

Assessing Budget Credibility

PARAGUAY FOOD PROGRAM FOR SCHOOL (PAEP)

Fernando Ovando and Verónica Serafini

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Program Description

Budget credibility refers to the capacity of governments to fully execute resources allocated through the national budget, in terms of expenditures and revenues. When this execution is not accomplished, there should be valid arguments for explaining this limitation. A budget credibility exercise examines the nature and degrees of diversion of resources allocated by national budgets as well as the causes and consequences of this diversion.

The case of budget credibility in Paraguay presented here refers to a public program that helps children performance at schools. The Paraguay Food Program for School (PAEP) was created by law in 2014, replacing another program of Nutritional Supplement for School, in force since 1995. The purpose of PAEP is to meet nutritional needs of students in order to create good nutrition habits, healthy lifestyle and to improve school attendance and school performance. Two modalities are adopted in order to provide food to schools: i) food prepared at schools; ii) food provided by local and national suppliers.

PAEP is directed to public schools, both primary and secondary. It aims to provide food baskets to students on regular basis for the whole academic year. Priorities are given to schools located in zones of extreme poverty, indigenous settlements, peasant colonies, schools located at hazardous districts and those with double schooling (shifts)

The Central Government implements this program for the Capital (Asuncion), through the Ministry of Education. While local governments (governorships) are in charge of implementing the program for different regions (departments) and districts (municipalities) of the rest of the country.

Budget Performance

The credibility problem has emerged from a partial coverage of this program due to an incomplete budget execution. By 2014, only 88% of resources allocated for this program had been executed. An improvement of budget execution is observed for this program in the following years, reaching 92.1% in 2017. However, budget execution through local governments (governorships) by departments, showed different performances. For instance, the governorships of *Guaira*, *Boqueron*, and *Caaguazu* have shown lower budget execution in 2017 in relation to others (51%, 75,6% and 86%, respectively). Thus, service for the food program has been partially fulfilled in 2017, excluding part of beneficiaries and/or limiting the program in terms of coverage of school days.

Table 1. PAEP Budget Execution (%) 2014-2017

Executing Institutions/ Governorships	2014	2015	2016	2017
Asunción (MEC)	95,0	82,6	97,6	92,1
Concepcion	94,9	99,7	94,5	95,5

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San Pedro	91,1	84,7	80,3	97,3
Cordillera	98,5	76,3	99,6	100,0
Guaira	92,1	88,5	84,2	50,7
Caaguazu	95,5	99,2	98,1	85,8
Caazapa	95,3	82,9	99,5	97,0
Itapua	81,9	91,1	79,2	92,9
Misiones	58,8	82,9	79,8	99,6
Paraguari	89,3	98,8	99,7	97,9
Alto Parana	86,7	90,1	95,3	96,6
Central	91,6	86,5	96,7	91,3
Ñeembucu	69,5	71,0	90,1	97,9
Amambay	92,0	83,1	96,0	95,0
Canindeyu	76,5	97,9	100,0	92,0
Presidente Hayes	73,8	80,9	87,4	91,6
Boqueron	70,2	68,1	0,0	75,6
Alto Paraguay	41,9	91,0	79,8	94,4
Total Average	88,4	86,8	91,4	92,1

Source: Elaborated with data from the Ministry of Finance (Boost Data)

Budget credibility is strongly related to human rights in the case of social programs. To observe indicators of social programs could lead to the understanding of why an incomplete budget execution would affect a population that lack the whole coverage of such programs. Also, these indicators are useful in assessing timely and geographically coverage of programs such as the school food with the amount allocated in the national budget for this purpose.

For instance, the Governorship of *San Pedro*, has executed 97% of the budget directed to PAEP, in 2017, but it only covered 49% or less of school days in providing lunch and snacks at public schools of that department. Likewise, the Governorship of *Cordillera*, provided school food (lunch) for only 71% of school days, having executed 100% of the allocated budget¹. Officially, reports are made on school days covered by the program but not on students excluded from the food service. This is a continuing problem in almost all departments, indicating an inadequate planning of resources budget allocation in terms of different geographical needs.

Assessing Budget Credibility

In order to know the reasons and motivations for not fully executing all resources allocated for PAEP, official documents needed to be revised. These documents are elaborated by public agencies in charge of the administration, distribution and control of budget resources: governorships, the Ministry of Education, the Ministry of Finance and the General Comptroller Office.

All main and additional information were formally requested to the different public institutions to facilitate the task of public officers in charge of budgeting, both in the central administration and in local governments. However not all documents requested were provided by the public authorities, especially from governorships that have shown low budget execution for PAEP. From all 17th existing governorships, documented information was requested to 11 of them, from which only 5 governorships responded.

¹ *Balance Anual de Gestión Pública 2018. Ministerio de Hacienda. Annual Financial Report of Public Management 2018.*

Only one of these five answers were provided in a written document from the governorship of *San Pedro*, explaining the reasons of not fully executing the budget allocated for PAEP in 2016 (80% of execution) and in 2017 (97% of execution). The other four governorships simply responded that they have all executed 100% of the budget allocated. However, according to data provided from the Ministry of Finance, only the governorship of *Misiones* did fully executed resources allocated. Governorships of *Canindeyu*, *Amambay* and *Caazapa* did not reach fully budget execution (92, 95 and 97% respectively).

Requested additional information were not provided by the General Comptroller Office, the Ministry of Finance and the Ministry of Education². Consequently, no explanation could be obtained directly from them on the obstacles faced by different public institutions on the management and adequate use of allocated resources as well as on their role for coordination and execution of PAEP³.

A second source of information on explaining incomplete budget execution of governorships for PAEP have been obtained through online public access documents, more specifically through the Annual Financial Report of Public Management (BAGP in Spanish). This is a technical report for the Results-Based Budgeting (RBB) program adopted by the Ministry of Finance to annually inform the National Congress and the citizenship on the objectives, goals of different public institutions and about results of their performances.

Governorships present their annual technical reports to the Ministry of Finance. By the end of 2017, only two governorships included, in their reports, partial explanations concerning incomplete budget execution of PAEP: *Itapua* and *Canindeyu*. The governorship of *Itapua* reported that PAEP benefits did not reach all schools in all districts because of two problems. The first one relates to the closing of 14 public educational institutions at the start of the academic year because of low entrance turnout and migration of students outside the department. The second one is explained by increasing dropout school rates during the academic year.

The governorship of *Canindeyu* reports that continuous delays of public agencies from the central government in providing formal permits for bids and calls for food suppliers prevented a timely and total budget execution of PAEP. Another factor for this delay, according to this governorship, was the constant budget reprogramming, by the central administration, of those lines or items that affected PAEP implementation in the department. The Ministry of Education and the Government Procurement Office are singled out as extremely bureaucratic by the governorship of *Canindeyu*.

In its written response to our request, the governorship of *San Pedro* reports that most difficulties for PAEP budget execution originates at the inefficiencies of the Government Procurement Office. This governorship recommends major bureaucratic simplifications in the management of calls and bids and in the process of awarding contracts to providers.

Assessments of governorships explanations on incomplete budget execution of PAEP are observed in the following tables, using certain selected criteria that allow the qualification of those explanations as adequate or not.

² These public institutions did not comply with Law 528/2014, “of citizenship free access to public information and government transparency”. In diverting responses on requested additional information to other public offices, delays did not permit CADEP to obtain this information on the expecting time.

³ Our acknowledgement to Víctor Imas, independent consultant, who provided important information on the design and implementation of PAEP.

Table 2. Official Reports. Explanation N° 1.

<p>Name of the document: BAGP 2017, Governorship of Itapua. Ministry of Finance. 2018</p>	<p>Website: http://www.hacienda.gov.py/web-presupuesto/archivo.php?a=k9k9kc121d161c171bd6kak9kf18d9d7d8ded6d9d9c7d7dec7kf17ka11kd1a1617c7kckd18k91a1ck915kd161ck914c7kckdc7111ck9186b62k9d518kckek90a7&x=7f7f01e&y=aeae04d</p>	<p>Explanation: To the end of the 2017 expenditures reached Gs. 37.060.404.333 (US\$ 6.7 million), equivalent to 96% of all resources allocated for PAEP. Around 62,000 children were benefited from the program from 692 school institutions in 30 districts. The budget amount executed is less than initially foreseen for the program. This was due, in part, to the closing of 14 school institutions during the academic year because of low entrance turnout and migration of students to neighboring schools. The other factor consisted of less quantity of food provided because of school dropouts during the academic year (Page 33).</p>
<p><i>Assessment of explanations for budget diversions.</i></p>	<p><i>¿ How adequate is the governorship explanation?</i></p>	<p><i>Explain the qualification of the explanation as adequate, somewhat adequate or inadequate.</i></p>
<p>1. Identify a causal link between a set of facts (A) and budget diversions (B).</p>	<p>Adequate</p>	<p>Low entrance turnout and increasing school dropouts provide an adequate explanation of not fully executing expenditures as expected in the initial PAEP budget due to decreasing number of students.</p>
<p>2. Explain the mechanisms that a set of facts (A) has caused budget diversions (B) and, if possible, which of those is the main one.</p>	<p>Inadequate</p>	<p>Less students at schools are expected to cause a lower budget execution. However, no details are provided on the number of students and on the reasons for a lower entrance turnout and increased school dropouts. In the absence of this explanation, it is difficult to correctly identify the mechanisms that have provoked an incomplete budget execution. Unfortunately access to updated information on school entrance are not available. The Ministry of Education website only registers data on school entrance for 2013 (https://datos.mec.gov.py/data). Explanation provided for the website is simply that the PAEP program has reached all students at this department. This fact cannot be proved.</p>
<p>3. Indicate if the set of facts (A) fully explain budget diversions (B), including all components.</p>	<p>Inadequate</p>	<p>The information provided is not specific about other components of the program that could also explain how the budget was executed. PAEP offers different services such as breakfast, snacks, lunch and others. Since no disaggregated data are available, it is difficult to determine which components are the ones that did not permit a fully budget execution. Classified data on districts are neither available. Those data would have allowed the identification of changes mentioned by the governorships on migration of students. Finally, the report does not bring data on the different levels of budget execution by schools.</p>
<p>4. Show how explanations are coherent with past experiences or why changes take place.</p>	<p>Inadequate</p>	<p>There is no explanation whether a lower execution budget has frequently happened in the past. In addition, no explanation is given on this problem before, although improvement has been observed in budget execution over the last three years. Thus, it is not feasible to determine if lower entrance turnout and student dropouts in 2017 was also present in previous years. Likewise, it is not possible to determine if these factors were the only ones that could explain budget diversions in 2017.</p>
<p>5. Explain the most important budget diversions.</p>	<p>Inadequate</p>	<p>It is essential that all information that concerns the implementation of PAEP be available in order to understand this program performance (registered students, number of schools, beneficiaries in each district and types of services provided). Additionally, in order to assess the size of budget diversion of this program, it is also important to have information on the level of budget execution of all relevant social programs in the national budget.</p>

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Table 4. Additional Written Information Requested. Explanation N° 3.

Source of Information: Information requested through institutional note.	Institution: Governorship of <i>San Pedro</i>	Explanation: Most obstacles faced for a complete budget execution of PAEP reside in the initial planning and much bureaucracy of the Government Procurement Office in the formulation of bids and calls as well as in the process of awarding contracts for food services.
<i>Assessment of explanations for budget diversions</i>	<i>¿ How adequate is the governorship explanation?</i>	<i>Explain the qualification of the explanation as adequate, somewhat adequate or inadequate.</i>
1. Identify a causal link between a set of facts (A) and budget diversions (B).	Adequate	Errors made at the initial stage of planning and much bureaucracy of the Government Procurement Office do not permit a fully budget execution of the program.
2. Explain the mechanisms that a set of facts (A) has caused budget diversions (B) and, if possible, which of those is the main one.	Somewhat adequate	Bureaucracy from the Government Procurement Office has delayed budget execution since services are paid when the product is delivered. In spite of this, the explanation is not totally convincing since no specific problem is singled out in the process of awarding contracts for food services. No adequate mechanism has been identified as the one that affects budget execution of the program.
3. Indicate if the set of facts (A) fully explain budget diversions (B), including all components.	Inadequate	Not detailed information is available to verify different levels of budget execution within the program. The governorship report should have included detailed budget information on the different food services allocated in the program (breakfast, lunch snacks, etc.) and on the different types of contracts for food services
4. Show how explanations are coherent with past experiences or why changes take place.	Inadequate	Information provided by the governorship do not mention similar problems encountered for the budget execution of the program in previous years. Also, the 2017 budget execution of the program reached 97% in comparison to only 80% in 2016. It is not clear if lower budget execution of previous years is also explained by the “excessive bureaucracy” of the Government Procurement Office.
5. Explain the most important budget diversions.	Inadequate	Official information presented by the governorship to the BAGP does not present a comparison of budget execution in between social programs including PAEP. Thus, it is not possible to assess how relevant is PAEP in terms of lower budget execution in comparison to other programs of the governorship that also show partial budget execution. Also, no information is provided on partial budget execution of other social programs caused by “excessive bureaucracy” of the Government Procurement Office, as the governorship official explanation.

Concluding Remarks

PAEP is a national program within the public budget of Paraguay. Information and explanation of problems concerning levels of budget execution of this program is scarce. Only few elements are provided by governorships to explain causes of lower budget execution and they do not meet the evaluation criteria used here for assessing budget credibility. Main explanation provided by governorships concerns the excessive bureaucracy of central government entities. However, no adequate explanation on the mechanisms that impede a complete budget execution is provided. It hardly seems credible that problems in the process of awarding contracts for a public program become the only or predominant cause for lower budget execution.

Some suggestions are made here in order to improve the format of presenting descriptions and explanations of budget diversions. The first one is to include a section within the BAGP that describes and lists all the problems encountered in executing social programs. Data on this section should include resources allocated by the National Budget for these programs, the amount transferred to entities and governorships by the Ministry of Finance, and the amount effectively executed during the fiscal year. Also, an estimation of the excluding population from the program because of lower budget execution. Second, it is necessary a more detailed information on the program execution by types of services provided, so that program weaknesses could be rapidly identified and solutions could be implemented.

One aspect that negatively affect budget execution by local governments has to do with the sources of financing. Transfers of resources to local governments, by the Ministry of Finance is based on the money received annually by the Treasury from the binational hydroelectric plants that Paraguay shares with Brazil and Argentina⁴. Transfers to local governments follow guidelines established legally, allocating resources according to affected and not affected territories by both binational plants⁵. These criteria should be revised in order to allocate resources based on the real educational needs of territories in terms of number of schools, number of students and nutritional demands.

Credibility arises when the argument for incomplete budget executing by governorships is limited to excessive bureaucracy or inefficiencies in the process of awarding contracts. Both in official reports as well as in written documents provided, other weaknesses are cited, for instance, in terms of infrastructure and the quality of school food services. A better coordination with other public institutions involved in the implementation of PAEP (Ministry of Agriculture, Ministry of Health) would contribute to reach the goals set up in this program.

Finally, beyond budget execution and budget credibility, it is clearly observed that PAEP resources come short of a full coverage of the target population during the academic year. Despite executing near 100% of the budget allocated for PAEP, food services at governorships have only covered 60% of school days on average.

⁴ These payments to Paraguay are both to compensate flooded territories (because of the dam's construction) and for the sale of excess hydroelectric energy to its neighbors (hydroelectric energy consumption in Paraguay is a small portion of hydroelectric production by both binational plants)

⁵ Law 3.984/2010 and Law 4758/2012.