



# Executive Memorandum

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## AFTER THE ELECTIONS: HELPING NICARAGUA TO SUCCEED

STEPHEN JOHNSON

Despite chaotic preparations, Nicaragua conducted a national election on November 4 that was both fair and exemplary, electing Liberal Party candidate Enrique Bolaños Geyer over former Sandinista *comandante* Daniel Ortega by a margin of more than 13 percent. But that does not mean smooth sailing for the new government. When he is inaugurated on January 9, President-elect Bolaños must deal with democratic institutions twisted to serve the whims of the outgoing president, a legislature dominated by two strongmen, corruption, a faltering economy, and growing concerns over arms and drug trafficking.

To meet these challenges and protect past democratic gains, Mr. Bolaños needs stronger support for democratic order and economic reform than the United States gave under President Bill Clinton. Such backing will be critical to restoring healthy democratic institutions and establishing the rule of law needed to provide a safe climate for investment and unleash the productive potential of Nicaragua's people.

**Reviving U.S. Interest.** In the 1980s, the United States was a key ally in Nicaragua's struggle to throw off the legacy of dictatorship that had reached its peak with the Sandinista revolution. But once the Marxist Sandinistas were defeated in Nicaragua's first free elections in 1990, U.S. interest in the developing democracy was short-lived as support for programs to promote pluralism and open

markets shifted to Central and Eastern Europe. Congress cut assistance to Nicaragua, which had averaged \$150 million a year from 1990–1994, to about \$30 million in 1995. Similarly, the Clinton Administration tried to avoid potential foreign policy headaches there by muting its displeasure with corrupt officials and not forcefully advocating reforms.

That may have been tolerable in the early 1990s, when President Violeta Chamorro was molding fresh democratic institutions and restoring the economy from the wreckage of the Sandinista regime, but it was not enough after 1996, when her successor Arnoldo Alemán allegedly engaged in self-enrichment schemes and began manipulating political institutions to protect his own interests.

In January 2000, he forged a surprise pact with the largest opposition party—the Sandinistas—to freeze out all others and stack the Supreme Court, the Controller General's office (national auditor), and the Supreme Electoral Council (CSE) with loyal

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cronies. Throughout all of this, U.S. officials neither altered relations nor spoke openly of Alemán's destructive opportunism.

Before the November 4, 2001, national elections, U.S. assistance to the CSE and support for observers was late getting organized. Meanwhile, a rural registration campaign was slow to reach hundreds of thousands of unregistered voters. Supporters of hard-line militant Daniel Ortega promised to take back what was "theirs" if they did not win. At the same time, President Alemán reportedly met secretly with Sandinista leaders to negotiate possible outcomes in case of a close election.

To its credit, the Bush Administration recognized the trouble that a flawed election could bring and pushed U.S. electoral assistance into high gear just two months before the contest. Although success was achieved mostly by a massive turnout and the dedicated efforts of local poll workers, the presence of international observers from such entities as the Organization of American States and the International Republican Institute, and the effective deployment of domestic observers—all funded in part by the United States government—helped discourage fraud.

But that should not be the end of the story. The government Bolaños inherits is still a shambles. Corruption has become synonymous with the presidency, and the Nicaraguan economy remains hobbled by a \$6.3 billion external debt that is 10 times greater than its export earnings. Although Bolaños has promised to correct this and regain the reform momentum achieved by President Chamorro, he cannot do the job alone.

**Renewing Progress.** Instead of abandoning Nicaragua again as it did in the early 1990s, the United States should more actively encourage both the consolidation of transparent democratic institutions and the growth of the country's economy. Key actions should be to:

- **Persuade members of the National Assembly** (through U.S. Embassy contacts and congressional visits) to roll back constitutional changes that politicized the judiciary and electoral council and incidentally granted unelected Assembly seats to outgoing President Alemán and losing

candidate Daniel Ortega, both of whom may try to block Bolaños's reforms. Such contacts should also encourage moderate Sandinistas to transform their Stalinist party into a modern social democratic movement.

- **Reallocate U.S. assistance.** U.S. development programs should support Nicaragua's basic priorities of consolidating democracy and reinstating the rule of law. The bulk of FY 2002 U.S. assistance is earmarked for continued efforts to recover from the damage wrought by Hurricane Mitch in 1998 and for public health programs. In the future, such money could be better spent on funding civil society organizations that promote institutional reforms, government decentralization efforts, and improvements in public education.
- **Encourage economic reforms to attract investment.** Nicaragua still lacks clear rules that would secure property rights, and since August 2000, the country has suffered three bank failures because of lax oversight. Offering Bolaños advice to help create a favorable business climate will do more to help Nicaragua's economy than temporary assistance to recover from natural disasters or low coffee prices.
- **Augment cooperative efforts to defeat drug and arms trafficking.** Nicaragua receives very little assistance to combat growing arms- and drug-trafficking mafias in Central America. Helping Bolaños crack down on illicit transfers on Nicaraguan soil will benefit the region, Mexico, and the United States.

**Conclusion.** Thanks to a successful national election, America has another chance to help Nicaragua deepen its democratic experience and establish the rule of law. Enrique Bolaños is committed to judicial reform, integrity in government, and creating a free and prosperous market economy. The Bush Administration should act now to help him nurture the country's grassroots talents and restrain any potential threat to progress posed by Nicaragua's lingering political dinosaurs.

—Stephen Johnson is Policy Analyst for Latin America in the Kathryn and Shelby Cullom Davis Institute for International Studies at The Heritage Foundation.