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Deep Poverty Persists Despite Signs of Economic Improvement in Nicaragua

Benjamin Witte-Lebhar

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Deep Poverty Persists Despite Signs of Economic Improvement in Nicaragua

by Benjamin Witte-Lebhar
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While hundreds of thousands of people descended on the Nicaraguan capital, Managua, last month for a pro-government rally commemorating the overthrow, on July 19, 1979, of the Somoza family dictatorship (1936-1979), a much smaller gathering—but also focused entirely on Nicaragua—took place 2,100 miles away in New York City, in the offices of the credit rating agency Moody's Investors Service.

In Managua, onlookers cheered and waved the red-and-black flags of the Frente Sandinista de Liberación Nacional (FSLN) as the powerful president and party leader, Daniel Ortega, delivered his annual Liberation Day speech. "We've made progress in the fight against poverty, but there's still a long way to go. And to reach our goal, we need to maintain cohesion, national unity," the 71-year-old Ortega said in what proved to be his shortest July 19 oration—just 15 minutes—since returning to power in 2007.

Ortega, one of the heroes of the Sandinista revolution, first led the country as head of the 1979-1985 junta government. He then served as president for five years before losing unexpectedly to Violeta Chamorro (1990-1997), in the 1990 elections.

Like the colorful commemoration event in the capital, the meeting at Moody's, it turned out, also gave Ortega an opportunity to shine, as agency analysts decided that day to upgrade Nicaragua's B2 rating from "stable" to "positive." Moody's based its "positive outlook," it explained in a July 20 press release, on "continued fiscal stability and favorable economic prospects relative to peers" and on the "expectation that authorities' macroeconomic policies will mitigate the impact of potential future external shocks."

Two years earlier, the same agency upped its rating for Nicaragua from B3 to B2 in a signal to investors that while risks remain, economic conditions in the historically impoverished Central American nation are improving. In both cases, Moody's praised Nicaragua's relatively strong economic growth numbers and responsible fiscal management approach. The Ortega government, the agency suggested in last month's press release, has implemented a "policy framework geared towards maintaining macro-economic stability."

The Nicaraguan economy grew by 4.7% last year, 4.9% in 2015, and 4.8% in 2014, according to the World Bank. In Central America, only Panama, at 6%, saw faster growth of Gross Domestic Product (GDP) during that span. And in Latin America and the Caribbean as a whole, the economies, on average, contracted last year by 1%, the International Monetary Fund reported.

The Ortega government is also claiming significant progress in bringing poverty numbers down. A report released in early July by the Banco Central de Nicaragua (BCN), the country's central bank, suggests that the number of Nicaraguans living below the poverty line dropped from 29.6% in 2014 to 24.9% last year. Extreme poverty numbers fell too, from 8.3% to 6.9%, according to the BCN.

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The numbers are all the more encouraging given the critical economic situation in Venezuela, which has been an important political ally and generous economic benefactor for the Ortega government. Direct foreign investment from Venezuela fell from 1.6% of Nicaragua's GDP in 2012 to 0.9% last year, the Moody's press release noted. Loans from Venezuela, in the meantime, went from 5.9% of GDP in 2010-2011, when the late Hugo Chávez (1999-2013) was still in power, to 4% in 2014 and 0.7% in 2016.

Racking up the wins

"Tiempos de victorias!" (victorious times). The slogan—next to larger-than-life photos of Ortega and Rosario Murillo, his wife and now vice president—appears on billboards around Managua and along the nation's highways. The words are a reminder, perhaps, of Ortega's crushing win against a field of largely unknown candidates in last year's presidential election (NotiCen, Nov. 17, 2016). He also won the two previous elections (in 2006 and 2011), and his party, the FSLN, has racked up victory after victory as well, winning super majorities in the past two parliamentary elections. The Sandinistas are expected to triumph again in municipal elections in November (NotiCen, June 29, 2017).

The billboards reinforce the message, in other words, that Ortega, Murillo, and the FSLN are on a roll, that they've got the golden touch, are unbeatable. The massive Managua gathering the government organizes each year on July 19 reinforces the narrative, as does last month's rating boost from Moody's. And for now, at least, there's little to suggest that the Ortega regime won't keep winning. With almost nothing in the way of formal opposition, the government can count on the FSLN to rubber-stamp any legislation it proposes. It also controls the police and Army, and holds sway over the Corte Suprema de Justicia (Supreme Court of Justice, CSJ) and Consejo Supremo Electoral (Supreme Electoral Council, CSE), the country's electoral authority.

And yet, the Ortega regime is not without its challenges, particularly on the economic front. Nicaragua's relatively strong growth numbers in recent years suggest that the economy is improving. But just because the situation may be better than it was doesn't mean it's good. Nicaragua is painfully impoverished still, with an annual per capita income of just US$5,452, according to Moody's. That's less than half the average in Cuba, less than a third of the per capita income in neighboring Costa Rica, and not even a quarter of the annual average income in Chile.

"In Nicaragua, there's no middle class. There are just a few rich people and lots of poor people. Or if there is a middle class, it's tiny," Enrique, a 30-something taxi driver based in León, the country's second largest city, told Latin America Digital Beat.

The coastal town of Poneloya, 15 miles from León, seems to bear that theory out. A few upscale homes along the beach, some of them abandoned and others inhabited but protected by large walls, are the only signs of wealth. The rest of the dwellings there range from modest to decrepit. Only the road leading in from León is paved. Pigs roam the muddy side streets feeding on the garbage residents dump in adjacent gullies. Other inhabitants dispose of their trash, plastic and all, by burning it, which chokes the air but has the benefit of keeping hungry mosquitoes temporarily at bay.

"Tourism is one of the areas that's really improving, with new opportunities," Enrique explained. But along the palm-lined, Pacific beaches of Poneloya—just a straight shot west of León, one of the country's most popular destinations—there is almost nothing in the way of tourism infrastructure.

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From León, the town is only reachable by private car or on a cramped, converted US school bus that makes the trip just once every hour.

Questioning the math

The BCN's latest poverty figures, like the steady GDP growth numbers of the past several years, are hopeful signs that the Ortega government, with its mantra of "Christianity, socialism, and solidarity," is eager to highlight. But on closer examination, the numbers—based on a survey conducted by the Instituto Nacional de Información de Desarrollo (National Institute of Development Information, INIDE)—aren't as encouraging as they may seem.

To calculate the poverty rate, INIDE focuses on consumption (i.e. expenditures) rather than on income or earning capacity, and uses a basic money amount—50 Nicaraguan córdobas per day—to determine who is above or below the poverty line. The problem, analysts point out, is that the bar is extremely low: 50 córdobas are equivalent to about US$1.75. Someone who lives on US$2 per day, in other words, doesn't qualify as poor by the INIDE's standard—even if that's roughly the price in Nicaragua of a box of corn flakes. Naturally, the bar is even lower to determine extreme poverty: US $1.06 per day.

"They put the poverty line so, so low because with even the slightest increase in daily per capita consumption, the poverty numbers appear to drop from one survey to the next," economist Adolfo Acevedo told the independent news site Confidencial. "This is a misery-level per capita consumption bar."

Another Nicaraguan economist, Néstor Avendaño, said that if researchers were to use more rigorous standards—taking into account things like income, household size, living conditions, and access to drinking water—they'd find that the real poverty rate would be at least 40%.

Complicating matters for Nicaragua, as the Moody's press release pointed out, is the economic collapse taking place in Venezuela, pending liquidity problems with the Instituto Nicaragüense de Seguridad Social (Nicaraguan Social Security Institute, INSS), and a threat of sanctions by authorities in the US, where lawmakers are growing increasingly concerned about Ortega's periodic and less-than-democratic power plays, his cozy relationship with Russia, and his continuing support for the embattled Venezuelan president, Nicolás Maduro.

Looming threat of sanctions

Last year, after Ortega used his allies in the CSJ and CSE to scuttle the presidential bid of the leading opposition group and then remove its deputies from the legislature, Rep. Ileana Ros-Lehtinen, a Republican from Miami, cosponsored a bill called the Nicaragua Investment Conditionality Act (NICA) (NotiCen, Oct. 20, 2016). The bill, approved by the US House of Representatives in September, called on the US to oppose non-humanitarian loans to Nicaragua (from multilateral development banks in which the US is a member) unless the Ortega government takes "effective steps to hold free, fair, and transparent elections, and for other purposes."

The NICA legislation fell by the wayside during the tumultuous leadership transition in Washington, but in April, Ros-Lehtinen and a number of colleagues, including Democrats, submitted an updated version—NICA 2017—that, unlike its predecessor, also contains language demanding that the Ortega administration crack down on corruption and refrain from harassing human rights defenders. The bill quickly cleared the House Foreign Affairs Subcommittee on

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the Western Hemisphere and, in late July—just eight days after the Liberation Day festivities in Managua—was unanimously approved by the House Committee on Foreign Affairs.

Ros-Lehtinen expects the NICA 2017 to go to a full vote in the Republican-controlled House of Representatives later this year. From there it will go to the US Senate.

The Ortega government was predictably outraged by the House Committee on Foreign Affairs vote. "We reject and condemn NICA 2017 as the continuity of historical policies of imperial interference of the United States in Nicaragua," Vice President Murillo told reporters. She also said that Nicaragua would revive a decades-old lawsuit against the US for damages caused to the Central American country during its 1980s-era civil war. The legal dispute was originally handled by the International Court of Justice in The Hague, which in 1986 ordered the US to pay Nicaragua US$17 billion in damages. The US refused to honor the demand, and after Chamorro replaced Ortega as president in 1990, her government dropped the case.

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