

# Executive Memorandum

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## Helping Nicaragua to Pull Its Own Weight

*Stephen Johnson*

The knives are out for Nicaragua's President Enrique Bolaños. Since taking office in 2002, he has made eradicating corruption the overarching priority of his administration—with good reason. Corrupt politicians have drained the national treasury, weakened property rights, and discouraged foreign investment.

As an ethical consideration, Bolaños decided to clean house in his own Liberal Party first, pursuing his predecessor, former President Arnoldo Alemán. In 2003, Alemán was convicted of diverting state funds and sentenced to 20 years in prison, but now Bolaños is under fire.

Alemán and his cronies still in government are charging their accuser with corruption and are calling for his unconstitutional removal. To help keep Nicaragua's fragile democracy on track, the United States and its international allies should warn the country's political establishment that embezzling public funds and power grabs could have serious personal consequences for corrupt officials and even result in the suspension of foreign aid.

**Piñata Politics.** In February 1990, the Sandinistas, Nicaragua's socialist revolutionaries, permitted free elections and lost power. However, before they stepped down, they enacted laws protecting property seizures worth \$300 million to \$2 billion, including luxury homes, office buildings, and cat-

tle ranches. Moreover, the Central Bank of Nicaragua reportedly transferred tens of millions of dollars to Sandinista *comandante* Daniel Ortega and his close associates.

Because of a perceived need to keep peace, the National Assembly and newly elected President Violeta Chamorro declined to repeal these "piñata laws"—named after the candy-filled, papier-mâché figures that children hit with sticks until they

break, scattering their contents. Thus, the public misconduct was rewarded, and Daniel Ortega went on to lead the Sandinista faction in the National Assembly in opposition to the then powerful Liberal Party.

Liberal candidate Arnoldo Alemán supposedly had few assets when he succeeded President Chamorro in 1997. Prosecutors

suspect that he funneled more than \$100 million to Panamanian accounts during his term. He also worked with opposition leader Ortega to amend the constitution. Changes rubberstamped by both parties in the National Assembly allowed Alemán and Ortega to pack the Supreme Court, Supreme

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- Corruption is undermining Nicaragua's democracy and draining its economy.
  - Corrupt opponents are threatening to reverse President Bolaños' campaign against public theft.
  - The United States and its allies should help Nicaragua to end this parasitic plague and progress toward self-sufficiency.
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Electoral Council, and Controller General's Office and gave them both parliamentary seats—along with immunity from prosecution.

Elected in 2001 on an anti-corruption platform, Enrique Bolaños heeded public calls to investigate Alemán, even though he was a member of the same party. He was backed by more than 500,000 citizens who signed a petition to strip Alemán of his parliamentary immunity. On December 8, 2003, the former president was convicted of fraud, embezzlement, and electoral crimes for having donated some of his spoils to the campaigns of various Liberal Party candidates.

In October 2004, the Controller General's office (run by Alemán and Ortega loyalists) accused Bolaños of underreporting contributions to his own campaign and ordered his removal from office—even though the Controller General has no authority to do so. A constitutional crisis was averted only through the active involvement of the Organization of American States and foreign diplomats. However, the problem is not yet over.

Liberal deputies are agreeing to new laws and bargaining away political appointments with the Sandinistas, effectively handing them control of the government in the vain hope that one of their judges will free Alemán.

Embroided in this mess is Catholic Church leader Cardinal Miguel Obando y Bravo, once revered by the poor and known for speaking out against the Sandinista dictatorship. In the late 1990s, Obando openly endorsed Alemán, allegedly in return for tax credits for the church and lucrative favors for associates. After Alemán was convicted of diverting state funds, the cardinal reportedly turned to Sandinista leader Ortega for similar help.

**The People's Interest.** The big losers in this melodrama are Nicaraguan citizens. Few beside President Bolaños, his appointees, and the news media take citizens' interests to heart. Foreign aid donors have also been defrauded. To the extent that corrupt politicians have siphoned revenues needed to make public institutions and social programs work, their grants and loans to enhance governance have been wasted.

Although President Bolaños is sometimes described as difficult to work with, his market-oriented policies have enabled Nicaragua to qualify for a Millennium Challenge Account grant. Such leadership is preferable to an uncertain future at the hands of self-serving caudillos. To help protect Nicaragua's democracy and foster confidence in its economy, the United States and its international allies should impose serious consequences for these political and financial shenanigans. Specifically, U.S. officials should:

- **More vigorously suspend visas of Nicaraguan officials involved in corruption**, enforcing a policy established by the Bush Administration in March 2002. U.S. allies in the region should be encouraged to do the same.
- **Accelerate U.S. and international efforts to freeze overseas assets** of corrupt politicians and bogus front enterprises.
- **Engage the Vatican** to promote honest leadership and financial stability in Nicaragua's Catholic Church—a key social institution.
- **Urge National Assembly deputies to cut ties to corrupt leaders** and pursue national, as opposed to personal, interests.
- **Suspend international credit and assistance, including Millennium Account grants**, if corrupt deputies manipulate the law to depose honest leaders and release criminal cronies from prison.

**Conclusion.** Despite 14 years of civilian-elected government, Nicaragua's democracy remains on shaky ground. Nicaragua is still the second-poorest nation in Latin America and is chronically dependent on foreign aid totaling about \$500 million per year. Corruption must be defeated to foster economic prosperity, take advantage of the recently negotiated U.S.–Central America Free Trade Agreement, and keep Nicaragua from hemorrhaging refugees as it once did in the 1980s under Sandinista dictators.

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