

Country briefing: Nicaragua

A Basel AML Index briefing following the decision of the Financial Action Task Force (FATF) to delist Nicaragua from its list of jurisdictions under increased monitoring (“grey list”) in October 2022

In a nutshell

Jurisdiction: Nicaragua

On FATF grey list: February 2020 to October 2022

Principal reasons: Low performance in effectiveness; issues with applying a risk-based approach, international cooperation and beneficial ownership transparency

Latest FATF reports: October 2017 (Mutual Evaluation Report) and January 2021 (Follow-Up Report), by the Financial Action Task Force in Latin America (GAFILAT)

Significance: Despite being removed from the grey list, some concerns remain about potential misapplication of financial crime laws to silence critics

More info on Nicaragua’s money laundering risks (Expert Edition subscribers):
index.baselgovernance.org/country/NI

1 Key gaps and action plan

Nicaragua was first on the FATF’s grey list from June 2011 to March 2015. The country was subsequently assessed with a Mutual Evaluation Report (MER) published in October 2017.¹ The results of the MER indicated a low level of technical compliance with the FATF’s 40 Recommendations (50%) and a low level of effectiveness (27%).

The lowest level of effectiveness was demonstrated in the following criteria, or “immediate outcomes” (IO), measured by the FATF:²

- Quality of supervision (IO3)
- Transparency of beneficial ownership (IO5)
- Proliferation of weapon of mass destruction (IO11)

¹ <https://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-nicaragua-2017.html>

² <https://www.fatf-gafi.org/publications/mutualevaluations/documents/effectiveness.html>

During the period before the grey listing, Nicaragua made some progress in technical compliance, including by increasing the use of financial information in the investigation and prosecution of money laundering (ML) offences and reforming its legal framework for criminalising terrorist financing (TF).

However, this progress was not sufficient, and the country was put on the grey list in February 2020.

The Action Plan included four tasks:

1. Develop a more comprehensive understanding of its ML/TF risk.
2. Seek international cooperation to support ML investigation more proactively, especially with the aim of identifying and tracing assets with confiscation and repatriation purposes.
3. Conduct effective risk-based supervision.
4. Take appropriate measures to prevent legal persons and arrangements from being misused for criminal purposes, and ensure that accurate and up to date basic and beneficial ownership information is available on a timely basis.

2 Actions taken and progress made

By February 2021, Nicaragua had managed to fulfil one item (international cooperation) and had three items left to deliver. Progress happened quite fast. In October 2021, FATF reported that:³

“Nicaragua has taken steps towards improving its AML/CFT regime, including by disseminating the outcomes of its ML/TF risk assessment, strengthening its AML/CFT international cooperation and by improving risk-based supervision and its framework for sanctioning reporting entities for violations of STR [suspicious transaction reporting] obligations.”

The requirement to implement measures to prevent legal persons and arrangements from being misused for criminal purposes was not fulfilled until June 2022, when FATF assessed that the action plan had been fulfilled and announced an on-site mission to check the situation on the ground.

³ <https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-october-2021.html#nicaragua>

During the period from October 2017 (when the MER was issued) to October 2022, Nicaragua went through four follow-up reports. It managed to improve its level of technical compliance from 50% to 69% during this period. Effectiveness was not reassessed.

3 Expected results

Typically, being delisted would result in a country seeing improvements in its access to financial markets and an increase in foreign investment. In Nicaragua's case, concerns about continued high levels of corruption and bribery and political/legal risks may undermine these expected benefits.

For example, despite removing Nicaragua from the grey list, the FATF publicly expressed its strong concern about "the potential misapplication of the FATF Standards resulting in the suppression of Nicaragua's non-profit sector".⁴ It recommended that Nicaragua should continue to work with GAFILAT to "improve further its AML/CFT regime, including by ensuring its oversight of NPOs [non-profit organisations] is risk-based and in line with the FATF Standards."

The concern is reflected in various media reports of Nicaragua's Parliament shutting down NPOs critical of the government.^{5,6} An analysis of authoritarian abuses of ML/TF laws claims that the government "used new legislation – supposedly aimed at preventing financial crime – to shut down scores of non-profit organisations (NPOs) focused on human rights, democracy and citizen participation."⁷

4 Nicaragua in the Basel AML Index

Nicaragua's overall ML/TF risk score in the Basel AML Index (Public Edition) is 6.70. This places it in the high-risk category compared to other global jurisdictions. In the latest update of the Expert Edition,⁸ which is updated quarterly with the latest data, the risk score remains 6.7.

Nicaragua achieved the following scores in the FATF assessments:

- 27% for effectiveness

⁴ <https://www.fatf-gafi.org/fr/publications/gafiengeneral/documents/outcomes-fatf-plenary-october-2022.html>

⁵ <https://www.swissinfo.ch/eng/nicaragua-shuts-down-more-than-two-dozen-ngos-critical-of-ortega/47531818>

⁶ <https://share.america.gov/ortega-closes-ngos-nicaragua-cutting-off-essential-services/>

⁷ <https://rusi.org/explore-our-research/publications/commentary/authoritarian-abuses-weaponisation-anti-financial-crime>

⁸ Designed for busy professionals, the Basel AML Index Expert and Expert Plus editions offer deep, detailed and up-to-date insights into a jurisdiction's ML/TF risk score and the reasons behind it. Both editions are free for public-sector, international, non-profit and academic organisations. See: <https://index.baselgovernance.org/expert-edition>

- 69% for technical compliance

Based on the Basel AML Index methodology and calculations, Nicaragua's score on the FATF indicator alone is 5.88 – a medium risk compared to the global average.⁹

A note for Basel AML Index users: The Basel AML Index uses FATF data from both MERs and follow-up reports to score a jurisdiction's ML/TF risks. Information on a jurisdiction's categorisation as being "under increased monitoring" ("grey list") or a "high-risk jurisdiction" ("black" list) is included in the Basel AML Index Expert Edition for information or decision-making purposes. This information is included in a separate column to the jurisdiction's risk scores. Being on these lists does not have an impact on the overall score of the jurisdiction in the Basel AML Index. This is because the jurisdiction's performance is already taken into account based on the latest MER and follow-up report data.

⁹ The Basel AML Index uses a double weight for effectiveness criteria in its methodology. See: <https://index.baselgovernance.org/methodology>.