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The Political Economy of Domestic Resource Mobilization in Nicaragua

Changing State-Citizen Relations and Social Development

Gloria Carrión

prepared for the UNRISD project on

Politics of Domestic Resource Mobilization for Social Development

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UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: +41 (0)22 9173020
info.unrisd@un.org
www.unrisd.org

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Fundación Internacional para el Desafío Económico Global (FIDEG)
Bolonia, de PriceSmart 2C al Norte
Managua Nicaragua
Tel: +505 (0)22668708/09

info@fideg.org
www.fideg.org

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Acronyms

AMLAE	Asociación de Mujeres Luisa Amanda Espinoza (Women's Association)
ATC	Asociación de Trabajadores del Campo (Rural Workers' Association)
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.)
ANDEN	Asociación Nacional de Educadores de Nicaragua (National Teachers' Association)
BCN	Banco Central de Nicaragua (Central Bank of Nicaragua)
CARUNA	Cooperativa de Ahorro y Crédito Rural Nacional (National Savings and Rural Credit Cooperative)
CEPAL	Comisión Económica para América Latina y el Caribe (Economic Comission for Latin America and the Caribbean)
COSEP	Consejo Superior de la Empresa Privada (Supreme Council of Private Enterprise in Nicaragua)
CRISSOL	Programa Cristiano, Socialista, y Solidario (Christian, Socialist, and Solidary Programme)
CSO	Civil Society Organization
DNP	Distribuidora Nicaragüense de Petróleo (Nicaraguan Oil Distributor)
DRM	Domestic Resource Mobilization
EU	European Union
FETSALUD	Sandinista Union of Health Workers
FDI	Foreign Direct Investment
FIDEG	Fundación Internacional para el Desafio Económico Global (International Foundation for Global Economic Challenge)
FTAA	Free Trade Agreement of the Americas
FNT	Frente Nacional de Trabajadores (National Workers' Front)
FSLN	Frente Sandinista de Liberación Nacional (Sandinista National Liberation Front)
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries Initiative
HKND	HK Nicaragua Canal Development Investment Co., Limited
IACHR	Inter-American Commission on Human Rights
IADB	Inter-American Development Bank
IEEP	Instituto de Estudios Estratégicos y Políticas Públicas (Institute for Strategic Studies and Public Policies)
IMF	International Monetary Fund

MARENA	Ministerio del Ambiente y los Recursos Naturales (Ministry of the Environment and Natural Resources)
NGO	Non-Governmental Organization
NIO	Nicaraguan Córdoba
ODA	Overseas Development Assistance
PETRONIC	Empresa Nicaragüense de Petróleo (Nicaraguan Oil Enterprise)
PDRM	Politics of Domestic Resource Mobilization
PRSP	Poverty Reduction Strategy Papers
PDVSA	Petróleos de Venezuela Sociedad Anónima (Petroleum of Venezuela S.A.)
UNO	Unión Nacional Opositora (National Opposition Union)
UNRISD	United Nations Research Institute for Social Development
UNI	Universidad Nacional de Ingeniería (National Engineering University)
UPOLI	Universidad Politecnica de Nicaragua (Polytechnic University of Nicaragua)
US	United States
USAID	United States Agency for International Development

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Summary

Nicaragua has gone through profound political, economic and social transitions in recent decades. Following a turbulent history of dictatorship (Somoza 1936-1979), the Sandinista revolution (1979-1989) and neoliberal adjustment (1990-2006), it remains one of the poorest countries in Latin America, second only to Haiti. Periods of high social tension and violence 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 for development.

In 2007, the Sandinistas (Frente Sandinista de Liberación Nacional - FSLN) returned to power continuing the economic liberalization policies of former neoliberal governments, directly contradicting the policy stance the FSLN had pursued in the 1980s. While president Ortega achieved some successes regarding the economy as a result of the implementation of several social and economic empowerment and food security programmes, major challenges remain, particularly in areas like civil society participation, institutional building, human rights, and democratization.

This paper shows that when strong state-society relations are fostered; effective bargaining and inclusive participation of civil society in social policy making and spending occurs; the state secures mechanisms to prevent elite capture of resources; civil society successfully mobilizes and negotiates with the state regarding the distribution of revenues from extractive industries; and democratization and institution building processes are strengthened, social policy spending tends to increase and expand. In Nicaragua, distinct political periods are associated with different strategies and outcomes regarding both social spending and mobilization of fiscal revenues. The extent to which these strategies have positively impacted social development show important links with the quality of state-society relations.

Author

Gloria Carrión is a Social and Economic Policy Analyst. She is currently a Research Associate at FIDEG and works as an Independent Consultant.

Introduction

Nicaragua has gone through profound political, economic and social transitions in recent decades. Following a turbulent history of dictatorship (Somoza 1936-1979), the Sandinista revolution (1979-1989) and neoliberal adjustment (1990-2006), it remains one of the poorest countries in Latin America, second only to Haiti. Periods of high social tension and violence 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 for development.

This synthesis report presents findings from four research papers on Domestic Resource Mobilization (DRM) in Nicaragua. Nicaragua is one of four case studies conducted in the context of a comparative research project led by the United Nations Research Institute for Social Development (UNRISD), "Politics of Domestic Resource Mobilization for Social Development" (PDRM). The project seeks to contribute to global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. Three main themes shaped the research: A) who pays: contestation, bargaining and outcomes, B) changes in key relationships: state-citizens, donor-recipients, and C) upgrading institutional capacities for service delivery (UNRISD 2012; UNRISD 2015).

This report aims to offer an explanation for the failure (or relative success) of revenue mobilization to translate into substantive social benefits and better institutions. The research papers synthesized here are first, a paper on the political economy of tax reforms and social spending (related to theme A), an analysis of domestic resource mobilization from the mining sector (related to theme A), an analysis of state-society relations in the context of changing traditional aid levels and aid governance (related to theme B), and a study of health financing in Nicaragua (related to theme C).

The Nicaragua case study shows that when strong state-society relations are fostered; effective bargaining and inclusive participation of civil society in social policy making and spending occurs; the state secures mechanisms to prevent elite capture of resources; civil society successfully mobilizes and negotiates with the state regarding the distribution of revenues from extractive industries; and democratization and institution building processes are strengthened, social policy spending tends to increase and expand. In Nicaragua, distinct political periods are associated with different strategies and outcomes regarding both social spending and mobilization of fiscal revenues. The extent to which these strategies have positively impacted social development show important links with the quality of state-society relations.

In Nicaragua, weak state-society relations have taken the form of limited spaces for citizen participation, failure of the state to respond to citizen demands, lack of transparency and accountability, and the influence of external actors in policy making. And, even as spaces for contestation and bargaining have materialized in moments of political opening, fragile institutions and unequal power relations have greatly truncated the potential for this to lead to substantive social development benefits.

After the US-backed Somoza family's rule ended in 1979, the Sandinista revolution introduced land redistribution and considerable expansion of health and education services. Civil society and social movements flourished during this period, which opened up bargaining and participatory spaces, elevating the role of social policy and social spending. In 1990, the Sandinistas were defeated at the ballot box following a bloody civil war. With the new centre-right governments came some economic recovery, reflected in resuming growth and declining inflation, but also privatization, trade liberalization and a sharp contraction of the public sector, which all fuelled unemployment. There was also considerable dismantling of the social policy architecture of the 1980s, and a counter-agrarian reform that negatively affected many small agricultural producers and cooperatives. In 2007, the Sandinistas (Frente Sandinista de Liberación Nacional - FSLN) returned to power, continuing the economic liberalization policies of former neoliberal governments and thereby inverting the policy stance the FSLN had pursued in the 1980s. While president Ortega achieved some economic successes as a result of the implementation of several social and economic empowerment and food security programmes, a number of challenges remain, as will be discussed in this report.

Regarding resource mobilization, recent history shows mixed outcomes. Efforts to increase tax revenues over past decades have generated limited results, and consequently Nicaragua remains a low-tax country. Despite frequent tax reforms, measures to attract Foreign Direct Investment (FDI), and increasing mining revenues, the Nicaraguan government has not managed to provide a stable domestic resource base to underpin a social contract.[1] Historically aid-dependent and a beneficiary of the Heavily Indebted Poor Countries (HIPC) initiative, Nicaragua has recently received less official development assistance (ODA) as the reconfiguration of aid governance at the global level, donor fatigue and the global economic crisis in 2008 have prompted a decrease in traditional ODA levels. Nicaragua has therefore sought new partnerships with the governments of Venezuela and China. However, these alliances have to be considered as relatively fragile since they depend on partner governments' political priorities and economic situation, as will be shown in this report.

The structure of the paper is as follows: part 1 lays out the conceptual framework; part 2 explains the historical background of DRM and social development in Nicaragua; part 3 presents key findings from the four studies; and part 4 develops the main conclusions and policy recommendations.

Conceptual Framework: Linking DRM and State-Citizen Relations

The politics of DRM revolves around two nodal points: the means by which revenue is collected and the use to which it is put. The extent to which these processes make space for citizen engagement and respond to citizen demands, and how they can result in better policies and institutions, is key to ensuring DRM not only leads to positive social development outcomes, but that both the processes and outcomes are just, equitable and democratic.

This link between resource mobilization and state-society relations is well articulated by Schneider (2014), who argues that the fiscal system reflects a social contract between society and the state, the tacit and explicit agreements on who funds public goods and

[1] In effect, private financial flows are crucial. Remittances constitute an important source of household and national income, currently 9.7 percent of GDP (WDI 2014).

welfare of citizens that states and societies negotiate. In his view, the fiscal system reflects the type of state and the vision of development that a country follows: “fiscal policy institutionalizes who pays and who benefits from development, while also defining a modern social contract” (Schneider 2014: 10, author translation from Spanish original).[2]

Building fiscal regimes that have a positive effect on social development requires opening spaces for meaningful citizen participation, transparency and accountability on the part of governments, and balanced power relations between states, citizens, private sector and external actors. **State-society relations** are shaped by interactions and negotiations between state institutions and societal groups, with positive relations characterized by rights and obligations for both sides, as well as participatory, representative and accountable negotiations of how public resources should be mobilized and allocated. Positive relations are less likely to develop in states with fragile and non-transparent institutions and policy-making processes. Strong and positive state-society relations are associated with social development, defined by UNRISD 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).

Contrary to mainstream concepts of **participation**,[3] which dilute the notion of participation to mere consultation— for example with selected NGOs and business associations—this report 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, is closely linked to this more substantive notion of participation. Inclusion occurs when people’s wellbeing in terms of health, education, and income security is guaranteed beyond their direct and indirect income sources derived from the market economy (Sánchez Ancochea and Martínez Franzoni 2015: 12).

In the case of Nicaragua, the strong influence of business has consistently pushed back against social inclusion policies. Corporations exercise structural and instrumental power. Economic activity in capitalism is determined by investment decisions, which are based on the profitability criterion. The exercise of structural power refers to the power related to divestment, or even its threat, which takes the form of reduced investment in domestic markets and increased speculative activities and/or overseas investment (including capital flight). Instrumental power, for its part, is exercised through planned political actions (for instance, lobbying and direct participation in policy-making negotiations, as well as direct and preferential access to state negotiators and policymakers) by companies via different institutions such as business interest associations, government-business policy coordination mechanisms, informal business networks, business lobbying and financial sponsoring of electoral campaigns, or diverse activities tying corporations to political parties etc. (Moudud et al. 2014).

One outcome of the structural and instrumental power of the business sector in Nicaragua is low taxes and levies on firms, an approach that is in line with the neo-liberal model for development which has informed Nicaraguan economic policy since the 1990s. The close

[2] 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).

[3] See, for example, World Bank 1996.

relationship that exists between the state and the private sector has contributed to the endurance of this strategy.

Political and institutional aspects are therefore crucial when analyzing DRM. They are intricately related and refer to processes of contestation and bargaining and how resource extraction impacts key relations such as state-donor, state investor or state-citizen relations (UNRISD 2012). According to UNRISD, "the history of resource extraction in many poor countries is associated with coercion and authoritarian rule. However, calls for generation of more revenues and social expenditure have coincided with greater openness of political systems and rights of independent organization and contestation" (UNRISD 2012: 9). The key issue, however, is whether citizen contestation around DRM improves state-citizen relations by encouraging governments to opt for more consensual styles of policy-making and more equitable resource allocation. In the case of Nicaragua, the consistent failure of resource mobilization to translate into social development raises key questions about entrenched power asymmetries, meaningful participation and state accountability.

The Background: DRM and Social Spending in Nicaragua from a Historical Perspective

This section explores the history of DRM in Nicaragua in the context of the stark political transitions the country has experienced in the last half century. It will focus on four key historical periods: the late period of the Somoza dictatorship (1972-1979), the Sandinista revolution and government (1979-1989), the neoliberal period (1990-2006), and the latest Ortega administration (2007-present).

Table 1: Sectoral distribution of central government expenditure as a percentage of GDP (1970–1992)

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 & Production	4	9.8	4.7	5.6
Defense & Police	1.6	15.9	18.9	4.2
Foreign Debt Service	0.7	2.7	0.59	2.8
Other	3.3	13.1	8.5	7
Total	**18.8**	**65**	**60.5**	**36.2**
GDP Per Capita in USD	1,052	670	485	457

Source: Based on Arana et al. (1999).
Notes: Data based on constant USD 1980

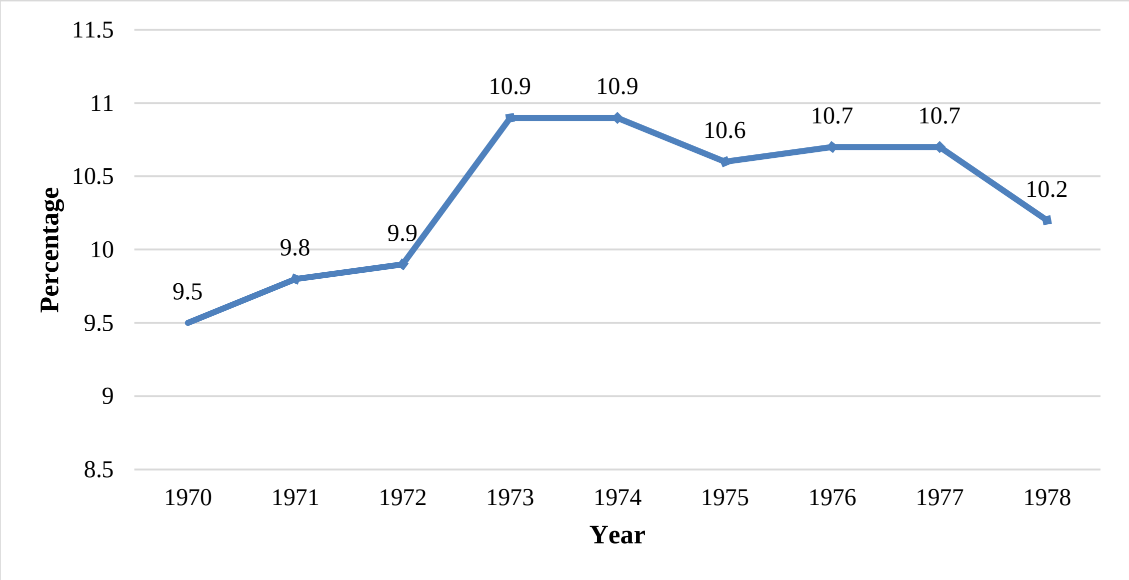
Anastacio Somoza's late period (1972–1979)

Anastacio Somoza García installed a 45-year dictatorship in Nicaragua supported by the U.S. During the strong hand rule of the Somoza, social organization was permitted, though true bargaining and contestation were very limited as a result of his highly repressive apparatus (Borchgrevink 2006). Further, social spending levels were very low,

with fiscal policies favouring business and elites rather than broader social development for the entire population. These factors had deep implications for state-society relations during this period, leading to the end of the regime through a leftist insurrection.

While the late Somoza period was marked by economic growth, little of these benefits were seen by the majority of the population. With the government's support of large capitalist producers, export production capacity increased markedly in the 1970s (Curtis 1998; Torres-Rivas 2011). Financing technical assistance programmes, infrastructure, agroindustry development and loans, 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 (Zaremba 1992: 20), major players in the finance, construction, agricultural, machinery and car industries (Mayorga 2007).
The Somoza regime also favoured businesses and elites in its tax structure. Despite several weak attempts at income and property tax reform, indirect taxation based on foreign trade and internal consumption provided most of the revenue (Figure 2).[4] Figure 1 shows the tax revenue as a percentage of GDP between 1970 and 1978.

Figure 1: Tax revenue as a percentage of GDP, current prices (1970–1978)

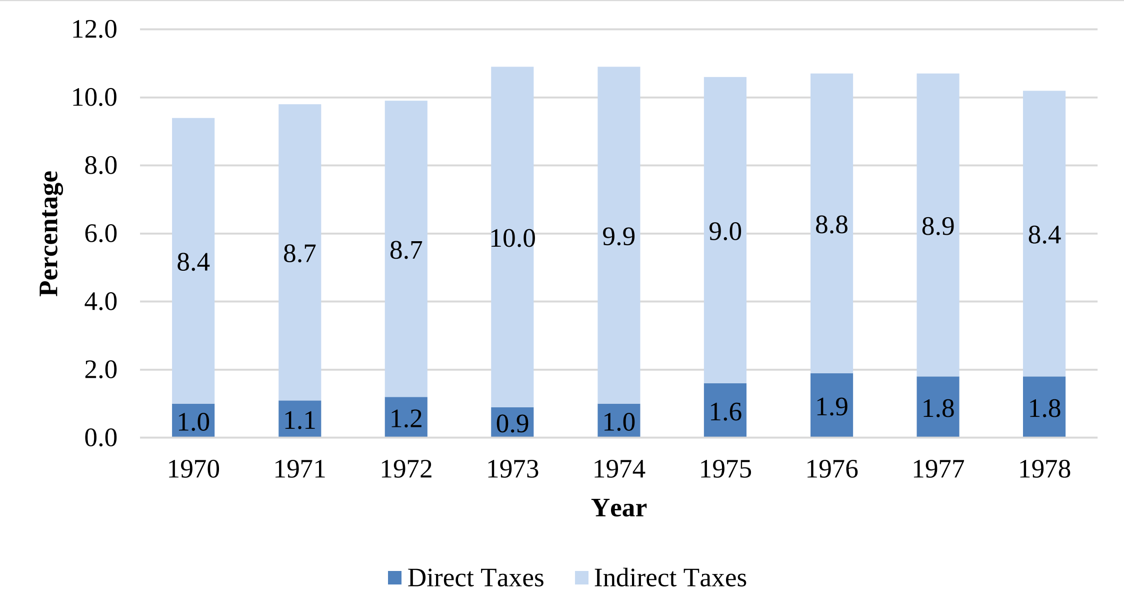


Source: Molina (2017), based on Acevedo (2011b).

Figure 2 below shows direct and indirect taxes as percentage of GDP between 1970 and 1978.

4 Taxes as a share of GDP did not exceed 10 percent.

Figure 2: Direct and indirect taxes as a percentage of GDP, current prices (1970–1978)



Source: Molina (2017), based on Acevedo (2011b).

Due to the government's unwillingness to tax wealth and income, Nicaragua financed only a small portion of public investment from domestic resources (Biderman 1983: 25). Instead, until 1977, the government was able to finance the fiscal deficit and a large part of social spending with aid (Carrión 2017). 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). However, overall social spending levels were very low in the 1970s under Somoza, limiting access to social services for the majority of the population. Table 2 shows that education spending represented only 2.4 percent of GDP and health 1.6 percent for the period 1970–1975. Before 1979, only 28 percent of Nicaraguans had access to modern health provision.

Despite this, some gains were made by civil society, including the inclusion of the right to free public education in the 1974 Constitution (D'Castilla 1999). However, these gains were overshadowed by the lack of democracy, economic inequalities, rampant corruption and military repression (Merrill 1993). The resulting deterioration of state-citizen relations was the main cause of the popular insurrection, led by the Sandinista National Liberation Front (FSLN), a Leftist guerrilla movement, which defeated Somoza on July 19, 1979.

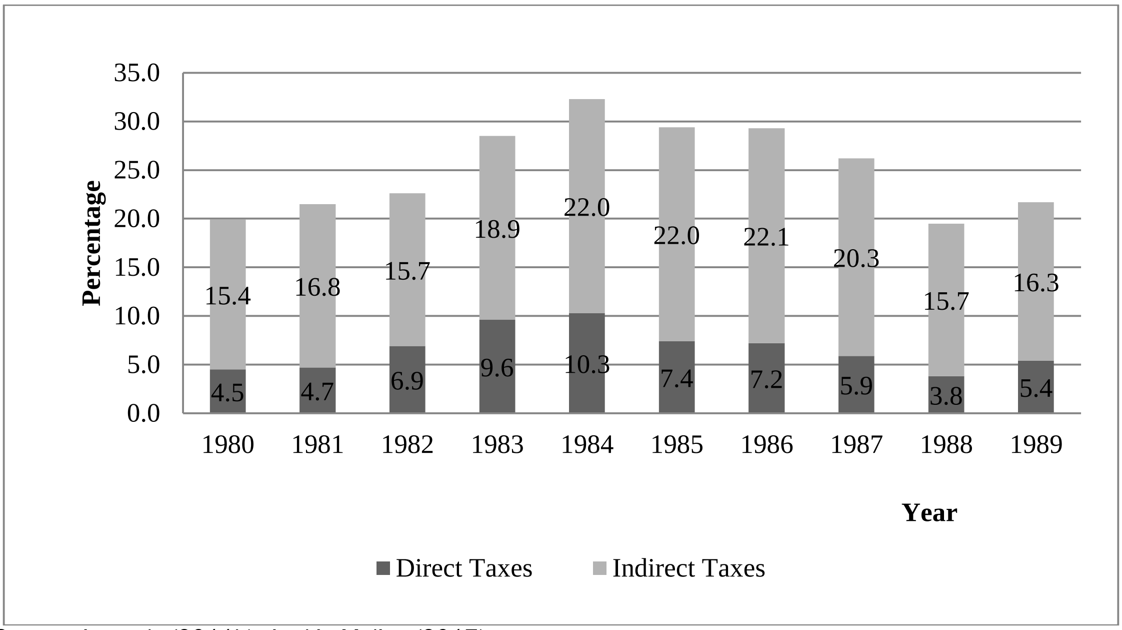
The Sandinista revolution period (1979–1989)

The revolutionary period was characterized by an opening up of space for civic engagement and increased DRM through taxation, translating into increased social spending, but also deep social and political tensions. The Sandinistas sought to establish a mixed economy and social benefit networks for the poor by instituting large-scale agrarian reform through expropriation of former Somoza properties, 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). Further, 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), Teachers (ANDEN), and the FSLN women's organization (AMLAE), among others (Borchgrevink 2006).

Swinging cuts in public sector salaries helped finance government expenditures aimed at raising the income of the poorest Nicaraguans, subsidizing basic necessities such as food and energy, and expanding health, education and housing (Carrión 2017). Similarly, selective excise taxes (alcohol, gasoline) were instituted in the context of fiscal reform aimed at raising taxation between 1982 and 1987. During those years, two additional new taxes were created to increase progressivity through wealth redistribution and revenue collection: the property tax and the capital gains tax (Molina 2017). Between 1980 and 1984, tax collection increased (see figure 3).

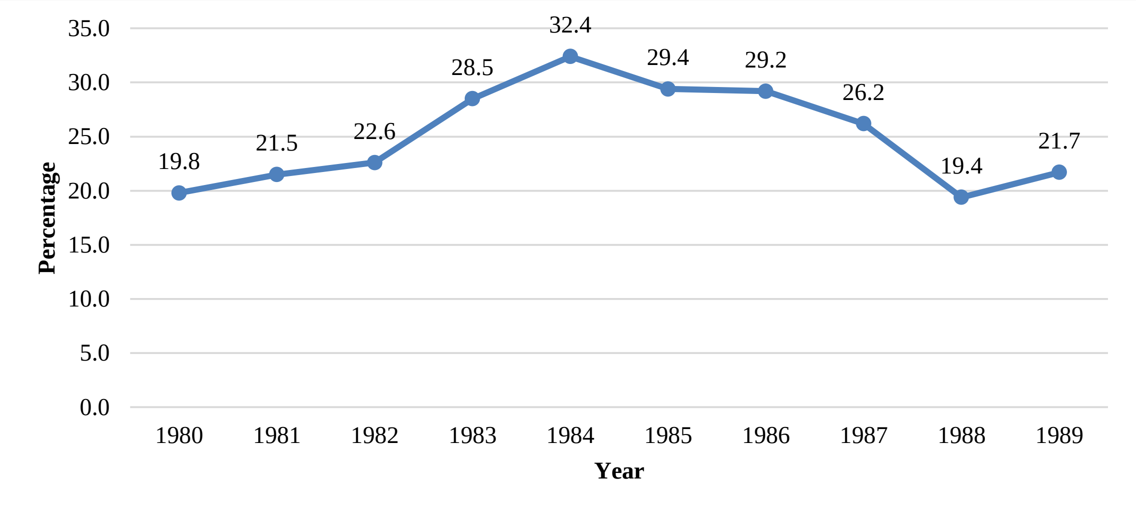
Figure 3: Direct and indirect taxes as percentage of GDP, current prices (1980–1989)



Source: Acevedo (2011b) cited in Molina (2017).

Revenue from direct taxes as a percentage of GDP increased and reached the highest point in 1984 with 10.3 percent of GDP, although the overall system remained regressive with indirect taxes reaching 22 percent of GDP. Total tax take stood at 32.4 percent of GDP in 1984 compared to around 20 percent in 1980, which reflected an impressive increase compared to the previous administration (Molina 2017).

Figure 4: Tax revenue as a percentage of GDP, current prices (1980–1989)



Source: Molina (2017), based on Acevedo (2011b).

Under Sandinista rule, overall public spending more than tripled from 18.8 percent during the Somoza period to 65 percent of GDP in 1985 (see table 2). Table 2 shows social spending levels between 1982 and 1989. 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 1 for data under Somoza).

Table 2: Social spending in Nicaragua as a share of central government expenditure

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 NIO								
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: Arana et al. (1999)
Notes: 1996 Córdobas (NIO) and US Dollars (USD)f%

However, the gains in social development during the revolutionary period were limited by the extent of opposition that arose, both nationally and abroad. Animosities emerged between the revolutionary government and economic elites as economic power was transferred from business to workers and peasants, through land reforms, state expropriation and new tax policies.

As part of a large-scale effort to stem the tide of socialism in the Western Hemisphere, the U.S. imposed an economic embargo in 1985 and also trained and funded counter-revolutionary groups, known as the Contras, spurring more than a decade of conflict

marked by deep repression and violence on all sides. In the midst of violence and political strife, the progressive resource mobilization and social spending policies of the revolutionary government began to lose their teeth. For one, political and economic instability and the government's financing of the monetary deficit by issuing money led to an increase in inflation rates (Acevedo 2011a), which also eroded tax collection in the second half of the decade (see figure 4). Also, as the 1980s progressed and the relations with the U.S. government further soured, social spending decreased while military spending increased (see table 2).

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 experienced economic recession and hyperinflation in 1989.[5] Eventually a cease-fire and peace agreement was signed. General amnesty was granted and national elections were scheduled for early 1990.

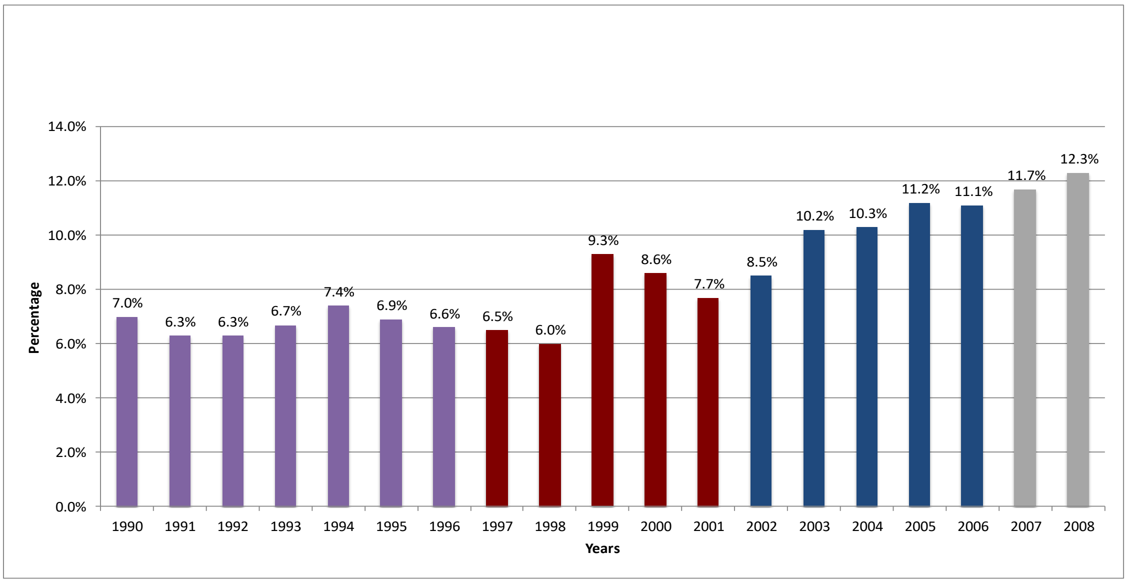
The Chamorro, Alemán and Bolaños administrations (1990–2006)

On February 25, 1990, the Sandinistas were defeated in national elections by Violeta Barrios de Chamorro of the National Opposition Union (Unión Nacional Opositora, UNO), a 14-party alliance across the political spectrum. While this period and its different governments were characterized by neoliberal reforms, DRM strategies varied. President Violeta Barrios' administration (1990–1996) focused on macroeconomic stabilization, privatization and other structural adjustment reforms, while the subsequent President Arnoldo Aleman (1996–2001) deepened privatization and promoted trade liberalization. President Enrique Bolaños (2001–2006) designed 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 was also strengthened, granting these actors considerable influence 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 focused on balancing budgets and debt repayment at the cost of social programmes. This austerity turn 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). Social expenditure as a percentage of GDP decreased between 1991 and 1992, and then experienced only modest changes (see figure 5). In 1998, social expenditure reached its lowest level (6 percent of GDP). 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).

[5] 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 2015).

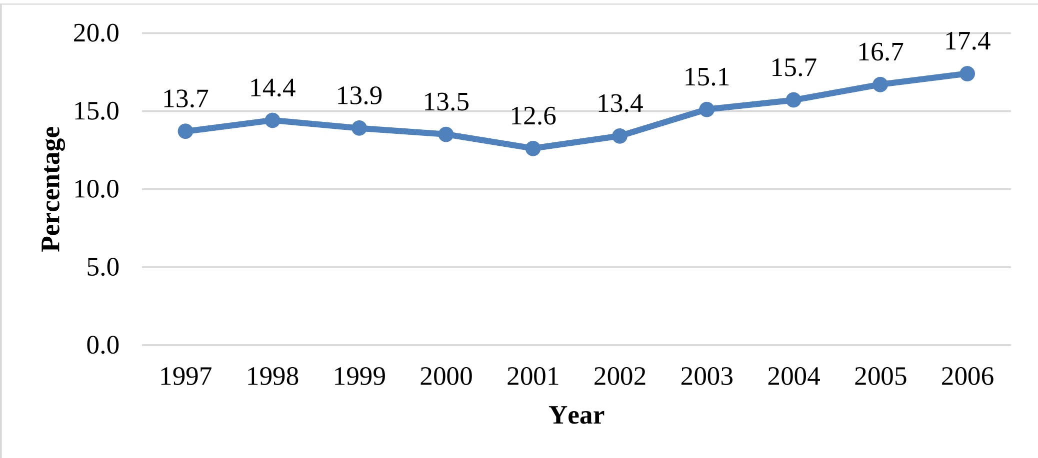
Figure 5: Public social expenditure as a percentage of GDP (1990–2008)



Source: Based on CEPAL (2009).
Notes: Chamorro administration (1990–1996); Alemán administration (1997–2001); Bolaños administration (2002–2006).

Tax reforms under the Alemán's administration reduced the tax burden of workers. However, it did not revert the system's regressive nature, with the majority of taxes 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). 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. Indeed, the law did lead to increased tax revenue (Molina 2017) and reduced some distortions (see figure 6) mainly due to a more progressive legislation: no new indirect taxes were created and three additional direct taxes were introduced, including taxes on luxury goods, bank deposits, and business assets (Molina 2017).

Figure 6: Tax revenue as a percentage of GDP, current prices (1997–2006)



Source: Acevedo (2011b) cited in Molina (2017).

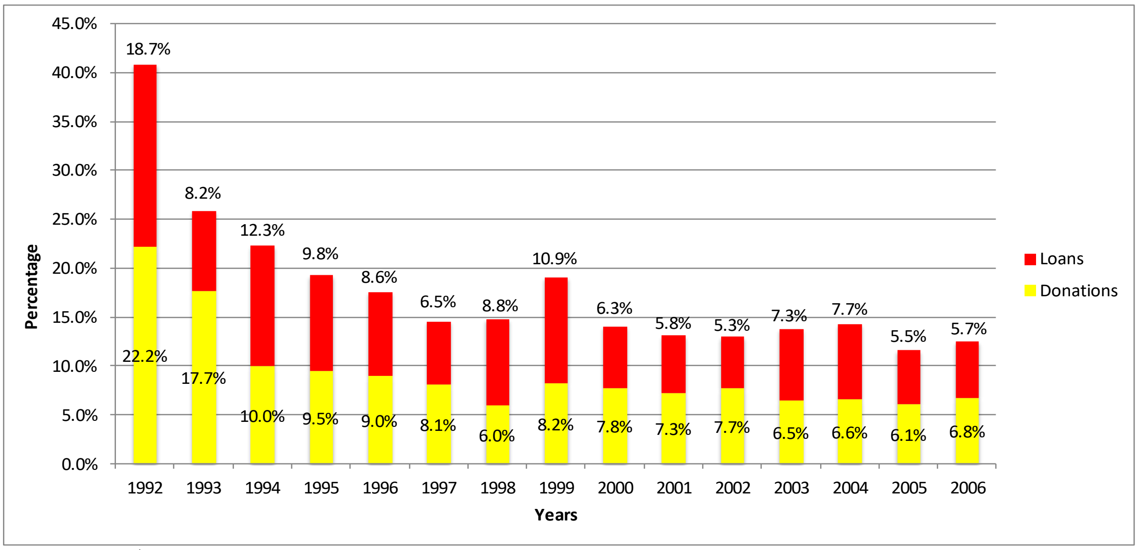
However, the exonerations and tax breaks granted to business were largely maintained, which watered down its potential effect on the reduction of inequalities in the fiscal regime (Gasparini and Artana 2003; Molina 2017).

In general, the neoliberal reforms implemented in the 1990s reflected a new configuration of actors and economic and political power, which deeply impacted state-society relations in post-revolutionary Nicaragua. Business actors, some of which had been expropriated during the revolution, re-emerged as influential actors. The privatization of national enterprises, the deregulation of capital investment, and export-led growth policies increasingly conferred considerable power to actors like the Consejo Superior de la Empresa Privada (COSEP), a confederation of business groups.

The policy turn triggered social tensions, including national strikes such as the one in 1990 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 this period, mass organizations and grassroots movements were weakened, though they also gained autonomy from the FSLN (Borchgrevink 2006), while NGOs rapidly gained influence.

International aid complemented DRM strategies. Between 1990 and 2002, 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 (Gobierno de Nicaragua 2003). International aid peaked in 1992 to account for 40 percent of Nicaragua's GDP (see figure 7). Between 1992 and 2012, however, aid levels decreased. The year 1999 is the only exception as aid 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 7: Evolution of foreign aid as a percentage of GDP (1992–2006)



Source: Carrión (2017) based on Acevedo (2011a).

In 2005, Nicaragua signed the Joint Financing Agreement (Acuerdo Conjunto de Financiamiento) with the Budget Support Group comprised of bilateral and multilateral

donors who provided budget support for the government in the form of loans and donations.[6] Table 3 shows the aid structure of the Budget Support Group between 2005 and 2007.

Table 3: Budget support group aid structure (2005–2007)

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: BCN (2007)
Notes: USD millions

In 2000, Nicaragua was included in the HIPC, however the expected results of the initiative's financial relief did not fully materialize, 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 external debt relief, 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* workers and social movements, had negative effects on social indicators,[7] deepening the inequalities that persist today.

The Ortega administration (2007–present)

In 2007, Daniel Ortega was elected president of Nicaragua and was reelected in 2016, in violation of the constitution, which prohibits reelection. Since the 1990 electoral defeat of the Sandinistas, Daniel Ortega has been the leader of the FSLN party and its recurrent presidential candidate. During his administration, resource availability has increased (despite declines in traditional aid) through emerging non-traditional aid schemes and substantial increases in tax and mining revenues. However, while some of this has been channeled to social programmes and some key social indicators have improved, social spending for the most part has either stagnated or shown little growth. Further, democratic institution building, transparency and accountability, and civil society participation and bargaining have declined, while the state-business nexus has deepened.

[6] Including the World Bank, the European Union, the IADB, Sweden, Norway, Finland, the United Kingdom, Germany, the Netherlands and Switzerland

[7] 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).

In 2008, the Budget Support Group (table 4) ceased operations due to emerging tensions between traditional donors and the newly-elected government,[8] as well as changes in the international aid paradigm. Ortega's government rhetoric reasserted the state's role in development *vis-à-vis* donors. As part of this strategy, the government aimed to develop new partnerships with the Global South, and in 2007 Nicaragua joined the Bolivarian Alternative for the Americas (ALBA), a left-wing counter-proposal to the US-led Free Trade Area of the Americas (FTAA).

Traditional bilateral donors, such as the aid agencies from the United Kingdom, Germany and Finland, left Nicaragua in 2009.[9] Multilateral aid disbursements, however, increased from 2007 to 2013, as table 4 shows, in tandem with the emergence of new donors such as Russia, Venezuela, Brazil and China. Donors such as Russia 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 (see table 4).

[8] President Ortega stated that Europeans were like " flies that step on dirt"; " what they provide is not aid, but bread crumbs, small payments for the enormous unpayable debt they have with the people of the Americas" (Noticias24 2008: 1). The conflict reached a critical point, when political opposition parties accused the FSLN of committing fraud during municipal elections in 2008 and violating the national constitution, which prohibits reelection.

[9] As aid resources were shrinking, many donors prioritized their funds and development efforts in Africa. Additionally, Nicaragua's GDP surpassed the middle-income country threshold in 2014, leading to further aid declines.

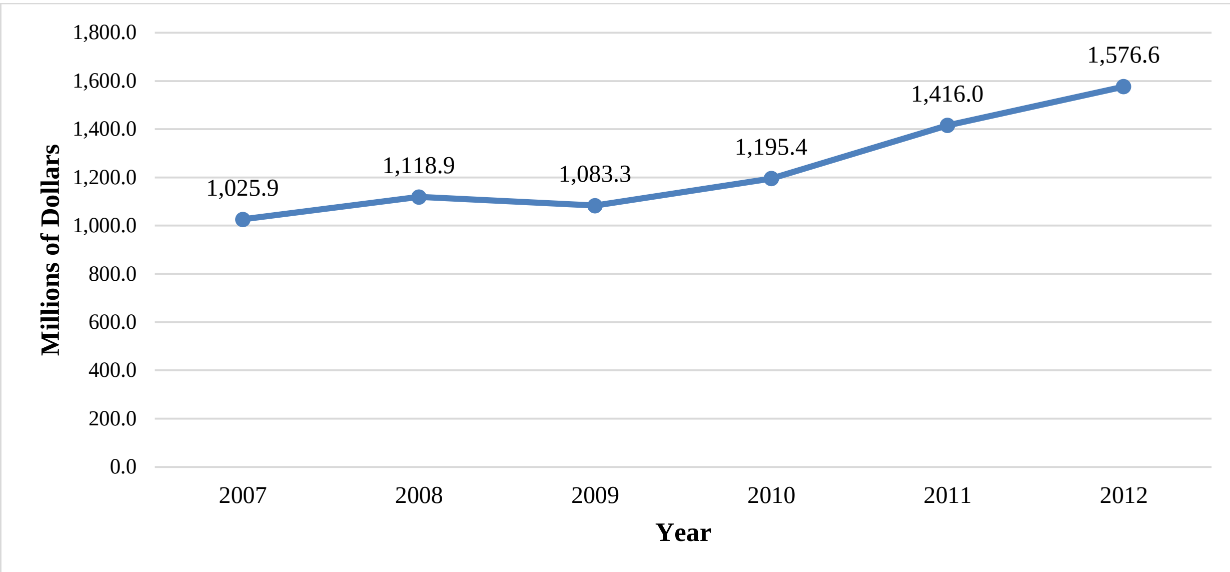
Table 4: Bilateral and multilateral cooperation to Nicaragua (2007–2013)

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)
Notes: USD millions

Revenue from domestic resource mobilization also increased. Tax revenue collection went up between 2007 and 2012 (see figure 8), with the exception of 2008 and 2009 when the global financial crisis affected the performance of the fiscal system.

Figure 8: Total tax revenue trend (2007–2012)



Source: Molina (2017), based on DGP 2007-2012

Fiscal revenue from the mining sector has increased since 2007 (see table 5). The increase in revenues from 2012 to 2013 was particularly due to an 18 percent increase in the volume of gold exports and an increase in gold exports value by 2 percent (Gutiérrez 2015).

Table 5: Revenues to the Nicaraguan Treasury from tax and royalties on mining

Concept	2007	2012	2013
State's total tax revenue from the mining sector	1115.8	1729.7	1781.4
Internal taxes	7.1	30.7	42.1
Mining surface rights (land use tax)	1.6	2.9	2.9
Mining extraction rights[10]	1.8	12.1	12.1
Fines for surface rights and right of extraction	0.01	0.01	0.02
Total mining royalties and taxes	10.6	45.7	57.1
As % of state tax revenue	0.95	2.64	3.21

Source: Gutiérrez (2015) using data from the Ministerio de Hacienda y Crédito Público (Ministry of Finance)
Notes: USD millions

[10] Deductible from income tax.

Despite high levels of resource mobilization through ALBA partner countries, taxation and mining, health and education spending as a percentage of GDP remained relatively constant with some increases particularly between 2004 (9.1 per cent) and 2009 (12.4 per cent), as table 6 shows.

Table 6: Social spending in Nicaragua as a percentage of GDP (2003–2015)

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).

State-society relations under Ortega have remained fraught. For one, shrinking ODA and the departure of traditional donors have deeply impacted Nicaraguan civil society. Given the high dependency on aid, many NGOs and associations that advocated for social development have disappeared due to lack of funding. Tensions between the state and society also encompass other disputed topics. The planned construction of an inter-oceanic canal across the country by the Chinese Hong Kong Nicaragua Canal Development (HKND) Group has elicited protest and mobilization by peasant and indigenous communities and associations. Also, the government's policies on reproductive rights and violence against women have been widely criticized by women's movements, though with little or no impact. Ortega administration's top-down approach to governing has left little room for civil society participation, as it favours a hierarchical model of state-citizen relations, with little space for autonomous civil society actors, who have been presented by government as "public enemies." In this model, civil society needs to adhere to government plans and policies without questioning the state's rationale or interests.

While state-society relations have suffered, state-business relations have improved. According to José Adán Aguerri, President of COSEP, since 2008 the association has managed to bargain with the current government on an unprecedented number of 91 laws and 42 implementing frameworks regarding the economy. 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[11] and others. Despite its ties to the revolutionary period, Ortega's government has failed to open up significant spaces for popular participation, and further entrenched the power of business and elites.

[11] The Central Bank, the Social Security Institute, the National Technological Institute and the Banking System's Regulator.

State-society relations deteriorated significantly in 2018, beginning with student mobilizations in response to a poorly managed forest fire in the Indio Maiz biological reserve, one of the largest protected forest reserves in the country. These mobilizations were put down by the State, but were followed shortly by larger ones, when, just days after the forest fire, the government officially announced a social security reform, increasing workers and employers contributions and establishing a 5 percent deduction in retiree pensions (IACHR 2018). This reform, which was not subjected to a process of prior public debate nor was it previously agreed upon with the private sector, triggered peaceful protests convened by university students and older adults (IACHR 2018: 15).

Protestors were violently attacked by national police forces and parapolice groups. In response, the protests spread to the National Engineering University (UNI), the National Autonomous University of Leon, the Agrarian University and the Polytechnic University of Nicaragua (UPOLI). As the State escalated the violence, protests spread throughout the country. The State's repressive action led to at least 212 deaths, 1,337 persons wounded as of June 19, 2018, and 507 persons deprived of liberty as of June 6, 2018 (IACHR 2018). This generated a political, social, economic, and human rights crisis that persists today.

PDRM in Nicaragua: Four Case Studies

This section presents four case studies related to the mobilization of fiscal revenues in Nicaragua exploring why recent resource mobilization policies have failed to result in significant improvements in social development outcomes in Nicaragua. The case studies include the tax concertation law implemented by the Ortega government in 2012, the new aid alliances forged in the context of ALBA, popular contestation around a mining project in the municipality of Rancho Grande, and the linkages between resource mobilization and institution building in the health sector.

The Tax Concertation Law: A stalled attempt to create a more equitable tax system

The Tax Concertation Law was passed in 2012 with the objective of modernizing the fiscal system and mobilizing public resources for social development (GEE 2012).[12] While the process was originally designed to be participatory and involve various actors, it has been highly contested by tax experts and Civil Society Organizations (CSOs) mainly due to power differentials during the negotiating process, which favoured business over social actors.

The Tax Concertation Law aimed to correct distortions within the tax system, provide order to the existing system, and stimulate higher participation of tax revenue in the financing of public expenditures. As previous tax laws attempted in the past, the law aimed to expand the tax base and reduce tax evasion by introducing changes in income tax, sales tax, selective consumption taxes, tax benefits and the tax administration (GEE 2012: 83). A further increase in tax revenue collection was also expected from the law, mostly through the elimination of different tax exonerations and exemptions, to be implemented gradually over a five-year period starting in 2015.

[12] This case study draws on the report prepared by Molina (2017) for the PDRM project, unless other literature cited.

The law's reach, however, fell short, mainly due to asymmetrical power dynamics. During Tax Concertation Law negotiations, the business confederation COSEP used its structural and instrumental power to stop the reform from achieving the changes it originally intended and managed to 'water-down' the proposal. The result was a partial reform of the Tax Equity Law approved in order to generate higher revenues without having to create major changes to the fiscal system, undermining possible redistributive benefits of the Tax Concertation Law.

Actors at the negotiating table included the government, COSEP, the National Workers Front (FNT) and the Ministry of Finance. However, as said, they did not participate on equal terms. COSEP had special access to state representatives and key technical information, which strengthened its position, while actors like FNT did not have the resources to hire tax specialists and consultants to develop technically sound proposals. Issues of representation also arose as COSEP is not representative of all enterprises neither the FNT representative of all workers. In fact, the majority of workers in the country affiliated with micro and small businesses are not involved in unions (Potosme 2013).

CSOs were not included in the negotiations. Instead, they formed the Nicaraguan Alliance for Fiscal Justice,[13] which drafted a joint agenda and a technical proposal for the government. They had envisioned to present a legally binding initiative to the National Assembly in the context of the Tax Concertation Law negotiations. This, however, did not take place. Additionally, the Alliance aimed to make the negotiating process more inclusive by bringing other excluded sectors into the debate and influencing public opinion, which they did through workshops. By 2011, around 8,000 people had participated in these workshops. The Alliance engaged the media and an ambitious lobby strategy to influence the negotiations (Molina 2017), however, none of the Alliance's proposals were captured in the law's final draft, due in part to the fact that the government sped up the process, reaching an agreement with COSEP only five months after the negotiations began.

The state-business nexus frustrated possibilities for redistribution through the Tax Concertation Law. Contrary to its initial objectives, the final Tax Concertation Law contained several items that undermined its progressive potential, such as the timid reduction of exonerations, the introduction of an income tax for retirees and a fixed fee regime for small businesses (Molina 2017). Remaining tax exonerations and exemptions have negative impacts on revenue collection. Although the amount lost in revenue collection from exonerations is difficult to quantify, estimations amount to 7.8 percent of GDP, which is equivalent to over 40 percent of taxes collected for 2010 (Molina 2017). In total, the different exonerations, evasion, elusion and smuggling total an estimated loss in revenue of 14 to 15 percent of GDP.

ALBA: Challenges and opportunities of Venezuelan aid

The Bolivarian Alliance for the Peoples of Our America, or ALBA, is a consortium of Latin American nations that aims to promote social, political and economic prosperity in the region through trade, knowledge-sharing, and intergovernmental cooperation.[14] It proposes a shift from

[13] These organizations included cooperatives' federations, rural women's and youth organizations, NGOs like OXFAM and Christian Aid, research centers working on tax issues, academics, and civil society actors like the Coordinadora Civil comprised of both Nicaraguan NGOs and social movements (Molina 2017).

[14] This section draws on the report by Carrión (2017) prepared for the PDRM project.

the neoliberal paradigm of integration and economic growth to a model centred on cooperation, poverty eradication and social inclusion. ALBA funds and resources contributed to social development in Nicaragua, providing necessary resources for various social programmes. However, problems stemming from intransparency, clientelism and poor state-society relations limited its ability to create transformative change.

One of ALBA's key pillars is an energy cooperation agreement known as Petrocaribe, launched by Venezuela in 2005, that aims to contribute to energy sustainability and security in its 17-member countries by accessing Venezuelan crude oil at concessionary prices (Carrión 2017). Once refined, oil derivatives, like gas, are commercialized in Nicaragua by ALBANISA-PETRONIC through the national energy generators and a network of gas stations. ALBANISA sets the prices for oil and its derivatives and finances itself by selling them on the internal market (Acevedo 2012). Issues of transparency and accountability have arisen regarding the implementation and allocation of ALBA funds as ALBANISA created a number of private enterprises in diverse economic sectors with public resources. Furthermore, the ownership of these companies 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 60,000 barrels.[15]

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, positively impacting foreign exchange availability. 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. ALBANISA's profit under ALBA has increased the levels and availability of public financial resources. In 2009, ALBANISA's assets were estimated at USD 290 million dollars and annual sales at 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 creation. Not all of these funds have, nonetheless, been used to finance social spending. Only 38 percent 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 low-income 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; a productive and food security bonus Hambre Cero of up to 1,500 USD for women with small plots 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 (CRISSOL), promoting productivity improvements and price bargaining capacity of small producers of basic grains including rice, beans, maize and sorghum by providing low interest credit. Bilateral and multilateral donors have also supported the implementation of these programmes. More recently, though, falling oil prices and Venezuela's ongoing humanitarian and political crisis have significantly reduced Venezuelan cooperation funds to Nicaragua (from 461.1 million USD in

[15] Galeano 2009; 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.

2008 to 193.3 million USD in 2015) (Carrión 2017). As a result, most of the listed programmes are currently financed through the national budget (La Voz del Sandinismo 2016; Navas and López 2014). In the first semester of 2018, however, ALBA funds went down by 85.5 per cent compared to the same period in 2017. ALBA funds in 2018 amounted to 9.2 million USD compared to 63.5 million USD in 2017 (Efe 2018). All cooperation flows were in the form of PDVSA loans. Out of the 9.2 million USD in loans, 100 per cent of them went to socio-productive projects including energy subsidy (2.5 million USD), fair trade development (2.2 million USD), and housing infrastructure (1.5 million USD) (Efe 2018).

The various programmes advanced some key development indicators. For instance, the Programa Hambre Cero had an overall positive impact on food production, consumption and certain elements of women's empowerment.[16] However, Hambre Cero's 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 are major challenges.[17] ALBA funds are not accounted for in the national budget and information about their availability, monitoring, and implementation is unavailable. This makes in-depth and independent evaluation and state accountability processes difficult tasks. The allocation process of ALBA-CARUNA and ALBANISA funds is rather opaque and discretional (Carrión 2012). This has created confusion about what is becoming public debt.

In sum, the lack of accountability and state-society dialogue around ALBA funds are crucial obstacles to realizing the transformative potential that non-traditional aid schemes could have on Nicaragua's social development.

Contested mining: The case of Rancho Grande

Mining revenues increased substantively from 0.95 percent of total state revenues in 2007 to 3.21 percent in 2013.[18] Social mobilization against a mining concession granted in the municipality of Rancho Grande in 2004 shows how mining relates to contestation and bargaining processes impacting state-society and state-investor relations. It illustrates how power asymmetries and institutional weaknesses have negatively impacted ecological and broader social interests related to mining.

Rancho Grande's economy has been primarily based on small-scale agricultural production. In 2004, the government granted a concession to the Canadian mining company MINESA without prior community consultation or approval. The law mandates that the state solicits and takes into account the views of local governments prior to the approval of contracts for the exploitation of natural resources.[19] The mayor at that time, however, did not conduct a public consultation on the grounds that it was an election year. In 2005, when Alfredo Zamora, a new mayor, was elected, he attempted to revoke the mining permit for exploration. However, the Ministry of Environment and Natural Resources (MARENA), in charge of granting these permits, applied an administrative

[16] IEEPP 2011; Kester 2010; Grupo Venancias 2014.
[17] Kester 2010; IEEPP 2011; Grupo Venancias 2014.
[18] This section draws on the report prepared by Gutiérrez (2015) for the PDRM project.
[19] Special Law on Exploration and Mining (Law 387), Chapter IV. Mining Concessions, Article 36-38.

silence clause[20] and upheld the mining permit. This launched a dispute between the municipality of Rancho Grande and the government.

In 2010, the transnational corporation B2Gold bought MINESA's mining concession and began its exploration project, called "El Pavón." The community mobilized against the project, creating a coalition led by the Catholic Church and a group called Guardians of Yaoska with diverse community actors. Each community had a local directive made up of leaders from the Catholic Church. Guardians of Yaoska mobilized thousands of people against mining in Rancho Grande. They sought to counteract the close relationship between the government and the mining company, which allowed the latter to have more leverage with the state than the community. Guardians of Yaoska collected 7,000 signatures against mining and presented them at the President's Office in Managua and the Mayor's Office in Rancho Grande, but obtained no answer. At that point, Rancho Grande witnessed a struggle for the collection of signatures in support of or against the mining company. Guardians of Yaoska and other community members accused the state of organizing non-mining related events in order to collect signatures in support of the mining project without the consent of participants.

While the case of Rancho Grande had an unexpected happy ending, as president Ortega finally made the ad-hoc decision to declare the mineral exploitation in the municipality as inviable for ecological reasons in October 2015,[21] it also shows that resource mobilization based on extractive industries relies on powerful alliances between state and industry actors, promoting profit and revenue interests which frequently collide with social and environmental objectives, threatening to destroy traditional livelihoods sustaining local populations in more sustainable ways. The original granting of the mining concession involved a top-down approach which denied the community's right to participate in the decision-making process, leading to social conflict and increasing alienation between community and state actors. Business actors, however, had direct access to and influence on the state, and were able to secure their interests over those of the community. This was evidenced by the militarization of the area protecting the mining campsite, the collection of signatures in support of the mining project by the municipality, and police and military interventions to stop the community's social mobilization against mining. However, the example also shows that the organized and visible protest, the direct links of the Catholic Church with the presidential office (through the person of provincial bishop Alvarez) and the scientific validation of the protest movements claims through ecological impact studies conducted by the Ministry for Environment and Natural Resources (MARENA) eventually resulted in the victory of the movement.

Health sector financing and institution building

Studying health sector financing reveals the connection between resource mobilization strategies, social spending and institutional reform, which is at the heart of the PDRM project.[22] The health system in Nicaragua has transformed significantly over time, moving from a fragmented and stratified system, favouring mostly the rich (1970s), to a system with strong community participation and a preventive health focus (1980s), to a decentralized system with the emergence of new for-profit actors (1990-2006).

[20] An administrative silence is applied when the municipality does not come forth in support or in opposition to a given permit within the time frame established by the law (Gutiérrez 2015).

[21] See various press articles, for example Aburto (2015).

[22] This section draws on the report prepared by Delmelle and Mendoza (2017) for the PDRM project, unless other literature is cited.

The health sector's institutional structure during the 1970s was fragmented. Health services were concentrated in wealthy urban areas serving a small minority, while rural areas were undersupplied. Health services and financing transformed during the revolution; they were free-of-charge and widely provided. The system became institutionalized and the structure set up then continues today. The approach was both preventive and curative, and relied on mass volunteerism.

International aid was fundamental to the expansion of the health system in the 1980s. Resources were provided, both financial and in-kind, such as from Cuba, whose government sent medical brigades and medicine. Internally, tensions between the Ministry of Health and the Ministry of Finance emerged as the Contra War intensified, prompting the redirection of most public resources to defence. This had a negative impact on the Ministry of Health's resource availability.

The structural adjustment and privatization policies of the 1990s impacted on the health sector's institutional structure. The health system was largely decentralized to for-profit services ran by private clinics and hospitals and state-run services for the poor, partly financed by NGOs and aid actors.

In 2005, donors and the government agreed on Agenda PROSALUD, a platform to channel aid funds to health, which granted donors important influence over health policy. Aid represented approximately 35 percent of the public health budget. This did not include the external funds directly channeled through NGOs and bilateral aid agencies like USAID, which financed the NICASALUD programme. The Ministry of Finance gained more power *vis-à-vis* the Ministry of Health due to the relevance placed on macroeconomic stability above other public matters. Although the free nature of health services was maintained at a discursive level, the quality of services at public hospitals and clinics deteriorated. Access and availability of medicines in public health entities also declined, and less emphasis was placed on prevention.

Institution strengthening in the health sector has not seen major advancements under the current Ortega administration. It has largely maintained the institutional structure that was constituted in the 1980s, while reintroducing a stronger emphasis on prevention as compared to the neoliberal era. Links have been reinstituted with volunteers while the State's and the FSLN's role and influence have increased in provisional local clinics and medicine imports.

Health services provided by NGOs still persist, though their reach and links to health volunteers and the Ministry of Health are weaker. NGOs have decreased in number as a result of ODA's decline (Carrión 2017) while health coverage by the state has increased. The NGOs that still exist work as part of health networks such as NICASALUD or the Health Forum, which bring together a number of NGOs that provide health services in the country, especially to women. Additionally, lack of access to public health data has limited social mobilization and independent assessments around health issues.

Generally, health services have improved under the current administration. However, the health sector is still highly dependent on external resources, which currently make up about 22 percent of the total health budget (Delmelle and Mendoza 2017). This dependence renders the sector particularly vulnerable to changes in aid flows from both traditional and non-traditional sources.

One major challenge of the Nicaraguan health system is ensuring the sustainability of financing schemes in the face of declining ODA levels and ALBA funds.

More stable domestic revenues would help to make free health care a reality. Stable DRM sources would reduce out-of-pocket expenditure and weaken the power and influence of business in health as the state could provide reliable public health services. Finally, securing sustainable domestic resources could also improve fragmentation in the health sector by strengthening institution building and state-society dialogue.

Main Conclusions and Policy Recommendations

Nicaragua has undergone significant political, economic and social transformations in a few decades. This has shaped the scope and continuity of DRM policies. Since the 1970s, Nicaragua has relied heavily on international aid, traditional and nontraditional, to finance social development. Fiscal revenues have shown an upward trend due to reforms and episodes of economic growth. However, the overall tax system is still regressive due to the dominance of indirect taxes, though less so than in the past. Although efforts have been made to limit tax exemptions to the wealthy, these still prevail.

State-society relations have fluctuated since the 1970s, shifting from ‘less to more conducive’ and then back to less 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, while business actors enhanced their power. Democratization and institution building has also fluctuated since the 1970s, from dictatorship with little contestation and bargaining processes, to democracy where contestation and bargaining processes emerged and flourished, and back to autocratic power and state repression (GIEI 2018). In effect, the state’s current top-down governance approach is eroding democratic spaces and compromising institution building and human rights advancements, undermining state-society relations in the short- and long-term in Nicaragua.

Today, Ortega’s administration (2007–present) pursues a model of traditional economic growth with social programme provisioning. The current government’s social model has discursively reasserted the role of the state in social provisioning and restored the free-of-charge nature of health care and education. However, the model has shortcomings. Social policy is still largely segmented. Efforts have been made in order to expand coverage, however, its financial sustainability in the context of decreasing levels of Venezuelan aid flows and the largely urban coverage of social programmes (for instance, *Usura Cero*, *Operación Milagro*) are challenges for long-term social policy making. Despite economic growth, several social indicators lag behind and social services are not being upgraded. Social policy effort is uneven. While there have been significant advances in literacy, social security and aspects of food security, per capita expenditure on conventional health and education services remains very low. Big challenges are also reflected in the fragmentation of services, limited cooperation with parts of civil society and insufficient state capacity to implement social and economic programmes, including those aimed at empowering poor rural and urban women. The current political crisis has deeply impacted the economy. The United States passed the Nica Act Law, which includes individual sanctions against high government officials and the conditioning of loans from international financial institutions

such as the IMF, World Bank, and IADB (Miranda 2018). If implemented, the Nica Act Law could affect public financing and social policy.

To secure stable and sustainable DRM sources, Nicaragua's fiscal regime must be restructured to mobilize resources from the economy's strongest sectors and close existing loopholes like tax exonerations, exemptions and evasion, which reduces revenue collection from the Corporate Income Tax. Improving the tax administration would ensure greater control and capacity to follow up on the universe of contributors. The state has the responsibility of providing transparency to reach a level of legitimacy and accountability, and maintain the trust of its contributors, which will in turn help reduce tax evasion. Progressivity of the tax system must also improve. Even though there has been a small trend towards higher progressivity, additional weight should be given to direct taxes over indirect ones.

Social services also need to improve in terms of access, coverage and quality. Access to health and education data and indicators could play a crucial role by increasing, optimizing and prioritizing social spending in both sectors and engaging civil society actors. Moreover, enhancing the health sector's structure through strong institution building could address problems and provide spaces for state-society dialogue. It is necessary to link DRM 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.

The current top-down approach to governance needs to change and the implementation of social programmes be de-politicized. Social programmes 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. The government should provide a thorough process for state-society negotiations regarding tax reforms, aid allocation and natural resource extraction such as mining. Strong community organizing, coalition building and information sharing by social actors are needed to pressure the government to be inclusive and just in the context of DRM.

In conclusion, the analysis of DRM for social development in Nicaragua reveals that there must be spaces for citizen engagement in determining both the processes of resource mobilization and the distribution of revenues. Further, states must prevent elite's capture of resources and policy influence. States need to be responsive to citizen demands and rights, and ensure that private interests do not impinge on the public interest, placing state-citizen relations above donor-recipient and state-investor ones. For such processes to engender substantive and equitable social development, strong institutional capacity is necessary. Under the current political and human rights crisis, justice and compensation of victims by the state will be crucial in order to promote real and meaningful reconciliation. Finally, a negotiated solution between the opposition and the government needs to yield structural transformations to attain real and effective democratization in Nicaragua.

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