

Nicaragua: Efficient use of public resources

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In 2005 Nicaragua's state budget was examined by external accountants for the first time. They generally confirmed the budget's correctness. However, the audit brought some minor mistakes to light: There was a case where no offers were obtained for the repair of a minister's cross country vehicle. In other cases it was found that people still prefer to have their holidays paid out instead of taking them. Such irregularities are often due to ignorance, which is why José Angel Rosales Zeas of the General Board of Audit not only considers controlling the state's finances as his task, but equally the training and further education of the involved people: "We have made progress in matters of training of both the state employees as well as the internal auditors. I think this can be felt."

Successes in financial concerns

Central America is a priority region for Swiss development cooperation. For several years Switzerland together with other donors has made direct contributions to Nicaragua's national budget ("budget support"). Those are based on agreed preconditions and accompanied by a continuous dialogue with the government. Since 2005 the following donors have been contributing together with Switzerland: Germany, Finland, the United Kingdom, the Netherlands, Norway, Sweden, the World Bank and the EU. In 2008 this group's joint contributions amounted to some 115 million US dollars, which is equivalent to roughly 10% of Nicaragua's budget. Switzerland's contribution is 5 million dollars.

The state budget's revision/review/audit (see also separate interview) is one of several successes which the donor community achieved in the context of budget support in Nicaragua: "We provide budget support, but at the same time we strengthen the entire budgetary system as well as the public financial administration. For example, a revision/review/audit of the state budget was carried out for the first time in the context of budget support", says Freddy Ruiz the responsible person at the Swiss cooperation office in Managua. Another consequence of the dialogue with the donors was that the government anchored medium term financial planning in the national development plan. A further success is the tax code of 2006 which is the first tax code the country ever had. All this has direct effects on the state budget. Tax revenue has increased continually in the last years, particularly the share of income tax, which has grown from 18.6% of the total tax revenue in 2001 to 30.4% in 2007. This share is one of the indicators which has been negotiated between the donor countries and the Nicaraguan government in order to trace the progress achieved by the reforms.

Results based, medium term financial planning

Increased tax revenue is an important element of Nicaragua's development and financial independence. The increased resources which are thereby at the government's disposal have even more effect if they are used as efficiently as

possible – an issue where there is a need to catch up, as a collaborator of the Norwegian embassy says: “We have invested more money into poverty reduction, but we have not really observed reduced poverty. We therefore conclude that the expenses were not effective. We have to analyse what can be improved.” One possibility for a more efficient use of public money is a results based, medium term financial planning with a larger horizon. Again Freddy Ruiz: “Medium term financial planning can be a very useful tool for the government. It allows for consistently linking politics, the budget and results in future. Considerable progress has been achieved. This is an excellent contribution for the country, which is also highly appreciated by the government.”

In addition to general budget support, Switzerland has supported the introduction of medium term financial planning with technical assistance. On one hand it offered education and further training in cooperation with national universities to employees of the ministries as well as other key people. On the other hand it provided targeted specialist support in key moments. While in 2006 medium term plans were only integrated into the national budget by three ministries, there were already 19 participating institutions of the central government in 2007. These included not only ministries, but also technical colleges or the institute for culture. Medium term budgets are planned on an ongoing basis by other, also decentralised institutions. The aim is to include all 60 government institutions until 2011. A joint medium term financial planning permits tracing the flows of the government’s money. This not only increases transparency, it also provides the basis for estimating the adequacy of resources allocated to a certain area. Furthermore, duplications can be avoided.

Audit of the national budget – a new experience in Nicaragua

Duplications have also been uncovered in the context of the audit mentioned at the beginning. The audit therefore not only increases the efficiency of the available resources, it is also an important contribution to transparency and promotes the population’s – and the donors’ – trust in the government. This is why the realisation of an audit was a core condition of the budget support group. Freddy Ruiz remembers: “The budget support group as well as the government have agreed to carry out a audit of the state budget for the first time. Even though this possibility was foreseen in the new law for financial administration, it could not be realised until then.” Since the first revision in 2005 the capacities of the General Board of Audit could be improved markedly. Yet they are still insufficient in order to meet international standards. Furthermore, financial resources to cover the large expenses which are entailed by an undertaking of this scale are lacking. A further challenge is the practical implementations made by the revision. Marisol Cruz Chirino and José Angel Rosales Zeas of the General Board of Audit describe the problem as follows: “The 2005 recommendations had no direct effect on the consecutive budget, as that had already been implemented by that time. The same happened the following year.” While concrete results therefore have hardly materialised, the two employees of the General Board of Audit could observe the following: “We are in the process of raising the state employees’ awareness with respect to the fact that the use of public money has to be accounted for.”

Focussing expenses

Tools such as medium term budgetary planning or the audit of a budget are decisive when it comes to a careful management of Nicaragua's public money. What is also needed if the broad public should have a better life, is to clearly focus political priorities on the fight against poverty. The basis for that is provided in the government's national development plan which is also the basis for budget support. Another achievement – in addition to the mentioned successes in the area of public finance – of the dialogue between the government and the donors was the fact that the government meets its obligations in the fight against poverty by for example constantly increasing its expenses in this area. Between 2003 and 2006 they rose from 10.8% to 13.4% of the national income (gross domestic product, GDP). One reason for this increase were very specific interventions: When elaborating the 2006 budget, a cut in the expenses for poverty reduction in favour of financing the presidential elections pending for the same year was discussed. When the donors expressed their concerns, the government not only renounced the cuts but even increased the money for school, health and agricultural matters.

The donor countries understand their role explicitly as that of a partner in a dialogue with the government. This is a unique chance to play an active role with respect to the government's policies. Freddy Ruiz comments: "Because we as donors act as one, we have to take all decisions as a group, which sometimes slows down the process. But by doing so we have more weight in the political dialogue. This is one of the achievements which we only reached thanks to budget support. The dialogue improves our development cooperation's efficiency and it is for the good of Nicaragua's population." However, the dialogue also has its limitations: Due to differences in opinion budget support to Nicaragua has been suspended in 2009.

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