NICARAGUA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: NICARAGUAN CORDOBA (NIO)

POPULATION AND GEOGRAPHY

Area: 130 370 km^2
Population: 6.217 million inhabitants (2017), with an annual growth rate of 1.2 % (2010-2015)
Density: 48 inhabitants / km^2
Urban population: 58.3% of national population (2017)
Urban population growth: 1.5% (2017 vs 2016)
Capital city: Managua (16.9 % of national population)

ECONOMIC DATA

GDP: 36.3 billion (current PPP international dollars), i.e. 5 842 dollars per inhabitant (2017)
Real GDP growth: 4.9% (2017 vs 2016)
Unemployment rate: 4.4% (2017)
Foreign direct investment, net inflows (FDI): 896.6 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 28.1 % of GDP (2017)
HDI: 0.658 (medium), rank 124 (2017)
Poverty rate: 3.2% (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Nicaragua is a unitary country with a Presidential regime, as stipulated in the article 9 of the 1987 Constitution. The President of the Republic is elected by universal suffrage for a 5-year period. The parliament -the National Assembly- is unicameral and composed of 90 members elected by universal suffrage for five years through a proportional representation system. Of these 90 members, 70 are elected in the departments and autonomous regions. The Judicial Branch is represented by the Supreme Court of Justice, whose members are elected by the National Assembly on the proposal of the President. He also chooses the President of the Supreme Court of Justice.

The national territory is administratively divided into the autonomous regions of the Atlantic Coast, departments and municipalities. The legal framework for local governments is governed by the Constitution, Law no 28 on Autonomous Status of the Caribbean Regions of 1987 and Law of Municipalities no 40 of 1988. The Constitution acknowledges the municipality as the basic unit of the country's political division (Art. 176) and guarantees its political, administrative and financial autonomy (art 177). Local authorities – mayor, deputy mayor and councillors – are elected by universal suffrage for five years. The Constitution also recognizes specific rights and autonomy for the regions of the Atlantic coast, which host a majority of indigenous and ethnic communities - Miskito, Mayans or Sums, Creoles, Garifonas and Mestizos - who can adopt their own forms of organization according to their traditions and cultures (Arts. 89-90, 180-181).

The decentralization process was initiated during the late 1980's as part of the reforms to contribute to the country's peace process and democratization. The main laws on legal framework for municipalities were revised in 2003 and 2013: the Municipalities Act (40 and 261, revised in 2012-2013), the Municipal Budget Regime Act (376, 2013), the Budget Transfers to Municipalities Act (nº 466-2003 and 850-2013) and the Citizen's Participation Act (nº 475, 2003). The Nicaraguan Institute for Municipal Development (INIFOM) was created in 1990 to support, assist, coordinate and supervise municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	153 municipalities *(municipalidades)*		Autonomous Regions of the North and South Caribbean Coast *(Gobiernos Regionales Autónomos de la Costa Caribe Norte y Sur)*	
	Average municipal size: 40 100 inhabitants			
	153		2	155

OVERALL DESCRIPTION. The national territory is divided into two autonomous regions, fifteen departments (for administrative purposes) and 153 municipalities.

REGIONAL LEVEL. The two regions of the Atlantic Coast – namely the North Caribbean Coast Autonomous Region and South Caribbean Coast Autonomous Region, often referred to as RACCN and RACCS respectively – have a specific autonomous status, with a regional coordinator representing the President of the Republic and a regional autonomous council. Regional councils are composed of 45 members elected for a five-year term. The regional councils must reflect the diversity of ethnic communities living in the respective autonomous region. The regional coordinator and the regional autonomous council together form an Executive Board (Law no 28 on Autonomous Status of the Caribbean Regions of 1987). Each autonomous region is divided into municipalities for administrative purposes, which are organized by the corresponding regional councils according to their traditions.

AT THE INTERMEDIATE LEVEL. Departments do not have executive or legislative functions.

MUNICIPAL LEVEL. Municipalities are administered by a municipal council with deliberative, normative and administrative powers. The council is chaired by a Mayor. Municipal councillors are elected by proportional representation. The number of municipal councillors is determined by the municipalities' population: in municipalities of less than thirty thousand inhabitants, the municipal council consists of seventeen councillors; while in municipalities of more than two hundred thousand inhabitants, the municipal council is composed of fifty councillors. The appointment of mayors and deputy-mayor must be based on the principle of gender equality. The Municipalities Act also provides for the establishment of complementary mechanisms to strengthen popular participation at the local level.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Municipal Budget Regime Act no 376 of 2001 establishes eight categories of municipalities depending on their annual current income. Municipalities included in categories A to D, with budgets of over 2.5 million Cordobas (approx. $75,000 – current US dollars), can fulfil all the competencies defined by the Municipalities Act: basic services provision, administrative and permit services, urban and land use planning, promotion of culture and recreational activities and environmental protection. Municipalities in categories E to H (with a budget of less than 2.5 million Cordobas) are exempt from providing water, sanitation and electricity services, as well as roads and public transports (art. 10). In addition, municipalities may build partnerships with other public or private institutions and establish inter-municipal associations for the provision of services (with the approval of Parliament) (art 9 and 12 of the Municipalities Act).

As established by Act no. 28 of 1987 on the Autonomous Status of the Caribbean Regions, the autonomous regions are mainly responsible for basic services delivery (health, education, culture, transport), urban and land use planning, implementation of regional development plans, environment protection and preservation of traditional culture. There is no legal framework in these regions that establishes a hierarchy between the region and municipalities, which sometimes lead to jurisdictional conflicts between the two levels of government.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Public building and equipment	Civil register
2. Public order and safety	Fire prevention/firefighting	Municipal committees for disasters
3. Economic affairs/transports	Regional networks, roads, airports, regional ports, regional train transportation;Agriculture and rural development; Support to local firms;Tourism; Participation in the elaboration and implementation of national development plans at regional level; Promotion of regional development plans and regional markets	Development of local roads, bridges; Promotion and regulation of public transport and terminals; fluvial ports; Tourism development; Livestock management (registration, sales certificates); Distribution of electricity; Control of public markets, slaughterhouses
4. Environmental protection	Preservation of natural resources; Protection of agricultural land and water resources; Coastal waters; Climate change policies	Waste management; Street cleaning; Sewerage and waste water treatment; Protection of the environment and natural resources; Control of forest exploitation; Creation of ecological parks; Maintenance of green spaces
5. Housing and community amenities	Construction/upgrading, management of settlements	Control of building regulations and urban design; Urban planning management and land use; Declaration of urban public utility and unused land; Construction and maintenance of roads; Drinkable water; Cemeteries.
6. Health	Hospital	Construction and maintenance of health centres; Preventive health campaigns
7. Recreation, culture & religion	Development and protection of traditional cultures and communities' heritage; Regional museums; Cultural heritage	Promotion of culture, sport and leisure activities; Protection of the cultural identity of the municipality fostering arts and folklore in cultural venues, i.e. museums, monuments, art festivals, libraries
8. Education	Primary and secondary enrolment	
9. Social protection	Assistance to elderly and disabled people (service provisions)	Support of community work for social purposes

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: Municipalities.	SNA Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Municipalities Act of 1988, the Municipal Budget Regime Act of 2001 and the Budget Transfers to Municipalities Act of 2003 constitute the pillars of the Nicaraguan fiscal decentralization process. An Inter-American Development Bank study considers that Nicaragua experienced a greater level of decentralization compared to the rest of the Central American region. Local revenues and expenditure represented around 4% of GDP over the past seven years (except in 2016, when they declined and then rose again in 2017). Financial data are provided for municipalities only.

Regarding autonomous regions, Act no. 28 of 1987 on the Autonomous Status of the Caribbean Regions specifies that regional councils may establish regional taxes according to the laws that govern the matter and prepare, in coordination with the Ministry of Finance and Public Credit, the budget of their autonomous region for the financing of regional projects.

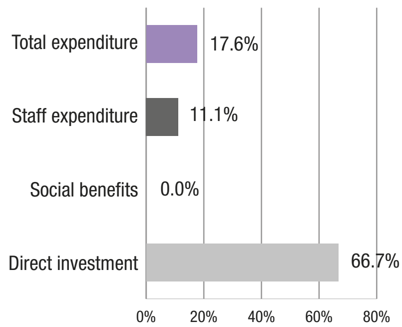
NICARAGUA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**224**	**4.2%**	**100%**
Inc. current expenditure	91	1.7%	40.4%
Staff expenditure	42	0.8%	18.9%
Intermediate consumption	19	0.4%	8.6%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	4	0.1%	1.9%
Financial charges	24	0.5%	10.9%
Others	0	0.0%	0.8%
Incl. capital expenditure	132	2.5%	58.8%
Capital transfers	4	0.1%	1.6%
Direct investment (or GFCF)	128	2.4%	57.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Between 2011 and 2015, Nicaraguan municipalities have increased their share of total public expenditure, following an opposite trend compared to the other Central American countries. But this share decreased slightly in 2016 (from an average of 4% of GDP to 1.6%) and increased again in 2017 (3.9%). The percentage of local budgets in goods and services seems limited (8.6%). But if the portion of municipal budget that goes to capital expenditure is added, Nicaraguan municipalities have spent about 60% of their budgets on the provision of goods and services and infrastructure over the past six years. Indeed, part of the expenditure on goods and services is allocated to direct investment, promoted by municipal laws that require municipalities to dedicate a significant percentage of their budget to direct investment (see below). Over the past seven years, municipalities have spent around 20% of their expenditure on staff costs. Article 17 of the Municipal Budget Regime Act sets limits for staff expenditure: less than 20% of municipal budget for municipalities A to D, 20% to 30% for categories E to G, and less than 40% for category H. The majority of municipalities, with exception of those with a budget higher than 10 million Cordobas (approx. $300 000 – current US dollars), like Managua and the main municipalities of the departments, considered as category B, need national support to ensure their regular functions.

DIRECT INVESTMENT. According to the Municipalities Act (art. 52) and the Municipal Budget Regime Act (art. 19), a percentage of current annual income must be spent on infrastructure and maintenance depending on the size and budget of each municipality. The municipality of Managua shall invest at least 40% of its budget. For the other municipalities, this percentage vary between 10% and 30% of their budget depending on their annual income (Law 376, art 19). The percentage of municipal budgets devoted to direct investment is in fact much higher (57%) and accounts for a major share of national direct public investment (over 65% and 2.4% of GDP). However, the amounts invested are relatively limited (USD 101 PPP per capita on average between 2011 and 2016).

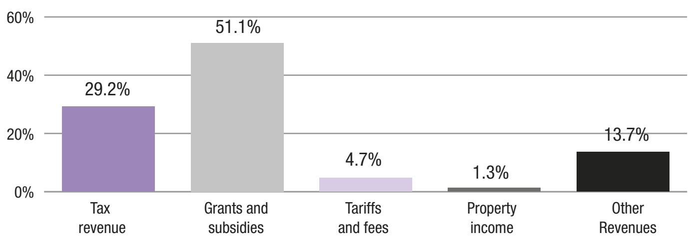
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

There are no precise data at municipal level on expenditure by economic function. Acts 466 and 850 on budgetary transfers to the municipalities (art. 12), made mandatory the following percentage of capital grants for investments by sector: 5% devoted to health, 5% to education, 5% to environment, 7% to water and sanitation. However, considering the main projects and investments implemented by municipalities over the period 2014-2016, priorities focus on roads and transport infrastructure (30%), institutional capacity (11%) and water, sanitation and storm sewer systems (12.3%), followed by culture and sport (9.4%), education (5.7%), parks and green spaces (5%), housing (4.7%), economic development (4.5%), social assistance to vulnerable people (4.7%), health (3%) and the environment (2.6%).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2015	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**232**	**4.4%**	**16.7%**
Tax revenue	68	1.3%	5.7%
Grants and subsidies	118	2.2%	
Tariffs and fees	11	0.2%	
Property income	3	0.1%	
Other revenues	32	0.6%	

% SNG REVENUE



OVERALL DESCRIPTION. Nicaraguan municipalities have one of the highest rate of local own revenues (including taxes, duties, fees, royalties and property income) in the Central American region. The municipal revenue-to-GDP ratio remained relatively stable between 2011 and 2015 (around 4.2%). But in 2016, local revenues fell to 2.4% of GDP and increased again in 2017 to 3.9% of GDP. Throughout this period, transfers accounted for about 50% of local budgets. Local own revenues contributed to about 37% of municipal budgets. In the previous decade, local own resources accounted for the bulk of Nicaraguan municipalities' local revenues (about 70 to 80 per cent between 2000 and 2004), while grants and subsidies accounted for less than 30 per cent. Overall, the efficiency of own revenue collection (the difference between planned and actual revenue) varies within a range of 60 to 70% depending on the category of municipality.

Regarding the autonomous regions, although Act no. 28 on the Autonomous Status of the Caribbean Regions clearly states that the regional councils may elaborate budget proposals comprising a tax plan (Plan de Arbitrios) and a special development fund, neither of the two regions has yet done so.

TAX REVENUE. Local taxes are regulated by national legislation, but each local authority can propose its own rates for local taxes to Parliament each year. The main taxes are: the sales tax paid monthly for the sale of goods or services (70% of local tax revenues), the registration or licensing tax relating to the annual registration of business activities in the municipality (17% of local tax revenues), the property tax (15% of local tax revenues, 4.5% of local revenue and 0.2% of GDP).

Other taxes include: the rolling tax for vehicle circulation, the tax on construction or improvement of buildings (except for family housing), the tax on the social capital of commercial or civil entities (it is levied based on subscribed capital), the tax on public entertainment and collective taxes, which are transferred by the Ministry of Finance (forestry tax, mining, energy distribution, etc.).

Tax revenues per capita range from 500 Cordobas (around $5 PPP) per capita in Managua to 8 Cordobas ($0.1) in the poorest municipalities, but the majority of municipalities collect about 240 Cordobas ($2.4) (average per capita collection 2014-2016).

GRANTS AND SUBSIDIES. Over the past decade, the percentage of national grants has increased from about 20% of local revenues to almost 40% (50% for special and external subsidies). The Budget Transfers Acts (No. 466, 2003 and No. 850, 2013) define the amounts of the national budget to be granted to municipalities (initially 4%, increased by 0.5% per year if GDP increases by 1%, to reach 10% of the national budget in 2010). However, by 2015, subsidies accounted for about 8.5% of total national revenues. The law (art. 12) has made mandatory the percentage of capital grants allocated to investments by sector, i.e. health, education, environment, water and sanitation (municipalities D to G can use part of the subsidies for staff expenditure). Amounts are allocated according to different criteria: tax inequalities (revenue collection / population), efficiency in property tax collection, population, efficiency in grant implementation. The specific amount for each municipality will be calculated by a National Commission on Transfers. A 2017 IADB study points out that the distribution of grants benefits small municipalities that receive, per capita, four times the amount received by Managua and seven times more than medium-sized municipalities.

Autonomous regions mostly rely on central government transfers. These transfers are mostly capital transfers earmarked for public investment in the Atlantic Coast region.

OTHER REVENUES. Fees may be levied for the use of public domain and service. Fees for the use of public property include: land use, extraction of products (wood, sand, etc.), stands or poles in public spaces, construction of ramps, work on public roads, advertising, peddling, use of municipal facilities or other uses. Services fees include: waste and street cleaning, use of the cemetery, market space rental, use of slaughterhouse, registration of labels or irons to mark livestock, registration of livestock sale or transfer, civil registry, extension of credit certificates and others, repairs made by the municipality to individuals, building permits, municipal inspections, sale of public stamps, cadastral assessments and other municipal services.

Other sources: Special contributions come from the highest property values through municipal works such as paving, improved access to services or other special contributions.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**19**	**0.3%**	**37.2%**	**100%**
Financial debt*	19	0.3%	37.5%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Nicaraguan municipalities must elaborate and approve annually their budget without initial deficit. The Mayor is responsible for preparing and presenting the budget proposal for the following year to the Municipal Council, which must discuss and approve the new Municipal Budget before the end of the first quarter of the corresponding year. The Mayor is required to send a copy of the municipal budget to the Office of the Comptroller General of the Republic as well as to the Nicaraguan Municipal Development Institute (INIFOM), for the purposes of statistics and technical assistance. Local budgets must be balanced, including all debt payments.

DEBT. The Municipal Budget Regime Act of 2001 specifies that local authorities may borrow from credit entities recognised by the Superintendency of Banks and other financial institutions. Municipalities may finance their investments through medium- and long-term public and private credits, subject to their approval by the Municipal Council. Credit transactions may take the form of public issuance of domestic debt, and loan or credit contracts (Art. 20). Municipalities may contract loans for the execution of works aimed at improving public services and for their institutional strengthening, provided that the debt service of all credits does not exceed 20% of the municipality's current annual revenues (Art.21). In 2016, SNG debt accounted for 0.3% of GDP and 37.2% of general government debt. It was entirely made up of financial debt, composed exclusively of loans.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: OECD Revenue Statistics // Central Bank of Nicaragua // Annual Reports 2009-2015.
Other sources of information: Open Municipal Budgets // Porto, Augusto; Eguino, Huáscar and Rosales, Walter (November 2017) Panorama de las finanzas municipales en América Central, IADB // Martinez-Vazquez, Jorge & Sepúlveda, Cristian (2008) The Municipal Transfer System in Nicaragua: Evaluation and Proposals for Reform // Mattern, J. (2003) Autonomía regional en Nicaragua: una aproximación descriptive // Morales, H. Z. M. (2010) La financiación de las Regiones Autónomas de la Costa Atlántica de Nicaragua mediante recargos. Encuentro, (85), 39-53.