the civil war that opposed the Sandinistas to the US-backed Contras, or more recently in pursuit of economic opportunity. Following the end of the civil war, some migrants returned to Nicaragua, but many remained abroad for lack of economic opportunities, combined with ongoing political instability at home. In 2002, 190,963 Nicaraguans were living legally in Costa Rica, 6,190 in Canada, and 281,167 in the United States. Thousands of Nicaraguans were also living as illegal immigrants in Costa Rica and the United States in conditions that often feature human rights abuses. Several thousand Nicaraguans continue to migrate north towards Mexico each year in hopes of eventually reaching the United States. Networks of human trafficking were also uncovered in 2006, highlighting the continuing poverty and despair facing many Nicaraguans.

In 2005, the Nicaraguan diaspora sent US\$600,000,000 home in

the form of remittances, contributing the equivalent of one quarter of Nicaragua's GDP. The diaspora helps alleviate poverty by sending money to friends and family, and also by providing them with goods for private consumption or retail. Although the Nicaraguan population spends the majority of the funds received on consumer goods, a percentage of the money is saved, invested or devoted to socially valuable consumption such as education and basic healthcare. The diaspora also act as a source of new technology, market intelligence, business contacts, tourism revenue and a market for imports of local foods and other 'nostalgic' goods; the total impact of such diaspora networks on the Nicaraguan economy and society is therefore difficult to quantify, but it is clearly substantial both over the short and long term.

#### ISSUES:

- Tighter regulations in the US after September 11, 2001 are affecting traditional migration patterns
- Difficulties for sending and receiving countries attempting to find a balance between economic efficiency, unequal wages and human rights
- Migration and remittances can create a feeling of relative deprivation among communities and encourage further migration
- Transfer costs and transaction fees are high, and can capture more than 5% of funds remitted
- Motivation for migration includes: disparity in income and employment opportunities, low education and life opportunities, environmental degradation, political instability and armed conflict, poverty, and human rights abuses

TABLE 16: FDI, ODA AND REMITTANCES IN 2005

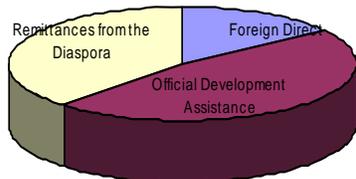
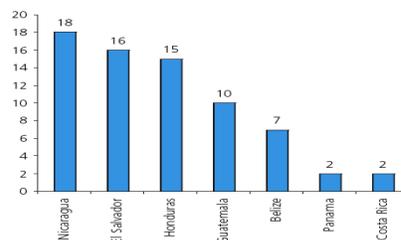


TABLE 17: REMITTANCES AS SHARE OF GDP (2004)



Source: ECLAC, *Panorama social de América Latina 2005*

**STATISTICS:**

- 20% of Latin Americans live out of their country of origin
- 10% of the US' population is composed of migrants
- 51% of the foreign-born population in the United States is from Latin America
- 5% of Latin American households benefit from remittances
- 15% of the migrants' income, on average, is remitted to their family
- 10% of remittances can be saved up by recipients of remittances
- 10 billion US\$ is sent each year to Central America and the Caribbean in the form of remittances

In order to maximize the contribution of Nicaragua's diaspora to the country's development however, incentives must be provided by the national government and international donors to encourage senders and recipients of remittances to both draw from and invest in the local economy, and to direct spending towards outcomes with significant positive externalities such as education. Functioning banking institutions and lower transaction costs would also increase the benefits linked to remittances.

Major improvements in economic performance will need to be achieved prior to the return of Nicaragua's migrants to the country, in order to guarantee their reabsorption into the country's economy. However, once this prerequisite is attained, Nicaragua could speed up its development considerably if it could design and implement policies aimed at attracting returnees and capitalizing on the

skills that they have acquired abroad.

**Source:**

Costa Rica Instituto Nacional de Estadística y Censos. 2000. Censo Nacional de Población y Vivienda 2000. Available at: <http://www.inec.go.cr/>

International Organization for Migration. 2005. *World Migration. Costs and Benefits of International Migration*.

US Census Bureau. 2005. Available at: [http://factfinder.census.gov/servlet/A\\_C\\_S\\_S\\_A\\_F\\_F\\_P\\_e\\_o\\_p\\_l\\_e?\\_submenuId=people\\_10&\\_sse=on](http://factfinder.census.gov/servlet/A_C_S_S_A_F_F_P_e_o_p_l_e?_submenuId=people_10&_sse=on)

**Private Sector and Market Reforms**

Central American countries are particularly sensitive to the fluctuation of their countries' national income. Many factors contribute to this vulnerability. The small size of Central American countries is the first factor responsible for the fluctuation of their national income. Their exposure to external shocks, created by commodity price fluctuations, limited economic

diversification, small manufacturing sectors and recurrent natural disasters also needs to be considered.

Historically, the continuing use of forced labour in plantations, and a widespread resistance to taxation that curtailed government income, forcing it to limit social spending and rely on tariffs for revenue has also hampered economic diversification and contributed to a growing sensitivity to national income's fluctuation. The inability to diversify their economy in part results from the close association between banks and coffee plantation owners which prevented small farmers' access to capital, the capture of state institutions by coffee interests who pushed for policies benefiting plantations owners to the detriment of peasants, railroads operating for the benefit the banana industry only, which prevented industrialization, and a low population density.

Nicaragua has one of the weakest economies in Latin America. In 2005, its GDP was only US\$4.9 billion, with limited foreign investment and exports among the lowest in Central America, when considered as a share of GDP (*see tables below*). Several factors explain its poor performance.

First, the crisis of the 1980s, which was caused by the interruption of international capital flows and external trade shocks, had enormous consequences for the region as a whole. Second, political instability in Central America and the war against the contras in

Nicaragua led to massive investments in military expenditures to the detriment of social programs and economic development. Third, the severing of the relationship with the US and the ensuing trade embargo left Nicaragua with a massive debt and a reduced market for exports. Finally, a policy of money creation during the war led to hyperinflation and spiralled the economic crisis out of control. Natural catastrophes such as Hurricane Joan (1988) and Hurricane Mitch (1998) contributed to the destruction of land and infrastructure, further delaying economic recovery. They also led to a massive population displacement, reduced investment in social programs and a reduction in productivity.

Following the war, reforms aimed at liberalizing trade were put into place by the Chamorro administration in hopes that they would trigger an economic recovery. The reforms included lower tariffs, the promotion of exports, and harmonization of exchange rates. The government also implemented macroeconomic stabilization reforms and fiscal austerity measures, including budget deficit reduction, the halt of money creation and other anti-inflationary policies, and a fight against tax evasion. In line with development theory then dominant, the government believed that trade liberalization would bring about a better allocation of resources, increased economies of scale, the development and implementation of appropriate technologies, increased ability to cope with

TABLE 18: EXPORT OF GOODS AS SHARE OF GDP

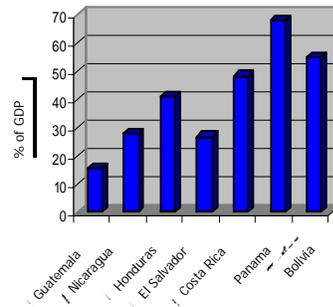


TABLE 19: FOREIGN DIRECT INVESTMENT NET INFLOWS

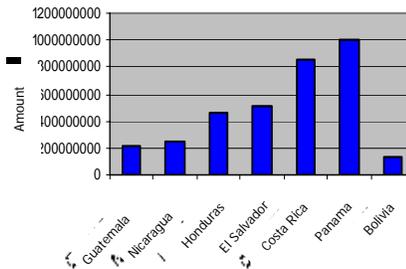
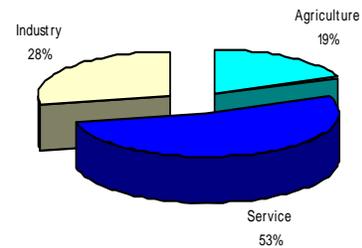


TABLE 20: ECONOMIC SECTORS RELATIVE TO GDP



FACTORS INFLUENCING MARKET PERFORMANCE:

- Political stability
- Income inequality
- Corruption
- Availability of education
- Level of democracy
- Investment in physical and human capital

external shocks, and a reduction of rent-seeking activities.

Unfortunately, as in other regions, the reforms did not provoke tremendous growth in GDP and Nicaragua's economy remains precarious as a result. Nicaragua has been granted debt relief under the Heavily Indebted Poor Country Initiative and has an agreement with the IMF under which it is committed to privatize public utility and continue fiscal adjustment programs, including tax reforms. Although Daniel Ortega has pledged to increase spending in social programs and increase money transfers to the poor, which would go against the commitment of the IMF to maintain a balanced budget, negotiation with the IMF currently continues.

Beyond such questions of fiscal and monetary policy, electricity

shortages and other practical considerations also continue to negatively impact the level of productivity and foreign investment in the private sector.

Source:

Larrain, Felipe B. *Economic Development in Central America*. Vol I: Growth and Internationalization. Cambridge (Mass): Harvard University Press, 2001.

Larrain, Felipe B. *Economic Development in Central America*. Vol II: Structural Reform. Cambridge (Mass): Harvard University Press, 2001.

HUMAN RIGHTS: FOCUS ON GENDER

Politics

In terms of politics, 14 women were elected to the lower house in the last elections out of a total of 92 deputies, representing 15.2 percent of elected representatives. In Nicaragua there is no quota for women in Parliament, although the FSLN has a 30 percent quota for women in terms of party

TABLE 21: % OF WOMEN IN THE LOWER HOUSE (2005)

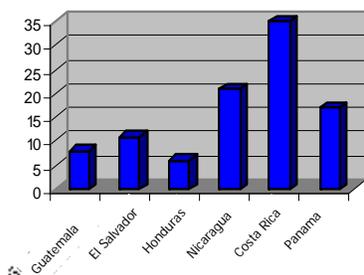
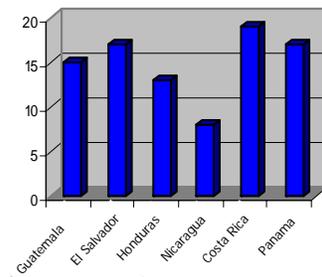


TABLE 22: % OF FEMALE CABINET MINISTERS IN 2005



The maternal mortality rate also remains a challenge for Nicaragua, reflecting the limited capacity of the country's health system. In 1995, Nicaragua had a ratio of 250 deaths per 100,000 live births, which was comparable with the ratio in Guatemala, Honduras and El Salvador but significantly higher than other countries such as Costa Rica and Panama. The country's percentage of births attended by skilled health personnel was slightly more encouraging at 65%.

GENDER RELATED DEVELOPMENT INDEX	
Female adult literacy rate	67.10%
Male adult literacy rate	66.50%
Female combined primary, secondary and tertiary gross enrolment ratio	66%
Male combined primary, secondary and tertiary gross enrolment ratio (%)	63%
Female estimated earned income in 2001 (PPP US\$)	1,494\$
Male estimated earned income in 2001 (PPP US\$)	3,415\$

### Economy

The gendered dimensions of poverty are related to women's unequal access to resources in the economy and within the household when compared with men. In general, poverty refers to the inability to attain an adequate standard of living as a result of a lack of resources; relevant measures include levels of income, consumption, life expectancy, access to potable water, and health services, and other facets of human development.

representation. Compared to other countries in Latin America, Nicaragua is doing well in its efforts to pursue equality of access and opportunity for women and men. From an average of 9 percent in 1990, women's representation in the lower houses of the national Parliaments of Latin America had increased to 17 percent by 2005, while women's share of seats in regional Senates grew from an average of 5 percent in 1990 to 13 percent in 2005. However, unlike Nicaragua, much of this regional progress is due to the introduction of quota laws in eleven Latin American countries during the period. In Nicaragua, it is not rare to see women in high bureaucratic posts, including the police forces.

### Health and Security

Although women are fairly well integrated in the political sphere, problems of domestic violence against women remain a major concern in Nicaragua. Unlike other Central American countries, there is no law specifically criminalizing domestic abuse and, despite a reform of the penal code made in 1996, references to domestic violence remain vague. Instead of criminalizing violence, the penal code currently defines the physical injuries derived from domestic violence as illegal. Such terminology moves the focus from assault to injury, and makes it difficult for women to have recourse to justice in cases of domestic abuse when injuries are not life-threatening. Partly as a result, police forces often overlook cases of domestic abuse.

Female-led households, most of which are supported by women's



work alone, are more vulnerable to poverty. Out of the total number of these households, approximately 36% are within the category of “poor” in Latin America; in some areas, including Nicaragua and Honduras, the figure is 50%. According to the United Nations Human Development Report (2003), which included a Gender-related Development Index (based on life expectancy, adult literacy, gross educational enrolment ratio and estimated earned income),

Nicaragua is ranked 98th globally and has indicators comparable to other Central American countries. CIFP Indicators for Gender provide an overview of a range of gender-based indicators for selected countries in Central America. The results provide measures of performance in the areas of human rights, delivery of education and health services to women (both in terms of actual level of attainment, and in comparison to what males in the same country receive on average), and participation in the political and economic life of the country.

The results highlight Nicaragua’s relatively strong performance in the areas of political representation and political rights for women, and women’s access to education when compared with Nicaraguan men. However, Nicaraguan women obtain lower levels of educational completion, literacy, and life expectancy than women in a number of neighbouring countries. Such findings suggest that the limited capacity of Nicaragua’s health

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Percentage of Female Parliamentarians (WDI)	1.9	5.6	6.5	6.6	3.2	5.3
Female Parliamentary Quota (Global database of quotas for women)	1.1	..	..	1.7	..	2.4
Women’s Political Rights (CIRI)	3.0	3.0	3.0	3.0	3.0	3.0
Women’s Social Rights (CIRI)	3.0	5.0	3.0	5.0	5.0	5.0
Women’s Economic Rights (CIRI)	3.0	5.0	5.0	5.0	5.0	5.0
Women in the labour force (WDI)	7.6	6.3	7.9	7.4	8.1	6.9
Education -- Primary Completion -- female (WDI)	5.3	6.2	7.4	6.4	6.8	4.4
Education -- Primary Completion – Ratio of female to male (WDI)	2.4	4.2	7.7	1.3	1.2	4.1
Education -- Primary Enrolment -- Ratio of female to male (WDI)	4.2	6.4	7.6	1.6	3.4	5.7
Gender Empowerment Measure (UNDP)	3.2	6.1	..	6.0	..	5.2
Gender-related Development Index (UNDP)	3.3	5.6	6.4	6.3	6.2	3.8
HIV/AIDS -- Percentage of Adult Females Infected (WDI)	3.3	3.7	3.0	2.7	2.3	2.8
Literacy -- female (WDI)	3.0	..	6.8	5.8	6.1	3.7
Literacy – Ratio of female to male (WDI)	1.4	..	6.3	1.4	2.4	3.7
Life Expectancy -- Female (WDI)	2.5	4.7	5.9	6.0	5.5	3.1
Life Expectancy – Ratio of female to male (WDI)	2.4	4.8	6.0	5.8	5.4	2.8
Percentage of Female Parliamentarians (WDI)	1.9	5.6	6.5	6.6	3.2	5.3

and education programs affect both women and men.

In addition to primary education, only one other gender-based indicator represents an area of high risk, namely women in the labour force. However, compared with other Central American countries, Nicaragua’s scores are similar to Panama and Honduras, while Costa Rica is performing better and Guatemala and El Salvador face more challenges. The limited participation of women in the Nicaraguan labour force is therefore reflective of a

larger regional pattern, one reflective of the more traditional social structure and the high overall unemployment rate in all countries; even Costa Rica, the highest performing Central American country, rates relatively poorly in the area of female employment. Overall, the high level of women’s political rights and political participation, combined with the relatively strong scores comparing female and male access to education and health services suggest that Nicaragua efforts to ensure some degree of gender equality.

## DEMOCRATIC PARTICIPATION

### Direct Democracy

Daniel Ortega began campaigning for a restructuring of the political system immediately upon his election in November 2006. He stressed his desire to amend the Constitution in order to allow presidential re-election. Currently, presidential re-election for two consecutive terms is prohibited by Nicaragua's Constitution. He also presented his plan to implement direct democracy and give power to villages by forming Citizens' Councils (Consejos del Poder Ciudadano or CPC) all over the country.

Citizens' Councils, as presented by Ortega, are to be composed of local associations gathered to suggest and articulate public policies. The CPC initiative was launched by Presidential decree 03-2007, published on January 10<sup>th</sup>, 2007. The decree stipulated that public servants, mayors and FSLN officials were to operationalize and implement the new political structure by July

19<sup>th</sup>, 2007, the anniversary of the Sandinista Revolution.

The Councils would be organized and legislated by the Communication and Citizenship Council directed by Ortega's wife, Rosario Murillo, and would, among other things, manage the funds of the Program *Hambre Cero* aimed at reducing hunger and poverty in the country. The Councils would also implement a potential micro-credit program. By July 19<sup>th</sup>, Murillo announced that 6,334 Councils had been formed, encompassing 500,288 Nicaraguans. (La Gente)

The CPC initiative has generated a great deal of opposition in Nicaragua. Members of civil society manifested their opposition on July 17<sup>th</sup> through a request that the opposition unite and prevent the implementation of this new institution. Several political and cultural figures have expressed their opinions in Nicaraguan newspapers and magazines, and the official opposition has voiced its concerns

in Parliament. On July 21<sup>st</sup>, the opposition attempted to slow down implementation and proposed to transfer the administration of the Program *Hambre Cero* from the Citizens' Councils to local mayors.

In its critique of the initiative, the opposition argues that the creation of a new institution parallel to existing ones is unconstitutional, the Council could be used to channel rewards to political allies and supporters, the funds may be distributed through the Council unfairly, important sources of funding will be administered without parliamentary oversight, and the local Councils may work to consolidate power for Ortega and his supporters.

The Citizens' Council initiative also has supporters who argue that the Councils will increase popular participation in the political process and will give people easier access to elected deputies. Some suggest that the Councils may even increase the government's accountability and transparency.



### 3. Summary of Structure & Trends in Good Governance, 2007

Between January 2<sup>nd</sup> 2007 and August 29<sup>th</sup> 2007, CIFP recorded 509 events that either affected or reflected the level of good governance and democratic processes in Nicaragua. A statistical analysis of the recorded events from this 35-week period shows that, on average, events tend to be moderately stabilizing. Events recorded during this period had positive average scores (1.43), which can be explained by the fact that a greater number of positive events were reported and recorded over the 8-month period (330 positive events compared to 179 negative ones). However, the trend is moderately negative (-0.15), which can be explained partly by the greater number of positive events recorded at the beginning of the period compared to the end of the same monitoring period. (See Tables 24 and 25).

TABLE 23: STRUCTURAL SCORES

PSV	GME	RL
3.28	5.75	6.85
HR	GTA	DP
4.78	5.04	3.77

CIFP's structural data is divided into 6 clusters, each of which is addressed in detail following this summary. The six clusters are Government and Market Efficiency (GME), Political Stability and Violence (PSV), Human Rights (HR), Rule of Law (RL), Government Transparency and Accountability (GTA), and Democratic Participation (DP).

TABLE 24: AGGREGATE EVENT STATISTICS

	All Events	Stabilizing Events	Destabilizing Events
# of Events	509	330	179
Avg. Event Score	1.43	4.86	-4.88
Avg, as % of Total	16%	54%	-54%

The **main source** of this trend lies in the political stability and violence, rule of law, government and market efficiency, and democratic participation clusters, which had the most events recorded over the monitoring period. While the rule of law exhibits a moderately positive trend, the three other clusters have exhibit trends reflecting a continuation of the *status quo*.

TABLE 25: EVENT TENDENCY

	All Events	Stabilizing Events	Destabilizing Events
Weekly Aggregate	Moderately Negative -0.15	Moderately Negative -0.37	Moderately Positive 0.16

The marginally negative overall trend results primarily from the numerous positive announcements made following the election of November 2006 and the inauguration of the new government in January 2007. Events recorded included the inauguration of new and confirmation of old diplomatic relations, increased investment in social programs, announcement of new governmental policies and a high level of generally constructive political activities in general.

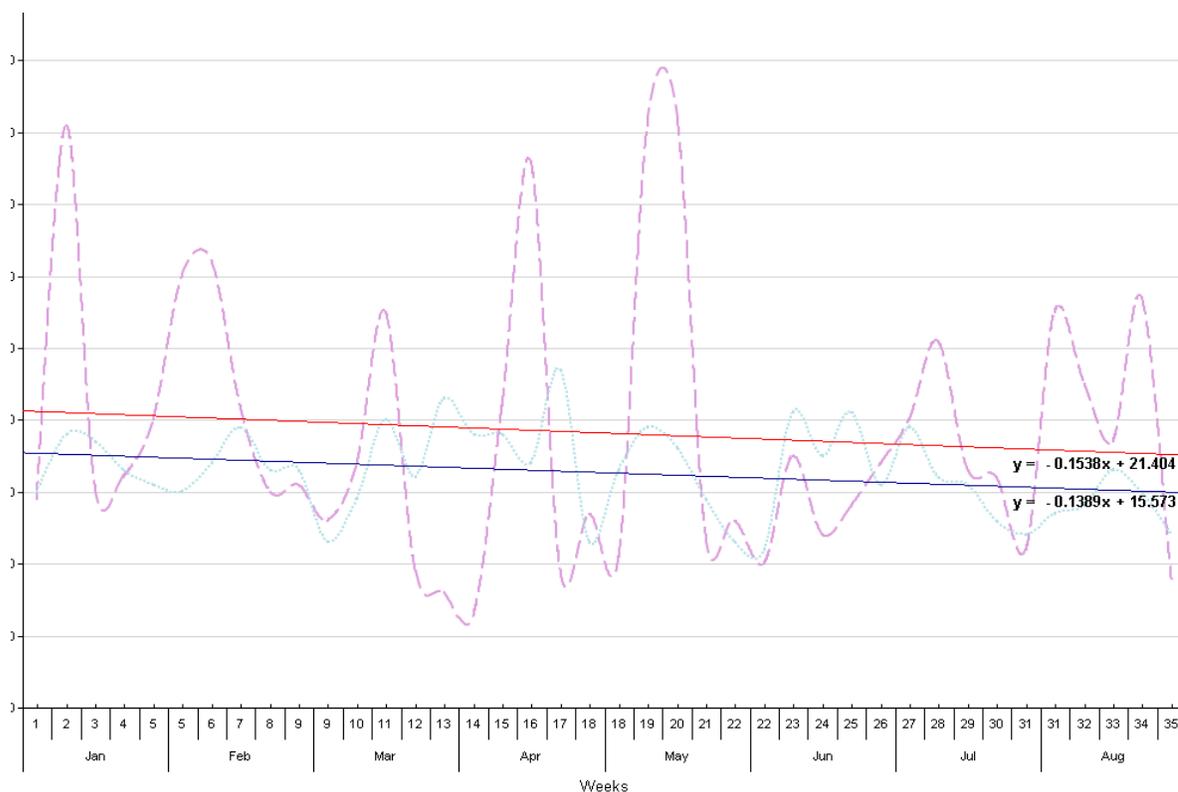
While the intensity of positive events slowly decreased, negative events such as Ortega's attempt to centralize political power, the conflict with the company Union Fenosa over electricity shortages, and the degradation of relations between Nicaragua and the United States slowly shifted the trend downward. Ortega's oscillation on multiple levels, between rightist and leftist positions, conservative and revolutionary policy, and alignment with Venezuela and the United States, have influenced the trend in each cluster by creating a great deal of movement and uncertainty.

Our analysis of Nicaragua's governance and democratic processes are interesting. Although the election of Ortega

has brought about a great deal of change in terms of policies, diplomacy and governing style, major economic or political shifts anticipated and feared prior to the election have not yet occurred. In this sense, developments in terms of governance and democratic processes have been more positive than expected, which explains the positive trend for 2006-2007. Nicaragua's dependence on major donors and international organizations, as well as the importance of attracting foreign investment, has forced Ortega to temper his policies and declarations. Nonetheless, the decisions to join ALBA, reduce funding for the media

and create the Citizenship Councils all have important consequences for governance and democratic processes in Nicaragua; given the uncertainty, instability, and lack of transparency that these policies may generate, analysis suggests that their cumulative impact may be detrimental to Nicaragua at the present time. However, as Paul Trivelli, the US ambassador to Nicaragua, affirmed on April 25<sup>th</sup>, 2007, "Ortega has centralized his power in his first 100 days in office, but only Nicaraguans can judge if it is a positive or negative development."

TABLE 26: AGGREGATE EVENT TREND—JANUARY 2007 TO AUGUST 2007



### 4. Primary Drivers

Primary drivers are clusters that contain more than 25 events. These clusters are the main areas of activity in the country and make the greatest contribution to the overall event trend.

**TABLE 27: POLITICAL STABILITY & VIOLENCE**

	<b>3.28</b>
Permanence of Regime Type	4.8
Informal Economy — Black Market	5.2
Conflict Intensity	1.0
Dependence on External Military Support	4.2
Military Expenditure — % of GDP	1.5
Political Stability	5.4
Refugees Produced	5.4
Terrorism -- Number of fatalities	1.0
Terrorism -- Number of Incidents	1.0

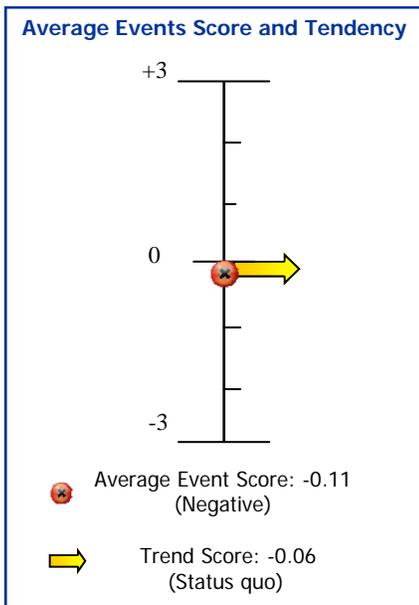
#### POLITICAL STABILITY & VIOLENCE

##### Underlying Conditions

Structural data indicates that Nicaragua is at low risk in terms of political stability and violence. Its score of 3.28 is largely a consequence of the lack of open conflict and urban violence. Weak scores for permanence of regime type and political stability reflect the relative fragility of the immature democratic political system. The number of refugees produced is a further indication of concern; refugees have fled Nicaragua as a result of the civil war and continue to emigrate because of the lack of economic opportunity. Finally, informal market activity highlights the difficulties the government experiences both in regulating economic activity and collecting taxes; it also underscores the corruption and lack of control found at the country's borders.

affirmed that he would maintain relations with Taiwan and vowed to continue positive relations with the United States. On the other, Ortega attempted to initiate or improve diplomatic relations with countries such as Venezuela, Iran, Libya, North Korea and Uzbekistan; such actions are likely to complicate relations with donors such as the United States, international financial institutions, and other regional actors intrinsic to Nicaraguan development. Indeed, the relationship with the United States worsened over the period monitored, and the ongoing maritime disputes with Honduras, Colombia and Costa Rica also influenced both the average score and the trend observed. Finally, announcements regarding potential constitutional reforms drove the trend downward, given their potential impact on the political stability of the country.

**TABLE 28: EVENT MONITORING RESULTS JANUARY-SEPTEMBER 2007**



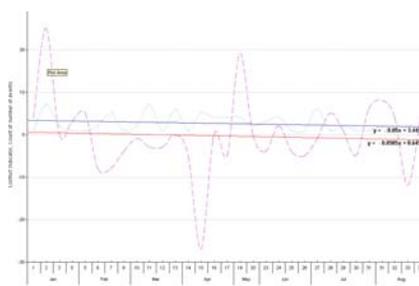
##### Event Analysis

The political stability and violence cluster has a marginally negative average score (-0.11) and a trend of -0.06, a result indicative of a continuation of the *status quo* (See Table 29). Reported events tended to be equally positive and negative both in terms of number and intensity over the observation period.

##### Significant stabilizing events:

- The United States confirmed that a delegation would be present for the inauguration of Daniel Ortega. Bush affirmed that the two countries should be able to cooperate (January 6<sup>th</sup> and 9<sup>th</sup> 2007).
- Nicaragua agreed to invest US\$750 million in El Salvador, while the latter committed to improve work conditions for migrant Nicaraguan workers (January 11<sup>th</sup>, 2007).

**TABLE 29: PSV TREND—01/07 TO 09/07**



Nicaragua's vacillation between new and old allies as well as political positions following the election of Ortega as president partially accounts for the *status quo* result. On one hand, Ortega

- Nicaragua and Taiwan reaffirmed their mutual collaboration (January 11<sup>th</sup>, 2007, June 13<sup>th</sup>, 2007)
- The National Assembly asked the army for a full technical report on the state of the Sam-7 surface-to-air missiles, as a first step towards their destruction (February 1<sup>st</sup>, 2007)
- Cardenal Obando y bravo accepted the title of president of the Reconciliation and Peace Council, which will monitor Nicaraguan compliance to the peace accords signed at the end of the civil war (March 15<sup>th</sup>, 2007)
- The Assembly approved a new military code that will leave the military under double jurisdiction, both civil and military (April 20<sup>th</sup>, 2007)
- Nicaragua and Costa Rica declared that they are looking for an agreement in the dispute over the San Juan river (July 2<sup>nd</sup>, 2007)
- Ongoing dispute over the country's maritime borders with Honduras, Colombia and Costa Rica (March 13<sup>th</sup>, 2007, April 12<sup>th</sup>, 2007, April 21<sup>st</sup>, 2007)
- Nicaragua's Parliament ratified the treaty slowing its integration to ALBA (March 27<sup>th</sup>, 2007)
- The Nicaraguan Army intercepted and seized a yacht in Costa Rican water, provoking a reaction from Costa Rica's government (April 13<sup>th</sup>, 2007)
- Nicaragua initiated diplomatic relations with North Korea (May 18<sup>th</sup>, 2007)
- The Nicaraguan Army announced it will request material from Libya and Iran (June 25<sup>th</sup>, 2007)
- The Spanish Civil Guards stopped a container full of arms travelling from Israel to Nicaragua. The police and army declared they did not know anything about the shipment (July 4-5<sup>th</sup>, 2007)
- Ortega accused the US of plotting against his government and subsequently called the US the worst terrorists in the world (July 22<sup>nd</sup>, 2007 and August 14<sup>th</sup>, 2007)
- Deputies expressed their worries about the resurgence of illicit armed groups in the Pacific region (August 16<sup>th</sup>, 2007)

#### Significant destabilizing events:

- Ortega announced that he would push for constitutional reforms that would establish mechanisms of direct democracy in Nicaragua (January 11, 2007, and March 22<sup>nd</sup>, 2007)
- Ortega refused to destroy the army's stock of Sam-7 surface-to-air missiles as requested by the United States (February 4<sup>th</sup>, 2007, April 1<sup>st</sup>, 2007)
- Ortega sought closer ties with Iran and criticized UN Security Council sanctions against Iran (February 13<sup>th</sup>, 2007, March 25<sup>th</sup>, 2007)



TABLE 30: RULE OF LAW

	6.85
Police, Law & Criminality	6.3
Prison Population Rate	5.2
Prison Occupancy Level	5.8
Number of Political Prisoners	5.4
Judicial Independence	8.8
Impartial Courts	8.5
Integrity of the Legal System	5.3
Military Interference in Rule of Law	8.1
Property Rights	8.3

**RULE OF LAW**

**Underlying Conditions**

This cluster represents a high source of instability for Nicaragua. An average structural score of 6.85 places the country among the bottom quartile of countries globally. Regionally, it is on a par with Guatemala and Honduras, and lags behind Panama, El Salvador, and Costa Rica. In Nicaragua's case, the result is driven by scores for judicial independence, impartiality of the courts, military interference in the rule of law, and respect for property rights among the lowest in the world.

The indicator for police, law and criminality is also worrisome, although to a lesser extent. Taken collectively, these indicators reflect the situation on the ground, where the police are active, relatively effective and criminality is moderate but the judicial system faces more challenges. The judicial nomination system is subject to influences from the legislative and executive branches of the government and judges are sometimes corrupt and biased, which affects the capacity of the court to deliver fair and consistent verdicts.

**Events Analysis**

The average score of the rule of law cluster is negative at -1.67 while the trend is moderately positive (0.20). The high number of destabilizing events (38) compared to stabilizing events (19) is partly responsible for the negative average score, while the positive trend can be explained by a higher intensity of destabilizing

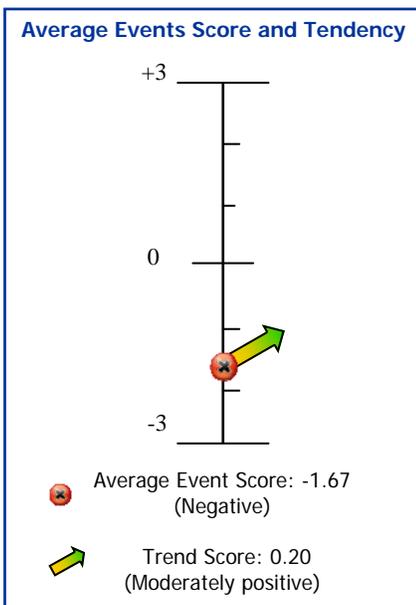
events at the beginning of the period as compared to the end of the period monitored.

The number of arrests related to drug trafficking as well as cocaine and heroin shipment seizures are responsible for the bulk of events recorded in the Rule of Law cluster during the period monitored. Their frequency and the quantity of drugs seized demonstrate the level of infiltration and activity by Mexican cartels in Nicaragua.

Although a few arrests and convictions for drug trafficking were delivered by the police and judiciary, the confirmation by the National Police that the Mexican cartel Sinaloa had successfully infiltrated the country's institutions and established close contacts with mayors, politicians and government officials is worrisome. Over the observation period, drug-traffickers were freed from prison on numerous occasions; in at least two cases, their release led to the dismissal of the judge involved because it has been proven that judges had received bribes or had failed to carry a proper inquiry.

Towards the end of the period, fewer arrests and decommissioning were reported, which could be perceived as a positive development. However, the air force admitted that it did not possess sufficient numbers and equipment to effectively combat narco-trafficking. Given Ortega's assertion that he would not allow the US Drug Enforcement Agency to operate on its territory, there seems to be few actors in the

TABLE 31: EVENT MONITORING RESULTS  
JANUARY-SEPTEMBER 2007



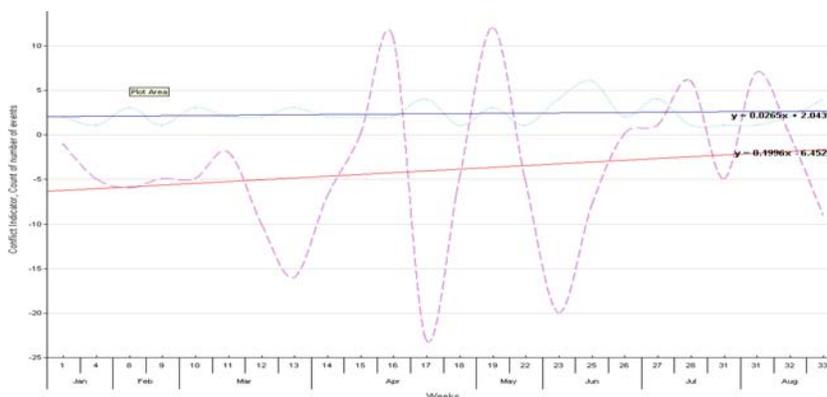
country with the capacity to deal with this growing problem.

**Significant stabilizing events:**

- The US gave Nicaragua US\$17 million, part of which will be used to fight narco-trafficking (March 06, 2007)
- The police discovered a clandestine airfield used by narco-trafficking groups (April 5<sup>th</sup>, 2007)
- Authorities captured a key collaborator of the Mexican cartel Sinaloa (April 17<sup>th</sup>, 2007)
- Ortega disclosed plans to purchase rapid-response defence helicopters for border patrol missions (May 9<sup>th</sup>, 2007)
- The Supreme Court suspended two judges who liberated narco-traffickers (July 4<sup>th</sup>, 2007)
- 21 men alleged to belong to the Sinaloa network were condemned for drug trafficking (July 5<sup>th</sup>, 2007)



TABLE 32: RL TREND—01/07 TO 09/07



**Significant destabilizing events:**

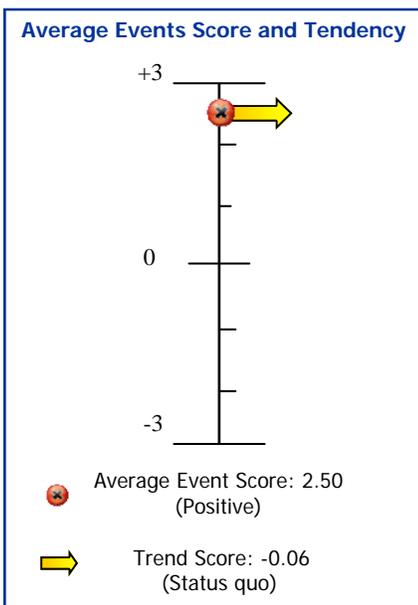
- Forces composed of the army and the Nicaraguan police seized cocaine and heroin on numerous occasions (January 5<sup>th</sup>, March 8<sup>th</sup>, March 25<sup>th</sup>, March 28<sup>th</sup>, April 25<sup>th</sup>, April 30<sup>th</sup>, May 29<sup>th</sup>, June 5<sup>th</sup>, June 17<sup>th</sup>, July 1<sup>st</sup>, July 30<sup>th</sup>, August 12, 2007)
- Judge Edward Peter Palma dismissed charges against 5 people arrested for transporting cocaine (January 24<sup>th</sup>, 2007)
- Judge suspected of being related to a narco-trafficking network was dismissed (February 22<sup>nd</sup>, 2007)
- Former President Aleman was granted parole benefits allowing him to travel throughout the country without restrictions (March 17<sup>th</sup>, 2007)
- The FSLN and the PLC strengthened their political pact by electing four new judges to the Supreme Court (March 29<sup>th</sup>, 2007)
- National Police affirmed that the Mexican cartel Sinaloa had infiltrated the country's institutions and established close contacts with mayors, politicians and government officials (April 23<sup>rd</sup>, 2007)
- Fishermen accused of drug trafficking were liberated from prison (July 2<sup>nd</sup>, 2007)
- The Air force announced it would need an increase of its forces to fight narco-trafficking (August 12<sup>th</sup>, 2007)
- Ortega declared that he was committed to fight narco-trafficking but would not allow operations by the US DEA on Nicaraguan territory (August 13<sup>th</sup>, 2007)

TABLE 33: GOVERNMENT & MARKET EFFICIENCY

		5.75	
Economic Growth—% of GDP	5.8	Contract Regulation	4.9
Economic Size—Relative—GDP/capita	6.4	Enforcing Contracts	3.2
Economic Size—Total—GDP	6.1	Dealing with Licences	4.8
External Debt—% of GNI	3.3	Registering Property	7.3
Ease of Doing Business	4.1	Enrolment Rates	5.8
Starting a Business	3.7	Health Expenditures	3.3
Protecting Investors	4.7	Access to Improved Water	6.4
Trading Across Borders	4.5	Government Effectiveness	6.9
Closing a Business	4.0	FDI—% of GDP	6.9
Economic Freedom	4.6	Foreign Aid—% of Expenditures	8.7
National Savings Level	8.1	Inequality—GINI Coefficient	6.3
Foreign Investment Freedom	4.7	Trade Balance—% of GDP	8.8
Intellectual Property	8.1	Unemployment—Total	6.0

improve in the years to come. Nicaragua has benefited from debt cancellation under the *Heavily Indebted Poor Country Initiative*, along with subsequent debt relief from several countries and organizations. The release of revenues from debt service constitutes an important window of opportunity for the country. If the financial resources thus freed are invested wisely — and security remains under control — the country could begin to fund the social and physical infrastructure necessary to support long-term, broadly-based economic growth.

TABLE 34: EVENT MONITORING RESULTS JANUARY-SEPTEMBER 2007



GOVERNMENT & MARKET EFFICIENCY

Underlying Conditions

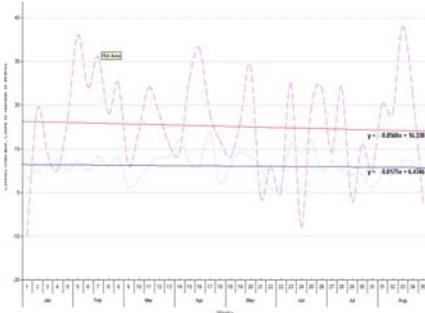
Nicaragua's Government and Market Efficiency score represents an area of moderate risk on average. Medium risk scores for indicators included in the World Bank *Ease of Doing Business* data, such as foreign investment freedom, starting a business, trading across borders and protecting investors are insufficient to account for why foreign investment as a percentage of GDP in Nicaragua has lagged behind other Central American countries, including some, such as Guatemala and Honduras, with higher overall risk scores.

Event Analysis

The average event score in the Government and Market Efficiency cluster is strongly positive (2.50) while the trend exhibits a continuation of the *status quo* (-0.06). In other words, most events related to government efficiency and economic performance were considered positive, a trend that continued throughout the period of observation.

The majority of positive events recorded in this cluster were related to announcements of international aid grants and FDI by countries such as Canada, the United States, Venezuela, Mexico, the European Union, as well as international financial institutions including the Inter-American Development Bank and the World Bank. The government of Nicaragua also announced spending in social programs in the sectors of health and education, as well as investments in different economic sectors such as tourism and

TABLE 35: GME TREND—01/07 TO 09/07



Poor scores on indicators such as trade balance, dependence on foreign aid, FDI and national saving level accurately portray the precarious economic situation in which Nicaragua remains. Positive scores for relative external debt and health expenditure as a percentage of GDP provide some areas of hope for the country, and suggest that living conditions for the majority of Nicaraguans could

manufacture. Negative events were driven by the ongoing energy crisis, punctuated by a conflict between the government of Nicaragua and the Spanish company Union Fenosa, several black outs that forced reductions in work hours, and the rising price of gasoline.

#### Significant stabilizing events:

- Announcements of aid grants and FDI made by Canada, the US, the European Union, Venezuela, Mexico, Japan, the Inter-American Development Bank and the World Bank. (Throughout the period)
- Ortega announced that health and education would be free (January 18<sup>th</sup>, 2007)
- Ortega announced an investment of \$100 million in industries over the next two years (January 23<sup>rd</sup>, 2007)
- Debt cancellation was made by the Inter-American Bank, Poland, Spain (January 26<sup>th</sup>, July 17<sup>th</sup>, 2007)
- Canadian company Polaris Geothermal announced they will invest \$68 million in Nicaragua (February 2<sup>nd</sup>, 2007)
- Negotiations between Ortega's government and the IMF (February 15<sup>th</sup>, March 13<sup>th</sup>, April 30<sup>th</sup>, June 8<sup>th</sup>, July 13<sup>th</sup>, August 25<sup>th</sup>, 2007)
- Venezuela promised to send oil to Nicaragua and offered to build refinery (February 23<sup>rd</sup>, March 12<sup>th</sup>, 2007). First shipment arrived on April 2<sup>nd</sup>, 2007.
- Nicaragua began negotiating a Free Trade Agreement with

CARICOM (March 2<sup>nd</sup>, 2007)

- Ortega banned unnecessary and unproductive foreign travel by government officials (March 23<sup>rd</sup>, 2007)
- Ortega inaugurated the program *Hambre Cero* (May 7<sup>th</sup>, 2007)
- Nicaragua reached an agreement with Union Fenosa (August 2<sup>nd</sup>, 2007)

#### Significant destabilizing events:

- Authorities were preoccupied with cases of Dengue fever (January 02, 2007)
- Nicaragua had to cut its projection of coffee production by 20% due to bad conditions (January 16<sup>th</sup>, 2007)
- Nicaragua's decision to join ALBA made investors from the US and Canada nervous (January 14<sup>th</sup>, 2007)
- Conflict arose between the government of Nicaragua and the Spanish company Union Fenosa over electricity black outs and lack of investment in the infrastructure (January

16<sup>th</sup>, 2007, March 28<sup>th</sup>, April 25<sup>th</sup>, May 10<sup>th</sup>, May 23<sup>rd</sup>, June 6<sup>th</sup>, June 11<sup>th</sup>, June 16<sup>th</sup>, July 05<sup>th</sup>, 2007)

- The price of super gasoline went up for six consecutive weeks (March 25<sup>th</sup>, May 7<sup>th</sup>, May 22<sup>nd</sup>)
- Ortega denied that there was inflation and an economic recession in Nicaragua (April 4<sup>th</sup>, 2007)
- The Central Bank revealed that 12 families control the majority of the capital in Nicaragua (April 6<sup>th</sup>, 2007)
- FSLN announced that it wants to nationalize public services, which will make it difficult for Nicaragua to renegotiate its agreement with the IMF (April 23<sup>rd</sup>, 2007)
- Ortega announced that he would oppose the candidacy of Robert Zoellick as next President of the World Bank (June 23<sup>rd</sup>, 2007)
- Sweden announced that it will phase out aid to Nicaragua (August 27<sup>th</sup>, 2007)



TABLE 36: DEMOCRATIC PARTICIPATION

Checks and Balances	5.6
Degree of Party Dominance	2.1
% of Female Parliamentarians	3.2
Polity Score	4.2
Executive Constraints	3.7

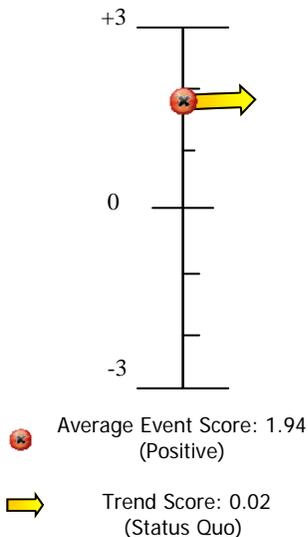
3.77 DEMOCRATIC PARTICIPATION

**Underlying Conditions**

Democratic participation indicators have an average score of 3.77, suggesting that democratic institutions represent an area of comparative strength for the country. Contrary to many countries, the ratio of female parliamentarians is particularly encouraging, as 17 women were elected to the 92-seat Lower House, constituting 18.5% of parliamentarians. While the indicator for checks and balances is at the higher end of the medium risk category (5.6), other indicators such as the polity score and indicator for executive constraints portray the relatively robust nature of Nicaraguan democratic institutions.

TABLE 37: EVENT MONITORING RESULTS JANUARY-SEPTEMBER 2007

**Average Events Score and Tendency**



**Event Analysis**

The average event score in the Democratic Participation cluster is positive (1.94) while the trend suggests a continuation of the *status quo* (0.02). These scores can be partly explained by the fact that the majority of events recorded within this cluster have been stabilizing (51 stabilizing events compared to 20 destabilizing ones). However, more destabilizing events occurred towards the end of the period.

Events come in the form of peaceful protests by workers, civil servants, or NGOs voicing their opinions of the political developments. A series of negative events were also recorded and revolved around the attempt by Ortega to reform the constitution and centralize the powers of the executive in relation to other organs of the

government. The creation of the Citizenship Councils generated strong opposition in both the official opposition and civil society.

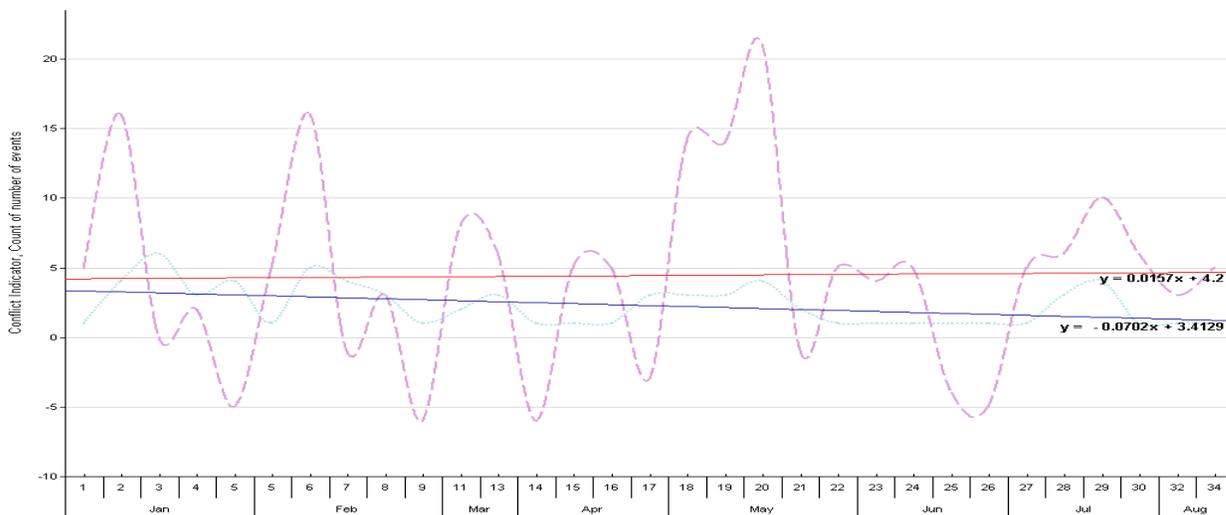
**Significant Stabilizing Events**

- FSLN and the PLC reached a consensus on the composition of the governing board of the National Assembly (January 9<sup>th</sup>, 2007)
- Ortega dropped plan to bring the army and police under his direct control (January 17<sup>th</sup>, 2007)
- PLC and ALN leaders met to discuss the unification of the liberal family (January 31<sup>st</sup>, 2007)
- NGOs expressed their concern over the extended power of the executive (February 1<sup>st</sup>, 2007)
- Deputies in the National Assembly affirmed their support for the creation of a parliamentary or semi-parliamentarian system (February 20<sup>th</sup>, 2007)
- Teachers went on strike for higher salaries (March 16<sup>th</sup>, 2007)
- The opposition asked Ortega to present the petroleum agreement that he signed with Chavez to the Chamber of Representatives (May 9<sup>th</sup>, 2007)
- Ruth Tapia became the 6<sup>th</sup> woman to enter Cabinet (May 17<sup>th</sup>, 2007)
- 20 civil society organisations asked the opposition to pass a law that would prevent the creation of the Citizenship Councils (July 17<sup>th</sup>, 2007)

### Significant Destabilizing Events

- Ortega asked Congress to allow a quick reform of the *Ley de Competencia* in order for him to have greater control over the police and armed forces (January 16<sup>th</sup>, 2007)
- The Assembly approved a bill allowing Ortega to create the Secretariat and Councils by decree (January 24<sup>th</sup>, 2007)
- Ortega granted broad powers to the First Lady Rosario Murillo who heads the Communications and Citizenship Councils (February 5<sup>th</sup>, 2007)
- Ortega announces that he will manage the program *Hambre Cero* himself (February 24<sup>th</sup>, 2007)
- Ortega affirmed that he would seek constitutional reform allowing for Presidential re-election (April 26<sup>th</sup>, 2007)
- 40% of the 92 deputies have not yet spoken in the National Assembly (July 12<sup>th</sup>, 2007)
- Rosario Murillo announced that 6334 Citizenship Councils had been created (July 20<sup>th</sup>, 2007)

TABLE 38: DP TREND—01/07 TO 09/07



## 5. Secondary Drivers

TABLE 39: HUMAN RIGHTS

	4.78
Civil Liberties	4.1
Political Rights	4.5
Human Rights—Empowerment	4.5
Human Rights—Physical Integrity	6.0

### HUMAN RIGHTS

#### Underlying Conditions

Nicaragua’s Human Rights score represents an area of medium risk for democratic processes and good governance with a score of 4.78. The score for physical integrity is the most worrisome, as it reflects the instances of torture, arbitrary arrest and detention which have taken place at the hands of the police forces. Although the scores for empowerment, civil liberties and political rights are only moderately destabilizing, improvements in this sphere are still necessary given that these rights are often guaranteed in practice but not enforced.

seat on May 18<sup>th</sup>, 2007, along with Bolivia.

### GOVERNMENT TRANSPARENCY & ACCOUNTABILITY

#### Underlying Conditions

Indicators of Accountability and Transparency reveal that Nicaragua continues to face challenges in these areas. Medium risk scores for corruption and press freedom combine with a medium score for voice and accountability; such results accord well with the situation on the ground, particularly the lack of constraints on powerful actors within the political system.

The relative youth of Nicaragua’s democratic system partly explains the lack of accountability and transparency mechanisms. It is also partly a result of the country’s location in Central America, within the Andean-American drug corridor. Regardless of its origins, the problem is a serious one, as limited accountability and transparency in diminishes the likelihood of improvements in other clusters such as government efficiency and rule of law. Media freedom is also crucial; without objective observers holding governments accountable, it seems unrealistic to expect government actors to be able to police themselves effectively.

#### Events Analysis

Government transparency and accountability are continuing challenges in Nicaragua. During the period over which events were recorded, Ortega announced that he would cut salaries for

TABLE 40: HR EVENT STATISTICS

	All Events	Stabilizing Events	Destabilizing Events
# of Events	13	12	1
Avg. Event Score	4.54	5.33	-5.00
Avg, as % of Total	50%	59%	-56%

#### Event Analysis

Few events were recorded that related directly to the human rights cluster. Civil society organizations continued to campaign against the controversial ban on therapeutic abortion and, more recently, against the appointment of First Lady Rosario Murillo as head of the Communication and Citizenship Council on the grounds that it violated the National Constitution. On the other hand, the government announced that it would give constitutional guarantees for the protection of migrant rights and signed an agreement with Mexico that will assure good treatment for illegal immigrants from Nicaragua caught in Mexico. Nicaragua also presented its candidacy to sit on the UN Human Rights Commission and was awarded a

TABLE 41: GOVERNMENT TRANSPARENCY & ACCOUNTABILITY

	5.04
Corruption—World Bank	5.7
Voice & Accountability	4.9
Press Freedom	4.6

TABLE 42: GTA EVENT STATISTICS

	All Events	Stabilizing Events	Destabilizing Events
# of Events	43	24	19
Avg. Event Score	0.70	5.17	-4.95
Avg, as % of Total	8%	57%	-55%

bureaucrats (January 20<sup>th</sup> 2007). Such a decision could result in an increase in bribe requests by civil servants as they attempt to recoup their losses from other sources of revenue. Ortega also announced that he would cut the governmental budget for publicity (February 3<sup>rd</sup>, 2007), reducing funds available for media outlets. This in turn may reduce the

number of different media outlets and, by extension, coverage and dissemination of information to the population. The communication strategy of the new government in general was criticized by the official opposition and civil society alike. First Lady Rosario Murillo, in charge of the Communication and the Citizenship Council, was criticized

on several occasions for her intransigence and secrecy. Finally, a few political figures have been arrested for corruption and fund mismanagement during the period monitored, including 25 deputies from the previous Bolaños administration and Pedro Solórzano, the ex-minister of transportation and construction.

TABLE 43: HR TREND—01/07 TO 09/07

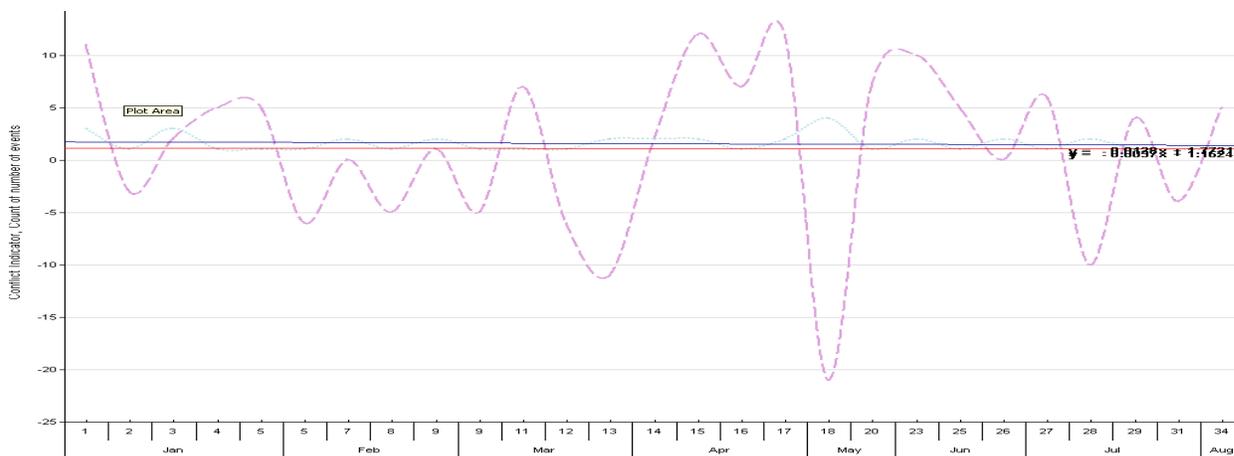
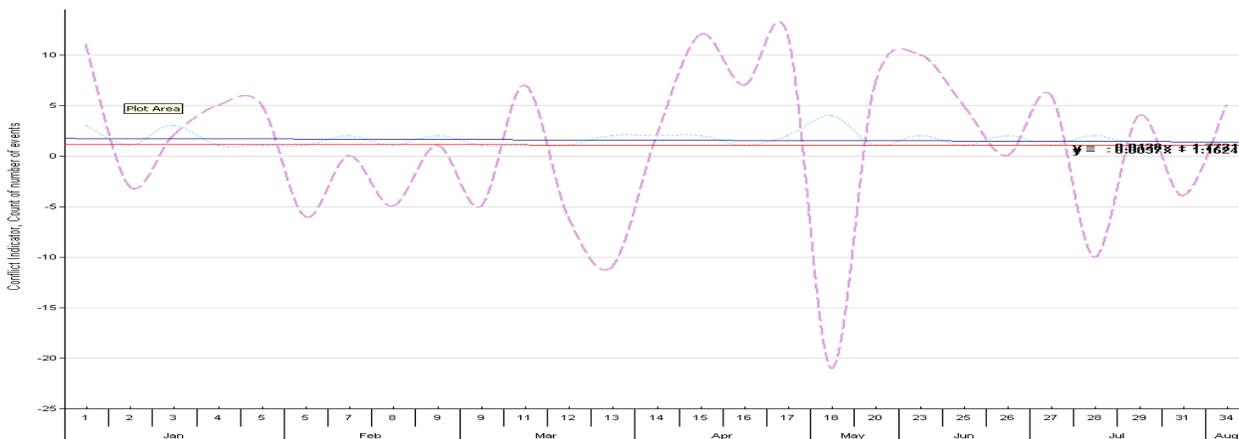
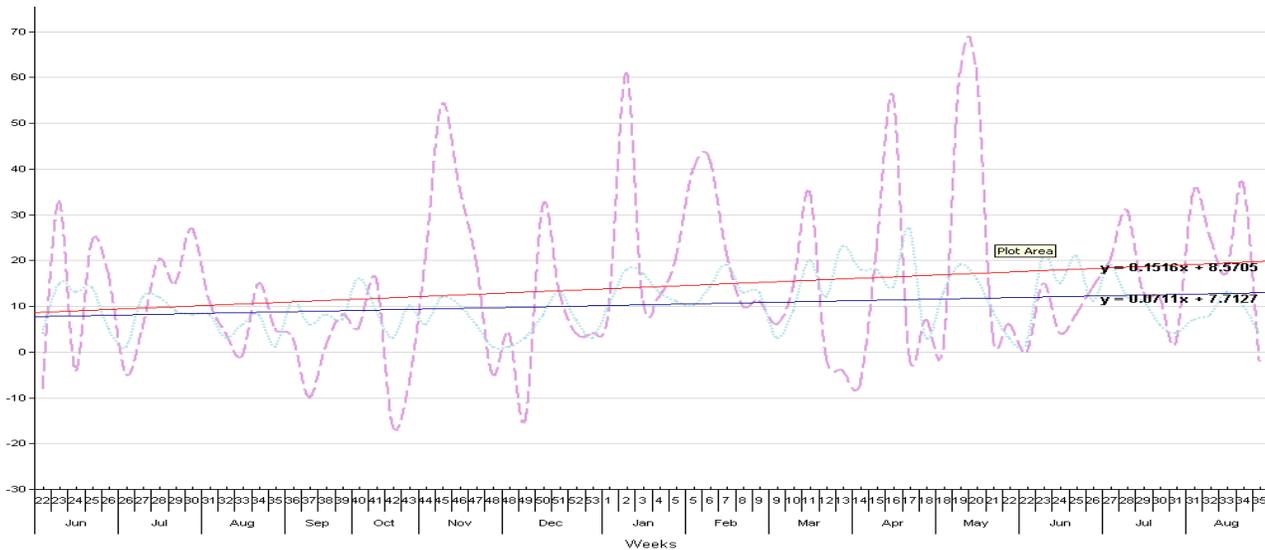


TABLE 44: GTA TREND—01/07 TO 09/07



### 6. Summary of Trends in Good Governance, 2006-2007



#### SUMMARY OF 2006-2007 PSV EVENTS

Overall, events recorded in 2006-2007 exhibited a marginally negative trend of -0.06. From a positive average score of 1.76 for events recorded from June-December 2006, the situation has worsened slightly in 2007 to exhibit a negative score of -0.11 over the first 9 months of 2007. The current “status quo” trend indicates that the solidly positive post-election momentum — indicated by a strongly positive trend in the months immediately following the election — has now dissipated, replaced by a degree of political uncertainty stemming from inconsistent government policy.

#### SUMMARY OF RL 2006-2007 EVENTS

Treated separately, events recorded in 2007 were slightly more negative than those recorded between June and December 2006. While the average score for events recorded in 2006 was -1.55, it reached -1.67 during the period from January to September 2007. The trend for this cluster over 2006-2007 is nonetheless positive at 0.10, indicative of a marginal improvement in terms of rule of law. While instances of drug-trafficking arrests remained constant over the period, the challenge that drug-trafficking presents for governance in general and rule of law in particular has been recognized and the police have enhanced their efforts, leading to the arrests of key collaborators of the Sinaloa cartel. Police officers and

TABLE 45: PSV EVENT TREND—JUNE 2006 TO AUGUST 2007

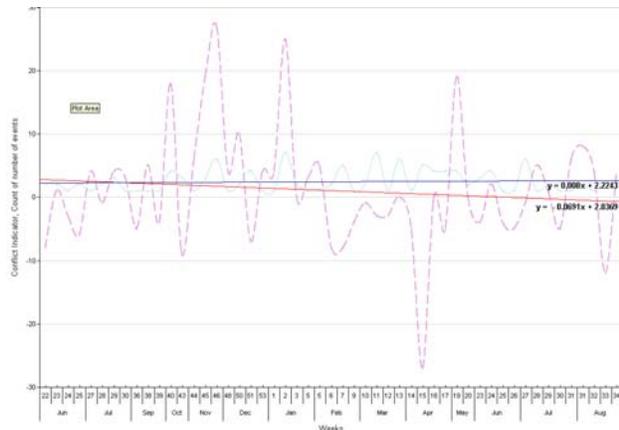
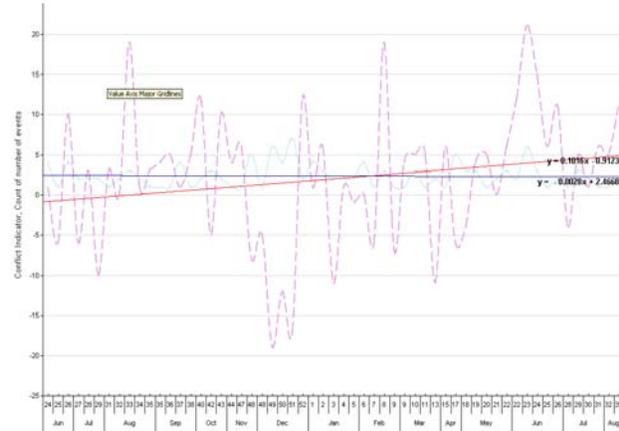


TABLE 46: RL EVENT TREND—JUNE 2006 TO AUGUST 2007



judges related to the networks have also been dismissed sending a signal to others.

power and prevent the trend and average score from plunging.

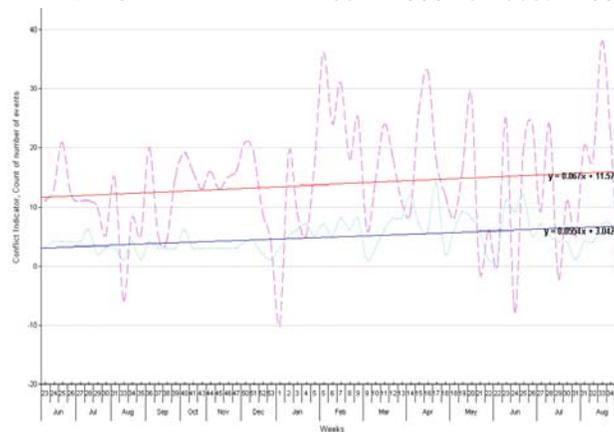
**SUMMARY OF DP 2006-2007 EVENTS**

Events recorded between June and December 2006 had a positive average score (1.75) but exhibited a moderately negative trend (-0.21), a result explained by a number of positive events recorded prior to the November 5<sup>th</sup> elections. During the second period monitored, the average score remained high (1.94) and the trend exhibited a status quo. Together, the two periods combine to show a trend of 0.008. The high activity of the opposition and the civil society in the second period were able to balance Ortega's attempt to centralize

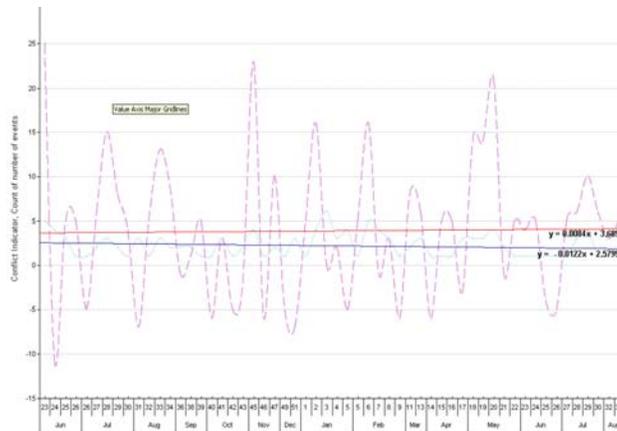
**SUMMARY OF GME 2006-2007 EVENTS**

Events recorded over the last year (June 2006 to September 2007) exhibited a moderately positive trend (0.24) and a strong positive average score (3.62). Overall, they combined with the lower scores of 2007 to create a trend indicative of a continuation of the *status quo*. In sum, the energy crisis and recurrence of electrical black outs have contributed negatively the economic trend, while announcements of foreign aid and FDI have been constant.

**TABLE 47: GME EVENT TREND—JUNE 2006 TO AUGUST 2007**



**TABLE 48: DP EVENT TREND—JUNE 2006 TO AUGUST 2007**



## 7. Regional Perspective: Governance and Democratization

Indicators for governance and democratic processes in Central America tend to be similar across countries. Table 49 summarizes results for several countries in Central America; the following pages contain more detailed data for each country. The best regional performer is Costa Rica, while Guatemala and Honduras face the greatest challenges with respect to governance and democratic processes. Indicators for the rule of law exhibit the most worrisome results throughout the region; conversely, indicators related to political stability and violence and, to a lesser extent, democratic processes tend to be relatively positive throughout the region. Aside from Costa Rica, most countries in the region face a range of diverse challenges; comparing Nicaragua's performance against its peers provides information both about the nature of the problems encountered, highlighting those problems requiring regional solutions, and gives some indication of areas of relative strength in Nicaragua. Such areas of comparative success may provide entry points for policy initiatives, allowing Nicaraguans and international donors to build on previous achievements, rather than struggling against weakness.

Notwithstanding the relatively good scores for political stability across the region, specific problems remain. The absence of open conflict and relative stability of governing regimes, limited military expenditures, low dependence on external support, and lack of terrorism incidents are balanced against significant black markets and a large number of refugees produced throughout the region.

The greatest challenges throughout the region exist in the rule of law cluster. Indicators for judicial independence, impartiality of the courts, the integrity of the legal system, and protection of property rights all provide reason for concern. Police officers and judges are often subject to corruption, prison conditions are appalling and property rights not uniformly enforced. While Nicaragua's average score is among the highest in several areas, lower risk scores for police, law and criminality as well as integrity of the legal system help explain why the situation on the ground is less challenging than in Guatemala and Honduras, where urban violence is a constant source of instability.

Nicaragua and Guatemala both face significant challenges with respect to human rights; Honduras and El Salvador also have medium risk scores. Costa Rica and Panama display low-risk scores for civil liberties and political rights.

Government Accountability and Transparency is the third highest source of instability for Nicaragua. Its score of 5.04 is comparable to El Salvador's, and somewhat better than results for Guatemala and Honduras. Costa Rica and Panama continue to be

TABLE 49: UNDERLYING CONDITIONS: REGIONAL COMPARISON

	PSV	RL	HR	GTA	GME	DP
NICARAGUA						
	3.28	6.85	4.78	5.04	5.75	3.77
GUATEMALA						
	3.74	6.82	5.56	6.21	5.77	5.14
EL SALVADOR						
	3.13	6.30	4.16	4.82	5.04	4.76
HONDURAS						
	4.59	7.20	4.65	5.71	5.90	4.88
COSTA RICA						
	2.15	4.70	2.63	2.45	4.76	2.72
PANAMA						
	3.29	6.69	2.98	4.31	4.87	3.68

regional leaders in these areas, however. Corruption seems to be the most problematic indicator in the region, as it has the highest score among the three indicators monitored in this cluster, and is a high source of instability in Guatemala and Honduras. Such findings are not surprising, given that all states lie within the Andean-American drug corridor; the result is nonetheless significant as it suggests that successful anti-corruption efforts may require a regional, rather than national approach.

The Government and Market Efficiency cluster is composed of 27 different indicators. Most countries in the region exhibit a mix of low, medium and high-risk indicators that reflect the priorities and relative

efficiency of the governments in power. Dependence on foreign aid, limited government effectiveness, high inequality and limited ability to collect taxes seem to be common elements across the region.

Finally, democratic participation once again set Costa Rica apart with its score of 2.72. Nicaragua and Panama are not far behind with scores of respectively 3.77 and 3.68, which reflect the strength of the political systems in both countries. El Salvador, Honduras and Guatemala trail further behind. The nature of the political system in place is reflected in the score that each country is

attributed for executive constraints, polity, and checks and balances. While Nicaragua scores well on the percentage of female parliamentarians and the degree of party dominance, its system of checks and balances leaves room for improvement.

Governance index scoring scale	
Score	Description
1-3.5	Country performing well relative to others
3.5-6.5	Country performing at or around the median
6.5+	Country performing poorly relative to others

## Nicaragua

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>1. Democratic Participation</b>	<b>3.77</b>				
Checks and Balances (World Bank Database of Political Indicators, Index, 1-5)		2.8	5.6	2004	neg
Degree of Party Dominance (WB DPI, ratio of opp. to gov't members in legislature)		1.0	2.1	2004	neg
Percentage of Female Parliamentarians (WB WDI)		18.7	3.2	2005	pos
Level of Democracy (Polity IV, Index, -10-10)		8.0	4.2	2004	s.q.
Executive Constraints (Polity IV, Index, 1-7)		7.0	3.7	2004	s.q.
<b>2. Government and Economic Efficiency</b>	<b>5.75</b>				
Economic growth -- Percentage of GDP (WB WDI)		3.1	5.8	2005	s.q.
Economic Size -- Relative -- GDP per capita (WB WDI)		807.9	6.4	2005	s.q.
Economic Size -- Total -- GDP (WB WDI)		4260263400	6.1	2005	s.q.
External Debt -- percentage of GNI (WB WDI)		35.2	3.3	2004	*
Ease of Doing Business (WB Ease of Doing Business, Global Rank)		69.5	4.1	2006	*
Starting a Business (WB Ease of Doing Business, Global Rank)		60.5	3.7	2006	*
Protecting Investors (WB Ease of Doing Business, Global Rank)		82.0	4.7	2006	*
Trading Across Borders (WB Ease of Doing Business, Global Rank)		77.5	4.5	2006	*
Closing a Business (WB Ease of Doing Business, Global Rank)		65.0	4.0	2006	*
Economic Freedom (Heritage Foundation, Index, 0-100)		59.9	4.6	2007	pos
Savings Level (WB WDI, Gross Domestic as a % of GDP)		1.1	8.1	2004	s.q.
Foreign Investment Freedom (Heritage Foundation, Index, 0-100)		62.0	4.7	2007	pos
Intellectual Property (Fraser Institute, Index, 0-10)		2.4	8.1	2004	s.q.
Investment Climate -- Contract Regulation (Heritage Foundation, Index, 1-5)		4.0	4.9	2006	s.q.
Enforcing Contracts (WB Ease of Doing Business, Global Rank)		47.5	3.2	2006	*
Dealing with Licences (WB Ease of Doing Business, Global Rank)		83.5	4.8	2006	*
Registering Property (WB Ease of Doing Business, Global Rank)		138.5	7.3	2006	*
Enrolment Rates (UNESCO, Gross enrolment ratio)		69.0	5.8	2004	s.q.
Health Infrastructure -- Expenditures as a percentage of GDP (WB WDI)		7.2	3.3	2003	pos
Access to Improved Water (WB WDI, percentage of pop.)		79.0	6.4	2004	*
Gov't Effectiveness (WB Governance Matters, Deviation from mean)		-0.7	6.9	2005	*
FDI -- percentage of GDP (WB WDI)		5.2	6.9	2004	s.q.

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>2. Government and Economic Efficiency, cont'd</b>					
Foreign Aid -- percent of Central Government Expenditures (WB WDI)		96.1	8.7	2004	neg
Inequality -- GINI Coefficient (WB WDI)		43.1	6.3	2003	*
Trade Balance -- percentage of GDP (WB WDI)		-18.8	8.8	2004	s.q.
Unemployment (WB, percentage)		10.4	6.0	2003	s.q.
Paying Taxes (WB Doing Business, global rank)		151.5	7.9	2006	*
<b>3. Accountability</b>	<b>5.04</b>				
Corruption (WB GM, Dev. from mean)		-0.5	5.7	2005	*
Voice and Accountability in Decision-making (WB GM, Dev. from mean)		0.0	4.9	2005	*
Freedom of the Press (FH, Index, 0-100)		39.0	4.6	2006	neg
<b>4. Human Rights</b>	<b>4.78</b>				
Restrictions on Civil Liberties (FH, Index, 1-7)		3.0	4.1	2005	s.q.
Restrictions on Political Rights (FH, 1-7)		3.0	4.5	2005	s.q.
Human Rights -- Empowerment (CIRI, Index, 0-10)		8.2	4.5	2004	s.q.
Human Rights -- Physical Integrity (CIRI, Index, 0-10)		5.0	6.0	2004	s.q.
<b>5. Political Stability and Violence</b>	<b>3.28</b>				
Permanence of Regime Type (Polity IV, years since regime change)		12.0	4.8	2004	s.q.
Informal Economy -- Black Market (Heritage Foundation, 1-5)		4.0	5.2	2006	s.q.
Conflict intensity (Uppsala PRIO, number of conflict-related deaths)		0.0	1.0	2005	*
Dependence on External Military Support (Fund for Peace, 1-10)		5.7	4.2	2006	*
Military Expenditure -- percentage of GDP (WDI)		1.0	1.5	2005	s.q.
Political Stability (WB GM, deviation from mean) Political Stability (WB GM, deviation from mean)		-0.1	5.4	2005	*
Refugees Produced (WB WDI)		3865.1	5.4	2004	pos
Terrorism -- Number of fatalities (US NCTC, number of fatalities)		0.0	1.0	2005	*
Terrorism -- Number of Incidents (US NCTC, number of incidents)		0.0	1.0	2005	*
<b>6. Rule of Law</b>	<b>6.85</b>				
Police, Law, and Criminality (WB GM, Dev from global mean)		-0.7	6.3	2005	*
Prison Population Rate (International Centre for Prison Studies, per 100,000 pop.)		125.8	5.2	2006	pos
Prison Occupancy Level (ICPS, percentage of official capacity)		129.5	5.8	2006	*
Number of Political Prisoners (CIRI, Index, 0-2)		2.0	5.4	2004	s.q.
Judicial Independence (Fraser Institute, Index, 0-10)		0.9	8.8	2004	*
Impartial Courts (Fraser Institute, Index, 0-10)		2.2	8.5	2004	neg
Integrity of the Legal System (Fraser Institute, Index, 0-10)		6.7	5.3	2004	s.q.
Military Interference in the Rule of Law (Fraser Institute, Index, 0-10)		3.3	8.1	2004	s.q.
Property Rights, (Heritage Foundation, Index, 0-100)		30.0	8.3	2007	s.q.

*For trend scores, (s.q.) indicates continuation of status quo; (pos) indicates a positive trend toward stability, and (neg) indicates a negative trend toward instability. (\*)Indicates insufficient data for calculation of trend scores.*

*Note: CIFP index methodology has recently been amended. Scores are no longer modified for trend and volatility; thus index scores solely reflect relative country performance over the previous five years of available data. Further information regarding the index methodology is available in an attached appendix, as well as in a forthcoming companion document.*

# Guatemala

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>1. Democratic Participation</b>	<b>5.14</b>				
Checks and Balances (World Bank Database of Political Indicators, Index, 1-5)		2.20	6.6	2004	pos
Degree of Party Dominance (WB DPI, ratio of opp. to gov't members in legislature)		0.76	3.7	2004	s.q.
Percentage of Female Parliamentarians (WB WDI)		8.64	6.5	2005	neg
Level of Democracy (Polity IV, Index, -10-10)		8.00	4.2	2004	s.q.
Executive Constraints (Polity IV, Index, 1-7)		6.00	4.8	2004	s.q.
<b>2. Government and Economic Efficiency</b>	<b>5.77</b>				
Economic growth -- Percentage of GDP (WB WDI)		2.53	6.5	2005	s.q.
Economic Size -- Relative -- GDP per capita (WB WDI)		1724.81	5.1	2005	neg
Economic Size -- Total -- GDP (WB WDI)		2.07E+10	4.0	2005	s.q.
External Debt -- percentage of GNI (WB WDI)		23.04	2.0	2004	*
Ease of Doing Business (WB Ease of Doing Business, Global Rank)		123.00	6.6	2006	*
Starting a Business (WB Ease of Doing Business, Global Rank)		131.50	7.0	2006	*
Protecting Investors (WB Ease of Doing Business, Global Rank)		134.00	7.2	2006	*
Trading Across Borders (WB Ease of Doing Business, Global Rank)		118.50	6.3	2006	*
Closing a Business (WB Ease of Doing Business, Global Rank)		82.00	4.8	2006	*
Economic Freedom (Heritage Foundation, Index, 0-100)		59.36	4.7	2007	s.q.
Savings Level (WB WDI, Gross Domestic as a % of GDP)		6.21	7.2	2005	s.q.
Foreign Investment Freedom (Heritage Foundation, Index, 0-100)		42.00	7.5	2007	pos
Intellectual Property (Fraser Institute, Index, 0-10)		2.62	7.9	2004	s.q.
Investment Climate -- Contract Regulation (Heritage Foundation, Index, 1-5)		4.00	4.9	2006	s.q.
Enforcing Contracts (WB Ease of Doing Business, Global Rank)		149.00	7.8	2006	*
Dealing with Licences (WB Ease of Doing Business, Global Rank)		166.00	8.6	2006	*
Registering Property (WB Ease of Doing Business, Global Rank)		39.00	2.8	2006	*
Enrolment Rates (UNESCO, Gross enrolment ratio)		61.86	6.7	2004	pos
Health Infrastructure -- Expenditures as a percentage of GDP (WB WDI)		5.24	5.8	2003	s.q.
Access to Improved Water (WB WDI, percentage of pop.)		95.00	3.9	2004	*
Gov't Effectiveness (WB Governance Matters, Deviation from mean)		-0.76	6.9	2005	*
FDI -- percentage of GDP (WB WDI)		0.99	3.0	2004	s.q.
Foreign Aid -- percent of Central Government Expenditures (WB WDI)		9.22	6.4	2004	pos
Inequality -- GINI Coefficient (WB WDI)		55.14	8.3	2003	*
Trade Balance -- percentage of GDP (WB WDI)		-5.05	6.4	2004	s.q.
Unemployment (WB, percentage)		2.00	1.1	2003	*
Paying Taxes (WB Doing Business, global rank)		119.50	6.4	2006	*
<b>3. Accountability</b>	<b>6.21</b>				
Corruption (WB GM, Dev. from mean)		-0.80	6.8	2005	*
Voice and Accountability in Decision-making (WB GM, Dev. from mean)		-0.44	6.0	2005	*
Freedom of the Press (FH, Index, 0-100)		57.00	5.8	2006	s.q.

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>4. Human Rights</b>	<b>5.56</b>				
Restrictions on Civil Liberties (FH, Index, 1-7)		4.00	5.4	2005	s.q.
Restrictions on Political Rights (FH, 1-7)		3.80	5.3	2005	neg
Human Rights -- Empowerment (CIRI, Index, 0-10)		7.80	4.6	2004	neg
Human Rights -- Physical Integrity (CIRI, Index, 0-10)		4.00	6.9	2004	pos
<b>5. Political Stability and Violence</b>	<b>3.74</b>				
Permanence of Regime Type (Polity IV, years since regime change)		6.00	6.9	2004	s.q.
Informal Economy -- Black Market (Heritage Foundation, 1-5)		4.00	5.2	2006	s.q.
Conflict intensity (Uppsala PRIO, number of conflict-related deaths)		0.00	1.0	2005	*
Dependence on External Military Support (Fund for Peace, 1-10)		4.75	2.8	2006	*
Military Expenditure -- percentage of GDP (WDI)		0.60	1.2	2005	pos
Political Stability (WB GM, deviation from mean) Political Stability (WB GM, deviation from mean)		-0.75	6.8	2005	*
Refugees Produced (WB WDI)		12507.54	6.1	2004	pos
Terrorism -- Number of fatalities (US NCTC, number of fatalities)		0.00	1.0	2005	*
Terrorism -- Number of Incidents (US NCTC, number of incidents)		0.50	2.6	2005	*
<b>6. Rule of Law</b>	<b>6.82</b>				
Police, Law, and Criminality (WB GM, Dev from global mean)		-0.98	7.5	2005	*
Prison Population Rate (International Centre for Prison Studies, per 100,000 pop.)		67.40	2.8	2006	s.q.
Prison Occupancy Level (ICPS, percentage of official capacity)		113.30	4.9	2006	*
Number of Political Prisoners (CIRI, Index, 0-2)		1.80	5.8	2004	pos
Judicial Independence (Fraser Institute, Index, 0-10)		2.29	7.7	2004	*
Impartial Courts (Fraser Institute, Index, 0-10)		2.40	8.4	2004	s.q.
Integrity of the Legal System (Fraser Institute, Index, 0-10)		3.17	8.5	2004	neg
Military Interference in the Rule of Law (Fraser Institute, Index, 0-10)		4.08	7.5	2004	pos
Property Rights, (Heritage Foundation, Index, 0-100)		30.00	8.3	2007	s.q.

**For trend scores, (s.q.) indicates continuation of status quo; (pos) indicates a positive trend toward stability, and (neg) indicates a negative trend toward instability. (\*)Indicates insufficient data for calculation of trend scores.**

*Note: CIFP index methodology has recently been amended. Scores are no longer modified for trend and volatility; thus index scores solely reflect relative country performance over the previous five years of available data. Further information regarding the index methodology is available in an attached appendix, as well as in a forthcoming companion document.*

Governance index scoring scale	
Score	Description
1-3.5	Country performing well relative to others
3.5-6.5	Country performing at or around the median
6.5+	Country performing poorly relative to others

# El Salvador

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>1. Democratic Participation</b>	<b>4.76</b>				
Checks and Balances (World Bank Database of Political Indicators, Index, 1-5)		3.4	4.9	2004	s.q.
Degree of Party Dominance (WB DPI, ratio of opp. to gov't members in legislature)		1.3	2.8	2004	s.q.
Percentage of Female Parliamentarians (WB WDI)		10.3	5.6	2005	s.q.
Level of Democracy (Polity IV, Index, -10-10)		7.0	4.7	2004	s.q.
Executive Constraints (Polity IV, Index, 1-7)		5.0	5.9	2004	s.q.
<b>2. Government and Economic Efficiency</b>	<b>5.04</b>				
Economic growth -- Percentage of GDP (WB WDI)		2.2	6.8	2005	s.q.
Economic Size -- Relative -- GDP per capita (WB WDI)		2104.1	4.6	2005	s.q.
Economic Size -- Total -- GDP (WB WDI)		13978396000	4.5	2005	s.q.
External Debt -- percentage of GNI (WB WDI)		53.5	5.7	2004	*
Ease of Doing Business (WB Ease of Doing Business, Global Rank)		73.0	4.3	2006	*
Starting a Business (WB Ease of Doing Business, Global Rank)		133.0	7.1	2006	*
Protecting Investors (WB Ease of Doing Business, Global Rank)		97.5	5.5	2006	*
Trading Across Borders (WB Ease of Doing Business, Global Rank)		56.0	3.5	2006	*
Closing a Business (WB Ease of Doing Business, Global Rank)		76.5	4.5	2006	*
Economic Freedom (Heritage Foundation, Index, 0-100)		71.7	2.2	2007	neg
Savings Level (WB WDI, Gross Domestic as a % of GDP)		-0.2	8.0	2005	s.q.
Foreign Investment Freedom (Heritage Foundation, Index, 0-100)		70.0	3.4	2007	s.q.
Intellectual Property (Fraser Institute, Index, 0-10)		4.3	5.3	2004	s.q.
Investment Climate -- Contract Regulation (Heritage Foundation, Index, 1-5)		2.0	1.2	2006	s.q.
Enforcing Contracts (WB Ease of Doing Business, Global Rank)		114.5	6.2	2006	*
Dealing with Licences (WB Ease of Doing Business, Global Rank)		90.5	5.2	2006	*
Registering Property (WB Ease of Doing Business, Global Rank)		47.5	3.2	2006	*
Enrolment Rates (UNESCO, Gross enrolment ratio)		66.5	6.2	2004	s.q.
Health Infrastructure -- Expenditures as a percentage of GDP (WB WDI)		8.0	2.6	2003	s.q.
Access to Improved Water (WB WDI, percentage of pop.)		84.0	5.7	2004	*
Gov't Effectiveness (WB Governance Matters, Deviation from mean)		-0.4	5.5	2005	*
FDI -- percentage of GDP (WB WDI)		2.1	4.5	2004	s.q.
Foreign Aid -- percent of Central Government Expenditures (WB WDI)		73.8	8.5	2004	*
Inequality -- GINI Coefficient (WB WDI)		52.4	8.0	2003	*
Trade Balance -- percentage of GDP (WB WDI)		-3.2	5.4	2004	s.q.
Unemployment (WB, percentage)		6.8	4.0	2003	s.q.
Paying Taxes (WB Doing Business, global rank)		84.5	4.8	2006	*
<b>3. Accountability</b>	<b>4.82</b>				
Corruption (WB GM, Dev. from mean)		-0.4	5.3	2005	*
Voice and Accountability in Decision-making (WB GM, Dev. from mean)		0.2	4.6	2005	*
Freedom of the Press (FH, Index, 0-100)		39.8	4.6	2006	neg

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>4. Human Rights</b>	<b>4.16</b>				
Restrictions on Civil Liberties (FH, Index, 1-7)		3.0	4.1	2005	s.q.
Restrictions on Political Rights (FH, 1-7)		2.0	3.4	2005	s.q.
Human Rights -- Empowerment (CIRI, Index, 0-10)		8.6	4.0	2004	s.q.
Human Rights -- Physical Integrity (CIRI, Index, 0-10)		5.8	5.1	2004	neg
<b>5. Political Stability and Violence</b>	<b>3.13</b>				
Permanence of Regime Type (Polity IV, years since regime change)		18.0	4.0	2004	s.q.
Informal Economy -- Black Market (Heritage Foundation, 1-5)		3.4	3.8	2006	s.q.
Conflict intensity (Uppsala PRIO, number of conflict-related deaths)		0.0	1.0	2005	*
Dependence on External Military Support (Fund for Peace, 1-10)		5.3	3.3	2006	*
Military Expenditure -- percentage of GDP (WDI)		1.0	1.5	2005	s.q.
Political Stability (WB GM, deviation from mean) Political Stability (WB GM, deviation from mean)		-0.1	5.3	2005	*
Refugees Produced (WB WDI)		6338.6	5.7	2004	pos
Terrorism -- Number of fatalities (US NCTC, number of fatalities)		0.0	1.0	2005	*
Terrorism -- Number of Incidents (US NCTC, number of incidents)		0.5	2.6	2005	*
<b>6. Rule of Law</b>	<b>6.30</b>				
Police, Law, and Criminality (WB GM, Dev from global mean)		-0.4	5.4	2005	*
Prison Population Rate (International Centre for Prison Studies, per 100,000 pop.)		147.0	5.7	2006	neg
Prison Occupancy Level (ICPS, percentage of official capacity)		165.2	7.6	2006	*
Number of Political Prisoners (CIRI, Index, 0-2)		2.0	5.4	2004	s.q.
Judicial Independence (Fraser Institute, Index, 0-10)		3.6	6.9	2004	s.q.
Impartial Courts (Fraser Institute, Index, 0-10)		3.8	6.7	2004	s.q.
Integrity of the Legal System (Fraser Institute, Index, 0-10)		5.0	6.9	2004	s.q.
Military Interference in the Rule of Law (Fraser Institute, Index, 0-10)		5.0	7.0	2004	s.q.
Property Rights, (Heritage Foundation, Index, 0-100)		50.0	5.1	2007	s.q.

**For trend scores, (s.q.) indicates continuation of status quo; (pos) indicates a positive trend toward stability, and (neg) indicates a negative trend toward instability. (\*)Indicates insufficient data for calculation of trend scores.**

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Governance index scoring scale	
Score	Description
1-3.5	Country performing well relative to others
3.5-6.5	Country performing at or around the median
6.5+	Country performing poorly relative to others

# Honduras

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>1. Democratic Participation</b>	<b>4.88</b>				
Checks and Balances (World Bank Database of Political Indicators, Index, 1-5)		3.2	4.9	2004	pos
Degree of Party Dominance (WB DPI, ratio of opp. to gov't members in legislature)		1.0	2.4	2004	pos
Percentage of Female Parliamentarians (WB WDI)		7.8	6.6	2004	neg
Level of Democracy (Polity IV, Index, -10-10)		7.0	4.7	2004	s.q.
Executive Constraints (Polity IV, Index, 1-7)		5.0	5.9	2004	s.q.
<b>2. Government and Economic Efficiency</b>	<b>5.90</b>				
Economic growth -- Percentage of GDP (WB WDI)		3.6	5.3	2005	s.q.
Economic Size -- Relative -- GDP per capita (WB WDI)		950.9	6.1	2005	s.q.
Economic Size -- Total -- GDP (WB WDI)		6559367600	5.5	2005	s.q.
External Debt -- percentage of GNI (WB WDI)		37.8	4.0	2004	*
Ease of Doing Business (WB Ease of Doing Business, Global Rank)		109.0	6.0	2006	*
Starting a Business (WB Ease of Doing Business, Global Rank)		141.0	7.5	2006	*
Protecting Investors (WB Ease of Doing Business, Global Rank)		151.0	8.0	2006	*
Trading Across Borders (WB Ease of Doing Business, Global Rank)		79.0	4.5	2006	*
Closing a Business (WB Ease of Doing Business, Global Rank)		99.0	5.6	2006	*
Economic Freedom (Heritage Foundation, Index, 0-100)		56.8	5.6	2007	s.q.
Savings Level (WB WDI, Gross Domestic as a % of GDP)		14.0	5.9	2005	s.q.
Foreign Investment Freedom (Heritage Foundation, Index, 0-100)		42.0	7.5	2007	pos
Intellectual Property (Fraser Institute, Index, 0-10)		2.6	7.9	2004	pos
Investment Climate -- Contract Regulation (Heritage Foundation, Index, 1-5)		4.0	4.9	2006	s.q.
Enforcing Contracts (WB Ease of Doing Business, Global Rank)		122.5	6.6	2006	*
Dealing with Licences (WB Ease of Doing Business, Global Rank)		89.0	5.1	2006	*
Registering Property (WB Ease of Doing Business, Global Rank)		85.5	4.9	2006	*
Enrolment Rates (UNESCO, Gross enrolment ratio)		65.1	6.3	2004	*
Health Infrastructure -- Expenditures as a percentage of GDP (WB WDI)		6.5	4.1	2003	pos
Access to Improved Water (WB WDI, percentage of pop.)		87.0	5.2	2004	*
Gov't Effectiveness (WB Governance Matters, Deviation from mean)		-0.7	6.6	2005	*
FDI -- percentage of GDP (WB WDI)		3.6	6.0	2004	s.q.
Foreign Aid -- percent of Central Government Expenditures (WB WDI)		..	..	..	..
Inequality -- GINI Coefficient (WB WDI)		53.8	8.2	2003	*
Trade Balance -- percentage of GDP (WB WDI)		-4.8	6.2	2004	s.q.
Unemployment (WB, percentage)		4.2	2.3	2003	*
Paying Taxes (WB Doing Business, global rank)		148.5	7.8	2006	*
<b>3. Accountability</b>	<b>5.71</b>				
Corruption (WB GM, Dev. from mean)		-0.7	6.6	2005	*
Voice and Accountability in Decision-making (WB GM, Dev. from mean)		-0.1	5.2	2005	*
Freedom of the Press (FH, Index, 0-100)		49.8	5.3	2006	s.q.

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>4. Human Rights</b>	<b>4.65</b>				
Restrictions on Civil Liberties (FH, Index, 1-7)		3.0	4.1	2005	s.q.
Restrictions on Political Rights (FH, 1-7)		3.0	4.5	2005	s.q.
Human Rights -- Empowerment (CIRI, Index, 0-10)		8.2	4.4	2004	neg
Human Rights -- Physical Integrity (CIRI, Index, 0-10)		5.4	5.6	2004	neg
<b>5. Political Stability and Violence</b>	<b>4.59</b>				
Permanence of Regime Type (Polity IV, years since regime change)		20.0	3.8	2004	s.q.
Informal Economy -- Black Market (Heritage Foundation, 1-5)		4.0	5.2	2006	s.q.
Conflict intensity (Uppsala PRIO, number of conflict-related deaths)		0.0	1.0	2005	*
Dependence on External Military Support (Fund for Peace, 1-10)		5.8	4.0	2006	*
Military Expenditure -- percentage of GDP (WDI)		1.0	1.5	2005	s.q.
Political Stability (WB GM, deviation from mean) Political Stability (WB GM, deviation from mean)		-0.5	6.3	2005	*
Refugees Produced (WB WDI)		804.0	5.2	2003	pos
Terrorism -- Number of fatalities (US NCTC, number of fatalities)		16.5	7.7	2005	*
Terrorism -- Number of Incidents (US NCTC, number of incidents)		4.0	6.6	2005	*
<b>6. Rule of Law</b>	<b>7.20</b>				
Police, Law, and Criminality (WB GM, Dev from global mean)		-0.8	6.8	2005	*
Prison Population Rate (International Centre for Prison Studies, per 100,000 pop.)		167.6	6.3	2006	s.q.
Prison Occupancy Level (ICPS, percentage of official capacity)		140.0	6.4	2006	*
Number of Political Prisoners (CIRI, Index, 0-2)		1.8	5.7	2004	neg
Judicial Independence (Fraser Institute, Index, 0-10)		1.9	8.1	2004	*
Impartial Courts (Fraser Institute, Index, 0-10)		2.6	8.1	2004	s.q.
Integrity of the Legal System (Fraser Institute, Index, 0-10)		2.8	8.7	2004	s.q.
Military Interference in the Rule of Law (Fraser Institute, Index, 0-10)		5.0	7.0	2004	s.q.
Property Rights, (Heritage Foundation, Index, 0-100)		34.0	7.7	2007	neg

**For trend scores, (s.q.) indicates continuation of status quo; (pos) indicates a positive trend toward stability, and (neg) indicates a negative trend toward instability. (\*)Indicates insufficient data for calculation of trend scores.**

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Governance index scoring scale	
Score	Description
1-3.5	Country performing well relative to others
3.5-6.5	Country performing at or around the median
6.5+	Country performing poorly relative to others

# Costa Rica

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>1. Democratic Participation</b>	<b>2.72</b>				
Checks and Balances (World Bank Database of Political Indicators, Index, 1-5)		4.0	3.7	2004	s.q.
Degree of Party Dominance (WB DPI, ratio of opp. to gov't members in legislature)		1.4	1.7	2004	pos
Percentage of Female Parliamentarians (WB WDI)		28.6	1.9	2005	pos
Level of Democracy (Polity IV, Index, -10-10)		10.0	2.7	2004	s.q.
Executive Constraints (Polity IV, Index, 1-7)		7.0	3.7	2004	s.q.
<b>2. Government and Economic Efficiency</b>	<b>4.76</b>				
Economic growth -- Percentage of GDP (WB WDI)		3.7	5.3	2005	s.q.
Economic Size -- Relative -- GDP per capita (WB WDI)		4206.3	3.5	2005	s.q.
Economic Size -- Total -- GDP (WB WDI)		17572540000	4.3	2005	s.q.
External Debt -- percentage of GNI (WB WDI)		35.5	3.5	2004	*
Ease of Doing Business (WB Ease of Doing Business, Global Rank)		102.0	5.6	2006	*
Starting a Business (WB Ease of Doing Business, Global Rank)		93.5	5.3	2006	*
Protecting Investors (WB Ease of Doing Business, Global Rank)		156.0	8.3	2006	*
Trading Across Borders (WB Ease of Doing Business, Global Rank)		96.0	5.3	2006	*
Closing a Business (WB Ease of Doing Business, Global Rank)		113.0	6.3	2006	*
Economic Freedom (Heritage Foundation, Index, 0-100)		65.5	3.1	2007	s.q.
Savings Level (WB WDI, Gross Domestic as a % of GDP)		17.9	4.9	2005	s.q.
Foreign Investment Freedom (Heritage Foundation, Index, 0-100)		70.0	3.4	2007	s.q.
Intellectual Property (Fraser Institute, Index, 0-10)		4.5	5.0	2004	s.q.
Investment Climate -- Contract Regulation (Heritage Foundation, Index, 1-5)		3.0	2.1	2006	s.q.
Enforcing Contracts (WB Ease of Doing Business, Global Rank)		126.5	6.8	2006	*
Dealing with Licences (WB Ease of Doing Business, Global Rank)		56.5	3.6	2006	*
Registering Property (WB Ease of Doing Business, Global Rank)		36.5	2.6	2006	*
Enrolment Rates (UNESCO, Gross enrolment ratio)		68.7	5.9	2004	s.q.
Health Infrastructure -- Expenditures as a percentage of GDP (WB WDI)		6.7	3.9	2003	pos
Access to Improved Water (WB WDI, percentage of pop.)		97.0	3.5	2004	*
Gov't Effectiveness (WB Governance Matters, Deviation from mean)		0.5	3.5	2005	*
FDI -- percentage of GDP (WB WDI)		3.2	5.6	2004	s.q.
Foreign Aid -- percent of Central Government Expenditures (WB WDI)		0.3	2.0	2004	s.q.
Inequality -- GINI Coefficient (WB WDI)		49.9	7.5	2003	*
Trade Balance -- percentage of GDP (WB WDI)		-4.8	6.2	2004	s.q.
Unemployment (WB, percentage)		6.1	3.5	2003	s.q.
Paying Taxes (WB Doing Business, global rank)		158.5	8.2	2006	*
<b>3. Accountability</b>	<b>2.45</b>				
Corruption (WB GM, Dev. from mean)		0.7	2.9	2005	*
Voice and Accountability in Decision-making (WB GM, Dev. from mean)		1.1	2.4	2005	*
Freedom of the Press (FH, Index, 0-100)		17.4	2.1	2006	s.q.

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>4. Human Rights</b>	<b>2.63</b>				
Restrictions on Civil Liberties (FH, Index, 1-7)		1.6	1.8	2005	pos
Restrictions on Political Rights (FH, 1-7)		1.0	1.0	2005	s.q.
Human Rights -- Empowerment (CIRI, Index, 0-10)		8.8	3.8	2004	s.q.
Human Rights -- Physical Integrity (CIRI, Index, 0-10)		6.8	3.9	2004	s.q.
<b>5. Political Stability and Violence</b>	<b>2.15</b>				
Permanence of Regime Type (Polity IV, years since regime change)		82.0	1.4	2004	s.q.
Informal Economy -- Black Market (Heritage Foundation, 1-5)		3.0	3.1	2006	s.q.
Conflict intensity (Uppsala PRIO, number of conflict-related deaths)		0.0	1.0	2005	*
Dependence on External Military Support (Fund for Peace, 1-10)		4.5	3.4	2006	*
Military Expenditure -- percentage of GDP (WDI)		..	..	..	..
Political Stability (WB GM, deviation from mean) Political Stability (WB GM, deviation from mean)		0.9	2.7	2005	*
Refugees Produced (WB WDI)		84.0	3.6	2003	s.q.
Terrorism -- Number of fatalities (US NCTC, number of fatalities)		0.0	1.0	2005	*
Terrorism -- Number of Incidents (US NCTC, number of incidents)		0.0	1.0	2005	*
<b>6. Rule of Law</b>	<b>4.70</b>				
Police, Law, and Criminality (WB GM, Dev from global mean)		0.6	3.2	2005	*
Prison Population Rate (International Centre for Prison Studies, per 100,000 pop.)		209.2	6.9	2006	pos
Prison Occupancy Level (ICPS, percentage of official capacity)		108.9	4.6	2006	*
Number of Political Prisoners (CIRI, Index, 0-2)		1.8	5.8	2004	pos
Judicial Independence (Fraser Institute, Index, 0-10)		6.0	4.4	2004	pos
Impartial Courts (Fraser Institute, Index, 0-10)		5.6	4.0	2004	s.q.
Integrity of the Legal System (Fraser Institute, Index, 0-10)		6.7	5.3	2004	s.q.
Military Interference in the Rule of Law (Fraser Institute, Index, 0-10)		10.0	3.0	2004	s.q.
Property Rights, (Heritage Foundation, Index, 0-100)		50.0	5.1	2007	s.q.

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Governance index scoring scale	
Score	Description
1-3.5	Country performing well relative to others
3.5-6.5	Country performing at or around the median
6.5+	Country performing poorly relative to others

# Panama

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>1. Democratic Participation</b>	<b>3.68</b>				
Checks and Balances (World Bank Database of Political Indicators, Index, 1-5)		4.0	3.7	2004	s.q.
Degree of Party Dominance (WB DPI, ratio of opp. to gov't members in legislature)		2.0	1.2	2004	s.q.
Percentage of Female Parliamentarians (WB WDI)		11.3	5.3	2005	s.q.
Level of Democracy (Polity IV, Index, -10-10)		9.0	3.4	2004	s.q.
Executive Constraints (Polity IV, Index, 1-7)		6.0	4.8	2004	s.q.
<b>2. Government and Economic Efficiency</b>	<b>4.87</b>				
Economic growth -- Percentage of GDP (WB WDI)		4.2	4.7	2005	pos
Economic Size -- Relative -- GDP per capita (WB WDI)		4081.2	3.7	2005	s.q.
Economic Size -- Total -- GDP (WB WDI)		12744604000	4.7	2005	s.q.
External Debt -- percentage of GNI (WB WDI)		93.9	7.8	2004	*
Ease of Doing Business (WB Ease of Doing Business, Global Rank)		80.0	4.6	2006	*
Starting a Business (WB Ease of Doing Business, Global Rank)		25.0	2.1	2006	*
Protecting Investors (WB Ease of Doing Business, Global Rank)		97.5	5.5	2006	*
Trading Across Borders (WB Ease of Doing Business, Global Rank)		56.5	3.5	2006	*
Closing a Business (WB Ease of Doing Business, Global Rank)		78.0	4.6	2006	*
Economic Freedom (Heritage Foundation, Index, 0-100)		65.2	3.3	2007	s.q.
Savings Level (WB WDI, Gross Domestic as a % of GDP)		23.8	3.5	2004	s.q.
Foreign Investment Freedom (Heritage Foundation, Index, 0-100)		70.0	3.4	2007	s.q.
Intellectual Property (Fraser Institute, Index, 0-10)		4.4	5.2	2004	s.q.
Investment Climate -- Contract Regulation (Heritage Foundation, Index, 1-5)		3.0	2.1	2006	s.q.
Enforcing Contracts (WB Ease of Doing Business, Global Rank)		164.0	8.5	2006	*
Dealing with Licences (WB Ease of Doing Business, Global Rank)		71.5	4.3	2006	*
Registering Property (WB Ease of Doing Business, Global Rank)		62.0	3.8	2006	*
Enrolment Rates (UNESCO, Gross enrolment ratio)		78.3	3.6	2004	s.q.
Health Infrastructure -- Expenditures as a percentage of GDP (WB WDI)		7.6	2.9	2003	s.q.
Access to Improved Water (WB WDI, percentage of pop.)		90.0	4.8	2004	*
Gov't Effectiveness (WB Governance Matters, Deviation from mean)		0.0	4.4	2005	*
FDI -- percentage of GDP (WB WDI)		4.6	6.3	2004	neg
Foreign Aid -- percent of Central Government Expenditures (WB WDI)		..	..	..	..
Inequality -- GINI Coefficient (WB WDI)		56.4	8.4	2003	*
Trade Balance -- percentage of GDP (WB WDI)		-3.9	5.6	2005	neg
Unemployment (WB, percentage)		13.5	7.2	2003	s.q.
Paying Taxes (WB Doing Business, global rank)		161.0	8.3	2006	*
<b>3. Accountability</b>	<b>4.31</b>				
Corruption (WB GM, Dev. from mean)		-0.2	4.7	2005	*
Voice and Accountability in Decision-making (WB GM, Dev. from mean)		0.5	3.7	2005	*
Freedom of the Press (FH, Index, 0-100)		39.2	4.5	2006	neg

	Cluster Average	Raw Score	CIFP Index Score	Last Year of Data Available	Data Trend
<b>4. Human Rights</b>	<b>2.98</b>				
Restrictions on Civil Liberties (FH, Index, 1-7)		2.0	2.6	2005	s.q.
Restrictions on Political Rights (FH, 1-7)		1.0	1.0	2005	s.q.
Human Rights -- Empowerment (CIRI, Index, 0-10)		7.8	4.8	2004	s.q.
Human Rights -- Physical Integrity (CIRI, Index, 0-10)		7.0	3.5	2004	s.q.
<b>5. Political Stability and Violence</b>	<b>3.29</b>				
Permanence of Regime Type (Polity IV, years since regime change)		13.0	4.5	2004	s.q.
Informal Economy -- Black Market (Heritage Foundation, 1-5)		3.6	4.2	2006	s.q.
Conflict intensity (Uppsala PRIO, number of conflict-related deaths)		0.0	1.0	2005	*
Dependence on External Military Support (Fund for Peace, 1-10)		4.0	2.8	2006	*
Military Expenditure -- percentage of GDP (WDI)		..	..	..	..
Political Stability (WB GM, deviation from mean) Political Stability (WB GM, deviation from mean)		0.2	4.5	2005	*
Refugees Produced (WB WDI)		50.0	3.0	2003	s.q.
Terrorism -- Number of fatalities (US NCTC, number of fatalities)		0.5	3.7	2005	*
Terrorism -- Number of Incidents (US NCTC, number of incidents)		0.5	2.6	2005	*
<b>6. Rule of Law</b>	<b>6.69</b>				
Police, Law, and Criminality (WB GM, Dev from global mean)		-0.1	4.6	2005	*
Prison Population Rate (International Centre for Prison Studies, per 100,000 pop.)		332.6	8.1	2006	neg
Prison Occupancy Level (ICPS, percentage of official capacity)		160.6	7.4	2006	*
Number of Political Prisoners (CIRI, Index, 0-2)		2.0	5.4	2004	s.q.
Judicial Independence (Fraser Institute, Index, 0-10)		2.2	7.9	2004	*
Impartial Courts (Fraser Institute, Index, 0-10)		3.4	7.1	2004	neg
Integrity of the Legal System (Fraser Institute, Index, 0-10)		5.0	6.9	2004	s.q.
Military Interference in the Rule of Law (Fraser Institute, Index, 0-10)		8.3	4.6	2004	s.q.
Property Rights, (Heritage Foundation, Index, 0-100)		30.0	8.3	2007	s.q.

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Governance index scoring scale	
Score	Description
1-3.5	Country performing well relative to others
3.5-6.5	Country performing at or around the median
6.5+	Country performing poorly relative to others

Appendix 1: Map



## *Appendix 2: About the Methodology*

The report is based on three elements, adapted from CIFP's fragile states methodology. First, structural indicators are grouped into six clusters capturing different facets of democratic processes and governance: rule of law, human rights, government transparency and accountability, government and market efficiency, political stability and violence, and democratic participation. The structural data in this preliminary report constitute a limited set of leading indicators of democracy and governance; later versions of the document will include up to 75 separate structural indicators providing a detailed quantitative baseline portrait of the country.

Second, the analysis draws on event monitoring data compiled by CIFP researchers over a six month period extending from November 2006 to May 2007. Collected from a variety of web-based sources, including both international and domestic news sources in English and Spanish, the events are quantitatively evaluated and systematically assessed to identify general trends of relevance to democratic processes and governance. Highly significant events are also qualitatively analyzed to highlight their specific causes and consequences.

Third, the report includes a series of analytical exercises, including stakeholder analysis and scenario generation. Future iterations of the report may include detailed consultations with country and subject experts located in-country as well as in Canada and abroad. This multi-source data structure enables more robust analysis than any single method of data collection and assessment.

### INDEX METHODOLOGY

Like the CIFP fragility index, the governance index employs a methodology of relative structural assessment. The analysis begins with a structural profile of the country, a composite index that measures overall country performance along six dimensions listed above. Each of these clusters is based on a number of indicators. This multidimensional assessment methodology is a direct response to the multi-dimensional nature of governance and democratic processes. CIFP thus adopts what might be termed an inductive approach, identifying areas of relative strength and weakness across a broad range of measures related to governance and democratic processes.

In ranking state performance on a given indicator, global scores are distributed across a nine-point index. The best performing state receives a score of one, the worst a score of nine, and the rest are continuously distributed between these two extremes based on relative performance. As country performance for some types of data can vary significantly from year to year – as in the case of economic shocks, natural disasters, and other externalities – averages are taken for global rank scores over a five-year time frame. Once all indicators have been indexed using this method, the results for a given country are then averaged in each subject cluster to produce the final scores for the country.

In general, a high score – 6.5 or higher – indicates that a country is performing poorly relative to other states. Such a score may be indicative of an arbitrary and autocratic government, a history of non-transparent government, the presence of significant barriers to political participation, the absence of a consistently enforced legal framework, or a poor human rights record.

A low score – in the range of 1 to 3.5 – indicates that a country is performing well relative to others, or that a country's structural conditions present little cause for concern. Values in the moderate 3.5 to 6.5 range indicate performance approaching the global mean.

### EVENTS MONITORING METHODOLOGY

The purpose of CIFP event monitoring is to observe and report on events within a country to better understand the dynamic trends affecting democratic processes and governance in the

country. This data, when combined with structural data, provides a more comprehensive analysis of both the underlying conditions and recent developments, thereby informing a more nuanced and ultimately policy-relevant analysis. The six-month monitoring period demonstrated in these reports is an integral part of the proof of concept. Subsequent reports will include systematic and long term monitoring for more complete and accurate forecasting and policy-relevant diagnosis. Ongoing monitoring that allows the production of easy-to-interpret context-specific briefings would integrate shifting stakeholder interests, changes in baseline structure and of course event dynamics.

In the CIFP event monitoring methodology, events are all coded using a number of criteria. First, each event is assigned to the specific cluster area to which it is *most directly* related. This assigned cluster acts as the dependent variable; the event will be coded with respect to its effect on that particular aspect of governance. Second, the event is coded as being either positively or negatively related to the assigned cluster. The event score is then determined by answering the following three questions:

1. How direct is the impact of the event on the cluster stability?
2. How broad is the impact of the event?
3. How intense is the event, in comparison with past events in the country?

Each question is answered quantitatively using a three-point scale; thus the highest score for a single event is 9. The answers to these questions are added together to generate a composite indicator for each event, thereby determining its net impact on governance. The composite indicator is used to create time-series regression lines, as event data is plotted over a defined time period. These trends are analysed both in aggregate and disaggregated by cluster, in an effort to understand the current trajectory of the country. This trajectory is referred as the event 'tendency' during the period observed, to emphasize its role as an indicative piece of information rather than a deterministic extrapolated trend line. This analysis in turn provides some indication of the potential developments in governance and democratic processes over the short- to medium-term.

#### COMPONENTS OF COMPOSITE EVENT SCORE

##### Causal Relevance

1. Event is relevant, but with no clearly delineable causal linkage to governance or democratic processes (e.g. a funding announcement or an international soccer friendly).
2. Event is relevant, with a delineable, though indirect causal linkage to governance or democratic processes (e.g. New legislation enhancing minority rights is passed, or a bomb detonates within an ethnically divided region).
3. Event is relevant with delineable and direct causal linkage to governance or

democratic processes. (e.g. Declaration of a ceasefire or assassination of a government minister.)

##### Centrality

1. Event affects less than 25% of political stakeholders.
2. Event affects 25% - 75% of political stakeholders.
3. Event affects more than 75% of political stakeholders.

##### Intensity/Escalation

1. Event is comparable to others experienced in the state in the previous six months.
2. Event is more intense than others experienced in the state in the previous six months.
3. Event is more intense than others experienced in the state in the previous five years.

#### EVENT ANALYSIS

The analysis occurs in both aggregate (all events) and disaggregate (events analysed by cluster) by using quantitative data in two ways. First, **summary statistics** provide the analyst with an overview of the average event scores. Positive average event scores are indicative of an environment that experiences more or more significant positive events than negative events. Negative average scores indicate the opposite.

Tendency Key	Negative Slope	Status quo Slope	Positive Slope
OLS Slope value	Below -0.1	Between -.1 and .1	Above +0.1
Symbol			

The second avenue of analysis is via **regression lines** to observe whether the events demonstrate any positive or negative tendency over time. The composite indicators are plotted over a defined period of time – usually six months – and trend lines are generated using ordinary least squares regression. The trend line uses a weekly aggregate in order to capture the changing magnitude of events as well as any increase or decrease in the total *number* of events; both phenomena are deemed important to the analysis. When numbers associated with the trend line are included in the report, they refer to the slope of the trend line. In general, the greater the magnitude of the slope, the more significant the trend. In general, slopes greater than (+/-0.1) are considered to be significant; those falling between this range are considered indicative of continuing *status quo*.

Thus, a rapid increase in the number of positive events may result in a positive trend line, as might an increase in the average score per event. This trend analysis provides an overview of general event-driven developments over the months under consideration. On the other hand, a negative slope denotes a deteriorating situation one in which there is an increase in the number or significance of negative events relative to positive ones during the time period under observation.

#### SCENARIO GENERATION

The report includes scenarios for the country over the short term, normally up to 18 months. The analysis includes three scenarios: a best-case, worst-case and most likely case, with each based on an analysis of basic structural data, recent trends in governance-related events, as well as a consideration of the role likely to be played by significant stakeholders within the country. The best-case assumes that the strongest positive trends will dominate over any negative trends in the near future. Conversely, the worst-case scenario assumes the opposite. These two scenarios are intended to highlight different facets of the situation for the reader. The best and worst cases consider the strongest trends among stabilizing and destabilizing events, drawing attention both to dominant threats and potential points of entry. Finally, the most likely case scenario extrapolates future

tendencies based on the strongest overall trends present within the state. To begin with, it identifies dominant trends – those most likely to continue in each of the six subject clusters over the short term. These trends are then combined to form an overall portrait of the country over the near term, providing a baseline “likely” scenario.

Taken together, these three scenarios define the universe of developments that may occur in the country in the near term, and give some sense of what may reasonably be expected in the same period. Such insights may inform contingency planning processes in both the domestic government and international partners, and provide some assistance when setting benchmarks with which to evaluate the success of initiatives intended to improve governance and democratic processes.

#### STAKEHOLDERS

As part of the initial country profile, the analyst compiles a list of stakeholders. Stakeholders are those individuals or groups that possess an identifiable, broadly similar political agenda and either have an effect on or are affected by governance. They often have an organizational structure in addition to sufficient resources to pursue explicitly or implicitly articulated goals.

## *Bibliography*

### EVENT SOURCES

Events were obtained using Google Alerts <http://www.google.com/alerts>, which provides a daily summary of news reports for the search term 'Nicaragua'. The news reports originated from a wide variety of local and international sources, including:

ABC Radio Australia	Jamaican Observer
Agence France Presse	La Gente (Managua, Nicaragua)
Agencia Boliviana de Noticias (Venezuela)	La tercera (Chile)
AGI online (Italy)	Latin American Weekly Report
America Economia	Latin Business Chronicle (Miami, USA)
AND Mundo	La Jornada (Mexico)
Ansa Latina (Argentina)	La Voz (USA)
Associated Press Newswire	La Voz de Galicia (Spain)
Bahama Journal (Bahamas)	Makfax (Skopje, Macedonia)
Bay area Indymedia (San Francisco, USA)	Miami Herald (Miami, USA)
BBC News	Milenio.com (Mexico D.F)
Boston Globe	NDTV (New Delhi, India)
Cadena Global (Venezuela)	New Zealand Herald
Caribbean News Net (Cayman Islands)	New Zealand Stuff
Caribbean Update	News 24
Caribe Preferente	News Channel 13
Cayman Compass	Newsday
Chile Tech	Nicaragua Hoy
Cronica de Hoy (Mexico)	People Daily Online (China)
CNN.com	La prensa (Nicaragua)
Daily Post Liverpool (Liverpool, UK)	Prensa Grafica (El Salvador)
Democracy Now (USA)	Prensa Honduras
Diario (Mexico)	Prensa Latina (Havana, Cuba)
Diario de Yaracuy (Venezuela)	Radio Cooperativa (Chile)
Dominican Today (Dominican Republic)	Radio Habana (Cuba)
Edmonton Sun (Edmonton, Canada)	Radio Jamaica
El Mundo (El Salvador)	Relief Web
El Nacional (Venezuela)	Reuter
El Nuevo Diario (Nicaragua)	Romandie news (Switzerland)
El Telegrafo (Ecuador)	Seattle Post Intelligencer
El Universal (Venezuela)	Seattle Times
Esmas (Mexico)	Swiss Info (Switzerland)
Estrella de Panama	Tapei Times (Taiwan)
Financieras (Caracas, Venezuela)	TELAM (Argentina)
Financiero (Mexico)	Tele Diario (Guatemala)
Financiero (Costa Rica)	Tele Sur (Venezuela)
Forbes	Terra Espana (Spain)
Granma international (Cuba)	Tribune Democrat (Pennsylvania, USA)
Group CNW (Canada)	TV New Zealand
Guardian Unlimited (Manchester, UK)	UN News Centre
Herald Today	Union Radio Net (Venezuela)
Houston Chronicle	VOA News (USA)
Hispanidad (Spain)	Voice UK
Infobae (Argentina)	Washington Post (Washington, USA)
International Herald Tribune (France)	Wilmington Morning Star (North Carolina, USA)
Inviertia (Argentina)	
Jamaica Cleaner	

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**OTHER REPORTS ON DEMOCRACY AND GOVERNANCE PROCESSES AVAILABLE FROM CIFP:**

Country	Lead Researcher(s)
Haiti	Sonia Bouffard
Ghana	Katherine Januszewska and Kevin Wyjad
Nicaragua	Sonia Bouffard
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The CIFP database includes statistical data in the form of over one hundred (100) performance indicators for 197 countries. With its focus on policy relevance, the CIFP provides a rich information resource to policy officers across all government departments. By offering a detailed assessment methodology for evaluating individual country performance, the CIFP provides guidance to program officers working in complex and fragile environments, enabling them to focus their efforts and resources on the root structural causes rather than the outward symptoms of a problem.