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The Political Economy of Domestic Resource Mobilization in Nicaragua

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Acronyms

AMCHAM	Cámara de Comercia Americana en Nicaragua (American Chamber of Commerce in Nicaragua)
ALBA	Alternativa Bolivariana para los Pueblos de Nuestra América (Bolivarian Alternative for the People of our America)
ALBANISA	ALBA de Nicaragua Sociedad Anónima (ALBA of Nigaragua S.A.)
BANDES	Banco de Desarollo Económico y Social de Venezuela (Economic and Social Development Bank of Venezuela)
BCN	Banco Central de Nicaragua (Central Bank of Nicaragua)
BCIE	Banco Centroamericano de Integración Económica (Central American Bank of Economic Integration)
CANICARNE	Cámara Nicaragüense de Plantas Exportadoras de Carne Bovina (Nicaraguan Chamber of Beef Exporting Plants)
CANISLAC	Cámara Nicaragüense del Sector Lácteo (Nicaraguan Dairy Sector Chamber)
CARUNA	Cooperativa de Ahorro y Crédito Rural Nacional (National Savings and Rural Credit Cooperative)
CENIDH	Centro Nicaragüense de Derechos Humanos (Nicaraguan Centre for Human Rights)
CNPA	Comisión Nacional de Productores de Azúcar (National Comission for Sugar Producers)
COSEP	Consejo Superior de la Empresa Privada (Supreme Council of Private Enterprise in Nicaragua)
CONACOOP	Consejo Nacional de Cooperativas (National Council of Cooperatives)
CRISSOL	Programa Cristiano, Socialista, y Solidario (Christian, Socialist, and Solidary Programme)
DAC	Development Assistance Committee
DNP	Distribuidora Nicaragüense de Petróleo (Nicaraguan Oil Distributor)
DR-CAFTA	Dominican Republic and Central American Free Trade Agreement
DRM	Domestic Resource Mobilization
ENMV	Encuesta Nacional de Hogares sobre Medición del nivel de Vida (National Household Survey on Living Standards Measurement)
ERM	Environmental Resource Management
EU	European Union
FDI	Foreign Direct Investment
FIDEG	Fundación Internacional para el Desafio Económico Global (International Foundation for Global Economic Challenge)
FSLN	Frente Sandinista de Liberación Nacional (Sandinista National Liberation Front)
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries Initiative
HKND	HK Nicaragua Canal Development Investment Co., Limited
IADB	Inter-American Development Bank
IBP	International Budget Partnership
IDB	International Development Bank
IEEP	Instituto de Estudios Estratégicos y Políticas Públicas (Institute for Strategic Studies and Public Policies)
IMF	International Monetary Fund
IFI	International Financial Institution
INAPYMI	Insitituto de Desarrollo de la Pequeña y Mediana Industria de Venezuela (Development Institute for Small and Medium Industry in Venezuela)
INIDE	Instituto Nacional de Información de Desarrollo (National Institute for Development Information)
INFOCOOP	Instituto Nacional de Fomento Cooperativo (The National Institute for Promotion of Cooperatives)

NGO	Non-Governmental Organization
NIO	Nicaraguan Córdoba
ODA	Overseas Development Assistance
OECD	Organization for Economic Co-operation and Development
PDVSA	Petróleos de Venezuela S.A.
PETRONIC	Empresa Nicaragüense de Petróleo (Nicaraguan Oil Enterprise)
PLC	Partido Liberal Constitucionalista (Liberal Constitutionalist Party)
SMES	Small and Medium Enterprises
WB	World Bank
UN	United Nations
UNDP	United Nations Development Programme
UNRISD	United Nations Research Institute for Social Development
US	United States

Summary

Nicaragua has undergone political, social, and economic turmoil since the 1930s. Periods of high social tension and violence (the Somoza Dictatorship, Contras War, U.S. Economic Embargo) were followed by relative peace and democratic transitions. Social conflicts and contradictions, however, have continued to emerge. These dynamics have circumscribed strategies for mobilizing financial resources.

Nicaragua has largely depended on international aid to finance social development. The reconfiguration of aid governance at the global level, donor fatigue and the global economic crisis, however, have prompted a decrease in traditional ODA levels in Nicaragua and deeply impacted state-donor and state-society relations. Since the election of former President Daniel Ortega in 2007, Nicaragua has joined non-traditional aid schemes such as the Alternativa Bolivariana para los Pueblos de Nuestra América (ALBA). Similarly, the state is currently fostering the construction of a potential inter-oceanic canal and has struck a deal with HKND, a Hong Kong-based private enterprise, for its implementation. Both schemes have opened opportunities for market access, foreign direct investment, and domestic resource mobilization (DRM). Nonetheless, key governance issues (such as state-society dialogue, state-investor power balances, and democratization) pose challenges to these schemes' potential to transform Nicaragua's economy and society in equitable and sustainable terms.

This paper proposes that current shifts in aid governance and access to new regional funds and revenue opportunities have compensated for a fall in aid from other donors and provided key resource availability for the Nicaraguan state, impacting positively on policy space and some development indicators. However, structural issues such as the level of social spending, poverty eradication and the empowerment of subaltern groups remain key challenges to be effectively addressed. Additionally, the lack of state transparency and accountability, meaningful social participation, and patron-client relations currently fostered through state programmes could become key obstacles to inclusive social policy-making and development in the long run.

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Introduction

Nicaragua's current resource mobilization strategy rests on taxes, fiscal revenues from mining, foreign direct investment (FDI) and international aid.[1] Depending on the historical periods, legal reforms, and policy changes, the relevance of state financing sources has varied, except for international aid. Nicaragua has been a main recipient of overseas development assistance (ODA).[2] ODA has played a pivotal role in the country's public finances and approach to social development. Traditional ODA patterns, however, are currently changing.

Increasing budgetary constraints and questions regarding aid effectiveness from public opinion and taxpayers in developed countries have contributed to current declines in ODA in some donor countries and for some recipient countries (UNRISD 2012; 2016). In this context, actors like Venezuela and China have emerged as new donors. In January 2007, Nicaragua adhered to the Alternativa Bolivariana para los Pueblos de Nuestra América[3] (ALBA), just a day after proclaiming Daniel Ortega president of Nicaragua. Late Venezuelan President Hugo Chavez originally promoted ALBA as a counterproposal to the Free Trade of the Americas proposed by U.S. President George W. Bush in 2005. ALBA proposes a cooperation scheme based on "cooperative advantages," which aims at fostering development and increasing policy space—understood as a government's autonomy to promote strategies and policies directly linked to national development priorities and goals (Mejido et al. 2010).

Also important for DRM and part of its National Development Strategy (2007–2016), the Nicaraguan government granted a concession to Hong Kong Nicaragua Canal Development (HKND) Group, a Chinese infrastructure company, for the construction and administration of a potential inter-oceanic canal. This could open investment, employment, and revenue opportunities. However, the project also raises questions regarding national sovereignty, the role of China in Nicaragua's economy, and the potential challenges and benefits that a project of this magnitude could have on the country's social and economic development.

DRM literature states that aid and domestic resource mobilization need to work in tandem in the context of shrinking ODA and donor fatigue (UNRISD 2012). However, support for DRM does not guarantee that the desired amount will be generated or allocated to social and welfare programmes, or that the burden of resource extraction will be distributed equally or fairly among society's actors (UNRISD 2012). Indeed, issues of bargaining and contestation on revenue mobilization and allocation will emerge and "are bound to influence the extent to which governments can succeed in extracting resources from their populace" (UNRISD 2012: 2). Advancements in democratization in Nicaragua have opened up spaces for independent contestation and social mobilization. What remains to be seen is if such spaces can be sustained in the midst of fragile institutions and the reconfiguration of power relations as new donors emerge.

The goal of this paper is to shed light on the main transformations of state-citizen and state-donor relations between 1972 until the present in the context of domestic resource mobilization as they are linked to social development in Nicaragua. These relations do

[1] Both the financial sector and debt instruments are also part of Nicaragua's DRM strategy but they are beyond the scope of this paper.

[2] ODA is defined as flows to countries and territories which are provided by official agencies, including state and local governments or by their executive agencies (OECD 2015).

[3] The Bolivarian Alternative for the People of the Americas.

not occur in a vacuum of politics and power. Instead, state-citizen and state-donor relations are shaped by actors, vested interests, and power differentials. Thus, this paper will explore key processes of bargaining and contestation among the Nicaraguan state, civil society and business stakeholders in regard to DRM and how this has shaped development outcomes.

This analysis will be driven by the following research questions:

- How has the shift from traditional to new donors affected the availability and governance of aid resources and what are the impacts on state accountability, democratization, and development?
- How has the shift in aid funding to new donors such as China and Venezuela impacted on a) the economic elite; b) social movements; and c) cooperatives? Who are the winners and losers of this new set-up?
- What are the implications of changing resource mobilization strategies for development outcomes?

The working hypothesis of this paper is that current shifts in aid governance that resulted from shrinking traditional ODA and the emergence of non-traditional donors (that is Venezuela and China) have compensated for a fall in aid from other donors, providing key financial resources for the Nicaraguan state. This, in turn, has impacted positively on policy space and some development indicators. However, structural issues such as the level of social spending, poverty eradication, and the empowerment of subaltern groups remain key challenges to be addressed effectively. Additionally, the lack of state transparency and accountability, meaningful social participation, as well as patron-client relations currently fostered through state programmes could become key obstacles to inclusive social policy-making and development in the long run.

This study was conducted in the context of the United Nations Research Institute for Social Development (UNRISD) project on the Politics of Domestic Resource Mobilization for Social Development. It is based on 14 in-depth interviews carried out during the second half of 2014 and 2015 with Nicaraguan government officials, and representatives of business, ‘traditional’ donors, non-governmental organizations (NGOs), and social movements, as well as the analysis of relevant secondary literature, official and independent statistics, as well as primary and secondary analysis of legal documents such as the concession laws (Law 800 and Law 840) for the inter-oceanic canal. It also draws from previous research the author conducted on the political-economy dynamics of the implementation of ALBA in Nicaragua (Carrión 2012).

The paper is structured as follows: Part 1 situates the study in the realm of relevant DRM concepts and debates. Part 2 maps out DRM and social development indicators for Nicaragua. Part 3 provides a historical overview (1972–2006) of DRM strategies for social provision, key actors and processes of social bargains and contestation, and the implications for state-citizen relations. Part 4 analyses the shift from traditional to new aid donors and current DRM strategies and its impact on social development. Finally, part 5 covers the main conclusions and policy recommendations.

Relevant Debates and Concepts

This section situates the study in the realm of DRM discussions and defines key concepts and analytical categories for this paper.

State-society relations

Contemporary states are embedded in a dynamic web of societal relations. However, in contrast to the Weberian perspective,[4] state-society relations are partly about the state itself given the close interdependency that prevails between both. According to a number of scholars,[5] this interdependency rests on the fact that "society provides crucial elements for a state's legitimacy and, in return, the state is critical to collective action in society" (Sellers 2010: 2).

State-society relations are understood as interactions and negotiations between state institutions and societal groups showing how public authority is exercised and how it can be effectively influenced by people. They are based on mutual rights and obligations, with actors negotiating how public resources should be allocated and in this process defining different forms of participation, representation and accountability. These relations from a normative point of view, however, are not straightforward in practice, especially for states with fragile institutions and opaque policy making.

In practice, state-society relations can be more or less conducive to social development. The latter is to be understood as "the result of processes of change that lead to improvements in human well-being, social relations, and social institutions, and that are equitable, sustainable, and compatible with principles of democratic governance and social justice" (UNRISD 2011: 3).

Conducive or 'positive' state-society relations are characterized by democratic power balances between state institutions and societal groups in which citizens'engagement and participation in social policy making processes plays a key role. Citizens or social actors and their associations can influence policy discussions, counter elite capture of resources and/or the state, propose civil society or grassroots schemes for social development, and demand state accountability (Benequista et al. 2010).

Contrary to mainstream concepts of participation,[6] which dilute the notion of participation to consultation with selected stakeholders—usually NGOs and business associations—this paper will define participation as "diverse forms of collective action whereby subaltern groups attempt to exert claims on more powerful institutions and influence relevant decision-making processes that affect their lives" (Utting et al. 2014: 8).

Social inclusion, conceived as access to rights, opportunities, and entitlements in the context of state-society relations, is highly interconnected to this notion of participation. Inclusion can be achieved through social policy as the latter entails autonomy *vis-à-vis* the market with respect to resource allocation (Sánchez Ancochea and Martínez Franzoni 2015). In other words, inclusion occurs when people's wellbeing in terms of health, education, and social security is guaranteed beyond their direct and indirect income sources (Sánchez Ancochea and Martínez Franzoni 2015: 12).

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4 The traditional Weberian notion of the state rests on the idea that a determined state has the monopoly over a geographical territory and coercive power. According to Weber (1968: 154), a state is recognized as such inasmuch as its administrative bureaucracy successfully maintains a *monopoly* over the *legitimate* use of violence to maintain order. Society and state are understood as two distinct analytical concepts. This dichotomous view of state-society relations embodies a unitary understating of the state (Nettl 1968). Although many other thinkers (for example Evans 1995; Anderson 1991) have problematized this view and deepened our understanding and conceptions of the state, the Weberian perspective still permeates our current understanding of state-society relations.

5 Haggard 1990; Evans 1995; Migdal 2001; Kohli 2002.

6 See, for example, World Bank 1996.

According to Sánchez Ancochea and Martínez Franzoni (2015), universalism in social policy can be divided into two approaches: a minimalist and a maximalist one. Under the minimalist view, universalism is understood as generalized access to basic services. In practical terms, however, this perspective tends to foster segmented social inclusion (with different groups entitled to different transfers and services). Under the maximalist perspective, universalism is conceived as massive, generous, and equal coverage of all people through social programmes financed by the state (Sánchez Ancochea and Martínez Franzoni 2015: 15).

Citizenship regimes

Citizenship regimes are reflective of state-society relations and, as such, of the fiscal contract. According to Schneider (2014: 10 f.), fiscal policy[7] institutionalizes who pays and who benefits from development, while also defining the modern social contract.

The tacit and explicit agreements on common goods and welfare of citizens that states and societies negotiate are what we understand as a **social pact**. According to Schneider (2015), when the 'powerless' or excluded groups in society gain access to **citizenship** rights, they can broaden fiscal policy while providing new sources of legitimacy to the state. According to Schneider citizenship regimes refer to

> [t]he ways groups are linked to the state –what collective identities are considered legitimate in politics, what organizations are formed and substantive demands mobilized, and what institutions link social groups to the state (2015: 1).

Citizenship regimes are defined by the social pacts that emerge in any given society. Both concepts are thus deeply interrelated. Schneider (2015) argues that over time state-society relations that lead to tax contributions, policy benefits, and collective action, generate deeper and longer-lasting legitimacy and attachment. Similarly, other scholars stress the links between social inclusion and democratic mechanisms including periodic elections, freedom of expression (for example through free press), and long term institution building in fostering social development. The links between social inclusion and democratic mechanisms have positively impacted on (enhanced) social spending, redistributive social policies, and the emergence of social coalitions and institutional mechanisms that have supported and expanded social programmes in Latin American countries with more advanced social policy regimes like Uruguay and Argentina.[8]

ODA has played a key role in the mobilization of financial resources in low-income countries. However, donor dependence has in many cases freed governments from the responsibility of striking bargains with their citizens (UNRISD 2012). This has negatively impacted on citizenship regimes and institution building processes. Aid dependence has also granted donors with structural power in policy making arenas of low-income countries (UNRISD 2012), affecting state-donor relations and policy space. This involvement, however, is not always conducive to sustainable state-society relations as the danger is that donors' or state-donors' interests prevail over citizens'.

Aid and development debates are increasingly stressing the role of developing countries' governments in securing own resources for their development. One of the perspectives in this debate draws attention to the fact that aid should address domestic

[7] Taxes can be characterized by three dimensions: capacity, progressivity, and universality. Tax capacity refers to the amount mobilized as a percent of GDP. The progressivity of tax is the ability of the state to capture resources from well-off groups. The universality of tax is the degree to which obligations are applied equally across regions and sectors of the economy (Schneider 2015: 1).

[8] Filgueira 2007; McGuire 2010; Martínez Franzoni and Sánchez Ancochea 2015.

resource gaps. In exchange, recipient governments need to take a hands-on approach to their development by controlling capital flight, improving domestic revenue yields, and being accountable for the aid they obtain (UNRISD 2012). In other words, current discussions are increasingly stressing the need for developing countries to complement aid with DRM strategies. In the following sections, we will examine how a low-income and aid-dependent country like Nicaragua has faced these challenges.

Mapping Nicaragua: Resource Mobilization and Social Development Indicators

This section provides a snapshot of Nicaragua's sources and indicators of domestic resource mobilization and social development.

Nicaragua is considered to be the second poorest nation in Latin America, after Haiti. The National Gross Domestic Product (GDP) is currently at USD 11.81 billion dollars with a 4.7 percent growth in 2014 (World Bank 2015a). In the last few decades, some social development indicators like prenatal attention to pregnant women and malnutrition rates have shown improvements[9] while others like availability of hospital beds have stagnated (see table 2).

Table 1. Human Development Index (HDI) indicators for Nicaragua

HDI Value (2013)	Gini index	Life expectancy at birth (years) 2013	Mean years of schooling (years) 2012*	Expected years of schooling (years) 2012*	Gender Development Index	HDI Value (2012)	Change in rank 2012-2013
0.614	40.5**	74.8	5.8	10.5	0.96	0.611	0

Note: *Data refers to 2012 or the most recent year available. **Data refers to 2013.

Source: UNDP 2015; UNRISD 2015.

Table 2. Evolution of health indicators for the period 1993–2012

	1993	1998	2001	2007	2012
Prenatal Attention (Percentage of pregnant women)	71.5	81.5	85.5	90.2	94.7
	1993	**1996**	**2006**	**2007**	**2012**
Hospital Beds (each 1,000 inhabitants)	1.8	1.5	1.0	0.90	0.90

Source: World Bank 2015a.

Nicaragua occupies number 132 in the Human Development Index rank out of 192 countries. According to the UNDP's methodology, it is considered a country with medium human development. Nicaragua still faces key social, political, and economic challenges. One of these challenges is the financing of the country's public budget.

Currently, Nicaragua's public budget is financed through internal fiscal revenues (taxes, mining revenues, etc.) and debt instruments from the national banking system; as well as external sources such as FDI and ODA. These sources have experienced changes and

[9] Between 1998 and 2006 malnutrition rates of children aged 5 and less have halved (World Bank 2015a).

fluctuations. In the case of taxes, table 3 shows a decrease in net taxes as a percentage of GDP from 11.23 percent in 2006 to 10.32 percent in 2009. Since then, the percentage of net taxes in relation to GDP has been increasing again slowly (see Molina forthcoming, for detailed analysis).

Table 3. Percentage (%) net taxes in relation to GDP (million USD) between 2006 and 2014

Category	2006	2007	2008	2009	2010	2011	2012p	2013p	2014e
GDP	4,335.8	5,003.2	5,981.6	6,198.5	6,788.4	7,954.9	8,956.5	9,754.9	11,144
Net Taxes	486.9	554.4	633.6	639.9	761.0	912.1	1,063.8	1164.2	1,319.0
Percentage Net Taxes/ GDP	11.23 %	11.08 %	10.59 %	10.32 %	11.21 %	11.47 %	11.8%	11.94 %	11.84 %

Notes: (p) preliminary (e) estimated.

Source: BCN 2014a.

The mining sector boomed between 2005 and 2006 as the value of mining activities in the country rose from USD 11.5 to USD 39.6 million, increasing its contribution to GDP from 2.1 percent in 2010 to 3.4 percent in 2012. However, as table 4 indicates, it began to decline in 2014 (see Gutiérrez 2015).

Table 4. Mining economic activity in million USD and as a percentage of GDP for the 2005—2014 period

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*
Mining Economic Activity (million USD)	11.5	39.6	38.1	36.8	35.6	54.1	68.0	75.6	91.5	91.2
Mining as a percentage of GDP (%)	1.1	0.9	0.9	1.2	1.1	2.1	3.1	3.4	3.3	2.7

Source: Figures from BCN 2014b.

Investment flows as a percentage of GDP experienced an important increase from 5.6 percent in 2010 to 9.6 in 2011. Since then, however, as table 5 shows, FDI flows to Nicaragua have settled at approximately 7 percent.

Table 5. Foreign direct investment as a percentage of GDP (%) between 2010 and 2014

2010	2011	2012	2013	2014
5.6	9.6	7.3	7.5	7.1

Source: World Bank 2015b.

Finally, in the case of aid, table 6 illustrates that Nicaragua is still highly dependent on external sources for state financing. Consequently, ODA plays a fundamental role in Nicaragua's resource mobilization strategy. ODA flows, however, went down from 660.7 million in 2006 to 495.6 million USD dollars in 2014.

Table 6. Overseas Development Assistance (million USD) between 2006 and 2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Donations	356.3	399.6	315.4	275.6	233.4	233.2	227.0	220.3	147.9
Loans	295.4	259.2	219.3	330.2	285.1	256.7	257.0	287.7	347.7
Total	660.7	658.8	534.7	605.8	518.5	489.9	279	508	495.6

Source: BCN 2014c.

Venezuelan aid has been fundamental in enhancing Nicaragua's access to external finance. Aid levels increased from 140 million USD in 2007 to 500 million USD in 2013 (IADB 2015). However, they decreased to USD 193.3 million in the first semester of 2015 due to falling oil prices (BCN 2015). The latest electoral victory of the opposition in parliamentary elections held in December 2015 and current social and political turmoil in Venezuela could in the future generate unexpected changes to ALBA's current implementation and governance.

Historical Overview of Domestic Resource Mobilization for Social Development in Nicaragua

This section aims to identify the main DRM strategies and types of social and fiscal contracts that have been established since the 1970s and related transformations in social dynamics.

Social spending in Nicaragua has undergone a series of changes (see table 7). The late period of the Somoza Dictatorship (1972–1979) was marked by low social spending. The victory of the Sandinista Revolution (1979–1989) changed this. Social spending increased, but so did defence spending as a result of the 1980s Contras War. In 1990, aid flows increased as the newly-elected government had closer ideological ties with the U.S. with the effect that social spending rose significantly mainly due to the contraction of the defence budget (Arana et al. 1999) and in response to social mobilization. By 1992, however, social spending levels decreased again and social provision weakened as structural adjustment policies, advocated by the World Bank and the International Monetary Fund, were implemented in response to economic crisis to achieve macroeconomic stabilization, state downsizing and privatization. Similarly, GDP per capita decreased between the late period of the Somoza Dictatorship and 1992 mainly as a result of hyperinflation during the 1980s, the abrupt changes undergone by the economic policy regime, and the impact of structural adjustment policies (Arana et al. 1999).

Table 7. Nicaragua: Sectorial distribution of central government expenditure as percentage (%) of GDP between 1970 and 1992

Sector	1970–1975	1985	1990	1992
Social Services	5.2	13.1	14.7	8.4
Education	2.4	5.5	7.1	3.7
Health	1.6	4.9	6.6	4.5
Infrastructure & Prod.	4	9.8	4.7	5.6
Defense & Police	1.6	15.9	18.9	4.2
Debt Service	0.7	2.7	0	2.8
Other	3.3	13.1	8.5	7
Total	**18.8**	**65**	**60.5**	**36.2**
GDP Per Capita	1,052	670	485	457

Note: Data based on USD (1980) Constant.

Source: Author's calculations based on Arana et al. (1999). Figures from 1970–1990 are from the World Bank (1992). Figures for 1992 are from the World Bank (1997). Figures from 1994 onwards are based on data provided by the MCHP.

Anastacio Somoza's late period (1972–1979)

Anastacio Somoza García installed a 45-year dictatorship in Nicaragua that began in 1934 and was supported by the U.S. The U.S. invaded Nicaragua on several occasions due to its interests in the construction of a potential inter-oceanic canal. During U.S. occupation of Nicaragua (1912–1933), the marines faced fierce resistance from a small but strong peasant guerrilla lead by Augusto C. Sandino, a grassroots leader with a vision of self-determination for Nicaragua. The onset of the 1930s Great Depression made it costly to continue the occupation, and in 1933 U.S. marines declared military defeat. Before leaving, they armed and trained the Guardia Nacional and appointed Anastacio Somoza García as their Chief Commander. In 1934, Somoza assassinated Sandino.

During the strong hand rule of the Somozas, social organization was permitted though true bargaining and contestation were very limited as a result of Somoza's highly repressive apparatus and the creation of clientelistic ties with social leaders (Borchgrevink 2006).[10] Still, civil society's social mobilization managed to obtain the inclusion of the mission (and free nature) of public education in the Constitution (D'Castilla 1999). Likewise, in response to workers' demands, Somoza's son, Luis,

[10] There were seven main trade union centrals, representing different political currents—socialist, communist, Marxist-Leninist, Christian democratic, and Sandinista—but they faced heavy repression and their impact remained limited (Borchgrevink 2006: 17). There were 15 to 20 NGO-like organizations during this period along with 338 non-profit organizations registered between 1956 and 1979, comprised of 62 religious organizations, 53 labour organizations, 51 social organizations, 24 business organizations, 19 farmers' organizations, and 129 other types of organizations (Borchgrevink 2006:17 footnote). Many of these organizations provided social and welfare activities, offering what the regime did not. The Somozas encouraged civil coercive mechanisms embodied by the figure of Nicolasa Sevilla. "La Nicolasa" was the founder and leader of the Somocista Popular Fronts, anti-Communist gangs made up of urban working-class men in their 20s and 30s. Sevilla's Somocista Popular Fronts functioned as paramilitary terrorist organizations. They may have been related to the Mano Blanca, a government-supported anti-Sandinista clandestine terrorist group that emerged in the late 1970s, as their tactics of instilling fear in political opponents were similar (Gonzalez and Kampwirth 2001: 60).

created the Instituto Nicaragüense de Seguridad Social (INSS), the Nicaraguan Social Security Institute, in 1956, which became the basis for a national pension system.

Anastacio Somoza Debayle's late period (1972–1979) was marked by rampant inequality and growing tensions. In 1972, an earthquake destroyed Managua, marking the beginning of the end of the Somoza era. While supporting large capitalist producers and bolstering export production capacity led to growth during the early 1970s, benefits for the majority of lower classes were limited (Curtis 1998; Torres-Rivas 2011). The Somozas promoted their own businesses and those of a few select elite groups, including the Grupo Banco de Nicaragua, Grupo Banco de América, and Grupo Somoza, financing technical assistance programmes, infrastructure, agroindustry development, loans and aid (Zaremba 1992: 20). These economic groups owned companies linked to finance, housing, agroindustrial activities, importation of machinery, vehicles, and so on (Mayorga 2007).

Access to social services for the majority of the population was very difficult and social spending levels were low. Table 7 above shows that education represented only 2.4 percent of GDP, health 1.6 percent, and social services 5.2 percent for the period 1970–1975. Before 1979, only 28 percent of Nicaraguans had access to modern health provision. Social services purchased health care mainly for salaried employees who comprised only 8.4 percent of the population but consumed 50 percent of available health resources (Curtis 1998: 1622). 90 percent of health resources in the 1970s was directed at only 10 percent of the population in form of social services and access to modern health facilities (Curtis 1998: 1622). The rest of the population did not receive any health care services or—a minority—paid for it privately. Access to education was also unequally distributed. By 1979, 50.3 percent of Nicaraguans were illiterate (Hanemann 2006: 2). Around two-thirds of all students were from urban backgrounds, while less than 5 percent of all children from agrarian backgrounds finished primary school (Zaremba 1992: 12). Initially, in the mid-1930s and early 1940s the Somoza regime provided very little public education, a deliberate strategy that had proved effective in cementing the regimes' position of power (Zaremba 1992: 12). This only started to change in the mid-1940s when, driven by a need to increase its social base and discourage organized opposition, Somoza increased social spending. It, however, did not translate into universalism. Instead, between the 1950s and 1970s, social policy in Nicaragua was largely segmented and discretional (Martínez Franzoni and Sánchez Ancochea 2015: 34).

Somoza's government relied on aid to finance social spending. In total, for the period between 1973 and 1979, health received 29.7 million USD in aid, including both loans and donations (Arana et al. 1999), while education obtained 30.3 million USD (Arana et al. 1999). Donors, such as the United States Agency for International Development (USAID), the International Development Bank (IDB) and international NGOs like CARE, directly implemented many social programmes under Somoza.[11] Working with the Ministry of Public Education, CARE constructed 300 primary school classrooms in rural areas to provide facilities for approximately 12,000 students in grades one through six (USAID 1974: 106). USAID also funded a school lunch programme to incentivize school attendance. By 1974, this programme would be funded through domestic food distribution project loans (USAID 1974: 38).

[11] These programmes included agricultural credit extension programmes, research, marketing, and training, as well as improvements in rural infrastructure, educational opportunities for the rural poor, better nutrition and greatly expanded health services that emphasized the preventive aspects of medical care (USAID 1974: 2).

National and international commercial borrowing and FDI were also important for resource mobilization. These, however, increased the country's fiscal deficit. The 1970s were characterized by increasing availability of foreign financial assistance and investment, which was critical for offsetting the ever-widening gap between foreign exchange earnings and demand for foreign exchange (Conroy 1985: 42). Nicaragua needed more than USD 350 million, on average, each year for its imports and debt servicing (Conroy 1985). By 1978, short-term foreign debt constituted 46 percent of total bank debt, and the short-term portion of bank debt to foreigners increased from 43 percent to 80 percent between 1976 and 1978. This meant that Nicaraguan bankers had to continually renegotiate nearly 40 percent of the total outstanding bank debt of the country (Conroy 1985: 44).

According to Moore (2013), fiscal regimes tend to legitimize the status quo, particularly in the context of unequal power relations. Under Somoza, Nicaragua's ratio of tax revenues to GDP was one of the lowest in Central America and indirect taxation based on foreign trade and internal consumption continued to provide most of the revenue, despite several weak attempts at income and property tax reform.[12] Due to the government's unwillingness to tax wealth and income, Nicaragua generally financed only a small portion of public investment from domestic resources (Biderman 1983: 25). Most of the finance for investment and the public budget came from outside Nicaragua. According to Central Bank data from 1972, FDI accounted for example for 30 percent of the fixed assets in the manufacturing industry (Biderman 1983: 25). The Somozas charged foreign and domestic business special fees for exploiting the nation's gold and timber resources, and thus benefited from natural resource sectors (DeFronzo 1996: 211). Some of these and other tax revenues, however, were generally compromised by tax evasion (Biderman 1983: 25).

In the midst of the 1972 earthquake, Somoza channelled aid resources that flew into the country as humanitarian and emergency relief to engross his personal wealth. In effect, the latter grew from USD 50 million to more that USD 500 million in 1979 (Booth and Walker cited in Sánchez Ancochea 2007: 23). This sparked indignation among the Nicaraguan people and elite, who allied with the Sandinista National Liberation Front (FSLN), a Leftist guerrilla movement, to fight a popular insurrection that defeated Somoza on July 19, 1979.

The Sandinista Revolution period (1979–1989)

The revolutionary government inherited a state with high external debt, little foreign exchange reserves, a bankrupt banking system, and a population reeling from the effects of the war. U.S. President, Ronald Reagan, came to power in 1981 in the midst of Cold War politics. The socialist inclination of the incipient revolutionary government created tensions with the U.S. government, which saw this historical event as the result of Soviet influence in its own 'backyard'.[13] Tensions culminated in an economic embargo imposed by the U.S. in 1985 and the Contras War they supported.

Soon after seizing power, the Sandinistas created the Junta de Gobierno de Reconstrucción Nacional, the National Reconstruction Junta[14] (1979–1985). Animosities emerged not only with the Contras army, which was financed and trained

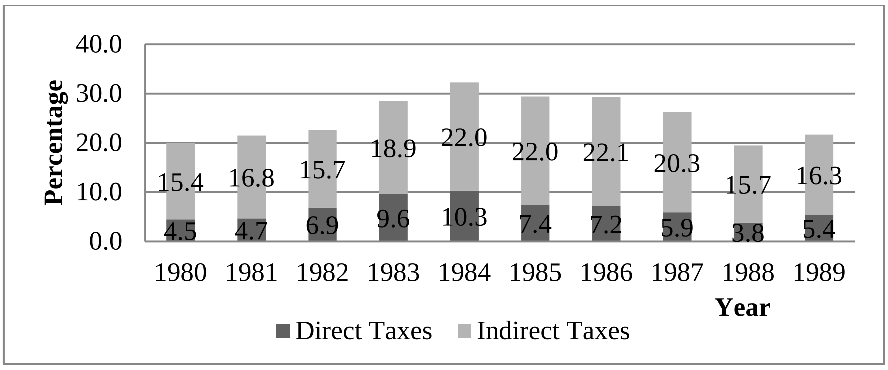
[12] Taxes as a share of GDP did not exceed 10 percent.
[13] Term used by U.S. politicians to refer to Latin America.
[14] The Junta was a transitory government that aimed for peace restoration and national reconstruction. The Junta was composed of FSLN c*omandantes* and members of the Nicaraguan economic elite.

by the Reagan administration (1981–1989),[15] but also within the economic elites. The traditional alliance with the state, which dated back to the Somoza regimes, was crumbling and turned into a conflictive relationship as economic power was transferred from the economic elites to the workers (through land reforms, state expropriation) and workers along with other excluded social groups were granted greater citizenship rights. As a result, many business stakeholders that had previously supported the Sandinistas against the Somoza Dictatorship turned against them and joined the Contras.

New participatory spaces opened up for subaltern groups (workers, women, peasants, and indigenous people) to be linked directly to the state and gain more citizenship rights through mass organizations including the Sandinista Union of Health Workers (FETSALUD), the Organization of Farm Workers (ATC) and Teachers (ANDEN), the FSLN women's organization (AMNLAE), among others (Borchgrevink 2006). The Sandinistas sought to establish a mixed economy and social benefit networks for the poor by instituting large-scale agrarian reform through accumulation of former Somoza properties,[16] and starting ambitious social programmes based on grassroots volunteerism (Walker and Wade 2011: 45). By 1988, land in the hands of big business was reduced to 6 percent of the total, while 40 percent was occupied by small and medium enterprises (Mayorga 2007: 43).

Swinging cuts in public sector salaries helped finance government expenditures aimed at raising the income of the poorest Nicaraguans, subsidizing basic necessities, and expanding health, education and housing. Similarly, selective excise taxes (alcohol, gasoline) were instituted followed by fiscal reform aimed at raising taxation. Two new taxes were created to increase progressivity and revenue collection: the property tax and the capital gains tax (Molina forthcoming). Both aimed also at wealth redistribution. Between 1980 and 1984, tax collection increased (see figure 1). However, it began to decline by the mid-1980s due to the effects of the Contras War (see also the rise of defense spending indicated in table 7).

Figure 1. Direct and indirect taxes as percentage of GDP, current prices (1980–1989)



Source: Acevedo 2011 cited in Molina (forthcoming).

[15] At the onset of the conflict, former National Guard officers composed most of the Contras, but later on thousands of disillusioned peasants and indigenous people, joined the ranks of this armed group as a result of state policies on land and agricultural production and commercialization during the revolution (Fauné 2014). These policies deeply affected the relationship between the state and subaltern groups. In 1986, the U.S. Congress allocated USD 100 million in aid to the Contras (Hunter 2012). The Reagan administration, however, also funded the Contras by selling arms to Iran and sending the revenues to the Contra rebels. The scandal became known as the Iran-Contra Affair.

[16] The Sandinista expropriation of Somoza's land holdings created a state property sector called the Area de Propiedad del Pueblo (APP) of 1.6 million manzanas grouped in over 100 multi-unit enterprises. The APP became subject to centralized production and investment planning and initiated a process of worker participation in management through the newly created Asociación de Trabajadores del Campo (ATC) at farm, regional, and national levels. Through nationalization of Somoza family holdings, the Sandinista administration established a state monopoly over the sale of export products in order to generate funds for social and economic infrastructure projects. They also sought to conserve scarce foreign exchange for high-priority social and economic inputs through tightly controlling imports (Walker and Wade 2011: 100).

Despite impressive increases especially in direct taxes (figure 1), tax revenues by the mid-1980s were not sufficient to expand social programmes. Resources were scarce as the Sandinista administration also honoured the USD 1.6 billion foreign debt accrued by the Somoza regime (Girling 1983). The government printed large amounts of money to stay afloat. Nevertheless, this was not enough, in addition to the negative effects such as increasing inflation it produced. International aid thus became an important source of public funding. Overall, Nicaragua received offers of USD 2.5 billion in economic assistance during the first four and a-half years of the revolution (Dijkstra 1999). Aid, however, generally arrived with strings attached and pledges were not always met. Aid from the Soviet Union, for instance, came with fiscal contracts that forced Nicaragua to purchase items of questionable quality (Dijkstra 1999: 299).

Foreign aid directed to health increased by USD 24.8 million in contrast to the Somoza period as it received up to 54.5 million USD between 1980 and 1989 (Arana et al. 1999). However, aid geared to education amounted only to 18.5 million USD for the same period (Arana et al. 1999). Aid flows to education fell by 11.8 million USD compared to the Somoza period. As table 8 shows, aid sources at the time were diverse.

Table 8. Average distribution and structure of foreign aid under the Sandinista government between 1980 and 1984

Type of aid source	Percentage (%)
Official bilateral assistance from non-socialist countries (Western Europe, North America, Latin America, Africa and Asia)	49
Socialist-bloc countries	25
Multilateral organizations in non-socialist countries	26

Source: Based on Conroy 1985: 63.

Overall public spending increased from 18.8 percent during the Somoza period to 65 percent of GDP in 1985 (see table 7 above). Despite this, public spending was mainly centered on production and defence. Between 1982 and 1986, over half of the country's total investment went to the productive sector. Economic infrastructure accounted for an additional third of total investment, and social infrastructure was less than one-tenth of state funding (Irvin 1983: 134). Table 9 below shows social spending levels between 1982 and 1989. As we can see, health and education spending as a percentage of total spending were slightly higher in 1982 compared to health and education spending under Somoza between 1970 and 1975 (see table 7 for data under Somoza). However, as the 1980s progressed, social spending decreased while military spending increased (see table 7) and the relations with the U.S. government further soured.[17]

[17] Between 1982 and 1985 the United States placed increasing economic and political pressure on Nicaragua. In 1982, the Standard Fruit Company pulled out banana-buying operations in Nicaragua. In 1983, the Nicaragua quota for exporting sugar to the United States was cut by 90 percent (Walker and Wade 2011: 50). In early 1984, the U.S. placed landmines in Nicaraguan harbours and undeveloped anchorages in order to cut off trade with other nations (Conroy 1985: 53).

Table 9. Social spending in Nicaragua as a share of central government expenditure (1996 Córdobas CIO and US Dollars USD)

Sector	1982	1983	1984	1985	1986	1987	1988	1989
% of Social Expenditure								
Total	23.87	22.25	19.23	19.27	20.66	21.18	18.2	24.6
Education	10.91	12.55	7.53	8.74	9.11	10.38	7.47	9.11
Health	10.71	7.53	7.44	8.81	10.58	9.63	9.15	13.16
Housing	2.25	2.17	4.26	1.72	0.97	1.17	0	2.29
Other	-	-	-	-	-	-	1.58	2.29
Thousands of 1996 CIO								
Total	1801.4	2669.8	2357.8	2329.0	2358.9	1979	1334.1	1120.5
Education	823.3	1506.5	923	1056.6	1040.1	969.3	547.3	424.7
Health	808.2	903.4	912.3	1065.6	1208	900.1	670.7	599.6
Housing	169.9	259.9	522.5	207.6	110.8	109.6		1.9
Other							116.1	104.3
Millions of 1996 USD								
Total	213.36	316.2	279.2	276	279.4	234.4	158	132.7
Education	97.56	178.4	109.3	125.2	123.2	114.8	64.8	49.1
Health	95.7	107	108	126.2	143.1	106.6	79.4	71
Housing	20.1	30.8	61.9	24.6	13.1	13		0.2
Other							13.8	12.4
Total in 1996 USD	109	93	89	88	71	47	38	56
% of GDP	10	14	13	13	13	11	9	7

Source: Figures from the Nicaraguan Central Bank. Author's calculations based on Arana et al. 1999.

The government implemented landmark social initiatives. In 1980, it launched a National Literacy Crusade that drastically lowered the country's illiteracy rate from 13 to 5 percent (Walker and Wade 2011: 46). Additionally, education became free from pre-school to university levels. Moreover, between 1979 and 1984 the health care sector was transformed. The government nationalized the health system integrating twenty-three semi-autonomous health bureaucracies that had duplicated and fragmented health services before the revolution (Donahue 1999: 259). Similarly, the Social Security Institute became the Nicaraguan Social Security and Welfare Institute. In the process rural workers, all civil servants, and private sector workers were integrated into social security schemes like the professional risks insurance, which included protection in case of disability, old age, and death (INSS 2005: 12). However, years later, this would pose financing challenges for the Social Security and Welfare Institute, as these workers had not paid any contributions previously and high inflation was eroding the funds. Furthermore, medical services under the institute were transferred to the Health Ministry (see Delmelle and Mendoza forthcoming).

Public expenditures rose more quickly than expected. Although direct and indirect taxes rose until 1984, direct taxes began to decrease the year after. Indirect tax revenues were more stable, however, in the midst of falling export prices, inflation—which went up from 24.8 percent in 1980 to 1689 in 1989 (Molina forthcoming)—and economic stagnation as a result of the economic blockade (Irvin 1983), public spending could not be sustained on these resources alone. Furthermore, in 1988, in the context of the Washington Consensus Agenda, international financial institutions (IFIs) demanded a drastic economic adjustment programme as a condition for resumption of aid (Merrill 1993: 2). This curtailed social spending even more, as shown in table 9.

As the social and economic crisis deepened, policy contradictions emerged. One example is the agrarian reform, which was conceived as large-scale land redistribution in benefit of the workers (Fauné 2014). However, land was mainly granted to state enterprises and cooperatives rather than individual peasants (Ortega 1986: 6). The aim of the agrarian reform was industrialization and the transformation of the peasantry into an agrarian proletariat (Fauné 2014: 4). Nonetheless, there was a conceptual bias. The FSLN leadership saw the peasantry as backward, autarchic, and an ‘obstacle’ to modernization (Wheelock 1975 cited in Fauné 2014). As a result, contrary to their traditional individual and family-based models of production, peasants were organized under cooperatives that could only sell to the state. This created tension, disappointment, and mistrust among the peasantry. As the war intensified and food was needed in the cities, the land of better-off peasants (even from those that owned only one or two plots) was confiscated (Fauné 2014: 6). Peasants interpreted this as a direct threat to their identities and livelihoods and many joined the Contras.

By the end of the 1980s, the situation was unsustainable: The death toll of the civil war had reached 50,000 people and the country was experiencing an economic recession and hyperinflation in 1989.[18] A cease-fire and peace agreement was signed. General amnesty was granted to Contra rebels[19] and national elections were scheduled for early 1990.

The Chamorro, Alemán and Bolaños administrations (1990–2006)

On February 25, 1990, the Sandinistas were defeated in national elections by Violeta Barrios de Chamorro. While this period was characterized by neoliberal reform, the development models and DRM strategies varied. President Violeta Barrios’ (1990–1996) administration focused on macroeconomic stabilization, privatization, and neoliberal reforms and the subsequent President Arnoldo Aleman’s (1996–2001) development model deepened privatization, promoted trade liberalization, and debt payments. President Enrique Bolaños (2001–2006) promoted a national development plan based on business clusters and public investment according to poverty maps and donors’ Poverty Reduction Strategy Papers (PRSPs). Under Bolaños, the state-business nexus deepened. The role of bilateral and multilateral donors consolidated strongly,

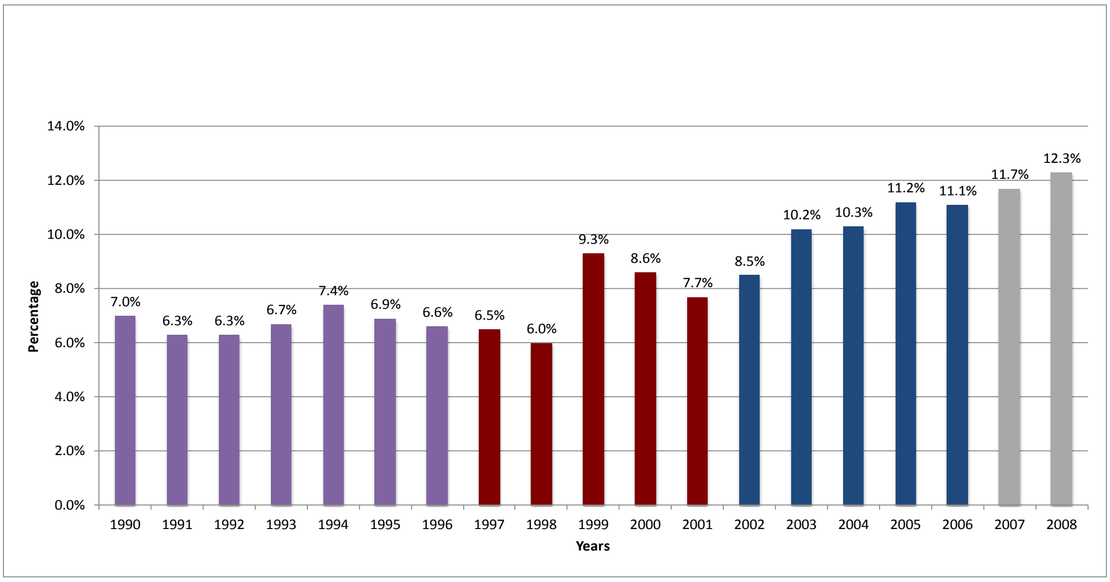
[18] Additionally, the national GDP percentage rate (at constant 2005 USD) went from 4.6 in 1980 to -0.8 in 1982. In 1984, it reached -1.6 percent (World Bank 2015c).

[19] Estimated at 22,000 (Fauné 2014: 11).

granting these actors structural power regarding public spending and policy-making processes.

The governments of the 1990s onwards engaged with the IMF and the World Bank to implement stabilization programmes, which emphasized balancing budgets and debt repayment at the cost of social programmes. This austerity impacted poor Nicaraguans negatively. Privatization caused massive unemployment going up from 20.9 percent in 1985 to more than 60 percent in 1993 (Curtis 1998). Health spending was cut from USD 58 per person per year in 1988 to USD 17 per person per year in 1991 (Curtis 1998: 1623). As figure 2 below shows, social expenditure as a percentage of GDP decreased between 1991 and 1992, and then experienced only modest changes. In 1998, under Alemán's administration, social expenditure reached its lowest level (6 percent). Since 2002, public social expenditure began to show a small, though steady increase. This had a positive effect on inequality. The Gini Index decreased from 0.58 in 2001 to 0.47 in 2011 (BTI 2014).

Figure 2. Public social expenditure as a percentage of GDP (%) between 1990 and 2008



Note: Chamorro administration (1990–1996); Alemán administration (1997–2001); Bolaños administration (2002–2006).

Source: Based on CEPAL (2009).

The Bolaños administration (2001–2006) introduced a cash transfer programme known as the Red de Protección Social (Social Protection Network) financed by the IADB and the Banco Centroamericano de Integración Económica (BCIE). The programme had a cost of USD 32 million and reached around 22,500 low-income households. It increased school enrolment and children's learning abilities (Martínez Franzoni and Sánchez Ancochea 2015). However, it also emphasized the segmented nature of Nicaragua's social policy model, which the revolution had tried to change.

Tax reforms under the Alemán administration reduced the tax burden of workers. However, it did not eliminate the system's regressive nature, with the majority of taxes in Nicaragua continuing to be indirect (Arana et al. 1999). As a consequence, the burden of the tax system remained centered on the poor and more vulnerable sectors of society. In 2002, taxes on consumption, including customs revenues, contributed around 80 percent of the government's resources (Gasparini and Artana 2003). This tax structure included special treatment exceptions, exemptions, and low revenue generating taxes.

Exonerations were based on types of products and specific buyers, and went along with high levels of tax evasion—around 35 percent according to IMF estimates (Gasparini and Artana 2003: 1).

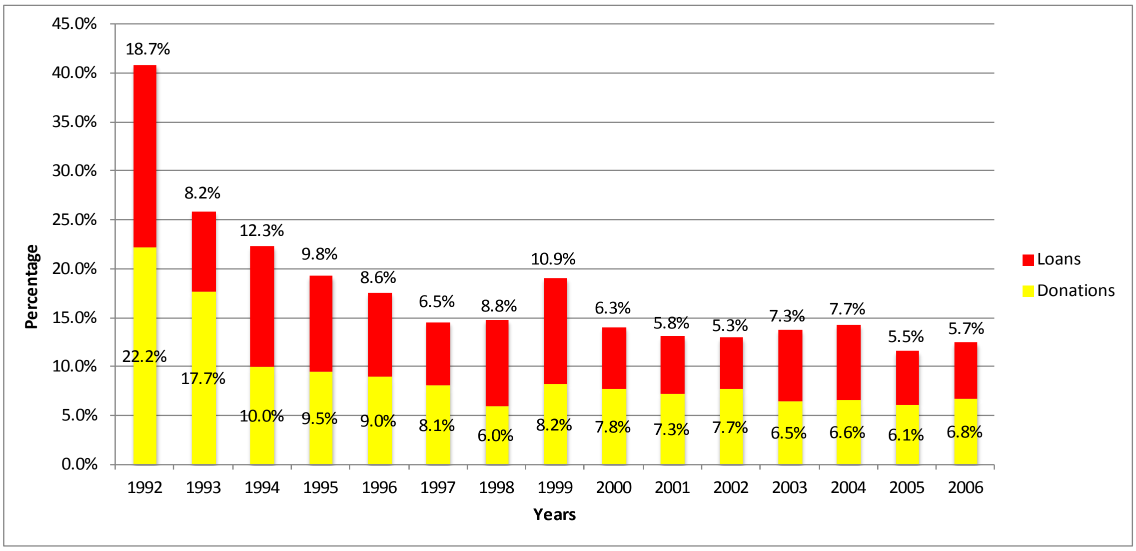
The Tax Equity Law, passed in 2003 during the Bolaños administration, aimed at increasing government revenues to bridge the fiscal gap, reduce distortions, and improve accountability and equity. The law did increase tax revenue (Molina forthcoming) and reduced some distortions. However, the exonerations and tax breaks granted to business and investors were largely maintained, which watered down its potential effect on the reduction of inequalities in the fiscal regime (Gasparini and Artana 2003; Molina forthcoming). These reforms reflected a new configuration of actors and economic and political power, which deeply impacted state-society relations in post-revolutionary Nicaragua. Business stakeholders, some of which had been expropriated during the revolution, emerged as influential actors. The privatization of national enterprises, the deregulation of capital investment, and export-led growth policies increasingly conferred structural power to actors like the Consejo Superior de la Empresa Privada (COSEP), a confederation of business groups.

Business structural power refers to the power of disinvestment. Businesses exercise structural power because economic activity in capitalism is determined by capitalists' investment decisions, which are determined by the profitability criterion. The exercise of the power related to investment, or even its threat, takes the form of reduced investment in domestic production activity and increased flows either into speculative activities and/or overseas (for instance capital flight) when there is a decline in business confidence or profitability. Instrumental power, for its part, arises from planned political actions by businesses via different institutions such as business interest associations, government-business policy coordination, informal business networks, business lobbying and campaign contributions, business ties to political parties etc. (Moudud et al. 2014).

Neoliberal measures during the 1990s triggered social tensions, including national strikes like the 1990 national strike that mobilized 80,000 state, industrial and rural workers against these policies (Pallais 1990). Such resistance signaled the newly-elected government that its reform course needed to be implemented gradually. In response, the country experienced "cycles of standoff, negotiation, and compromise alternated with peaceful and violent strikes, demonstrations and clashes" (Robinson 1995: 1). Nicaraguan civil society became a highly diversified and fragmented player, in which the downsizing of the state, as a result of neoliberal reforms, and the disillusionment of many FSLN members with the party leadership played a key role. In this period, mass organizations and grassroots movements were weakened, though they also gained autonomy from the FSLN (Borchgrevink 2006), while NGOs rapidly gained influence. For example, in 1990 the workers confederation (Central Sandinista de Trabajadores, CST) split into the national CST and CST-José Benito Escobar as a result of leadership conflicts in the context of privatization and related reforms. The membership of both groups plummeted dramatically as state companies were closed and others privatized (Grigsby 2005). At the same time, the presence and number of NGOs linked to and financed by international aid agencies and financial institutions increased dramatically since the early 1990s and they increased their influence in social and economic policy making processes. Throughout this decade and into the 2000s, social movements mobilized around issues of health and education, as in the case of 2005 health and education workers' strikes. While their impact was not great then, by 2007 the cooperative movement thrived.[20]

International aid complemented DRM strategies. Between 1990 and 2002, Nicaragua received USD 576.9 million annually from bilateral and multilateral cooperation (Gobierno de Nicaragua 2003: 4). This aid amounted to a total of USD 7,500 million, out of which 56 percent were donations and 44 percent loans (Gobierno de Nicaragua 2003: 4). From 1990 to 2001, health received 250 million USD in aid and education 189.7 million USD (Arana et al. 1999). As figure 3 shows, international aid peaked in 1992 to account for 40 percent of Nicaragua's GDP. Between 1992 and 2012, however, aid levels decreased. The year 1999 is the only exception as both, loans and donations, increased due to the international response prompted by the devastating effects of Hurricane Mitch, which in 1997 destroyed most of the country's infrastructure, killing thousands of people.

Figure 3. Evolution of foreign aid as a percentage (%) of GDP between 1992 and 2006



Source: Based on Acevedo 2011.

However, as figure 2 shows, the year after Hurricane Mitch, social expenditure reached its lowest level (6 percent in 1998). Civil society organizations, such as the Coordinadora Civil, which comprised both NGOs and new social movements, including women and environmental constituencies, denounced this. Tensions with the state rose as the Coordinadora Civil accused the Alemán administration of corruption as salary increases for the president, his ministers and legislators were conducted as the crisis unfolded (Goitia 1999). As a result, Ley 475 de Participación Ciudadana, the Law on Citizen Participation[21], was drafted and finally passed by the Bolaños administration in 2003. The Alemán administration was accused of abusing power in 2000 when President Alemán and the then leader of the opposition Daniel Ortega signed a political

[20] Cooperatives began to experience economies of scale; they had their own processing plants, and successfully capitalized available financial resources, particularly from international aid despite an adverse policy environment. Cooperatives like APRONOT, CECOCAFEN, San Francisco de Asís, and PRODECOOP were leading national enterprises in the production, processing, and export of dairy, coffee, and fruits, which included frozen fruit pulp, yogurt and cheese. Cooperatives and SMEs are structurally different actors than COSEP. Cooperatives are embedded in social economy dynamics since they work and develop within social (they have traits of a social movement, which demands certain social vindications) and economic realms (they also pursue collective economic gains). Thus, their associations are not 'just-for-profit.'

[21] This law allows for the participation of citizen and civil society organized in social movements, NGOs, and other types of associations in public policy and law-making processes. Additionally, it states that civil society can demand transparency and accountability from the government, which the latter needs to ensure effectively (La Gaceta 2003: 6239).

pact. The pact united their two parties in the National Assembly giving them majority control over legislative power and granting bi-partisan control over the Corte Suprema de Justicia (Supreme Court of Justice), Consejo Supremo Electoral (Supreme Electoral Council), and the Contraloría General de la República (National Audit Office).[22] Among other things, the Ortega and Alemán-controlled National Assembly passed legislation in January 2000 to increase the electoral threshold for political parties seeking to participate in the National Assembly, strengthening the dominance of the FSLN and PLC. Additionally, the percentage necessary to win an election in the first round was lowered to 35 percent of the popular vote. Similarly, both party leaders could appoint members to the Supreme Court of Justice and thus influence the judicial system according to partisan and particular interests. The pact ended up weakening democratization and institution-building (Enríquez and Miranda 2014).

The Hurricane Mitch crisis deepened the country's dependence on foreign aid (Pérez-Baltodano 1997). In 2005, Nicaragua signed the Acuerdo Conjunto de Financiamiento with the Budget Support Group comprised of bilateral and multilateral donors, including the World Bank, the European Union, the IADB, Sweden, Norway, Finland, the United Kingdom, Germany, the Netherlands and Switzerland. Table 10 shows international aid flows (loans and donations) between 2005 and 2007.

Table 10. Budget support group aid structure 2005–2007 (million USD)

Concepts	2005	2006	2007
Total	40.2	132.1	98.5
Loans	5.2	62.7	45.7
Inter-American Development Bank	0	29.8	14.9
World Bank	0	30.3	25.2
Germany	5.2	2.6	5.7
Donations	35	69.4	52.8
Sweden	7.4	9.5	0
Norway	3	3.1	3.4
Netherlands	10.7	12.8	15.3
United Kingdom	0.6	1.9	0
Switzerland	0	10	5.2
Finland	1.8	4.4	2.8
European Union	11.5	27.7	26.2

Source: Banco Central de Nicaragua 2007: 14.

In tandem with global changes in aid management and politics, a new aid framework was proposed: the sectoral approach. The sectoral approach had a series of conditions the Nicaraguan government needed to fulfill, such as a stable macroeconomic environment, a national development strategy—which had to be crafted in consensus with donors—proved management capacity of the national budget, sectoral policies,[23] in conjunction with the national development plan, transparency, and an approved Poverty Reduction Strategy (Gobierno de Nicaragua 2003: 8). As in other countries, to access foreign aid, PRSPs had to be drafted. The papers were supposed to be country-

[22] See Envío (2000).
[23] Nicaragua pursued sectoral policies in areas such as education, macroeconomics, health, competitiveness, infrastructure, and governance (Daza 2003).

driven, result-oriented, comprehensive, partnership-oriented, and based on a long-term perspective (IMF 2015). PRSPs, however, did not impose new conditionalities. They were part of the conditions Nicaragua had to abide by to be included in the Heavily Indebted Poor Countries Initiative (HIPC), to which Nicaragua was accepted in 2000.

The expected results of the HIPC Initiative's financial relief seldom materialized as Nicaragua's internal debt previously acquired with commercial banks became the main burden (Portocarrero 2004). Instead of increasing social spending, the state used the additional freed up resources to service this debt. Out of the approximately USD 200 million freed up, only USD 7 million were spent on social programmes in 2004 (Acevedo 2005). This, along with a highly regressive fiscal system, the privatization of state property, and the strengthening of political and economic power of business *vis-à-vis* social movements, had negative effects on social indicators at the time,[24] deepening the inequalities that still persist today.

In sum, Nicaragua has historically relied heavily on external sources (mostly foreign aid and loans) to finance social development. Fiscal revenues have been increasing since the 1970s; however, the regressive nature of taxes still persists. Reforms to social and fiscal contracts have barely changed this, with the exception of the Sandinista Revolution, when subaltern groups (workers, peasants, indigenous peoples) were included into citizenship regimes gaining broader access to social policy and tax revenues, in particular direct ones, increased strongly. However, the effects of the Contras War, the U.S. Embargo, and the internal contradictions of the revolution ended up eroding the transformative potential of its social and fiscal policies.

Since the 1980s new spaces for social mobilization have emerged. Nonetheless, these spaces were and continue to be contested by other powerful actors and interests (for example business). The strategic alliance between the state and business has been a crucial trait of Nicaragua's DRM regimes. As we will see in following sections, the current administration has continued and strengthened this nexus while at the same time linking to emerging powerful actors at the global level, such as new 'non-traditional' donors, with key implications for aid governance and state-society relations.

DRM strategies under the current Ortega administration (2007–present) and changing coordinates of aid governance

This section analyses state-donor relations in the context of emerging non-traditional donors and its implications for aid governance, policy space, and development.

Changing coordinates of state-donor relations in Nicaragua

Non-traditional donors, including Venezuela, Brazil, Russia, and China have increased their role in international aid. Both Venezuelan and Chinese aid have had a fairly high profile in the media. However, according to table 11, other donors like Russia have also increased their aid levels from USD 5 million in 2007 to USD 35 million in 2013, while Venezuelan aid went from USD 139.2 million to USD 532.9 million. In contrast, aid flows from traditional donors have decreased consistently in absolute and relative terms.

[24] In 2005, for example, only 40 percent of the population had access to essential drugs. Families, and not the state, assumed two thirds of drug spending (Acevedo 2005).

Table 11. Bilateral and multilateral cooperation to Nicaragua between 2007 and 2013 (USD million), 2007 and 2013

Country	2007					2013				
	PUBLIC SECTOR		PRIVATE SECTOR		Total	PUBLIC SECTOR		PRIVATE SECTOR		Total
	Donation	Loan	Donation	Loan		Donation	Loan	Donation	Loan	
Germany	18.3	7.7	0.4	19.1	45.5	12.5	0.0	1.3	3.9	17.7
Austria	3.7		6.0		9.7	0.0		0.0		0.0
Brazil				0.0	0.0				1.0	1.0
Canada	4.5		1.5	0.0	6.0	6.2		5.5	0.0	11.7
Taiwan (PDC)	17.7	1.6		0.0	19.3	9.2	0.0		0.2	9.4
South Korea	0.0	8.6			8.6	0.1	6.5			6.6
Denmark	33.3		0.0		33.3	0.0		0.0		0.0
Spain	9.8	20.6	16.1	0.0	46.5	3.6	1.7	5.9	0.0	11.2
United States	11.3		57.1	5.0	73.4	0.0		32.2	0.0	32.2
Finland	18.0		1.9	0.0	19.9	3.2		2.1	0.0	5.3
UK	3.7		1.2		4.9	0.0		0.0		0.0
Italy	4.1		1.8		5.9	0.0		0.0		0.0
Japan	20.7		0.0		20.7	18.7		0.0		18.7
Luxemburg	7.5		1.1	2.0	10.6	8.9		1.8	0.0	10.7
Norway	16.1		2.0	0.0	18.1	5.0		3.0	3.0	11.0
Netherlands	27.9		4.1	17.5	49.5	1.2		3.0	8.6	12.8
Russia	5.0				5.0	35.1				35.1
Sweden	30.2		15.9		46.1	0.0		0.0		0.0
Switzerland	15.0		0.0	0.0	15.0	14.8		5.7	0.0	20.5
Venezuela	19.3		39.9	80.0	139.2	0.0		0.0	559.1	559.1
Bilaterals	266.1	38.5	149.0	123.6	577.2	118.5	8.2	60.5	575.8	763.0
Multilaterals	133.5	215.1	19.8	123.4	491.8	99.6	279.4	18.4	135.5	532.9
TOTAL	**399.6**	**253.6**	**168.8**	**247.0**	**1,069.0**	**218.1**	**287.6**	**78.9**	**711.3**	**1,295.9**

Source: Inter-American Development Bank 2015

In Nicaragua, non-traditional donors tend to be perceived by the current government as 'natural' and more equal partners. As traditional donors leave Nicaragua, these and other actors take up their political and economic spaces, impacting directly on agenda setting and policy making processes. This is certainly the case for the IADB and Spanish bilateral donors, but also increasingly for Chinese investors like HKND.

Non-traditional donors tend to work differently from traditional ones. They do not abide by the Aid Efficiency Agenda under the Development Assistance Committee (DAC). For that reason, they have been called non-DAC donors. However, this does not reflect their growing importance and increasing relationship with DAC-countries in regard to humanitarian work. Moreover, non-traditional donors tend to have opaque data reporting systems, which makes analysis of aid flows and potential development impacts complex (Rowlands 2010). According to some stakeholders, non-traditional donors tend to foster partnerships instead of hierarchical donor-recipient relations.[25] Under ALBA's conceptual proposal, this translates into possible co-investments, public-private joint-ventures, and participatory decision making. However, as we will see in the next sections, power differentials also permeate the implementation of these schemes. Additionally, the sustainability of aid flows is still one of the main concerns around non-traditional aid. This is particularly relevant in the case of Venezuela as it is yet uncertain what will happen to ALBA in the context of recent political crisis.

In 2007, Daniel Ortega was elected as president of Nicaragua.[26] His return to power can be explained by several factors such as the social discontent caused by neoliberal policies conducted between 1990 and 2006 in Nicaragua; a shift to the "Left" in other Latin American countries at the time; and the 2000 Alemán-Ortega political pact, which among other institutional changes, was instrumental (by creating a critical mass and political alliance in the National Assembly) to a constitutional change forged by Ortega to allow for his indefinite reelection. Thus, in 2016, he was again reelected president, along with his wife as vice-president.[27] Ortega's reelection, however, has faced fierce criticisms from the opposition, whose main representative was stripped of the legal representation of his own party (Paullier 2016).

In 2007, many donor countries were (already) failing to meet their aid commitments (0.7 percent of GDP) due to budgetary constraints and donor fatigue. The impacts were felt at the national level. The Budget Support Group, comprised of bilateral and multilateral donors, had injected large amounts of aid in Nicaragua since 2005. However, it ceased to exist in 2008 due to emerging tensions between traditional donors and the newly-elected government, as well as changes in the international aid paradigm.

Ortega's government had a different perspective and rhetoric on aid than its predecessors. It wanted to assert the state's role in development. Given the structural power donors had acquired in earlier decades, this meant the state reclaiming space and power in national development and agenda setting processes. As part of this strategy, the government aimed to develop new partnerships with the Global South and on 11 January 2007, a few days after Ortega took office, Nicaragua joined ALBA. Two months later, the National Assembly passed a total of five decrees of cooperation in

25 Spanish Bilateral Aid Informant, Interview, 10 October 2014.
26 Since the 1990 electoral defeat, Daniel Ortega has been the leader of the FSLN party and its recurrent presidential candidate.
27 The constitution, however, forbids any member in the first degree of consanguinity to the president to hold public office.

areas including energy, agriculture, health, and the setting up of a macro-level framework for cooperation led by a Comisión Mixta de Alto Nivel, the High-level Mixed Commission, which is composed of the foreign affairs ministers of Nicaragua and Venezuela (Carrión 2009: 41). During this period, a series of diplomatic tensions rose between the European Union and the government when President Ortega stated that Europeans were like “flies that step on dirt” handing only “bread crumbs and very little help to an enormous debt that people of the Americas could not bear” (Noticias24 2008: 1). The conflict reached a critical point, however, when political opposition parties accused the FSLN of committing fraud during municipal elections in 2008 and violating the national constitution, which prohibits reelection.

Two years later, most traditional bilateral donors, such as the agencies from the United Kingdom, Germany, and Finland, left the country. National political tensions between the state and donors, however, were not the only reason behind their departure. Aid priorities were also shifting at the global level. As aid resources were shrinking, many donors began to prioritize their funds and development efforts in Africa. Additionally, Nicaragua’s GDP surpassed the middle-income country threshold in 2014, leading to further aid declines. Multilateral aid disbursements, however, increased from 2007 to 2013, as table 11 above shows, in tandem with shifting aid governance.

Box. 1 The emergence of ALBA

ALBA[28] proposes a shift from the neoliberal paradigm of integration and economic growth to a model centred on cooperation, poverty eradication, and social inclusion. By acknowledging existing asymmetries and inequalities within and outside the Latin American region, ALBA proposes a different political economic axiom based on “cooperative advantages” as opposed to “comparative advantages”.

The concept of cooperative advantages rests on two main ideas: the inclusion of solidarity in international relations and the maintenance of national sovereignty. To address this notion further, ALBA entails the creation of regional compensatory funds. The allocation of funds follows social and economic goals with established implementation periods and review mechanisms. Economies need to be classified as “small” to be eligible. A series of social and economic variables such as export structure, level of industrial development and external vulnerability are used to facilitate the identification of economies that need assistance in enhancing their productive and competitive capacities and decrease internal disparities.

Under ALBA, resources are to be directed to areas including credit, energy, communication, health, basic industries, food and water (Núñez 2007). Interventions in these areas are to be delivered or facilitated regionally by a state version of transnational corporations: the *gran-nacionales*. In theory, these corporations would defend national sovereignty by acting as a counterweight to the influence of transnational corporations (TNCs) in national and regional political decision making; strengthening state control in relation to private control of the “rules of the game”; protecting public services from privatization; allowing for technology transfer and the development of local technologies; and inhibiting capital flows toward the North as a result of profit repatriation. The *gran-nacionales*, though state-owned, would enter into partnerships and strategic alliances with business actors including small and medium enterprises. At the core, thus, ALBA proposes a return of the state into economic life (Rosales 2006).

Source: Based on Mejido et al. 2010: 6.

The power of IFIs and the reasserted role of the state

The changing donor landscape has also an impact on relations with the IFIs. For traditional donors like the IADB, the departure of traditional aid is an opportunity. According to Priscilla Gutiérrez, Country Economist of IADB, shrinking traditional

28 ALBA was created as a counterproposal to George W. Bush’s Free Trade Area of the Americas. ALBA members include Venezuela, Cuba, Nicaragua, Bolivia, Dominica, Ecuador, San Vicente y las Granadinas, y Antigua y Barbuda.

ODA has become a "business opportunity"[29] and represents the possibility of opening new spaces for policy influence:

> Before, bilateral aid represented about 15 percent of international cooperation and the IADB around 47 percent. Nowadays, it represents about 50 percent. Thus, its market has grown. Although it is true that bilateral donors play an important role, the bank has [now] more opportunities to cover new areas that used to be covered by other multilateral donors… we thus have more space to contribute.[30]

The departure of many traditional donors has provided an opportunity to work in better coordination and rethink bilateral aid, which in turn is now more focused on technical cooperation and alliance-building rather than financial aid.[31] Likewise, the IADB is concentrating less on donations and more on loans to the private sector.[32] This is an increasing trend in international aid, which according to Rafael Henríquez, an independent social policy analyst, responds to a deeper shift in the aid paradigm towards the transfer of resources from the social sector to the economic sector.[33] In many cases, this has translated into funding business corporate social responsibility (CRS) activities with international aid resources.[34] However, the private, voluntary, non-binding, and often unaccountable nature of CSR entails potentially negative outcomes for social development in the long run (Utting 2010; 2015). To be inclusive and transformative social development requires sustainable and accountable social policies, as well as a multi-stakeholder approach in which the state occupies a central role.

The shift in aid coordinates has impacted on IFIs in terms of state-donor power relations. According to Gutiérrez, IFIs learned from the discredit of the Washington Consensus that "…instead of imposing, we needed to accompany; and instead of teaching, we had to learn because our institutions wanted to teach, but this [development] is a process where we all need to learn."[35]

Currently, both the IADB and the government work in tandem. The relationship with the state is more horizontal than it used to be. According to Gutiérrez, the times when IFIs set a country's development policy agenda are part of the past:

> …it is very difficult to believe nowadays that a multilateral donor will dictate a country's policy priorities. This used to happen before, when IFIs and multilaterals used to give recipes for development in developing countries, but now governments are in a better position to identify what they require. This doesn't mean that the IADB cannot or does not do its own analysis… but we always align ourselves according to government priorities.[36]

Loans, nonetheless, still come with strings attached. Currently, the IADB has a Policy Based Loan Program, the funds of which are linked to social policy objectives such as the reduction of maternal and infant mortality, among others. Disbursements of loans are thus made when the government reaches certain policy objectives and results that had previously been agreed with the relevant public institutions.[37] However, this

[29] Priscilla Gutiérrez, Interview, 28 October 2014.
[30] Priscilla Gutiérrez, Interview, 28 October 2014.
[31] Spanish Bilateral Aid Informant, Interview, 10 October 2014.
[32] Priscilla Gutiérrez, Interview, 28 October 2014.
[33] Rafael Henríquez, Interview, 9 October 2014.
[34] Rafael Henríquez, Interview, 9 October 2014.
[35] Priscilla Gutiérrez, Interview, 28 October 2014.
[36] Priscilla Gutiérrez, Interview, 28 October 2014.
[37] Priscilla Gutiérrez, Interview, 28 October 2014.

conditionality is problematic since social indicators tend to improve in the long term, and not as a result of short term interventions.

As a result of changes in aid governance, the state has reasserted itself *vis-à-vis* traditional donors. In 2015, the government announced the centralization of at least seven development programmes under the implementation of the United Nations Development Programme (UNDP). Soon after the official announcement, the UNDP Representative in Managua resigned. According to the government, the objective is to align and direct all traditional aid resources into the government's political and economic development strategy: "…it seems irrational to mobilize external financial resources to be executed by non-state actors, especially since the government has its own implementing public entities that can do it well or better" (Chamorro 2015: 1).

Similarly, the government held individual meetings with bilateral and multilateral donors such as Switzerland, Germany, France, Japan, as well as the World Bank and the European Union in order to redirect and channel their aid funds through the ministries (Chamorro 2015). At the time of writing this paper, the results of these negotiations were not yet known.

Civil society in the context of changing state-donor relations

Shrinking ODA and the departure of traditional donors have deeply impacted Nicaraguan civil society. According to Haydee Castillo, Coordinator of the Foro de Mujeres para la Integración Centroamericana, given the high dependency on international aid resources, many NGOs and associations that advocated for social development and change have disappeared.[38] Others are struggling to survive and a few have developed self-sufficiency mechanisms.[39] The return to power of the FSLN created internal cracks between old and new social movements. Leaders of the cooperative movement with historical links to the FSLN party occupied public offices.[40] This created spaces where policy influence, needs and information exchange took place—though with somewhat mixed results (Chamorro and Utting 2015).[41] In effect, the proximity weakened the movement's autonomy, self-management (*autogestión*), and capacity to demand state transparency and accountability.

According to Castillo, the withdrawal of traditional aid has had a debilitating effect on civil society, a process that has been deepened by the government's current top-down approach to social participation.[42] For Castillo, the government has turned autonomous civil society actors into a public "antagonist" in order to build a hierarchical model of state-citizen relations.[43] In this model, civil society needs to adhere to government plans and policies without questioning the state's rationale or interests.

In this regard, Henríquez argues that "…any kind of participation that goes out of that scheme is perceived as threatening by the government."[44] As a result, spaces for public debate and inclusive policy-making have been limited, particularly for associations that might differ from official positions.[45] Moreover, issues regarding women's health and

[38] Haydee Castillo, Interview, 4 October 2014.
[39] Haydee Castillo, Interview, 4 October 2014.
[40] Ariel Bucardo was appointed Minister of Agriculture (MAGFOR) from 2007-2014 and Pedro Haslam headed the Institute for Rural Development and was the first Minister of Family, Community, Cooperative and Associative Economy.
[41] Eddy Tenorio, Interview, 5 November 2015; Jorge Flores, Interview, 5 November 2015. See ALBA section.
[42] Haydee Castillo, Interview, 4 October 2014.
[43] Haydee Castillo, Interview, 4 October 2014.
[44] Rafael Henríquez, Interview, 9 October 2014.
[45] Haydee Castillo, Interview, 4 October 2014; Rafael Henríquez, Interview 9 October 2014.

rights, citizen's access to public information, and state-citizen dialogue have become difficult subjects to deal with *vis-à-vis* the state.[46] Castillo argues that social movements at the local and national levels are therefore becoming voiceless since any kind of criticism or questioning of the way social programmes are being implemented might have negative impacts on their members at the community level by, "for instance, being taken off the beneficiaries' lists."[47] Non-traditional aid funds are being used, according to Castillo, in an *asistencialista* (a system of patron-client relationships) and exclusive manner, which is compromising their potentially transformative power.[48]

In sum, changes in aid governance are impacting the state and its relations with social actors. The shift to the "Left" in Latin America, which can be dated back to the late 1990s with elections of left-wing presidential candidates in Venezuela, Argentina, Brazil, Uruguay, Bolivia, Ecuador and other countries, and the emergence of non-traditional donors, brought the state "back" into development policy-making and created more horizontal relations. As we will see, this has impacted positively on policy space and development. However, the withdrawal of traditional aid has weakened civil society, as has the government's top-down approach to social participation. These along with opaque decision-making processes and a lack of state accountability are challenges that should not be underestimated nor overlooked if Nicaragua is to obtain long-term transformative benefits from non-traditional aid schemes and reach inclusive development goals.

Current Aid Strategies

ALBA and traditional aid sources

ALBA is at its basis an energy cooperation agreement known as Petrocaribe that aims to contribute to energy sustainability and security in its 17 member countries, by allowing them access to Venezuelan crude oil at concessionary prices.

Box 2. The Petrocaribe Agreement

Petrocaribe was launched in 2005 by the Venezuelan government. Under Petrocaribe, Nicaragua receives an oil quota of around 27 thousand barrels per day (Acuerdo Energético del ALBA 2007) or nearly 10 million barrels a year. Half of the quota is paid at market prices between 30 to 90 days. The other half is paid in a period of 17 to 25 years depending on market prices and with an annual interest rate of 2 percent by the Nicaraguan state. If the market price reaches USD 100, the member country only pays 50 percent of the price. If it falls to USD 50, it pays 40 percent; USD 40, 30 percent and so on. If oil reaches the lowest price of USD 15, the country pays 5 percent.

In the agreement, it was established that 25 percent of Venezuelan petroleum revenues were to be directed towards the ALBA fund to finance infrastructure projects, social programmes, and credit at concessionary rates.

ALBA de Nicaragua S.A. (ALBANISA), a mixed capital enterprise, was created in 2007 to import and manage the oil quota from Venezuela and distribute the ALBA Fund. 51 percent of ALBANISA belongs to Petróleos de Venezuela S.A. (PDVSA) and 49 percent to the Empresa Nicaragüense de Petróleos (PETRONIC). ALBANISA channels part of the ALBA fund through ALBA-CARUNA (Caja Rural Nacional), a cooperative, which has become a major savings and credit entity since then. In 2011, CARUNA administered nearly USD 100 million destined to government programmes (Navas 2011 cited in Carrión 2012: 40). Additionally, ALBANISA is the only entity through which Nicaraguan exports can reach Venezuela on preferential terms.

Once refined, oil derivatives like gas, are commercialized in Nicaragua by ALBANISA-PETRONIC through the national energy generators and a national network of gas stations. In both cases, the energy generator companies and the gas stations transfer their costs to consumers through the electricity fare and the price of gas (Acevedo 2012). In other words, ALBANISA sets the prices for oil and its derivatives

46 Rafael Henríquez, Interview, 9 October 2014.
47 Haydee Castillo, Interview, 4 October 2014.
48 Haydee Castillo, Interview, 4 October 2014.

and finances itself by selling them on the internal market.

Issues of transparency and accountability, however, have arisen regarding the implementation and allocation of ALBA funds as ALBANISA has created a number of private enterprises in diverse economic sectors with public resources. [49] Furthermore, the ownership of these businesses has been linked to party members and the president's family, including the Distribuidora Nicaragüense de Petróleo (DNP), which has a network of 50 gas stations and oil storage capacity of up to 60 barrels.[50]

Source: Carrión 2012.

Under Petrocaribe, the state has actively implemented policies such as the current 'modern barter system' used to honour payments for oil quotas instead of using foreign currency. This has positively impacted on policy space. Half of the oil quota Nicaragua receives under ALBA can be paid with agricultural exports, including sugar, beef, beans, coffee, and dairy products (Carrión 2012). ALBANISA sets the price and buys the products from Nicaraguan producers, which then sells to Venezuela at beneficial (higher) prices.

Preferential access to the Venezuelan market created a 'cushion' in the context of the 2008 global economic crisis, increasing Nicaragua's resilience. It contributed to mitigate the socioeconomic effects of the crisis, especially in relation to food and energy since Nicaragua imported oil and agricultural fertilizers at a lower cost. As a result, the agricultural sector grew by seven percent in 2008 (ECLAC 2008: 123). The growth of this sector and the increase in commodity prices provided an important safety net for poorer social groups. Table 12 shows the levels of both main agricultural and non-agricultural exports to Venezuela between 2006 and 2011.

Table 12. Main Nicaraguan exports to Venezuela between 2006 and 2011(in USD)

Products	2006	2007	2008	2009	2010	2011
Beef	-	-	19,849,227.31	74,291,196.6	135,030,756.3	157,415,875.8
Coffee Beans	-	-	-	22,801,552.4	36,390,993.6	37,456,722.6
Sugar	-	5,076,514.0	-	-	18,598,902.7	32,072,500.0
Cattle	-	-	3,450,343.0	8,404,648.1	10,368,696.6	11,586,793.3
Dairy	-	2.4	4,478,411.2	13,736,575.8	19,463,336.8	11,461,009.4
Beans	-	72,939.0	4,084,816.9	3,143,866.0	17,263,469.6	10,053,705.5
Chemical products	-	-	23.0	-	765,600.0	2,064,000.0
Machinery and equipment	450.0	83,780.0	106,568.0	4,952.5	1,417.7	59,185.8
Transport material	2,000.0	96,009.9	86,580.0	48,654.5	52,351.3	45,000.0
Peanuts	1,444,186.0	973,811.0	561,804.0	311,400.00	-	-
Oil derivatives	11,818.5	-	-	10,463.5	-	-

Source: CETREX cited in Carrión 2012: 74.

[49] ALBA-Equipos (a company that hires construction equipment); ALBA-Seguridad (offers security services to ALBANISA); ALBA-Generación (provides energy plants for national emergencies); ALBA-Puertos (offers services to the ships that contain the oil that arrives from Venezuela); ALBA-Alimentos (the only intermediary for exports to Venezuela); ALBA-Tenocsa (enterprise in charge of building social houses that are part of the Program Casas para el Pueblo); ALBA-Eólica (enterprise for wind energy), among others (Galeano 2009a).

[50] Galeano 2009b; Martínez 2009; Central America Data 2009; El Nuevo Diario 2009; El Heraldo 2010; Salinas 2011a; Salinas 2011b; Salinas 2011c; Córdoba 2012; Martínez and Enríquez 2012; Enríquez 2014; Enríquez 2015a; Enríquez 2015b; Olivares 2016a; Olivares 2016b.

ALBANISA's profit under ALBA has dramatically increased the levels and availability of public financial resources. In 2009, ALBANISA's assets were estimated at USD 290 million dollars and annual sales of approximately USD 400 million (Chamorro and Salinas 2012: 1). According to Olivares (2016a), ALBANISA has managed a total of USD 3,500 million since its emergence. Not all of these funds have, nonetheless, been used to finance social spending. In effect, only 38 percent (38 of 100 USD) of ALBA funds finance the government's social and productive programmes (Chamorro and Utting 2015).

These programmes comprise financing for social housing (Casas para el Pueblo); health services in popular neighbourhoods, such as Operación Milagro and Operación Sonrisa; credit for urban entrepreneurs, particularly women like Usura Cero; the construction and maintenance of roads and streets such as Calles para el Pueblo; and a productive and food security bonus Hambre Cero of up to 1,500 USD for women with small parcels of land that includes a cow, hens and pigs (Programa Hambre Cero 2013); Plan Techo, which provides zinc sheets for rooftops in disadvantaged neighbourhoods; and the Programa Cristiano Socialista y Solidario (known by acronym CRISSOL), launched in 2011. CRISSOL promotes productivity improvements and price bargaining capacity of small producers of basic grains including rice, beans, maize, and sorghum by providing low interest credit.

According to Martínez Franzoni and Sánchez Ancochea (2015) CRISSOL along with Hambre Cero and Usura Cero differ from the Red de Protección Social, the cash transfer programme implemented under the Bolaños administration, in that they prioritize market access opportunities over the protection of social rights, independently of the market. According to these authors, these programmes do little to move beyond the model of segmented social policy, while their implementation through semi-official entities such as the Consejos del Poder Ciudadano compromise processes of institution-building (Martínez Franzoni and Sánchez Ancochea 2015). Additionally, the fact that most of these programmes have been largely financed through aid (traditional and non-traditional) makes the sustainability of the current social policy model a difficult long-term challenge.

In the case of Hambre Cero and Usura Cero funding has largely come from traditional donors like Taiwan PoC (see table 13). Venezuela only funded these programmes through donations between 2008 and 2009. For instance, Hambre Cero received USD 8.4 million and USD 2.6 million in 2008 and 2009, respectively. In the case of Usura Cero, it received USD 3.0 million in 2008 and USD 2.8 million in 2009 (BCN 2015). Venezuelan donations to these and other programmes were discontinued after 2009 (BCN 2015) when PDVSA loans increased in importance (see table 14).

Table 13. Taiwan PoC's donations to both Hambre Cero and Usura Cero between 2007 and 2015 (first semester) (millon USD)

Programmes	2007	2008	2009	2010	2011	2012	2013	2014	2015 (I semester)
Taiwan PoC									
Hambre Cero	0.5	1.4	0.8	1.0	0.8	-	1.8	0.8	-
Usura Cero	-	0.5	-	0.4	-	0.4	0.2	0.2	0.2

Source: BCN 2015.

Loans from PDVSA have also been used to finance health, water, and sanitation programmes; housing infrastructure; the transportation subsidy (social fare and collective transport); the solidary bonus,[51] including the bonus for the elderly; among others (see annex). Falling oil prices since 2014 have, however, reduced Venezuelan cooperation flows to Nicaragua significantly. As we can see, in table 14, aid levels peaked in 2012, but have been decreasing since. Currently, most of the government's social and productive programmes are financed through the national budget (La Voz del Sandinismo 2016; Navas and López 2014).

Table 14. Venezuelan cooperation under ALBA (million USD).

Concepts	2008	2009	2010	2011	2012	2013	2014	2015 (I semester)
TOTAL	461.1	484.5	533.0	577.7	728.7	654.2	619.6	193.3
Loans	305.1	282.1	522.0	564.3	555.7	559.1	435.6	172.8
PDVSA	292.1	277.5	522.0	557.6	550.7	558.5	435.6	172.8
BANDES	13.0	4.6	-	6.7	5.0	0.6	-	-
Donations	24.0	55.4	-	-	-	-	-	-
FDI	132.0	147.0	11.0	13.4	173.0	95.1	184.0	20.5

Source: BCN 2015.

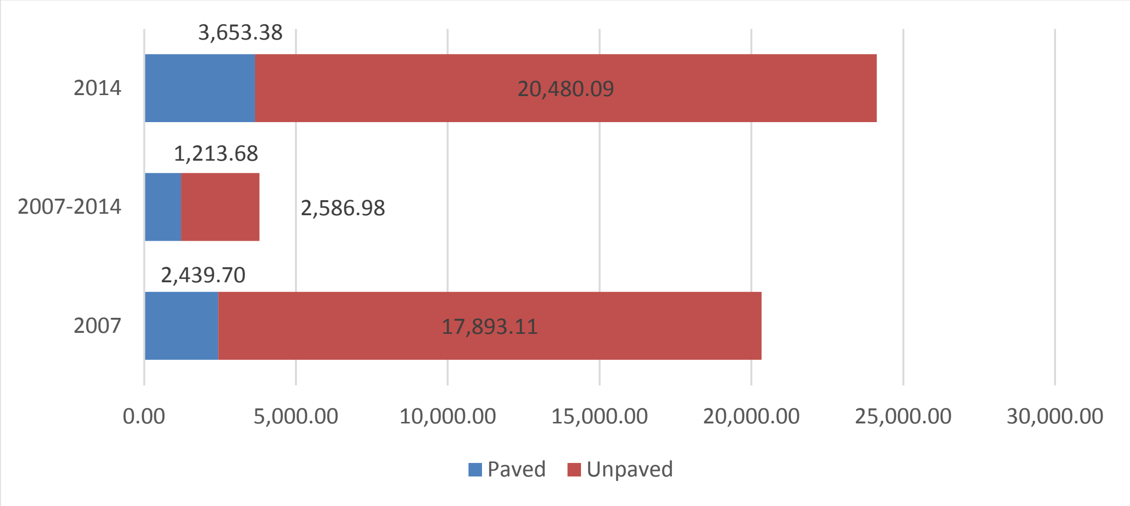
ALBA outcomes and impacts of traditional aid in Nicaragua

ALBA and traditional bilateral and multilateral aid have provided social benefits, particularly regarding basic and short-term needs of marginalized populations (for example, zinc sheets for rooftops, access to cheap fertilizers) and to foster improvements in some development indicators, including infrastructure (roads and highways), access to electricity in rural areas, food consumption and production in some areas, and certain aspects of women's empowerment, as in the case of the programme Hambre Cero (Zero Hunger).

Although approximately 75 percent of roads and highways in Nicaragua are in bad conditions (World Bank 2013), some improvements have been made. Between 2007 and 2014, 1,213.68 km of roads have been paved. The World Bank has been an important funding source for these. Figure 4 below illustrates the somewhat positive evolution of this sector.

[51] The solidary bonus consists of a monthly income increase of approximately USD 26 dollars for 160,000 civil servants that earn less than USD 194 dollars a month (La Voz del Sandinismo 2016).

Figure 4. Paved and unpaved roads between 2007 and 2014 (km)



Source: Based on Ministerio de Transporte e Infraestructura 2014.

Note: 2007-2014 refer to changes during that period.

The increase in road pavement has positively impacted on people's incomes, particularly women's as paid employment has become more accessible.[52] However, it is important to note that there was also an increase in unpaved roads due to poor maintenance and bad weather conditions.

The government has also announced the construction of four hospitals in Managua and five hospitals in other cities. The hospitals in Managua include the Hospital Militar Escuela Dr. Alejandro Dávila (already built) with 476 beds at a cost of USD 105 million; the Hospital Occidental de Managua with 340 projected beds at USD 76 million total cost; the Hospital de la Policía Carlos Roberto Huembes with 400 projected beds at a cost of USD 90-100 million; and the Hospital Nacional de Rehabilitación at an approximate cost of USD 90 million (García 2014). Funding will come from the Banco Centroamericano de Integración Económica (García 2014) and treasury revenues.

Access to electricity in rural areas has also improved. Between 2007 and 2011, approximately 57,895 houses have gained access to electricity benefiting 345,671 inhabitants from 1,128 rural communities.[53] During this period, 2,487.77 kilometers of electric supply system were built, as well as three small hydroelectric plants, and 20 micro turbines.[54] Additionally, 6,707 solar panels were installed in isolated rural communities.[55] These projects have been financed by IFIs like the IADB and others, as well as the state, which is covering 30 percent of the costs.[56]

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52 Between 2005 and 2011, 380,000 people increased their monthly income by USD 34.25, which represented a 27 percent increase. In contrast, the mean in the rest of the country was 22 percent (World Bank 2013). Women's income tripled during this period by 77 percent (World Bank 2013). For a country in which 42.5 percent of the population is under the national poverty line this is highly relevant.

53 El Nuevo Diario, "Avanza electrificación rural", http://www.elnuevodiario.com.ni/nacionales/267019-avanza-electrificacion-rural/ accessed on 1 October 2015.

54 El Nuevo Diario, "Avanza electrificación rural", http://www.elnuevodiario.com.ni/nacionales/267019-avanza-electrificacion-rural/ accessed on 1 October 2015.

55 El Nuevo Diario, "Avanza electrificación rural", http://www.elnuevodiario.com.ni/nacionales/267019-avanza-electrificacion-rural/ accessed on 1 October 2015.

56 El Nuevo Diario, "Avanza electrificación rural", http://www.elnuevodiario.com.ni/nacionales/267019-avanza-electrificacion-rural/ accessed on 1 October 2015.

Furthermore, independent studies on the Programa Hambre Cero identify an overall positive impact on food production, consumption, and certain elements of women's empowerment.[57] In the first three years of the programme's implementation, daily food intake increased; school attendance of children improved; and women´s income and leadership qualities went up (Chamorro and Utting 2015). Additionally, women's access to food improved while they gained greater self-esteem and self-confidence, and more economic security (Grupo Venancias 2014). Similarly, women organize in groups to receive training in agricultural practices, health and nutrition, literacy, and the management of revolving funds (Chamorro and Utting 2015). However, these studies also report problems in Hambre Cero's implementation. These include a political bias in the selection of beneficiaries, lack of government information regarding the programme's design and implementation; lack of accountability of programme officials, and limited or no access to government data on the programme's impact evaluation, and monitoring.[58]

The impact of Hambre Cero on women's empowerment also has limitations. The programme does not address the traditional gender division of labour, which is embedded in socio-cultural practices and unequal power relations between men and women such as *machismo*. Instead, it stresses and reproduces women's traditional role as main care givers in the home. In its programmatic proposal, women are considered "better administrators of family resources and more committed to improving their children's wellbeing than men" (MAGFOR 2008: 12). Under this approach, women are seen as instruments to guarantee the efficacy of social policies and not as active, autonomous citizens, who are also right bearers. Additionally, Hambre Cero does not address access to and distribution of land, which unequally affects rural women and contributes to their subjugation (Grupo Venancias 2014: 23).

Other long-term social indicators such as health and education spending, poverty eradication, inclusive participation, and democratization, also show less positive results. Despite high levels of resource mobilization through ALBA and Petrocaribe, health and education spending as a percentage of GDP has remained rather low or decreased slightly in contrast to earlier periods, signaling that social bargaining and contestation in the past was key to increases in public social spending. Current (low) levels of social spending could thus be linked to the present decrease and segmentation of social bargaining and contestation due to the government's top-down approach to governance. Table 15 shows that education expenditure went from 4.8 percent in 2003 to 4.2 percent in 2014. In the case of health, public expenditure went from 3.5 in 2003 to 3.4 in 2014. Finally, expenditure on social and recreational services has increased in contrast to previous administrations, but levels remain low.

Since 2007, the government restored the free-of-charge nature and the concept of public services like health and education as citizenship rights (La Voz del Sandinismo 2007; 2011). However, the weakening in public provision as a result of the 1990s structural adjustment programmes and the 2000s privatization process of, for instance, social security's purchased health services, as well as sustained financing constraints on the public health's budget, have continued despite this (Martínez Franzoni and Sánchez Ancochea 2015; Delmelle and Mendoza forthcoming). In the case of health, little has been done in practice to improve the sustainability of current financing sources in order to meet a potentially greater demand in the future (Martínez Franzoni and Sánchez Ancochea 2015: 48).

[57] IEEPP 2011; Kester 2010; Grupo Venancias 2014.
[58] Kester 2010; IEEPP 2011; Grupo Venancias 2014.

Table 15. Social spending in Nicaragua as a percentage (%) of GDP between 2003 and 2015

Year	Total Social Spending	Education Spending	Health Spending	Housing Spending	Social Services (bonus, scholarships)	Recreational Services (parks, improvements)
2003	9.2	4.8	3.5	0.9	-	-
2004	9.1	4.5	3.2	1.4	-	-
2005	10.2	4.9	3.5	1.8	-	-
2006	10.4	5	3.4	2	-	-
2007	10.6	5.2	3.7	1.7	-	-
2008	11.3	5.5	3.7	2.1	-	-
2009	12.4	6.1	4.1	2.2	-	-
2010	9.4	4.1	2.8	1.8	0.6	0.1
2011	9.8	4.1	2.9	2	0.7	0.1
2012	9.8	3.9	3	2.1	0.7	0.1
2013	9.8	3.9	3	2.1	0.6	0.2
2014	10.5	4.2	3.4	2.1	0.6	0.2

Source: Based on CEPAL 2015; BCN 2016.

The current social policy model is therefore contradictory. Although social programmes have been implemented in areas such as health and housing, social policy is still largely segmented. Efforts have been made in order to expand coverage (for example, Hambre Cero), however, their financial sustainability in the context of decreasing levels of Venezuelan aid flows and the largely urban coverage of some of these programmes (for instance, Usura Cero, Operación Milagro) are also important ongoing challenges for long-term social policy-making. Similarly, the weakening of institution-building processes and the lack of state transparency and accountability are also relevant obstacles for fostering conducive state-society relations and inclusive social policy building.

Transparency and accountability

Access to public data is to date a major challenge in Nicaragua. ALBA funds are not accounted for in the national budget and information about their availability, monitoring, and implementation is not available. This makes evaluation and state accountability processes difficult tasks. According to the Global Survey on State Budgetary Transparency, Nicaragua obtained 46 points in the Open Budget Index (OBI)—100 points being for the most transparent country (IBP 2015; IEEP 2015). In contrast, Costa Rica and El Salvador obtained 54 and 53 points, respectively. Although the survey shows an improvement in Nicaragua's OBI— which was 37 in 2010—transparency levels are still low. Nicaragua obtained 6 out of 100 points for citizen participation in public budget making processes, indicating that the government offers little opportunities for citizen involvement (IBP 2015). Similarly, regarding public budget monitoring Nicaragua received 61 points out of 100 for legislative monitoring processes and only 42 for the National Audit's Office budget monitoring processes (IBP 2015).

The allocation of ALBA-Caruna and ALBANISA funds is not clear. ALBA-Caruna has up until now administered some of the funds,[59] but does not decide who receives them. Rules and requirements to access the funds are not publicly known. It is thus the ALBA-Caruna Credit Committee and ALBANISA who decide.[60] According to Henríquez, the discretional manner in which the government is using the Venezuelan cooperation has created confusion about what actually constitutes aid and donations and what is becoming public debt.[61] The lack of information regarding fund allocation impacts negatively on inclusive development. Only organizations and individuals connected to the government can actually access public data. As a result, the actual effectiveness of Venezuelan cooperation and related public spending has become highly politicized. Since public information is either not available or complete to the extent required to conduct in-depth analysis of state programmes, independent monitoring and evaluation are both limited and difficult.[62]

In sum, ALBA and current traditional aid have increased Nicaragua's policy space and resource availability. They have also repositioned the role of the state in development policy making *vis-à-vis* other powerful actors like IFIs. ALBA funds channelled through state programmes have positively impacted on some development indicators, such as access to pre-natal care for pregnant women, infrastructure development (including road construction and maintenance, hydroelectric plants, and rural electrification), food production and consumption in rural areas, and some aspects of women's empowerment.

However, the lack of public information and access to data regarding the allocation, monitoring, implementation, and evaluation of these funds; the clientelistic bias in the selection of beneficiaries; and finally the lack of dialogue between state and civil society actors are crucial obstacles to realizing the transformative potential that non-traditional aid schemes could have on Nicaragua's social development. If the mobilization and implementation of non-traditional aid resources is to make long-term social changes, structural issues regarding social spending, poverty reduction and the integral empowerment of subaltern groups (women, peasants, and indigenous people) need to be effectively addressed.

Business and social actors under non-traditional aid

COSEP, the Supreme Council of Private Enterprise in Nicaragua, has become a winner in the context of ALBA.[63] Preferential access to the Venezuelan market has played a key role in export promotion. Between 2007 and 2010, beef, sugar, dairy and edible oil producers, in their vast majority large firms, saw their exports grow exponentially. Some cooperatives also tapped into the Venezuelan market. However, their export levels and numbers (4 cooperatives out of approximately 4,500)[64] have been more modest. In the particular case of CECOCAFEN—a coffee producing and exporting

[59] In 2015, PDVSA, however, demanded that funds administered by ALBA-Caruna be transferred to ALBANISA since PDVSA had no control over ALBA-Caruna's management of ALBA's funds. (Olivares 2016b). It is not yet clear what will happen to Nicaragua's debt with PDVSA regarding the loans that have been granted.

[60] ALBA informants that preferred to remain anonymous (Carrión 2012: 46).

[61] Rafael Henríquez, Interview, 9 October 2014.

[62] Rafael Henríquez, Interview, 9 October 2014.

[63] According to a member of the cooperative movement, business actors bear structural advantages over less powerful social and economic stakeholders: "COSEP has always been privileged; they have highly educated people with sufficient resources to influence whereas the cooperatives sector has struggled since its emergence because who are actually the members of cooperatives and producers' associations? People from the rural areas, who are more financially vulnerable and have had less educational and professional opportunities..." (María Asunción Meza, Interview, 4 November 2015).

[64] Interview with Manuel Aburto Cruz, General Manager of CARUNA: "Nicaragua es el país con más cooperativas en Centroamérica". El Nuevo Diario, accessed on 20 October 2015.

cooperative—export levels actually decreased between 2009 and 2010 (CETREX cited in Carrión 2012: 73 - see Annex).

Nicaraguan exports to Venezuela experienced a significant increase in 2012 (with the exception of sugar), as table 16 illustrates.

Table 16. Top Nicaraguan exports to Venezuela between 2011 and 2013 (USD million)

Export Products	2011	2012	2013
Beef	167.7	209.4	155.3
Sugar	43.2	34.2	85.4
Edible oil	15.8	47.6	41.0
Coffee	40.6	100.7	40.5
Dairy	11.8	23.7	23.3
Cattle	11.0	14.1	19.4
Black beans	9.9	1.6	11.8
Drinks made with fruit pulp or milk	-	1.9	6.1
Red beans	-	7.6	-
Other exports	3.0	3.1	1.1
Total	303.1	444.0	384.0

Source: Based on Ministerio de Fomento, Industria y Comercio 2014.

Business has, since the implementation of the 1990s privatization and structural adjustment policies, cemented its role in policy-making. However, according to José Adán Aguerri, President of COSEP, since 2008 the association has managed to bargain with the government an unprecedented number of 91 laws and 42 implementing frameworks regarding the economy.[65] Additionally, COSEP has appointed 41 representatives in the Executive Boards of key public institutions where economic and social policy decisions are made, including the *Banco Central*, the Instituto Nicaragüense de Seguridad Social, the Instituto Nacional Tecnológico, the Superintendencia de Bancos,[66] and others.[67] This has allowed business to have direct access to state representatives and successfully lobby national decision-making.

Working in tandem with business provides the state with strategic data on sectors and industries, which it would not necessarily have access to otherwise. This facilitates economic planning, bargaining, and decision-making at the national and international levels. In exchange, business constituencies are able to put forth their interests. To attain long-term social development based on a broad social contract, however, requires consensus-building beyond the business sectors and also needs to effectively include other less powerful groups or groups with different power, for instance workers organizations.

In 2006, social movements and cooperatives played an active role in ALBA.[68] However, in 2008 the government struck a political economic deal with business,[69] and

65 José Adán Aguerri, Interview, 10 November 2014.
66 The Central Bank, the Social Security Institute, the National Technological Institute, and the Banking System's Regulator.
67 José Adán Aguerri, Interview, 10 November 2014.
68 Influence and decision-making took place through the Asociación de Municipios de Nicaragua (AMUNIC) (the Nicaraguan Municipal Association). In 2006, an agreement was signed between PDVSA and AMUNIC. Decisions were made through a Comisión Mixta (Mixed Commission) formed by cooperatives, social movements, and decentralized entities such as mayoral offices at the municipal level. Under the Comisión Mixta, a number of projects were proposed, and agreements and letters of intention were signed including the provision of loans by the Banco de Desarrollo Económico y Social (BANDES) for the creation of mixed capital enterprises and the enhancement of black bean exports and the production of rice, sesame, and corn with cooperatives such as Del Campo R.L., Sifina, Nicaraocoop, Cecocafen, and Caruna. Under this vision, cooperatives were going to form alternative productive and value chains.

ALBA's governance changed.[70] As a result, cooperatives are no longer in key decision-making roles under ALBA. According to Eddy Tenorio, Former Secretary General of MEFCCA, and Jorge Flores Castillo, Former Advisor to the MEFCCA Minister and Former Coordinator of INFOCOOP, The National Institute for Promotion of Cooperatives, the cooperatives movement is undergoing an identity, economic and political crisis.[71]

Although key laws were passed to their benefit since 2006,[72] economic bottlenecks,[73] issues of leadership and representation within the movement, the erosion of the movement's autonomy and the current business-state nexus prompted the crisis. According to Eddy Tenorio, the political proximity between the government and the cooperative leaders weakened the movement's autonomy:

> …Between 2007 and 2015, [cooperative] leaders assumed political and governmental positions at the national and local levels, which weakened the movement […] The leadership was never renewed […] They didn't propose a cooperative development model or other actions independently from the state…and we are now in a leadership, organizational, and identity crisis. The cooperative movement is now fragmented, limited, and dependent.[74]

Issues of representation also generated internal divisions. According to Jorge Flores, cooperative unions and federations today do not necessarily represent the majority of the membership at the grassroots levels:

> In Nicaragua, there are 12 cooperatives' federations, 45 centrals, and 97 unions. But, what level of representation do you think they have? Out of the 4,500 or 5,000 existing cooperatives they represent only around 19 or 21 percent of them […] Today, our level of integration is weak. Transport cooperatives are better organized than agricultural cooperatives and they continue to receive state subsidies.[75]

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69 According to ALBA informants, business was seen by the government as a more forward-looking sector, which had the economic 'know-how' and the structural capacity to generate growth (Carrión 2012). Additionally, it was perceived as a more strategic political ally in the long run.

70 In 2007, an agreement was signed between Manuel Coronel Krautz and Rodolfo Sanz, Vice-Ministers of External Relations in Nicaragua and Venezuela, respectively. As part of the agreement, a Technical and Legal Commission was formed to define the process to substitute ALBANIC by PETRONIC, the state-owned oil enterprise as PDVSA's counterpart (Comisión Mixta 2007: 3). In 2008, however, the state centralized ALBA's implementation and ALBANISA—which is owned by PETRONIC and PDVSA—displaced the old ALBANIC. Additionally, BANDES' role was largely taken over by Caruna, which became ALBA-Caruna. The rest of cooperatives, SMEs, and municipal authorities organized under AMUNIC were removed from previous decision-making roles. In 2015, Caruna shares its role with other actors like commercial banks.

71 Eddy Tenorio, Interview, 5 November 2015; Jorge Flores, Interview 5 November 2015.

72 Ley General de Cooperativas (Law 499) (General Law on Cooperatives)— though this law predated the current government—and Ley Creadora del Instituto de la Propiedad Reformada Urbana y Rural (Law 512), which aimed to resolve property issues that affected cooperatives and workers' enterprises. Law 499 established the creation of the autonomous entity known as INFOCOOP (Instituto Nacional de Fomento Cooperativo) and the National Council of Cooperatives (CONACOOP), which centers on advocacy, social dialogue and resource mobilization (El Nuevo Diario 2015). These entities emerged in 2007. Other laws like the Ley de promoción, fomento y desarrollo de las micros, pequeñas y medianas empresas (Law 645) that aims to support micro-small-and medium-sized enterprises were passed. Credits were also geared to small and medium producers. In the case of CRISSOL Café, credits aimed to benefit 28,647 producers, which ranged from USD 260 to 730 dollars per manzana (Equivalent to 0.7 hectares or 1.74 acres) to be repaid at an interest rate of 5 percent (La Prensa 2015).

73 Cooperatives and other small and medium entrepreneurs face structural supply-side bottlenecks such as difficulties in the creation of economies of scale and processes of product and technological innovation and marketing, as well as a general lack of resources and "know-how" in the context of export markets and international trade standards (Corrales and Baritto 2006).

74 Eddy Tenorio, Interview, 5 November 2015.

75 Jorge Flores, Interview, 5 November 2015.

INFOCOOP, which was created to provide an autonomous space for participation and policy influence for cooperatives, did not work as planned.[76] It ceased to function independently and was incorporated into the MEFCCA where its scope was largely reduced (Cáceres 2014). Since INFOCOOP became part of a government's ministry, the cooperative movement lost the majority decision-making power it previously had (Chamorro and Utting 2015).

In sum, the state-business link has since the 1990s provided business actors with structural and instrumental power in social and economic policy-making processes. This nexus has been deepened in the context of the emergence of non-traditional aid schemes. Business actors have largely benefited from market access opportunities under ALBA *vis-à-vis* cooperatives and successfully exerted power in policy-making. Although the state has created an enabling legal framework in benefit of cooperatives and preferential access to credits and loans, the erosion of the movement's autonomy, issues of leadership and representation, and the displacement of the movement in key decision-making processes have weakened it. The state has, thus, yet to address the structural inequalities that prevail in Nicaragua, including power differentials among stakeholders in state-society relations.

The Inter-Oceanic Canal project

This section will briefly discuss the inter-oceanic canal project and its potential implications for revenue mobilization, democratization, state accountability, and development. Since the project is still incipient, this analysis is preliminary. Further research will be required for more conclusive findings.

The inter-oceanic canal project in its current version was taken on in 2007 with the aim of attracting investment capital from Russia, Brazil, Mexico, Venezuela, China, South Korea, and Japan.[77] A non-binding written agreement was forged between Russia and Nicaragua while Brazil and Venezuela expressed interest. China was reluctant at first as Nicaragua maintains bilateral diplomatic relations with Taiwan PoC. However, eventually Wang Jing, President of HKND Group, presented his inter-oceanic canal project to the Nicaraguan government.[78]

The state envisions economic growth, employment, and infrastructural development as the potential main benefits[79] from the canal project.[80] Additionally, tax collection is

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[76] INFOCOOP adopted a heavy hand, disciplining rather than helping cooperatives deal with administrative tasks (Chamorro and Utting 2015). According to Jorge Flores, "...it [INFOCOOP] was largely understaffed and resources were not readily available. Although the government had good intentions, it [INFOCOOP] didn´t work as well in the end as intended" (Jorge Flores, Interview, 5 November 2015).

[77] Manuel Coronel Krautz, Interview, 9 December 2014. The inter-oceanic canal project has been in the collective imaginary of Nicaraguan people, public administrations, and world powers for nearly 100 years. A series of treaties, legal arrangements, and laws have been crafted since the early 1900s in order to establish the governance of a potential inter-oceanic canal in Nicaragua.

[78] HKND aims to build a 278 kilometers long canal between the Atlantic and Pacific Oceans in the South of Nicaragua. The project will cost around USD 50,000 million dollars (approximately 4 times Nicaragua's GDP).[78] According to HKND, the construction of the Inter-Oceanic Canal will employ 50,000 people annually out of which 25,000 will be Nicaraguans (HKDN Group and ERM 2015). The other employees will come from China and other countries. The project includes 6 sub-projects such as the construction of ports, a free trade zone, an international airport, a vacations' centre, highways, a power plant, a cement plant, and other facilities. The construction of the canal (including locks) and sub-projects is expected to take 5 years.

[79] According to Coronel-Krautz, the canal project will benefit the poorest populations and generate economic growth and employment: "…I think of my countrymen, the 42 percent of children that are not well fed and thus cannot develop their minds" (Manuel Coronel Krautz, Interview, 9 December 2014).

[80] The inter-oceanic canal is expected to increase Nicaragua's GDP by 200 percent (HKND Group and ERM 2015: 2). The project would be financed through private funds and its main objective is to create a competitive option for containers and large ships, which cannot go through the Panama Canal (even after its current expansion). According to HKND, the shipping industry is moving towards the production of larger vessels, thus, Nicaragua could create a commercial "niche" and a comparative advantage in this market (HKND Group and ERM 2015). By 2050,

projected to increase from sources such as “consumption, employment and economic growth at a nominal rate (in US dollars) of 122.2 percent by 2018” (Asamblea Nacional 2013: 6). The state has emphasized that increased tax collection will foster and finance social spending, particularly in education, health and poverty eradication. However, it has not yet specified how tax revenues will increase since under Law 840 tax breaks are envisioned for the investors and subcontractors (Asamblea Nacional 2013: 6).These benefits could have an overall positive impact on Nicaragua’s economy and increase DRM sources. However, emerging governance issues seem to jeopardize them. One contentious topic centers on the fact that two different laws were created for the concession. Table 17 below identifies Laws’ 800 and 840 main differences.

Table 17. Laws 800 and 840 compared

Law 800 **Ley del Régimen Jurídico de El Gran Canal**	**Law 840** **Ley Especial para el Desarrollo de Infraestructura y Transporte Nicaragüense Atigente a El Canal, Zonas de Libre Comercio, e Infraestructuras Asociadas**
• Passed in 2012. • Established the creation of a public-private enterprise Empresa Gran Nacional de Nicaragua to construct and manage the inter-oceanic canal and a national authority conformed by state representatives known as Autoridad de El Gran Canal.	• Passed in 2013. • Granted a concession for the construction and management of the inter-oceanic canal project solely to HKND.
• The Nicaraguan state would own 51 percent of shares and net income of the inter-oceanic canal.	• The Nicaraguan state would own 1 percent of shares while HKND would own 99 percent. • Nicaragua’s shares would increase 1 percent annually during the 50-year long concession (renewable for 50 additional years).
• Financial resources would originate from donations and loans considered as pre-investment funds.	• Financial resources would come from HKND and private investors.
• Tax breaks would be allowed.	• Tax breaks would be granted to the investor and sub-contractors.

Sources: La Gaceta 2012; 2013.

Under Law 800, the state had a determining role over the construction, management, and ownership of the inter-oceanic canal (51 percent of shares vs. 1 percent) in contrast to Law 840. Similarly, Law 800 was consulted with a vast group of civil society representatives, as well as COSEP and the Cámara de Comercio Americana en Nicaragua (AMCHAM)[81] (Asamblea Nacional 2012: 6). In contrast, Law 840 was solely consulted with a total of ten people from COSEP and AMCHAM (Asamblea Nacional 2013: 6). [82] Negotiations behind Law 840 took place only between HKND and the state.[83] As a result, 182 appeals were filed to Nicaragua’s Supreme Court, claiming

HKND expects that 5,100 vessels per year will use the inter-oceanic canal in Nicaragua. By 2070, the company expects that the canal will reach its maximum capacity of 9,153 vessels per year (HKND Group and ERM 2015: 24).

81 American Chamber of Commerce in Nicaragua.

82 These included the Executive Board of AMCHAM such as Diego Vargas Montealegre, President; Roberto Sansón, Vice-President; Alfredo Artiles, Secretary; and Avil Ramírez, Executive Director. From COSEP, José Adán Aguerrí, President; Benjamín Lanzas, President of the Construction Chamber; Mario Amador, President of the Industry Chamber; Eliecer Trillos, Vice-President of the Chamber of Commerce; Freddy Blandón and Carlos Aguerrí, Legal Advisers (Asamblea Nacional 2013: 4-6).

83 Manuel Coronel Krautz, Interview, 9 December 2014.

that Law 840 violates the national constitution.[84] However, all appeals have been denied[85] (La Voz del Sandinismo 2013; Vásquez Larios 2016).

Under Law 840, land or property considered of interest by HKND can be expropriated (La Gaceta 2013).[86] However, this is not geographically circumscribed to where the inter-oceanic canal project and sub-projects will be constructed since a route has not yet been clearly established.[87] Similarly, land or property subject to expropriation can be owned privately, communally,[88] and publicly (La Gaceta 2013: 4978). Communally owned land is protected under Article 8 of the United Nations Convention on Indigenous Peoples' Rights.[89] Nonetheless, law 840 does not specify how it will deal with potential contradictions to the Convention. Additionally, land will be valued according to *Catastro*[90] and not by the market. This has ignited social contestation among peasants, indigenous communities, and farmers who have organized under an Anti-Canal Movement.[91]

An estimate of 30,000 people will be displaced as a result of the inter-oceanic canal project. However, the state does not have a re-allocation plan for the potentially displaced.[92] In response, the Anti-Canal Movement has organized 52 protests[93] around issues of rights and access to land and resources, and national sovereignty.[94] Coercion has been used to stop civil unrest.[95] Given the project's magnitude the idea of a referendum has emerged. However, for the government, a referendum is both costly and unnecessary since "when people voted for us [the FSLN party] they were also backing our national development plan, which included the inter-oceanic canal project".[96]

Issues of sovereignty have also arisen regarding a lack of investor-state reciprocity. Under Law 840, HKND cannot be sanctioned administratively or economically if it does not comply with its commitments (La Gaceta 2013: 4981). Additionally, the state cannot legally prosecute HKND for possible damages, incompliance, and conflicts (La

84 In articles (1,2) on national sovereignty, independence, and self-determination; articles (60, 102, 177) that command the state to protect, conserve, and rationally exploit the environment; articles (180,181) on the rights of autonomous communities in the Atlantic Coast to own land and resources communally and enjoy a healthy environment; among others (López Baltodano 2013).

85 Mónica Baltodano López, Interview, 8 October 2014.

86 The state has allowed the expropriation of approximately 2,909 square kilometers of land (HKND Group and ERM 2015).

87 Although one route has been identified, HKND is still considering other alternative routes (HKND Group and ERM 2015).

88 As in the case of the autonomous communities of the Atlantic Coast and indigenous people.

89 The Convention establishes that states will put in place effective mechanisms to prevent or compensate the dispossession of land, territory or resources owned by indigenous people and communities (UN 2008: 5).

90 The Land Register's Office.

91 Octavio Ortega, Interview, 17 October 2014; Mónica López Baltodano, Interview, 8 October 2014.

92 Manuel Coronel Krautz, Interview, 9 December 2014.

93 La prensa, "Presión para evitar marcha anticanal", http://www.laprensa.com.ni/2015/10/26/nacionales/1925437-presion-para-evitar-marcha-anticanal accessed on 15 December 2015.

94 For Albercy Mairena, a member of the Anti-Canal Movement, joining the Movement was crucial since: "…from here [the Movement] I can defend my land and Nicaragua's sovereignty. The government needs to look for other kinds of projects to develop our country" (Albercy Mairena, Interview, 17 October 2014). Moreover, Fátima Espinosa, another Anti-Canal Movement, has joined the movement in order to stop from being evicted from her land with her family. Her house sits on Lake Nicaragua, and although the land belonged to her grandfather, she does not have legal papers that prove her land ownership. Many people in her community are in a similar situation. In the latest visit they received from the Land Registry Office, they were told that they would be evicted from their land and their house demolished (Fátima Espinosa, Interview, 17 October 2014). Additionally, Chanel Salgado, a 13-year old member of the Anti-Canal Movement, questions the job creation opportunities the government is identifying as one of the major potential benefits of the canal project: "…Nicaraguan youth will be looked down on compared to foreign workers and very little jobs will be created. There will only be opportunities for the Chinese. The President is letting down the Nicaraguan youth" (Chanel Salgado, Interview, 17 October 2014).

95 On December 24, 2014 Anti-Canal marchers were aggressed in the community of El Tule and others taken to jail and released only a few weeks later (La Prensa "Violento desalojo de campesinos contra el canal en El Tule" available at http://www.laprensa.com.ni/2014/12/24/nacionales/1669475-violento-desalojo-de-campesinos-contra-el-canal-en-el-tule, accessed on 15 December 2015; CENIDH 2015). In other cases, protesters have been blocked by Ortega's supporters and stopped before reaching Managua or the National Assembly.

96 Manuel Coronel Krautz, Interview, 9 December 2014.

Gaceta 2013: 4981). The state, however, is subject to international arbitrage. For the government, this was necessary since Nicaragua "is not financing the project".[97] However, such power imbalances could pose challenges in the future if HKND uses its rights to international arbitrage, but the state cannot retaliate. This raises difficult governance questions *vis-à-vis* the increasing power of transnational economic actors and the need to mobilize resources for development.

In sum, the inter-oceanic canal project has the potential to create employment and mobilize domestic resources for Nicaragua. However, issues of national sovereignty and democratization and risks in terms of shifting power, in favor of transnational economic actors to the detriment of the state, and challenges in effective management of significant population displacement could jeopardize long lasting social development. The project's current legal concessionary framework and negotiating processes show weaknesses (for example lack of inclusive law-making process and state-investor counterbalances), which could limit the scope of potential benefits in the long-run. Ultimately, economic growth and democratic institution-building need to work in tandem so that a consensual vision of development can emerge.

Conclusions

Since the 1970s Nicaragua has heavily relied on ODA to finance social development. The country has undergone political, economic and social turmoil in just a few decades. This has deeply impacted on DRM and aid policies, particularly in their scope and continuity. Fiscal revenues have shown an upward trend as a result of reforms aimed to improve the country's fiscal regime. However, taxes are still regressive, though less so than in the past. Although efforts have been made to limit tax exemptions to the wealthy, these still prevail. During the Sandinista revolution, subaltern groups gained access to citizenship rights and social policy increasingly funded through more progressive tax revenues. Nonetheless, the U.S. economic embargo, the Contras War (1982-1989), and internal contradictions ended up weakening the potential of the Sandinistas' social and fiscal policies in the 1980s to make the society more just and inclusive.

State-society relations have also undergone dramatic changes since the 1970s, shifting from 'less to more conducive' relations for social development. Social mobilization flourished in the 1980s. However, in the 1990s, privatization and structural adjustment policies weakened and fragmented Nicaraguan civil society. NGOs proliferated and business actors enhanced their power. Actors like COSEP gained privileged access to policy and decision-making circles. Interestingly, several cooperatives expanded their productive capacities, advocacy and autonomy in relation to the state. Democratic spaces were created and institution-building advancements were made. However, the state's top-down governance approach and the effects of the 2000 Alemán-Ortega pact, which for instance, granted bi-partisan control over the electoral and judicial systems, are eroding most of these democratic spaces and institution-building advancements. Additionally, Ortega's most recent re-election in 2016 as a result of key constitutional changes (such as the ban on re-election); the election of Ortega's wife as vice-president (blurring the boundaries between family and state); and the lack of legal participation of main opposition leaders and coalitions in the last presidential elections suggest that the government's current top-down governance approach is deepening. This could negatively impact state-society relations for social development in the short and long term in Nicaragua.

[97] Manuel Coronel Krautz, Interview, 9 December 2014.

Today, Ortega's administration (2007–present) pursues a mixed model of traditional economic growth with social programmes' provision. The current government's social model has discursively reasserted the role of the state in social provision and restored the free-of-charge nature of health care and education, as well as the concept of these as citizenship rights. This has similarities with the approach to social policy fostered during the revolution. However, the model is inherently contradictory. Although social programmes have been implemented in areas such as health, housing, and others, social policy is still largely segmented. Efforts have been made in order to expand coverage (for example, *Hambre Cero*), however, their financial sustainability in the context of decreasing levels of Venezuelan aid flows and the largely urban coverage of some of these programmes (for instance, *Usura Cero*, *Operación Milagro*) are also important ongoing challenges for long-term social policy-making. Similarly, the weakening of institution-building processes and the lack of state transparency and accountability are also relevant obstacles for fostering conducive state-society relations and improved services.

As traditional ODA declines, non-traditional donors like Venezuela and China have become crucial for financing social programmes in housing, agriculture, energy, infrastructure, and other areas. However, declining oil prices have decreased Venezuelan cooperation funds under ALBA. Additionally, recent changes in Venezuelan politics could impact ALBA's governance in the future. As per the initial hypothesis, this paper has shown that ALBA has increased Nicaragua's policy space through innovative policy-making (for example a modern barter system); the reassertion of the state's role in development and regarding traditional donors; and the increasing access to financial resources, which made up for decreases in traditional aid. In particular, ALBA has provided between 200 and 700 million USD annually. Both ALBA and traditional aid have positively impacted on development indicators like pre-natal care for pregnant women, infrastructure (road construction and maintenance, hydroelectric plants, and rural electrification), access to credit for women entrepreneurs, food production and consumption in rural areas, and some aspects of women's empowerment.

However, the reconfiguration of power in aid governance and Nicaragua's relatively fragile institutions are currently challenging past democratic advancements. Lack of state transparency and accountability on social programmes' implementation and evaluation and the clientelistic bias in the selection of beneficiaries have tainted ALBA's implementation. Little or no access to public data regarding the allocation, monitoring, and implementation of non-traditional funds have made independent impact assessments a very difficult task, which in turn has created tensions and polarized state-society dialogue. Additionally, structural and long-term development issues such as social spending, poverty eradication, and the empowerment of subaltern groups remain key challenges to be addressed.

Under ALBA, business actors like COSEP have emerged as "winners" in terms of market access opportunities and decision-making. The current state-business nexus has been relevant for policy-making decisions. However, it has also enhanced business influence in law and policy-making processes *vis-à-vis* less powerful actors such as cooperatives, SMEs, and social movements. Cooperatives and SMEs play a crucial role in development and domestic resource mobilization. However, these actors lost their prominence in decision-making and are now undergoing a crisis (although the state is currently re-strengthening the role of CONACOOP and rekindling its relations with the movement). The ideological and political proximity with the ruling party provided the movement with influential spaces in policy circles (appointment of cooperative leaders as public servants in key ministries, etc). However, this also proved to be a "double-edge sword" as cooperatives saw both their leadership and membership largely demobilized.

The inter-oceanic canal project could enhance job creation, economic growth, and attract FDI. However, the quest for investment is as crucial as its governance. Concessionary laws establish rights and obligations, as well as power balances between states and investors. The former inter-oceanic canal project (Law 800) designed clear boundaries and power balances between the Nicaraguan state and potential investors. In contrast, Law 840 establishes legal and power imbalances between the state and HKND, which could affect national sovereignty, social peace, fiscal and environmental sustainability, and social development. Effective steps should thus be taken in order to address these issues so that a project of this magnitude could be potentially beneficial to the population.

A number of policy implications arise from this study, including:

- Foster a national dialogue to discuss pressing political and economic governance issues that are negatively impacting on inclusive social development such as the weakening of power balances and counterbalances within current state-society relations, state control and top-down approach to governance, processes of institutional weakening (for example the effects of the 2000 Alemán-Ortega pact and bi-partisan control over the electoral and judicial system), and the current DRM model through FDI attraction that could empower a few national and transnational actors at the expense of social stakeholders in the short and long run (for example, the inter-oceanic canal project).

- De-politicize the implementation of social programmes. The latter should be granted according to specific socio-economic needs and inclusive development criteria. Both official and non-official monitoring and evaluation of these programmes should be allowed in order to improve, expand, and deepen their impacts and coverage.

- Promote effective opportunities for meaningful policy influence from both social and business actors and create clear mechanisms to offset the unequal power relations that permeate these stakeholders' interaction in policy-making processes.

- Link domestic resource mobilization strategies to social policy aiming at crucial and transformative issues such as poverty eradication, enhanced social spending, higher quality of education and health, and the effective empowerment of subaltern groups.

- Redirect traditional and non-traditional aid schemes to face structural social and economic challenges and bottlenecks and promote collaboration with key stakeholders both in the economic and social realms.

- Make aid implementation, particularly from non-traditional sources, accountable. The state needs to comply with transparency mechanisms to ensure that aid objectives are met and avoid clientelistic relations.

In conclusion, active citizenship, meaningful social mobilization, and state accountability are crucial to build sustainable social contracts and institutions. The latter are essential to foster peace and understanding and enhance the state's legitimacy in the pursuit of structural transformations that may require a (painful) reconfiguration of power relations. For social justice to be attained and maintained in the long run, states like Nicaragua's should focus on deepening state-society dialogue mechanisms, where both agreement and dissent are encouraged and DRM strategies are part of a consensual vision of development and not an end in themselves. Effective checks and balances should be in place for the mobilization, implementation, and management of financing schemes in order to ensure that resources are not captured by a select group of actors in society, but will actually benefit everyone.

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Interviews

Albercy Mairena, Member of the Anti-Canal Movement, 17 October 2014.

Chanel Salgado, Member of the Anti-Canal Movement, 17 October 2014.

Eddy Tenorio, Former Secretary General of the MEFCCA, 5 November 2015.

Fátima Espinosa, Member of the Anti-Canal Movement, 17 October 2014.

Haydee Castillo, Coordinator of the Foro de Mujeres para la Integración Centroamericana, 4 October, 2014.

Jorge Flores Castillo, Former Advisor to the Minister of MEFCCA, 5 November 2014.

José Adán Aguerri, President of COSEP, 10 November 2014.

María Asunción Meza, Member of the Cooperativa Multisectorial Apante R.L., 4 November 2015.

Manuel Coronel Krautz, President of the Inter-Oceanic Canal Commission, 9 December 2014.

Mónica López Baltodano, Executive Director of Popol Na, 8 October 2014.

Octavio Ortega, President of the Fundación de Municipios de Rivas, 16 October 2014.

Priscilla Gutiérrez, Country Economist at the Inter-American Development Bank, 28 October 2014.

Rafael Henríquez, Social Policy Analyst, 9 October 2014.

Spanish Bilateral Aid Informant, Anonymous, 10 October 2014.

Annex

Social and socio-productive programmes financed through PDVSA loans in 2015 (first semester)

Programmes	**Million USD**
Total (social and economic programmes)	172.8
Social Programmes 65.7	
Food and Nutritional Security	8.1
Urban and Rural Infrastructure	3.6
Humanitarian Assistance	4.5
Housing Infrastructure	6.9
Education, Culture, and Recreation	5.3
Health, Water, and Sanitation	4.5
Transportation Subsidy (social fare and collective transport)	16.5
Solidary Bonus (includes a bonus for the elderly)	-
Complementary Proyects	5.7
Operational Costs	3.0
Social Investment	5.5
Liquidity	2.0
Socio-Productive Projects 107.2	
Financing Energy Sovereignty	29.4
Financing Housing Infrastructure	5.0
Financing Land and Maritime Transport	2.1
Financing Fair Trade Development	9.4
Financing Agriculture and Forestry	7.3
Financing Industry	11.5
Financing Services Projects	6.1
Financing Other Projects	10.0
Financial Investment	8.9
Liquidity	10.1

Source: BCN 2015.