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INFORMATION MEMO FOR THE SECRETARY

FROM: WHA - Roberta S. Jacobson

SUBJECT: (SBU) Engaging Nicaragua

(SBU) Nicaragua's need to hedge against the continued economic decline of its patron, Venezuela, offers an opportunity for more constructive engagement. Key aspects of WHA's emerging new approach, including a thorough examination of our underlying assumptions, can be found in the attached document.

(SBU) Several signs point to Nicaragua's pragmatism and receptivity to increased engagement with the United States as it copes with declining assistance from Venezuela and to shifting sands in the region. Nicaragua is aggressively courting foreign direct investment, taking concrete actions to close out the decades-long process of resolving U.S. citizen property confiscation claims this year, and reacting positively to U.S.-Cuban negotiations to normalize relations. Our objective is a Nicaragua with transparent democratic institutions that is committed to human rights, is economically integrated with other Central American countries, and collaborates effectively on a growing range of issues.

(SBU) We seek to build on existing areas of government-to-government collaboration while strengthening outreach to youth, emerging entrepreneurs, and municipalities. Current areas of cooperation include counternarcotics, disaster preparedness and response, and some consular and law enforcement matters. Each area offers legitimate avenues both to acknowledge Nicaragua's efforts and to call for mutually beneficial improvements. If, as expected, the Nicaraguan government resolves the last of the 1980's-era property expropriation claims subject to section 527 of the Foreign Relations Authorization Act, it would put an end to the annual process of seeking a waiver of restrictions on assistance to Nicaragua based on those claims. We will use this occasion for a DAS or higher-level visit to make the case for more productive cooperation, even as we continue to call for reform.

(SBU) To be sure, Nicaragua's authoritarian regime remains deeply committed to its own preservation, maintains reflexive anti-American tendencies, has a democracy deficit with FSLN controlling branches of government down to

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local authorities, and would prefer more ideologically analogous partners as it mitigates falling Venezuelan assistance. Our engagement could mirror our new direction with Cuba, where we actively cooperate on areas of mutual national interest, while continuing dialogue and engagement and encouraging progress on more difficult areas.

(SBU) Nicaragua presents a very different case from the Northern Triangle countries; both the challenges and response will look different, but some of our long-term goals may dovetail.

Attachment:

Nicaragua Engagement Approach

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The United States and Nicaragua: A New Approach Engage, Enhance Cooperation, Press for Reform

Desired End State

A Nicaragua that is economically integrated with other Central American countries, collaborates effectively on a growing range of issues, and develops democratic institutions and values.

Approach

We will build on existing areas of cooperation and continue our efforts to strengthen engagement with emerging entrepreneurs, youth, and municipalities. Our efforts will focus on creating greater space for civil society and increased economic opportunity for all Nicaraguans.

Context

The Sandinista Party seeks to perpetuate itself in power by manipulating elections, reducing independent media, limiting space for civil society, practicing political and economic exclusion, and co-opting the private sector elite. These aims have to date proven successful, underwritten by some four billion dollars in aid from Venezuela since 2007. To hedge against those subsidies declining, the regime has begun to look for a new patron, including to a Chinese firm to which it has granted a 100-year concession to build and operate a proposed interoceanic canal and associated projects. Nicaraguan government figures show Russian foreign aid has ebbed and flowed in recent years, reaching a high of \$47.3 million in 2011 before declining to \$5.6 million in the first half of 2014. As another hedge, the Ortega Administration seeks to further develop economic ties with the United States and other nations, while insisting on separating commercial matters from concerns over anti-democratic practices. In the United States, for those few who follow Nicaraguan policy closely, perceived cooperation with Ortega could result in criticism on human rights, democracy, and governance issues. Some civil society and the weak opposition may accuse the U.S. government of only caring about counternarcotics and economic issues.

The Opportunity

Nicaragua's need to hedge against continued Venezuelan decline offers an opportunity to build a more constructive bilateral relationship, or at least to invest in the next generation of Nicaraguan leadership. The government is aggressively courting foreign direct investment; converting from reliance on petroleum; investing in the electricity, water supply, transport, and communication sectors; and taking concrete actions to close out the decades-long process of resolving

continuous U.S. citizen property confiscation claims. We should practice strategic patience despite occasional anti-United States bombast, explore wider engagement opportunities in Nicaragua, and position ourselves as a reliable partner ahead of further crisis in Venezuela. Our engagement could mirror our new direction with Cuba, where we actively cooperate on areas of mutual national interest, while continuing dialogue and engagement encouraging progress on more difficult areas.

Assumptions

- While Sandinista (FSLN) leaders have social and economic objectives for their country, they primarily seek to maximize political and social control, and personal financial gain.
- The regime will deal with the United States on a transactional basis, but will continue to resist efforts to allow free and fair elections.
- Venezuela will retain significant influence over Nicaragua's diplomatic stance in the short to medium term. Despite falling 14 percent from the year before, Venezuelan aid still totaled \$435.6 million in 2014. It is likely to remain substantial in the near term even as it gradually declines.
- Under Sandinista leadership, the Nicaraguan economy has regularly grown at a rate of 4.5 - 5 percent per year, but a growth rate of closer to 10 percent is required to effectively reduce the rate of poverty. This cannot be achieved without economic and political reform.
- The Nicaraguan government understands the need to replace falling Venezuelan assistance and investment in the short to medium term, and is already looking for alternatives. Nicaragua is adjusting current social programs to cope with less assistance. The pain of these cuts is mitigated in small part by programs from international bodies such as the World Bank and IDB.
- While Ortega maintains absolute control over his party, there are fractures within the FSLN related to eventual succession as well as between ideological purists and more practical/pragmatic elements.
- Private sector elites will keep the GON from enacting destructive economic policies, but will remain on the political sidelines in compliance with their bargain with the government.
- Traditional opposition parties are unlikely to unify or expand in the near or medium term, and will likely continue to fail to provide a message that resonates with the majority of Nicaraguans. While about half of the public continues to disapprove of Sandinista governance, few opposition leadership figures inspire much voter confidence. A loose coalition backing a single

candidate in 2016 remains a possibility, and opposition and civil society actors will continue to press for international observers.

- Opposition to the proposed canal and associated projects has the potential to destabilize the political environment to the detriment of the regime. If protests, including by traditional Sandinista voters, continue it will become increasingly difficult for the regime to rely on its traditional tactics of coopting and pressuring opponents. However, the canal is a unifying and inspirational concept for most FSLN voters not in the canal path, allowing Ortega to use it as a rallying cry for much of the rest of the country.
- It is unlikely the proposed interoceanic canal will be built in the foreseeable future, due to an inability to attract financing.
- Nicaragua will remain a somewhat effective if inconsistent CN partner. While it prefers to work with Russia on security matters, there is a foundation on which to build both on the bi-lateral and regional levels.
- Transition to renewable energy (which for Nicaragua includes hydroelectric power) remains a key, long term strategic objective of Nicaragua, which has already achieved significant success towards the goal of 90 percent reliance on renewables.
- The Nicaraguan public and civil society both hold the United States in high regard despite the government's history of antagonism, though civil society occasionally criticizes U.S. government policy priorities.

Specific Objectives

- **Governance**
 - Movement toward free and fair national and municipal elections
 - Proper issuance of voter IDs to all qualified voters
 - Independent international observation of national and municipal elections
 - Certification of all parties that meet reasonable legal requirements
 - Space for civil society through freedom of expression and assembly
 - Permits granted for civil society rallies without undue red tape, and freedom of assembly without harassment
 - Fiscal transparency and improved access to government information
 - Enhanced role for independent media, without government harassment or restrictions
 - De-politicization of Nicaraguan armed and police forces leadership
- **Prosperity**

- Increased and more inclusive economic growth
- Reduced poverty
- Diversification of economy
- Increased economic and energy integration with Central America
- **Security**
 - Preservation of comparatively high level of general security
 - Preservation of low levels of illegal emigration to United States
 - Strengthened CN cooperation with United States and regional partners
 - Reduction in use of Nicaragua as a transshipment point for illegal narcotics

Sequencing

- **Engagement**
 - Press for final resolution of continuous U.S. citizen property confiscation claims
 - Use as opportunity for DAS-level engagement on range of bilateral issues and to probe for Nicaraguan openness to further cooperation
 - In addition to increased government-to-government engagement, intensify outreach to youth, emerging entrepreneurs, and municipal officials
 - In public and private, stress fully normalized cooperation would rely on free and fair national and municipal elections
 - Encourage more space for civil society and other voices to address democracy and governance issues and human rights concerns.
- **Economic**
 - Support programs for inclusive, private sector-led economic growth with emerging entrepreneurs
 - Create Small Business Development Center(s)
 - Consider additional education and workforce training programs
 - Consider support for transition to renewable energy
 - Consider utility of MCC engagement if conditions warrant
- **Security/Military**
 - Enhance cooperation with Nicaraguan police and military on CN where possible to include increased information sharing and regional

integration, disaster prevention and response, community policing, and professionalization

- Promote citizen security initiatives and awareness campaigns to block narco-trafficking groups or gangs seeking to establish themselves in Nicaragua as other CARSI countries expand their efforts in the areas of gang and transnational crime prevention and CN, particularly in the Caribbean Autonomous Regions.

Opportunities

- Improved regional economic integration weans Nicaragua away from ALBA
- Strong, inclusive economic growth creates empowered and expanded middle class, improves lives of impoverished Nicaraguans, and presents a positive business climate for U.S. firms
- Room to foster increasing partnership on shared security goals
- Over longer term, improved transparency and democratic institutions benefit Nicaraguan people and allow a return to normalized relations with the United States

Risks/Costs

- Our very engagement with Nicaragua encourages destabilizing international actors to become more involved there
- In reaction to pressure to reform, GON backs away from existing cooperation
- Ortega views increased engagement and cooperation as a positive reinforcement of his consolidation of power and continues anti-democratic actions, viewing human rights and democracy comments as rhetoric.
- Setbacks in relations listed above adversely affect positive economic trends, causing increased emigration and more at-risk youth susceptible to drug trafficking or use

