Nicaragua: The “Millennium Development Goals” (MDGs) and the IMF program

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The importance of MDGs for Nicaragua

1. The “Millennium Declaration” was unanimously adopted by the 189 member countries of the United Nations at the conclusion of the Millennium Summit held in New York in September 2000. In the declaration, all signatory states undertook to spare no efforts to “free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty”.

The declaration incorporated a list of eight “Millennium Development Goals” (MDGs). At the same time, the MDGs include 18 measurable and time-bound targets.

Millennium Development Goals

Goal 1: Eradicate extreme poverty and hunger

Target 1: Reduce by half the proportion of people living on less than a dollar a day
Target 2: Reduce by half the proportion of people who suffer from hunger

Goal 2: Achieve universal primary education

Target 3: Ensure that all boys and girls complete a full course of primary schooling

Goal 3: Promote gender equality and empower women

Target 4: Eliminate gender disparity in primary and secondary education preferaably by 2005, and at all levels by 2015

Goal 4: Reduce child mortality

Target 5: Reduce by two thirds the mortality rate among children under five

Goal 5: Improve maternal health

Target 6: Reduce by three quarters the maternal mortality ratio

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 7: Halt and begin to reverse the spread of HIV/AIDS
Target 8: Halt and begin to reverse the incidence of malaria and other major diseases

Goal 7: Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources
Target 10: Reduce by half the proportion of people without sustainable access to safe drinking water
Target 11: Achieve significant improvement in lives of at least 100 millon slum dwellers, by 2020

Goal 8: Develop a global partnership for development

Target 12: Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory, includes a commitment to good governance, development and poverty reduction – nationally and internationally
Target 13: Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction
Target 14: Address the special needs of landlocked and small island developing States
Target 15: Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term
Target 16: In cooperation with the developing countries, develop decentand productive work for youth
Target 17: In coopertation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
Target 18: In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies

These Goals are understood as specific commitments to achieve poverty reduction in its different dimensions (income poverty, hunger, diseases, lack of adequate housing and exclusion), while promoting gender equity, education and environmental sustainability. They also represent commitments to make progress in the fulfillment of fundamental human rights set out in the "Universal Declaration of Human Rights".

In order to achieve these "Goals", developing countries in association with developed ones shall make considerable efforts and allocate huge resources to be invested in their fulfillment. The importance of these goals and also the dimension of efforts required to achieve them, implies that the economic and social policy of developing countries should necessarily place the fulfillment of MDGs *as their top priority*.

The importance of achieving the MDGs for a country like Nicaragua is quite evident. Nicaragua is among the poorest countries in Latin America, together with Haiti, Bolivia and Honduras.

At the same time, the country registers higher-than-expected "income poverty" levels if compared to per capita income levels. In fact, Nicaragua shows a much higher percentage of people living on less than US$2 and US$1 a day (measured in terms of PPP) than Honduras and Bolivia, notwithstanding that per capita income levels in the three countries are quite similar.

Thus, while 79.9% of Nicaraguan people live on less than US$2 a day (in terms of PPP), in Bolivia this rate only amounts to 34.3%. With regards to the percentage of people that have to live on less than US$1 a day, this rate stands at 45% in Nicaragua, while in the case of Bolivia it only reaches 14.4%.[1]

This outstanding difference between poverty indicators in both countries is due to the fact that poverty levels in terms of income, not only depend on average per capita income levels but ***also on the way in which such income is distributed among the different sectors of the population*****.**

In this case, the income poverty rate for the population – measured by the % of people living on less than US$2 and US$1 a day – is much higher in Nicaragua than in Bolivia and in many other poorer countries across the world, since **income distribution in Nicaragua is noticeably more unequal.**

Therefore, poverty reduction policies should lay special emphasis on measures aimed at achieving a more equitable distribution of income.

2. Another important feature with regards to Nicaragua is the fact that children (as rated by UNICEF) make up 51% of the population. Given this high proportion of child population - 4 out of 10 Nicaraguans are of school age – education, just on account of this, should represent a key priority for Nicaragua's society.

   Contrary to this, the country shows a **particularly marked backwardness in the area of education** with respect to the Latin American average and even to countries that are as poor as Nicaragua within the region. In fact, if we compare for example Nicaragua's education indicators with those of Bolivia, we find that in all of them Bolivia is placed in a much better situation than Nicaragua.

   Thus, while the net primary school enrolment rate in Nicaragua reached 80% in 2005 – a level similar to that registered in the world's poorest countries, which are on average nearly twice as poor as Nicaragua – in Bolivia, a country which in relative terms is as poor as Nicaragua, this indicator amounts to 95%. The net secondary school enrolment rate in Nicaragua stands only at 41% - this rate implies that 6 out of 10 young people of secondary school age remain out of the education system – and is similar to that registered in Mozambique – an African country with a per capita income 40% lower than that of Nicaragua –, while the net secondary school enrolment rate in Bolivia reaches 71%. The primary school completion rate stands at 100% in Bolivia, versus 74% in Nicaragua (the world's lowest-income countries reach on average 71%).

3. At the same time, Nicaragua's social spending per capita in 2002-2003 (US$68 per capita in 2000 dollars) nearly halved Honduras' social spending per capita (US$126 per capita) and halved that of Bolivia (US$136 per capita), countries which in relative terms are as poor as Nicaragua.

[1] It is difficult to find such large percentages of people living on less than US$2 and US$1 a day, even in the world's poorest countries. Maybe the country that stands closer to Nicaraguan rates is Malawi, whose per capita GDP (in PPP) is five times lower than that of Nicaragua. In Malawi, 76% of people live on less than US$2 a day, and 42% on less than US$1 a day, compared to Nicaragua's 79.9% and 45%.

There is an indisputable fact: while some institutions might say that Nicaragua's social and education spending per capita "has somewhat improved" in absolute terms, the truth is that Nicaragua shows a growing backwardness, even with regards to the other two poorer countries in the continent, following Haiti (not to say in comparison to Costa Rica).

Finally, the rate of undernourishment (hunger) among Nicaraguans amounts to 27% of the population, while the average rate in the world's lowest-income countries stands at 24.6% and in Latin America at 10.2%.

4. It is evident that the future of our societies shall not be possibly better than the present of its children and youth; therefore, it should be equally obvious that the lack of capacity to currently address their basic needs it is nothing but a sure way to mortgage their future and that of their families and our own societies.

   Future prospects are hardly promising **for a country that leaves 7 out of 10 early school-age children, 2 primary school-age children and 6 out of 10 young people of secondary school age without educational opportunities**, while it offers those attending the public education system a poor quality education.

   An **extremely unequal income distribution** which translates into a high proportion of people that should live on less than US$2 and US$1 a day, unavoidably results in **very large sectors of the population** – comparatively larger than in countries showing lower levels of inequality – **being devoid of any possibility of having access to basic social services by their own means.**

   This will strongly affect children which in numeric terms make up most part of the population living in low-income households due to the high fertility and dependence rates that are characteristic of such households.

   In a situation like this, key relevance is gained by public policies that become materialized through Public Budgets when it comes to making up for deep inequalities, thus ensuring a trend towards the *universal* access of citizens to quality education and health care. By means of this, the country is also assured the provision of the essential human capital required to be able to recover basic perspectives for the future.

   Public policies should also lay special emphasis on achieving a progressive tax structure, which may allow to obtain the revenue needed to finance the levels of capital and human development investment required in order to enable the large sectors of excluded population to have access to good-quality social services.

   As acknowledged by **Rodrigo Rato, IMF Managing Director**, according to statements made during his visit to newspaper El Comercio, Peru, **"IMF: taxes in Latin America are 'unfair and distorting' (February 21, 2005)"**, the tax system in Latin America is both inefficient and inequitable. Tax systems in the region are inefficient due to the fact that tax collections on average only account for 16.8% of GDP (a level just reached by Nicaragua in 2004), and *"it is impossible to develop neither social policies nor development policies, nor policies of any kind with such tax management".*

   They are also regressive: *"one of the most important obstacles is posed by a 'very bad' tax system in most countries, where those who have less should pay relatively more than rich* *people to the State, thus perpetuating extreme inequality in the region. Instead of collecting taxes according to income, some governments depend on taxes on consumption, such as the VAT, which affect the whole population on an equal basis".* Other well-known economists agree on this: *"Latin American countries, above all Central American ones, have very low levels of taxation. It is a widespread opinion among the international community that in countries showing such inequalities, as is the case in most Central American countries, it is up to the wealthiest sectors of society to undertake more commitments to the poorest ones by means of increased taxation" (José Antonio Ocampo, UN Under-Secretary General for Economic and Social Affairs and former Executive Director of ECLAC).*

"(In Latin America) the rich have long fought against taxation needed to increase investment in the education and health of the poor, perpetuating deep social divisions and leaving many people without the health and skills that global competitiveness requires" (Jeffrey Sachs, special development advisor to the UN Secretary-General, coordinator of the recent UN report on the Millennium Development Goals, Project Syndicate)

IMF "conditionality" constrains the achievement of MDGs

5. The achievement of MDGs, in the case of Nicaragua – as in the case of many developing countries – is closely constrained by the relationship of the country with the IMF. In fact, in the case of less developed countries, it should be expected that IMF programs, which severely constrain the whole framework of economic and social policies, should also have as main purpose to contribute to the achievement of these Goals, which were unanimously adopted by Heads of State from all over the world.

   In particular, Nicaragua has maintained agreements with the IMF since 1992, when it signed a Stand-By agreement with this institution. Later on, the country adopted two ESAF programs with the IMF, which were then replaced by the recent PRGF programs, which operate within the IMF's Poverty Reduction and Growth Facility. As a whole, the country has already accumulated 14 years of consecutive programs with this institution.

   The main difference between an IMF's PRGF Program and the more conventional "Stabilization and Adjustment" Programs is that PRGF programs were theoretically intended to support the poverty reduction efforts of those highly indebted poor countries to be accepted within the framework of the HIPC Initiative.

   A PRGF Program supported by the HIPC Initiative implies that the country in question should draw up a "Poverty Reduction Strategy", which would *supposedly* represent the core of the program. At the same time, the HIPC Initiative should be releasing significant resources, previously allocated to external debt payment, which would provide the additional financial margin required to face the increased social spending needed for poverty reduction. [2]

[2] "An underlying principle of the HIPC Initiative is that all the additional funds made available through the Initiative be converted into additional spending on poverty reducing activities" (World Bank, "Nicaragua: Public Expenditure Review", December 2001). On the other hand, this is stated on the Agreement signed between the Government of Nicaragua and the Paris Club with regards to the relief granted by the latter: "Nicaragua is committed to devote the resources freed by the present exceptional treatment of the debt on priority areas identified in the country's poverty reduction strategy".

"Poverty Reduction Strategies" were thought to be a key vehicle for the achievement of MDGs. There were also supposed to be strategies defined by the country itself, with broad participation through an open discussion on different policy options.

6. However, **in practice, these strategies should be completely adapted to the macroeconomic and structural conditionality framework pre-established by multilateral financial institutions, the IMF and World Bank,** which are not subjected to any democratic or deliberative process at country level and whose focal point and priority is far from being the fulfillment of MDGs[3].

   In addition, the "Poverty Reduction Strategy" papers should still be submitted for revision and approval of the IMF and World Bank Executive Boards, which are empowered to demand total or partial changes to the papers, under penalty of risking the funding associated to the Program.

   Both decisions and policies remain tied to the conditionality of sectoral loans as well as to the global conditionality of multilateral institutions in areas that are fundamental for "poverty reduction strategies" and the future of countries, such as education, health care, public service management and other key reforms.

<u>Why is it that IMF programs often become a decisive obstacle to achieve MDGs?</u>

7. In spite of their rhetoric, PRGF Programs do not imply a change neither in terms of IMF policy, nor in its fundamental conditionality framework. This has a decisive impact on the possibilities of reaching the fulfillment of MDGs.

   In the first place, while in order to fulfil MDGs it would be necessary to considerably increase public sector investment in the areas involved, the so-called IMF **"conditionality" is clearly biased towards a permanent restriction on public sector investment –** of course, this restriction does not affect the portion that is allocated to debt service or to be transferred to the Central Bank.[4]

[3] "Regrettably, the PRSP evaluations of both the World Bank and IMF give little attention to linking PRSPs to MDGs. The current debate on the nature of the PRSPs should clearly centre on how to align their policies with the MDGs", ("MDG-Based PRSPs Need More Ambitious Economic Policies, Terry McKinley, Policy Discussion Paper , United Nations Development Programme).

[4] Recently, the governments of Brazil and Argentina have questioned the inclusion of public investment in the creation of human and physical capital as expenditure within fiscal deficit estimates. From the point of view of capital assets, they do not represent a simple expenditure since they are increasing the country's human and physical capital assets. Nowadays, the economic theory and empirical evidence clearly account for the key role played by public investment in human capital, knowledge and technology as well as in public physical capital (infrastructure) within the process of economic growth. There is broad consensus about the fact that public investment in human capital, knowledge and technology as well as in public physical capital represent fundamental requirements for economic growth and are complimentary to (and by no means are excluding) private investment, thus contributing to significantly improve its marginal profit and to speed up the total factor productivity growth rate and per capita income. Besides, these factors - particularly investment in human capital - not only represent key elements for economic growth but are also fundamental in a policy aimed at improving equitable growth.

In Nicaragua, particularly within the prospects of a “Medium-term Budget Framework” drafted under the IMF, the ceiling on government expenditure (excluding debt service and transfers to the Central Bank) would remain virtually “frozen” at about 20% of GDP.

The Budget for the Ministry of Education (MEDC) would remain equally “frozen” at 3% of GDP at least until 2008, the same level it had in 2000. The expenditure of the Ministry of Health (MINSA) would fall from 3.1% in 2000 to 3% in 2006, and prospects within the “Medium-term Budget Framework” also indicate that it would remain at this level at least until 2008.

In contrast, estimates issued by the Ministry of Education show that in order to achieve MDGs and national goals on this area, the budget allocated should at least reach an annual average amount equivalent to 4.7% of GDP within this same period (in Bolivia, the Budget allocated to this Ministry already reached 4.7% of GDP in 2003). In the case of the budget allocated to the Ministry of Health, this should at least amount to approximately 4% of GDP. This expenditure prospects within the “Medium-term Budget Framework” have very serious implications. They indicate that under this scenario neither MDGs nor national goals in the areas of education and health care would be fulfilled.

The above is confirming the forecast of the “Operative National Development Plan” issued by the Government of Nicaragua regarding the fact that within the framework of the PRGF program with the IMF *“the additional demand for services associated with population growth will hardly be covered, thus increasing the historical shortfall in these areas”.*

This implies that the country and its people would be sentenced to face a global economy that would increasingly leave out, without any kind of consideration, those people and countries that have failed to develop at least the basic skills and qualifications in terms of human capital and capacity to assimilate knowledge and technology.

This also implies that very large sectors of the Nicaraguan population will continue to be condemned to the endless inter-generational reproduction of exclusion, inequalities and poverty.

8. The IMF and World Bank argue that given the absolute restriction of resources endured by the country, the only possible way to improve education and health indicators lies in enhancing the efficiency of social spending since there is no point in increasing it. However, in the first place, the above-stated resource constraints fail to explain why there are African and Asian countries much poorer than Nicaragua – facing even greater resource constraints – that double or more than double Nicaragua’s spending on **education**, as a proportion of income.

   In the case of Kenya and Lesotho, for example, the per capita income of said countries is 50% (Kenya) and 13% (Lesotho) lower than that of Nicaragua, while their spending on education is 105% (Kenya: over two times) and 177% (Lesotho: nearly three times) higher than that of Nicaragua in terms of national income. The conclusion drawn is that given the level of development – usually measured in terms of per capita income levels – each one of these countries evidence a degree of *relative priority* given to Expenditure on Education, expressed by means of the percentage of national income allocated to education, which almost doubles and is two to three times *higher* than that allocated by Nicaragua.

This stands out above all because Nicaragua registers one of the world's highest levels of per capita foreign aid, including those of low-income countries already mentioned here for comparative purposes.

If we take into account that we are comparing Nicaragua with some of the world's poorest countries, the unavoidable result is that the relative priority given by Nicaragua to Expenditure on Education can be considered as *extremely low* when compared to the efforts made by these other countries.

9. In the second place, maybe this argument could be much more applicable to the situation of the country in the 1990s. During that decade, the growth in per capita spending allocated to education and health was dramatically constrained by the increased dimension of external debt service which managed to monopolize 51% of fiscal revenues.

   External debt service imposed a fundamental constraint, mainly on the availability of domestic resources to finance social spending. Within the 1994-1998 period, Nicaragua made payments of external debt service from domestic resources (fiscal revenues), amounting to an annual average US$ 232.2 million.

   If we take into account that the total amount of fiscal revenues stood at an average US$ 455.4 million within that same period, this implies that an average 51% of fiscal revenues were allocated by the central government to external debt payments.

   However, it seems counterproductive to claim this absolute constraint of resources for the current period – based on which it is justified that expenditure allocated to the Ministry of Health and Education should remain "frozen" as a percentage of GDP *at the same level reached in 2000* – when the country *apart from* having obtained quite a significant relief in terms of external debt payment as a result of the HIPC Initiative – which reduced external debt service to less than 9% of fiscal revenues – has seen the level of government revenues *double* with respect to the pre-HIPC period.

10. Domestic Resources allocated to Poverty Reduction spending should increase through two ADDITIONAL resource channels:

    - **The HIPC Relief**: that is, the amount of domestic resources (fiscal revenues) which, prior to Nicaragua's Inclusion into the HIPC Initiative, were allocated to external debt service payment and which, on account of that service having been reduced under this Initiative, have been released from these commitments and can be earmarked to increase Poverty Reduction spending.

    - **The increase in Fiscal Revenues**: provided that fiscal revenues remained constant, the domestic resources allocated to Poverty Reduction Spending should increase at least by an additional amount equivalent to the domestic resources released by the HIPC from external debt service payment.

    But the fact is that Fiscal Revenues do not remain constant: they increase both as a result of economic growth and of reforms to the tax system. In this case, whenever fiscal revenues increase, at least a substantial part of such increase should be allocated to the additional increase of this investment spending, on account of its significance.

11. In order to have an accurate idea of what the HIPC "Relief" meant as regards the external debt service: Nicaragua paid an annual average of US$287.5 million by way of external debt service between 1994 and 1998. Over the last two years, thanks to the HIPC Initiative, the external debt service has been reduced to less than US$80 million. This means that, over these years, the country has seen over US$200 million a year released from external debt repayment, in relation to the pre-HIPC period.

    The fiscal revenues thus released through the HIPC Initiative should be committed to the *additionally* increased poverty reduction spending: "... it was provided for that the relief should reflect an ***addition to the efforts allocated by countries, by means of their own resources, to poverty reduction*. The HIPC relief should not replace domestic resources which were previously used to such purpose**". ("II Report on ERCERP Advance", October 2003, page 33).

    Nevertheless, the so-called Poverty Reduction Strategy Spending barely increased from 11.6% of GDP to 11.7% of GDP between 2000 and 2004.

    The domestic resources or fiscal revenues – including fiscal revenues released from external debt payment by the HIPC Initiative – allocated to this spending fell from 6.4% of GDP in 2000 to 6% of GDP in 2004. In short, in 2004 there was no *"additional increase to the resources"* allocated by Nicaragua in 2000, aimed at fighting poverty. Moreover, the HIPC relief appears *"replacing domestic resources previously allocated"* to this purpose.

    As a matter of fact, the treasury resources, or fiscal revenues other than the HIPC Relief, earmarked to the ERCERP Spending fall from 6.4% of GDP in 2000 to 3.3% of GDP in 2004, and total domestic resources allocated to this spending only amount to 6% of GDP if the HIPC Relief is added to the above treasury resources.

    The HIPC Relief is not therefore being used as an additional increase to the country's own resources being committed to this spending as of 2000. It is rather being used in their place.

12. As regards per capita figures, fiscal revenues earmarked to the so-called "ERCERP Spending" fell from US$49.7 per capita in 2000 to US$48.9 per capita in 2004, the 2004 amount including the fiscal revenues released from external debt payment by the HIPC.

    In other words, neither the HIPC relief – estimated by the Government in US$22 per capita in 2004 – nor the increase in government revenues – which in 2004 amounted to US$19 per capita compared with 2000 – resulted in a single cent of per capita rise in domestic resources (HIPC Relief included) earmarked to the ERCERP Spending between 2000 and 2004.

    Only the increased Foreign Aid allocated to this spending, which rose from 5.2% of GDP in 2000 to 5.7% in 2004 – or from US$40.3 per capita in 2000 to US$46 per capita in 2004, prevented the fall in the relative amount of fiscal revenues earmarked to it from resulting in its global fall, as % of GDP or in per capita terms. What was expected to happen was that Foreign Aid resources allocated to the ERCERP Spending remained stable or increased, but the main source of increase in funds allocated to the ERCERP Spending should be, *ceteris paribus*, the fiscal revenues released from external debt payment by the HIPC Initiative, which was never put into practice.

13. What the analysis of figures reveals is that the real reason for this strong restriction on resources which weighs heavily upon the spending associated with the fulfillment of the Millenium Development Goals, is that the percentage of fiscal revenues allocated to financing the "Poverty Reduction Strategy" Spending is increasingly experiencing a dramatic decline.

    Thus, while in 2000 42.4% of government revenues was allocated to the above Spending, in 2004 only 35.6% was committed to it. In that context, **the outstanding levels of foreign aid registered in the country are not enough to sufficiently compensate the mass of domestic resources earmarked to public debt service and transfers to the Central Bank.**

14. The strong restriction on the resources allocated to the Ministry of Education's Spending has had some consequences. The net primary school enrollment rate had already reached 80% in 1993-1994, after which, owing to the adjustment policy, dropped to an average 77% in 1995-1998. After the considerable increase in social spending associated with the increase in foreign aid aimed at the post-Mitch reconstruction effort, this indicator picked up, reaching 80% again in 2000 and 85% in 2002.

    However, as from that year, which coincides with the enforcement of the new PRGF and with the period when the country starts to receive the HIPC relief, instead of continuing to grow – or at least remaining stable – this indicator starts falling again, back to 80% in 2005.

    According to Ministry of Education's estimates, if the current trend is maintained, and the required resources are not allocated, the net primary school enrollment rate, having reached 80% in 2005, will amount to 71% in 2015, far from the 100% goal set *(and in case this happened, this indicator, which currently shows in Nicaragua a similar level to the world's poorest nations, would end up far below their level).*

15. In its turn, the Ministry of Health reports the maternal mortality rate underwent a sharp increase, from 83.4 to 96.3 per 100,000 live births between 2003 and 2004. Pre-natal childbirths coverage was reduced, falling from 75% in 2000 to 66% in 2004. BCG vaccination coverage fell from 100% in 2000 to 87.8% in 2004. Polio vaccine coverage fell from 93.5% in 2000 to 79.8% in 2004. In this field, the required resources are not being allocated either, not even enough to maintain many of the indicators stable.

    During this 2002-2005 period, which coincides with the enforcement of the new PRGF Program with the IMF, foreign aid was not reduced; on the contrary, fiscal revenues experienced a sharp rise (after three consecutive tax reforms), and the country was granted the HIPC Initiative relief.

    The problem, therefore, seems to lie, rather than in the utter lack of resources, in the PRIORITIES given to them.

    Since the country has, for the first time, the means – thanks to the considerable volume of resources released from external debt payment as a result of the HIPC Initiative, foreign aid, and the increase in fiscal revenues – to begin to deal with serious deficiencies in education and health in a sustained way, it is clear that the fundamental challenge to be faced is *an in-depth redefinition of domestic priorities and a reallocation of available* *resources aiming at the fulfilment of the corresponding development goals. This will involve thorough restating of the current priorities outline.*

16. A central feature of the current policy plan is the ***absolute priority*** **given to public debt payment, and to the accumulation of international exchange reserves by the Central Bank**. As regards the debt, IMF policy papers emphasize the necessity to “honor” – at all costs and above any other priority – the “sanctity” of loan agreements.

    The IMF and the World Bank show a clearly unfavorable turn regarding restructuring policies and debt relief or cancellation policies. The IMF, in particular, states that speeding up public debt payment is a priority, further increasing annual disbursements in repayment of principal, as a way of “reducing” indebtedness levels. Logically, speeding up repayments will mean, for a whole period – which might be very long and which may coincide with the critical period regarding MDGs and domestic health and education goals – increasing current payments and further reducing all spending not associated with debt service.

    Upon this basis, all the budgetary policy is subordinated to generating global financial surplus that can be allocated to public debt service repayment, and the transfers to the Central Bank – for it to cover against operating losses and increase international exchange reserves – to the detriment of these poor states’ fundamental priorities, as regards the obtention of the essential human capital needed for overcoming poverty as well as for incorporating themselves into the global economy with minimum success.

    In this scheme, the resources available for the Public Sector to fulfil its obligations towards the people are the “residue”, what remains of total government resources after deduction of the above amounts allocated, which become absolute priorities in the Program with the IMF.

17. The policy promoted by the IMF regarding highly indebted poor countries such as Nicaragua is not, strictly speaking, a “conventional” tax adjustment policy aiming at ‘maintaining macroeconomic stability’. It is a “fiscal consolidation” policy. The “fiscal consolidation” policy has the purpose of systematically restricting the growth of any government spending other than debt service – given its total revenue sources – so as to generate some global financial surplus that may be allocated to public debt service (or speeding up repayment), and transfers to the Central Bank .

    The expression “reducing fiscal deficit” does not mean, in this case, adjusting government spending to the resources available: it means restricting the growth of government spending allocated to fulfill its basic obligations (education, health, housing, the environment, infrastructure, defense, and citizen security, etc.), *even though the available resources have increased.*

    The purpose of restricting government spending growth, although total resources available enable it to increase, is generating constant financial surplus with the right aims. This is why in Nicaragua, while according to available data total resource flows at the Government’s disposal would have increased by US$394.9 million between 2003 and 2006, its Spending would only have increased by US$184.8 million.

    The difference between total increase in available resources and the increase in spending, amounting to US$210 million – equivalent to 53% of the increase in fund sources –

represents the *increase* in the amount of financial surplus to be transferred to the Central Bank by the Government.

The cost of maintaining the public debt service and Central Bank transfers as top priority for tax resources allocation, while global spending is severely restricted, has been the stagnation or obvious impairment of health and education indicators. Within the frame of this logic, it is clear that the fulfillment of MDGs is not being given top priority.

18. On the other hand, the result of the increasing accumulation of international reserves by the Central Bank – pursued in the context of an IMF Program – is not, as it might be supposed, the promotion of a significant increase in exports that brings foreign exchange into the economy, or the reduction of the massive pro-import bias which reduces pressure on foreign exchange reserves. The IMF programmes the accumulation of international exchange reserves on the sole basis of the increasing transfer of resources from the Government to the Central Bank. That is, this accumulation of reserves is a result of further restrictions on government spending growth, whilst it imposes the necessity to divert a huge amount of resources, resulting from the increase in fiscal revenues and external financing, towards the 'strengthening of the reserve position' of the Central Bank.[5]

19. More recently, the **IMF has introduced a new conditionality** which might yet threaten the fulfillment of domestic goals regarding Education and Health. What compromises the fulfillment of these goals is the education and health personnel required.

    For instance, meeting the MDGs concerning Education, the "Dakar Agreements" on "Education for All", and related domestic goals, requires having a sufficient number of properly qualified and well-paid teachers.

    However, the Ministry of Education does not command the necessary Budget to employ the required number of teachers every year. Moreover, the fact that the real salary of teachers amounts to almost half the average actual wages of Nicaraguan workforce does not appeal to qualified professionals, hence the necessity to resort to ill-qualified personnel – which goes hand in hand with poor-quality education.

    As regards the health personnel, according to data furnished by OXFAM International, Nicaraguan doctors and nurses' salaries are, in dollars, barely over salaries of doctors and nurses in Malawi, an extremely poor African country, whose per capita income in dollars, in terms of PPP, is 80% below Nicaragua's. At the same time, in Honduras, a neighboring country whose per capita income (in PPP) is comparable to Nicaragua's, doctors' monthly wages are almost three times as high as those of Nicaraguan doctors.

    The Nicaraguan Government itself has recognized that the fulfillment of the goals regarding health and education will require overcoming the great salary shortfall in these areas as well as having the necessary resources to significantly improve the total wages

[5] In order to better understand what the compliance with an annual exchange reserves accumulation target by the Central Bank means, the following example can be used: at the moment, the Central Bank's net international reserves amount to US$ 703 million, equivalent to 13% of GDP and to 58.8% of the General Budget of the Republic for this year. In general, the IMF's target tends to maintain some relation between international reserves and imports. If imports grow, for instance, by 20% next year, Central Bank's reserves shall also be increased by 20%, or US$140.6 million, in order to keep the stability – an amount similar to the total Budget allocated to the Ministry of Education.

bill, aiming at both the recomposition of salaries and the need to hire the personnel demanded to efficiently fulfill the goals.

"It has to be considered that the recomposition of the salary shortfall and the increase of the total wages bill by an increased coverage of sectoral services, will be a key issue over the next few years in the progress towards social goals"... This would imply "a new order in the State salary policy, mainly regarding those sectors directly related to basic services (health, education and citizen security)". (Operative National Development Plan, Government of Nicaragua).

The IMF's new conditionality establishes that the government payroll will also have to remain "frozen" in actual terms, at its current levels. This implies that, under this conditionality, it will be impossible to accomplish even the goal set in the National Education Plan, and in the National Development Plan, namely: overcome the great salary shortfall prevailing in education and health, and hire the number of new teachers and medical personnel necessary to meet the domestic goals regarding education and health.

20. But the IMF's conditionality is not limited, as it is usually supposed, to imposing "ceilings" or targets on some "macroeconomic variables" in the short term (accumulation of international exchange reserves, amount of resources to be transferred to the Central Bank, ceiling on the government's primary spending, ceiling on the fiscal deficit). The IMF's conditionality also involves demanding, in the case of Nicaragua, thorough and detailed modifications to the country's own legal and institutional framework, with the purpose of restricting as much as possible, or actually removing, the country's autonomous leeway with regard to fiscal matters

The new Budget Law, drawn up "in consultation" with the IMF, states that the General Budget of the Republic, including those institutions which have political, financial and administrative autonomy under the Constitution, shall "match" the "Economic-Financial Program" and the "Medium-Term Budget Framework", both agreed between the Government and the IMF

The Law passed by the National Assembly modified the original bill, agreed with the IMF, and maintained (temporarily, at least) this constitutional autonomy. But the law went further as regards setting the principles that, in future, will govern the Nicaraguan budgetary process as one lacking even a minimum margin of autonomy.

The next step is passing a "Fiscal Responsibility Law" which would turn into National Law, and therefore mandatory, the iron 'ceilings' agreed upon through the IMF Program for every next 3-year period; and under no circumstances would a deviation from them be tolerated, except for a proven national emergency situation. The Law would allocate responsibilities to those accountable for such deviations, if any.

The country would lose up to the last trace of fiscal sovereignty. In addition to having to abide by the "ceilings" agreed upon with the IMF and turned into Law, the National Assembly could neither modify the salary ceiling, nor the interest payment item, nor the amount to be transferred to the Central Bank – let alone the global budget ceiling.

The **IMF also demands**, as a development criterion, with the object that no state bodies fail to be comprised within the restrictions of this Law, **that the Political Constitution's modification be analyzed, so as to eliminate the political, financial and**

administrative autonomy of Municipal Governments granted this autonomy by constitutional mandate, in order to subordinate them to the restrictions imposed by these agreements.

Likewise, the IMF demands that the revision of the Political Constitution be "analyzed" so as to eliminate the Budget percentages transferred to certain institutions – universities, municipal governments and the judiciary – by constitutional mandate.

The aim of this new legislation is that the Ministry of Finance – which draws up the National Budget bill within the framework of a strict adherence to the ceilings agreed with the IMF and, once completed, submits it to the IMF and World Bank for them to give their approval – forwards it to the Legislative Assembly almost as a formal requirement, since they shall have to approve it with no modifications, minimum as they might be, that may alter its strict "concordance" with the above agreements, which will acquire force of law.

21. Thus, the country loses the capacity to establish its own economic and social priorities – for instance, giving absolute priority to the fulfillment of the millenium goals, national goals regarding health and education, and other prevailing goals – and to allocate budget resources accordingly.

    In this way, what appears to be a "technical" argumentation by the IMF, concerning its function contributing to the fulfillment of said goals through the "fiscal consolidation" policy, *turns in practice into the elimination of even the slightest possibility that the country deliberates, assesses and decides among various policy approaches and options in a free and democratic manner.*

    Establishing an open and transparent dialogue on these processes and their impact, with full access to all the information necessary, would enrich the resolutions to be adopted, and the policy plan itself, duly considering different policy perspectives, approaches and options.

    This deliberative process, with wide, democratic citizen participation, should open the possibility to explore other policy approaches and options, which is necessary so that the future of the country and its millions of inhabitants is not decided upon processes excluding *ex-ante* options and possibilities. This would only contribute to strengthen the perception that said future is being overdetermined by the imposition of an approach that pretends to become the one and only thought, *which leaves no space for freedom or democracy – which essentially imply the analysis and free choice among multiple options available.*