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New Alliances for Social Development
MOBILIZING RESOURCES IN NICARAGUA

In the face of dwindling development assistance from traditional donors, Nicaragua has turned to new partnerships with the governments of Venezuela, Brazil and China to finance the adoption of much-needed social programmes. But these relationships can be fragile, and despite frequent tax reforms the Nicaraguan government has not managed to provide a stable domestic resource base to underpin its social contract. So how can sustainable financing for social policies be ensured?

Setting the Scene

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 continues to be one of the poorest countries in Latin America, second only to Haiti.

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. In 1990, the Sandinistas were defeated at the ballot box following a bloody civil war. With the new centre-right governments came some economic 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 (FSLN) returned to power but remained faithful to the principles of economic liberalization. While macroeconomic indices have since improved, and several social and economic empowerment and food security programmes have been implemented, a number of social indicators continue to lag behind.

Historically aid-dependent and a beneficiary of the Heavily Indebted Poor Countries (HIPC) initiative, Nicaragua has recently received less overseas development assistance (ODA). Efforts to increase tax revenues over past decades have generated limited results, and consequently Nicaragua remains a low-tax country. Remittances constitute an important source of household and national income, currently 9.7 per cent of GDP (WDI 2014).

Research Themes and Questions

(I) Who pays: Contestation, bargaining and outcomes

Although governments of varying ideological hues have developed a series of resource mobilization strategies since 1972, the state has thus far failed to put in place a sustainable and progressive fiscal contract.

While the contribution of development assistance to the government budget remains substantial, a historical incapacity to expand taxes on wealth and income persists. The current fiscal system features a series of exonerations, privileges and specific sector subsidies that are particularly favourable to private sector interests. While poorer population groups have benefited from a number of government programmes, subaltern interests have limited influence over tax reforms. The most recent reform proposal under the current Ortega administration, the Tax Equity Law, had redistributive objectives—but these were watered down under pressure from powerful economic and financial elites.

Indicator	Nicaragua
GDP per capita (current USD, 2014)*	1,913.60
Life expectancy (2013)**	74.8 years
HDI score (2013)**	0.614 (132)
Inequality-adjusted HDI (ranking)**	0.452 (132)
Gini index**	40.5 (2013)
Mineral Dependence	
Total mineral rents (as % of GDP)**	1.7% (2013)
Mineral revenues (as % of GDP)****	2.7% (2014)
Commodity exports as a percentage of merchandise exports (mill. USD) **	1,525 / 60% (2012/13)
Remittances (as % of GDP) **	9.7 (2014)
Tax Performance	
Revenue as a % of GDP***	15.0% (2012)
Net ODA received (% of central government expense)*	33.2% (2012)

Sources: * World Development Indicators (WDI); ** Human Development Indicators; *** Economic Commission for Latin America and the Caribbean; **** Banco Central de Nicaragua

Similarly, the expanding mining sector benefits from tax breaks and exemptions, and this limits the potential of the sector to contribute to state finance and resource mobilization. Given the high levels of capital and technology required, the industry is controlled by a handful of—mostly foreign—companies. These have been involved in bargaining processes with communities and state actors, in particular when anticipated environmental and social impacts of mining projects met with opposition.

The research explores the processes of bargaining and contestation related to social service provision, and resource mobilization in the areas of tax reform, mining rents and development assistance, since 1972. It considers the role of donors, civil society and business actors, and analyses the fiscal and social contracts that have underpinned shifting development models from Somoza to Ortega.

Historically, Nicaragua has failed to expand taxes on wealth and income, leaving it heavily reliant on development assistance.

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(II) Changes in key relationships: State-citizen and state-donor

Although Nicaragua was a highly aid-dependent country, ODA from traditional donors has shrunk considerably since 2008. This is due to a combination of factors: Nicaragua's graduation to middle-income status, the prioritization of Africa in ODA flows more generally, the return of a Sandinista government critical of the "aid business", and the onset of the global economic crisis. The decline of ODA from traditional bilateral donors has strengthened the voice of new partners in development cooperation such as China (including Taiwan POC), Brazil and Venezuela, which have become more prominent in social and economic policy-making processes. Aid also increasingly comes from the Alianza Bolivariana para los Pueblos de Nuestra América (ALBA) regional fund, through which member countries can tap into revenues from the sale of Venezuelan oil to fund social and economic development and infrastructure programmes. Over-dependence on this fund is risky, however, because it is tied to volatile international oil prices and the unstable political situation in Venezuela. In addition, the fund has been criticized for its lack of transparency and accountability, prompting questions about the selection of programmes that receive funding.

Two further issues have triggered political, economic and social tensions in Nicaragua: the impacts of mining, and exclusive extraction rights being granted to foreign companies. In some cases the state has responded to protests in mining areas with the use of coercive force, demonstrating the government's generally business-friendly attitude. On other occasions the administration has been more accommodating to citizens: recently, for example, the government halted a planned mining project in Rio Grande following contestation from the local community. However, tensions remain and also encompass other disputed topics, such as the planned construction of an inter-oceanic canal across the country by the Chinese HKND Group, and the government's policies on reproductive rights and violence against women, against which women's movements have raised their voice.

The consolidation of a tripartite governance system, involving government, the private sector and unions, has proved to be a useful mechanism for consensus building. More recently, a place at the policy table has also been won by other interests, notably the cooperative movement.

The research examines how domestic resources have been mobilized for social development in the context of changing state-donor relations, and how shrinking ODA and the emergence of new donors has affected the nature of state-society relations. It also analyses tax reforms and what they reveal about state-society and state-business relations, and assesses contestation around mineral extraction.

(III) Upgrading institutional capacities for revenue mobilization and service delivery

The current government under president Ortega has shown greater concern for historically excluded sectors of the population, introducing new social programmes aimed at reducing poverty.

Despite economic growth, however, 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. In a context where the state provides only basic services such as primary health care, the role of communities and families in providing social protection remains substantial. 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 research provides a historical analysis of the strategies used for resource mobilization and the main implications for institution building, in particular with regard to revenue institutions and social services, with a case study on the health sector.

Politics of Domestic Resource Mobilization

The project seeks to inform 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.

Research Team Katja Hujo and Harald Braumann coordinate the project at UNRISD. The Nicaragua research is conducted by Gloria Carrión, Guy Delmelle, Hilda Gutiérrez and Roberto Molina.

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Outputs Four Research Reports, a Synthesis Report and a Policy Brief.

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