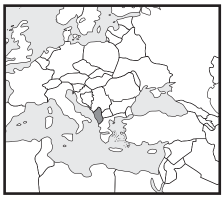
NATIONAL REPORTS

Rationalizing social spending to accelerate social development



The recently signed Stabilization and Association Agreement with the European Union confirmed the good progress of transition reforms in Albania. Substantially increasing social spending, linking social spending to the desired social impacts, and rationalizing the related internal and external financial resources in order to achieve tangible social justice results represent some of the new challenges in the Albanian integration process.

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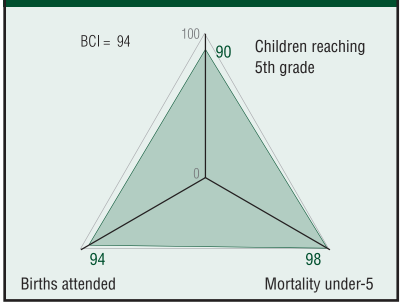
Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

Insufficient social spending

Total public expenditure for education in Albania in 2005 was roughly 2.6 times more than in 1996. However, during the same period, the country's Gross Domestic Product (GDP) increased almost four-fold, which means public spending on education as a percentage of GDP has actually declined, from 3.7% to 3.1%. This is significantly lower than the average of 5.4% seen in the countries of the Organization for Economic Cooperation and Development (OECD). The share of the education sector in overall public expenditure also decreased during the same period, from 13% to 10.4%, which is also below the OECD countries' average of 14% (HDPC, 2005a, p. 29). This level of public spending on education does not correspond to the actual needs. Albania's education sector lacks sufficient inputs of reasonable standards, and this largely hampers both access to and the quality of education. One significant example is the number of pupils enrolled in schools with double shifts, which is currently the case for 37% of primary school students and 15% of secondary school students. The Tirana region remains the most problematic area, largely due to the massive, spontaneous demographic movement of the population since the 1990s. At present, one-third of all schools at the pre-university level in Tirana operate with double shifts. The school buildings are generally poorly constructed and their maintenance has been neglected due to cuts in financial resources. Currently, the number of classrooms in need of maintenance represents more than 70% of the total number of classrooms in five of the country's 12 regions. The situation is even worse in urban areas, where over 75% of classrooms are in need of repairs in nine regions. The failure at the input level is also reflected by deeper problems of curriculum, textbooks, and teacher qualification, as well as of governance and management.

Albania spends around 6% of GDP on health care, which is in line with the average for lower middle income countries. The share that the public sector contributes to this spending represents about 2.5% of GDP. This reflects an increase of 41% in real terms over the past five years and an increase in per capita spending of 37%. The share of the health sector in overall public expenditure has also increased during the same period, from 7.2% to 9.3% (World Bank, 2006, p. 85). However, Albania's public sector funding of health care is considerably below that of other countries with similar income levels, and this shortfall is made up for by out-of-pocket expenditure at the point of service, which account for almost 60% of funding for the health sector. Clearly, the current level of public spending on health does not correspond to the actual needs of the sector. Moreover, although hospital expenditures dominate public sector spending on health care, the quality of hospital services remains very low. The declining importance given to primary care spending has contributed to the poor performance of the primary health care system, including primary and secondary preventive care and health promotion. At present, 90% of communes have a health centre and 50% of villages have outpatient clinics, which largely limits the population's access to health care services. In addition, the increase in public spending was substantially driven by an increase in capital expenditures, while the improvement in human resource capacities remains very modest.

Overall social protection expenditures[1] represent an average of 7.1% of GDP in Albania and are dominated by old age pension spending, which comes to almost 4.5% of GDP, while expenditures on social assistance are about 1.9% of GDP. Pensions are designed to be covered by a direct contribution, which still does not fully cover the expenditures. The shortfall of roughly 31% of these expenditures is funded by a budget subsidy. The pension system faces severe problems, such as the overly high social contribution, which is one of the world's highest and encourages evasion and avoidance; the extremely low pension replacement rate, which on average is equivalent to 22.5% of the average wage and 54% of the minimum wage (INSTAT, 2005, p. 17); and the significant difference between urban and rural pensions. For its part, social assistance provides only limited coverage of the population and the financing is insufficient relative to the actual poverty level. The number of recipients was reduced to 120,000 in 2005, and it is estimated that about 60% of all extremely poor families do not receive social assistance benefits. The value of the benefits granted to each family is so low that it would be almost impossible to live on these payments alone. In the meantime, financing for people with disabilities is insufficient to create equal opportunities for them as defined by United Nations standards (HDPC, 2005b, p. 22). Financing of labour market services (such as employment counselling, training and job placement) is also very limited in view of the fundamental structural changes during the transition and the high unemployment rate.

Doing versus achieving

Public funding in the social sectors is allocated based on inputs and focuses on particular actions, rather than whether these actions are achieving the desired social impact. State budget requests do not sufficiently link proposed expenditures to anticipated results and to realistic and measurable indicators. Consequently, a government system of performance measurement and accountability is lacking, and the Parliament has very little information on which it can base its review process of the annual state budget. Both the Parliament and Government are more interested in checking compliance than in the

1 This includes pensions, social assistance, disability and short-term benefits and labour market services.

opportunity for early warning of potential problems that require remedial action. This is because the thinking in public administration is dominated by "doers" and not by "achievers". Instead of working towards clearly defined goals, they merely focus on discharging tasks, setting up structures, drafting legislation, pushing papers, holding meetings and so on, without any clear picture of the overall outcome they are trying to achieve.

In education, it is crucial to link budget allocations with quantitative and qualitative outcomes, introducing more realistic targets. It is incorrect, for example, to assume that the current indicator called "enrolment rate" is sufficient for deciding the budget ceilings. It is certainly easier to observe whether a child is enrolled in school than to monitor whether that same child actually completes a primary education or is subject to such phenomena as repetition, dropout, hidden dropout, re-entry and ultimate dropout. In addition, indicators such as the enrolment rate, class size, pupil/teacher ratio and cost per pupil in their current aggregated form are not truly representative of the real situation, since they ignore the large disparities in access to education and the quality of education between rural and urban areas and among the country's different regions.

In the health sector, public health care providers continue to be funded based on inputs rather than performance. Input-based resource allocation results in the inequitable allocation of public health care expenditures. The current state of the hospital network reflects major inefficiencies: over 60% of Albania's hospitals are too small, while they continue to consume a large share of scarce resources. The health system continues to be heavily centred around hospital care, with insufficient emphasis on primary care, including primary and secondary preventive care and health promotion. These sectors also suffer from the low utilization of primary health care facilities and extremely low productivity of primary health care staff. In addition, public sector spending on health care is not targeted towards the regions with the highest poverty incidence.

With regard to the social protection sector, in order for programmes to be effective, they must cover a sufficient share of their target group and provide benefits that are adequate to address the need for reducing poverty and promoting integration. At present, the number of beneficiaries in each administrative unit continues to be determined by the availability of funds and not by the actual need, resulting in a high degree of errors of exclusion. The social assistance support for the disabled is also determined by the availability of funds, and is not linked with the real costs of living and of integration for people with disabilities, which are different from those of the fully abled. As a result, current spending on rehabilitation services aimed at providing the disabled with a higher degree of independence is markedly inefficient.

Integrated planning system

The existing budgeting instruments for social sector financing are not sufficiently based on a systematic relationship between priority measures and programmes in each sector and the corresponding budget allocations. Annual budget requests and allocations are determined by financial considerations based on the previous year's expenditures, rather than being based on a strategic approach.

It is crucial to harmonize social spending with certain strategic priority actions for social development. However, this leads to a fundamental question: which ones? In Albania there are currently 23 Sector Strategies, 10 Cross-Sector Strategies, a National Strategy for Social and Economic Development, a National Plan for European Union Integration, 12 Regional Development Strategies aimed at reaching the Millennium Development Goals, and more than 28 Municipal Development Strategies. These strategies are designed and updated at different periods of time and without adequately considering the previous strategic programming efforts. As a result, there is little harmonization and continuity among the different strategic actions undertaken. In addition, the priority interventions programmed in each of the strategic documents are not clearly defined, and they rarely include measurable quantitative indicators or cost estimations.

In view of these shortcomings of the existing strategic documents, there is clearly a need for a unified strategic approach for the country's development, including the social sectors. The unified strategic objectives should be translated into unified priority actions and realistic and measurable indicators based on substantive cost analyses. This should be followed by linking the strategic priorities with the macroeconomic framework and the state budget planning process, establishing clear and unified legal and regulatory rules for all central and local government institutions.

Although Albania has had good experience with medium-term budgeting, the Albanian government is considering the establishment of an integrated planning system that aims to improve strategic policy formulation and ensure that public spending supports more effectively the Government's strategic priorities (RoA, Council of Ministers, 2005). By approaching policy and financial planning as related components of a single planning system, it will provide decision makers with high quality strategic and fiscal options for more efficient allocation of the limited resources.

"Reinventing" the symmetric aid relationship

The aid relationship is in itself an important factor in creating the conditions for more efficient financing. A solid aid relationship is characterized by high degrees of correspondence between the objectives of donors and recipients. In addition, accountability by both the recipient government and donors is essential not only with respect to financial accountability, but also with regard to the contribution made to the achievement of national objectives.

Indeed, foreign assistance played a crucial role in overcoming obstacles in the Albanian transition, given the budget restrictions caused by extremely limited domestic resources. Some 36 bilateral donors and 11 multilateral donors were operating in Albania during the period 1991-2004 with a total commitment of roughly USD 4.86 billion and a disbursement rate of 59.5% (Ministry of Finances, 2005). In 2004, the total amount of external aid disbursed represented 3.5% of the country's GDP and 10.7% of total government spending under the state budget. The social sectors are among the least supported sectors: health, education, and labour and social safety represent about 4.1%, 3.3% and 0.7% of the total commitments, as compared to 14.5% and 14.3% for the transport and energy sectors respectively. With such a large number of donors and projects, it is difficult for both donors and the Government to keep track of past and planned activities at the aggregate level. Discussion and debate focus on money matters and micro-management, at the expense of the larger objective of social development and poverty alleviation. As a result, despite an ongoing and intensive consultation process, donors act rather independently, without a strong correlation with the government's priorities or coordination among themselves. Due to incomplete information, a lack of prioritization, and a lack of clarity about the core objectives to be achieved, donors often have similar preferences, especially for technical assistance support in areas like strengthening governance, anti-corruption initiatives, public administration reform and approximation of legislation.

The Albanian government has frequently been criticized for its poor commitment to donor coordination. As a potential solution, some donors have begun to invite government representatives to donor coordination meetings. This is a very simplistic approach, considering that the poor coordination of aid is not only related to the lack of coordination structures and mechanisms, but above all to the poor planning process. Over the last few years, the quality and coherence of public priorities planning has declined. A more symmetric aid relationship should be developed in the framework of the new integrated planning system and based on a medium-term foreign aid orientation document. A mutual reporting and information system through a joint database on planned projects and budget allocations should also be established. Government institutions should insist on the primacy of one single development framework and on donor flexibility to adjust to the country's specific priorities. The very weak existing programming and aid coordination system needs to be reformed and strengthened, not bypassed. ■

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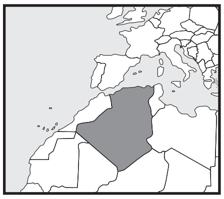
Greater investment in development, more progress in gender issues



Favoured by high oil prices, the Government increased social investment, achieving such advances as a significant reduction of poverty. For their part, Algerian women are now revealing a greater presence in positions traditionally occupied by men.

El-Amel Association for Social Development
Youcef Benabdallah

With the Plan in Support of Economic Reactivation (PSRE) 2000-2004, the Government is preparing to grant about USD 55 billion to the Complementary Plan in Support of Economic Growth 2005-2009 (PCSCE). This is a considerable amount for a country like Algeria.

Social indicators should experience significant progress, given that this budget allots 25.5% for housing and environment, 15.8% for human development (2005 Finance Law) and 22.7% for infrastructure.

A goal achieved

According to estimates made by the General Commissioner for Planning and Prospects, the proportion of the population living on less than USD 1 per day decreased from 1.9% in 1998 to 0.8% in 2000. This means that the Millennium Development Goal of reducing by half the number of people living on less than USD 1 per day by 2015 has already been reached. The percentage of poverty increased from 3.6% in 1988 to 5.7% in 1995 and then decreased to 3.1% in 2000 and 1.6% in 2004. In absolute terms, the number of poor people of this category of the population decreased from 1.6 million in 1995 to 605,112 in 2003, a reduction of more than 62%.

Child malnutrition

According to the National Economic and Social Council (CNES), malnutrition in children under five years, measured by weight deficiency, increased markedly, from 9.2% in 1992 to 10.4% in 2002. This regression is an alert in itself, revealing a situation that appears paradoxical in comparison with the other changes. The CNES is concerned about inflation, which is affecting the family basket, in particular the price of milk. The purchasing power of the national minimum wage decreased, and the percentage of that wage necessary to purchase one litre of milk increased from 0.16% in 1992 to 0.3% in 2002.

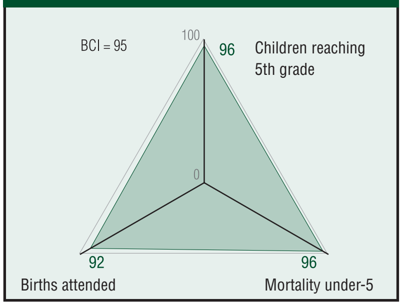
TABLE 1

Incidence of poverty and food poverty (1988-2004)

	1988	1995	2000	2004
Incidence (%) beneath food poverty line	3.6	5.7	3.1	1.6
Incidence (%) beneath general poverty line	8.1	14.1	12.1	6.8

Source: General Commissioner for Planning and Prospects

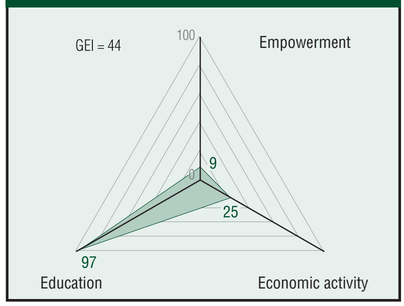
Basic Capabilities Index (BCI)



Oil benefits

From a global perspective, these results should be perceived in terms of a favourable economic situation due to the spectacular increase of the price of oil. Exceptionally high State income has permitted the implementation of the PSRE which, according to the CNES, culminated in the creation of 728,000 jobs, 63% of them permanent.[1] The same source indicates that job creation appears to have responded favourably to the concern over regional stability, since the index of jobs created per 1,000 inhabitants has been favourable for southern regions, followed by the highlands. Although state subsidies for employment policies represent only 0.4% of the gross domestic product (GDP) – compared with figures ranging from 3% to 5.5% of GDP in countries of the Organization for Cooperation and Economic Development – funding for these programmes doubled between 1997 and 2002.[2]

Gender Equity Index (GEI)



Additionally, in January 2004 the minimum wage was raised by 25%, thus improving purchasing power. Added to this is a greater State intervention in gross family incomes. Transfers went from 16.2% in 1996 to 20.3% in 2000 and 23% in 2004. In June 2006, the State granted a budget of more than DZD 100 billion (USD 1.4 million) for the improvement of the insurance system for government employees. This will allow the public minimum wage to be raised by approximately 15%. This minimum wage increase is one of the points to be discussed in a tripartite meeting in September of this year.

Another achievement was a programme for the construction of one million homes under the PSRE, already implemented to a great extent. The occupancy rate per dwelling decreased from 7 people to 5.5 between 1999 and 2004. It should reach 5 in 2009, after the construction of another million homes projected by the PCSE.

The progress of women

The strong presence of women in schools and universities is a strong and objective signal of a restructuring of the gender system in the mid term. The education of girls is now an established tendency in Algeria. Inequalities between the sexes no longer exist in the secondary school system.

1 <www.cnes.dz/cnesdoc/plein25/conjt12004.doc>.

2 These figures correspond to the Programme of Local Initiative for Salaried Employment, the Labour Program of Intensive Labour of Public Utility, the Pre-employment Contract and the Mechanism of General Interest Activity.

The numbers of 6- to 15-year-old girls who attend school has evolved positively and more quickly than that of boys. As a result, discrimination has decreased against girls in this age range, 91.87 of whom were educated per 100 boys in 2002, compared with only 81 in 1990-1991 and 87.8 in 1999-2000. In 2006, the rate of women who received a secondary school diploma was 62%, while the overall rate was 52%.

The most significant growth is that of women in the labour force. According to the General Census of Population and Housing, the rate of female activity in the labour force increased from 1.8% in 1966 to 9.6% in 1998. The World Bank estimated the rate of female labour for 2001 at 27%[3]. The rate of female unemployment increased from 9% of total unemployment in 1992 to 15% in 2003 and to 18.1% in 2004.

Socially acceptable professions

This entry of women into the labour market in the last decade is due in part to the dynamics of the informal sector, which attracted more women to the labour market, and also to the increase in women's level of education. Paradoxically, Algerian women appear to have a greater presence in jobs that require more competence and qualifications, excepting political positions. Certain branches of activity considered socially appropriate and prestigious for women are admitting them in greater numbers; women are already a majority in some. The main professions lie in the arena of health care. In the pharmaceutical industry, for example, women represent 74% of the professionals; they compose 71% of the country's surgery-performing dentists, 52% of doctors, 53% of medical specialists and 55% of residents.

Limited political participation

The number of female parliamentarians increased from 14 to 24 in the 2002 elections, representing only 6.6% of the legislature. A not insignificant number of women have been named to key administrative positions during 2004, for example in the heart of the diplomatic and judicial bodies. Nevertheless, these very favourable changes cannot conceal the fact that the proportion of women in political representation continues to be extremely low.

In the area of small business, women have shown a greater presence in the professions, where they reached 39% in 2003. That year they operated close to 25% of small businesses in the service sector and close to 21% in the industrial sector, and they began to work in spheres of activity traditionally reserved for men, such as agriculture, maintenance, transportation and construction, public works and hydraulics.

More girls in school

The efforts made by the State to achieve compulsory and free education resulted in the schooling of nearly all children aged 6 to 12. The rate of education drops abruptly in the age range from 16 to 19, in which the rate for boys increases. Additionally, the ratio of teachers per students in primary and secondary school remains low.

TABLE 2

Children's health situation (results per 1,000 live births)

INDICATORS	1990	1991	2000	2002	MDGS
2015					
Infant mortality	46.8	44.9	36.9	34.7	15.6
Under-five mortality	54.6	52.7	43.1	40.0	18.2

In 2002, the illiteracy rate in those over 10 increased to 26.5%, with a significant difference between urban and rural figures (20.1% and 35.7% respectively) and by sex (13.5% of men and 26.6% of women in cities and 24.6% and 47%, respectively, in rural areas).

The Government outlined a strategy to teach literacy skills to between 150,000 and 200,000 people per year, in order to reduce the illiteracy rate by half before 2013. Also, the National Literacy Office collaborated with UNICEF to initiate a pilot project prioritizing women.

Communicable diseases, child mortality

In the 1980s, Algeria entered a transitional demographic phase, experiencing a reduction of mortality and a significant decrease in the birth rate. This phenomenon is accompanied by an epidemiological transition, characterized by a decrease in endemic communicable diseases and diseases controllable by vaccination, signifying an increase in life expectancy despite the appearance of new diseases. Nevertheless, in spite of these decreases, communicable diseases remain at a worryingly high level.

Facts from a 2002 survey carried out by the Pan-Arab Project for Family Health (PAPFAM) set the child mortality rate at 38.8 per 1,000 live births, with a significant difference between urban (35 per 1,000 live births) and rural areas.

Given the slow pace of progress, successful arrival at the Millennium Development Goals set for 2015 appears difficult. According to the survey, the probability of death among children under five years of age whose mothers are illiterate is four times higher than that of those whose mothers have completed secondary education and beyond. Also, the risk of death before one year is twice as high for children born in a traditional home than for those born in apartment buildings.

In terms of prevention, the vaccination programme covers more than nine children out of 10, in all types of vaccines. Children aged 12 to 23 months who are fully vaccinated account for 88.9%, with a significant difference between those from urban (91.2%) and rural (86.1%) areas. On the other hand, the survey indicates that 97.1% of children born during the five years prior to the survey had a vaccination card. These results demonstrate that the public health system has two challenges before it: one is a question of quality; the other of equity. A programme of action against child mortality was initiated in 1985 with a vaccine against measles. The survey of the PAPFAM reveals that 90.6% of children were vaccinated against measles in 2002, in contrast to 85.7% in 1992.

Conclusion

The reversal of social and economic rights recorded during the period 1986-1999 makes necessary the current integration of these rights into a process of sustainable development and for the assurance of an equitable division of the fruits of that development. Income from oil comprises 70% of the State's total income. These resources can be fleeting; thus, it is necessary to find a way of utilizing them in order to guarantee the production of lasting, long-term resources. Sustainable development depends on the mobilization of renewable resources. This is essential in order to absorb the social and economic consequences linked to the association agreement with the European Union reached in September 2005 and after accession to the WTO. ■

3 <http://publications.worldbank.org/WDI>.

Insufficient service provision from public-private associations

Public-private associations have not produced a more efficient service or increased access by the more disadvantaged sectors. The case of water and sewerage provision demonstrates that the regulatory framework has to serve the public interest and not just the private interest in making a return, and that mechanisms to ensure management transparency and civil participation are necessary. In 2006 the Government decided to re-nationalize this service.

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Throughout Latin America during the 1990s there was a process of economic liberalization and public sector contraction. International finance institutions such as the International Monetary Fund and the World Bank promoted, among other measures geared to making States more efficient, the privatization of public services. During President Carlos Menem's administration (1989-1999), Argentina was one of the countries that most echoed this initiative, privatizing the majority of essential public services.

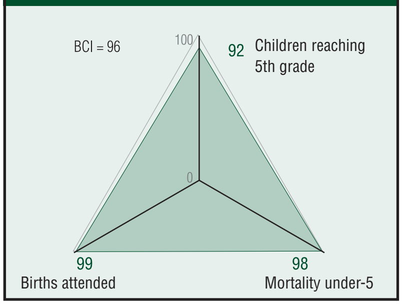
Public-private associations are still advocated as an efficient model to finance the expansion of essential public services to all sectors of the population. However several examples could be used to show that privatization does not in itself guarantee increased efficiency in public service provision and even less access to services for the most vulnerable sectors. One of these examples is the case of Aguas Argentinas S.A.

We will examine the privatization of its predecessor Obras Sanitarias de la Nación (OSN), the company charged with providing water and sewerage services for Buenos Aires city and 17 districts of the Buenos Aires conurbation, and analyze some causes of this privatization's failure.

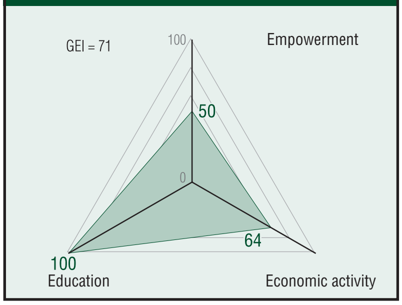
In 1989, a law passed by the National Congress declared that the provision of public services was in a state of emergency and authorized the Executive to transfer public assets to private companies.

One of the main arguments in support of privatizing the public water and sewerage services, and indeed most essential public services, was the State's apparent inability to provide them efficiently. In the case of OSN, the lack of investment during preceding years had prevented both the maintenance and expansion of water and sewerage networks. The concession for this service was placed in private hands with the intention of remedying the situation.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



In 1993, after a public tender process, the Aguas Argentinas S.A. consortium, with Suez and Vivendi multinationals among its main shareholders, undertook service provision.

The concession contract set 30 year investment and service expansion goals requiring the extension of water supply services to approximately 1.7 million people and sewerage systems to almost two million people. In this way the service was to be extended from covering 70% of inhabitants at that time to supply almost the entire population within the area. Also central to the contract were sewage treatment goals with a view to the gradual elimination of watercourse contamination by liquid effluent.[2]

Return before service

During the concession's first ten years, drinking water networks were indeed extended and the number of people connected to the service increased. However, as clear criteria for the extension work had not been incorporated in the contract, the company's priorities were based on potentially higher economic return and almost completely ignored the social aspirations of the project. On top of this, successive modifications to the original plan of improvements and expansion were made substantially reducing the goals that the company had committed itself to at the beginning of the concession (ETOSS, 2003).

As a result, the work undertaken was chosen on the basis of minimum cost and maximum profit in terms of investment recovery. In fact, much more expansion took place in relatively wealthy zones than in areas inhabited by the more vulnerable and less well-off sectors of society. The same phenomenon happened with the extension of sewerage networks, which was also in the main directed to zones of greater purchasing power.

Health crisis risk

Sewage treatment plants were also not developed as specified in the original contract, which exacerbated one of the principal environmental contamination problems of the zone. The postponement of these projects caused concentrated contamination around the main sewerage discharge points polluting both river basins and neighbouring coastal areas. A particular problem highlighted in a report by the Buenos Aires City Ombudsperson is the health risk to people in the south of the city due to unofficial connexions combined with collapsed parts of the network. This situation could result in a health crisis with outbreaks of cholera, hepatitis and other diseases caused by drinking water contamination.[3]

Rate increases

According to the Tripartite Body of Sanitary Works and Services (ETOSS), the average rate bill for the service increased by 88% between the beginning of the concession and 2002, far in excess of inflation during that period. At the same time, although invoicing systems were established incorporating cross subsidy schemes between different zones and types of building that were geared to favouring those users with the least resources and to universalizing the service, the original concession contract did not explicitly include the provision of a lower rate for poorer

1 This report is based on the study *Evaluation of direct foreign investment impacts on human rights: Aguas Argentinas S.A. case study,* carried out by Centro de Estudios Legales y Sociales (CELS) and Asociación Civil por la Igualdad y la Justicia (ACIJ) with the support of the Canadian organisation Rights & Democracy.

2 The contract signed by Aguas Argentinas S. A., its subsequent modifications and the regulatory framework of the concession can be accessed at: <www.etoss.org.ar>.

3 *La Nación*, 25 April 2006.

sectors. Only in 2001 was the Social Rate Programme created with the objective of lessening the effect of the economic crisis on less well off groups. But even then the company remained entitled to cut services in the event of bills not being paid.

Regulations "à la carte"

It was possible for such situations to develop because the repeated contract and legal framework modifications, implemented by Executive decrees and resolutions, ended up nullifying many of the concession's initial objectives.

Even the mechanism provided for modifying the contract was itself drastically reformulated, losing its original characteristic of being only for use in exceptional circumstances. The nature of the contract modifications demonstrates that their principal objective was to benefit Aguas Argentinas, reducing company risk to almost zero. In fact, while normally there is a proportional relationship between the profitability of an economic activity and its degree of risk, in this case it became a case of greater profitability for less risk.

The accounts of the company itself show that between 1994 and 2001 there was an average profit on shareholders' equity of 20.3% while during the same period the average profit made by Argentina's 200 biggest companies represented 3.5% of annual sales. The disproportion is also evident looking within the sector where for example in the USA equivalent profit percentages are between 6.5% and 12.5% and in the UK between 6% and 7% (Aspiazo and Forcinito, 2004).

A lack of appropriate regulation has also allowed the company's debt to exceed what was anticipated in the original tender and rise to levels above accepted international norms for this type of company. In 2002 this situation became critical when, due to the peso devaluation and the freezing of rates, the company's profit in dollars – the currency in which it had contracted its international debts – was substantially reduced.

Aguas Argentinas failed to fulfil the contractual objectives and obligations that it had undertaken. The company was repeatedly sanctioned for this; however it only paid 42% of the consequent fines (ETOSS, 2003). In addition, the system for the application of fines was itself modified during contract renegotiations reducing the size of future fines and providing relief for those already imposed.

Re-nationalization

In early 2002 the National Congress passed an Economic Emergency Law (Law No. 25561) providing for, among other things, the abandonment of the currency convertibility regime, a rates freeze for public services and the complete renegotiation of public service concession contracts, including the one with Aguas Argentinas. The renegotiation of the water and sewerage service concession contract remained in process until March 2006, when the national government decided to cancel the contract with the company and re-nationalize the service.

The State's share of responsibility

From what has already been said it can be seen that Aguas Argentinas was to a significant degree responsible for the failure of this model. However as one of the intrinsic characteristics of the public-private association model is the alliance between a private company and the State, it is appropriate to examine the State's responsibilities as counterpart to the company in this concession.

It is evident that the benefits obtained by Aguas Argentinas from the successive contractual renegotiations and modifications of the concession's regulatory framework would not have been possible without the approval of public officials responsible for authorizing them. Although judicial investigations into this have for the most part produced no proof, there are clear indications that some corruption may have been involved. There is broad agreement that the contract modifications were made in the interests of the company and had a seriously negative impact on consumers and the population in general. The control mechanisms themselves were successively modified, each time reducing their powers and sanction capacity. On top of all this there were repeated delays in the implementation of decisions contrary to company interests (Defensor del Pueblo de la Nación, 2003).

There were several factors underlying the authorities' permeability to the demands of the company, one of them being that the economic power of multinational companies such as Suez or Vivendi translates into substantial political power during concession negotiations with the government. The activities of this type of company have such an impact on local economies that it is difficult to disregard their requests and risk the possible withdrawal of their investment.

Unfavourable international context

Another underlying factor was that Argentina, along with many other developing countries, had ratified bilateral agreements for the promotion and protection of investments. In general these agreements grant foreign investors the right to seek redress from host States in international courts. The decisions of these courts have traditionally favoured investors' interests, leaving States to pay millions in indemnification. Thus the presentation of such claims has provided companies with a means of applying political pressure by using the possible suspension or definitive withdrawal of them as currency to obtain favourable concessions. This was a factor in the case of Aguas Argentinas. Right up to the cancellation of the contract, the company and the Government had been attempting to reach an agreement in the framework of the concession contract renegotiation and the company's claim presented to the International Centre for Settlement of Investment Disputes was one of the most important tools used in the negotiation.

Conclusions

The Argentinean experience of privatizing water and sewerage public services raises some issues that should be taken into account when assessing the appropriateness of using a public-private association model. One fundamental aspect is that the asymmetry of negotiation capacity between the two parties in the model makes a successful outcome less likely. If the commercial interests of the company prevail over the public interest, the purpose for which the association was originally formed becomes seriously distorted.

Finally, irrespective of the model adopted, the existence of a regulatory framework that is formulated by – and can only be modified by – Congress, an efficient judicial system, truly independent watchdog bodies, mechanisms that ensure management transparency and sufficient civil society participation will all undoubtedly contribute to achieving the objectives of any management scheme for an essential public service. ■

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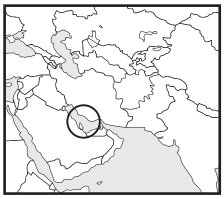
Oil dependency: short-term benefits but a long-term impossibility



As a country that draws most of its income from oil, Bahrain has benefited from the recent rise in world oil prices, which have helped spur growth in every sector of the economy. However, this tiny island nation's oil reserves could be depleted within a decade, which means that other sources of revenue must be pursued to prevent economic collapse and ensure that the population's needs continue to be met.

Bahrain Economic Society
Jaffar Mohammed

Bahrain is a very small island within an archipelago of 33 islands. The total area of Bahrain is approximately 703.63 square kilometres. However, total area figures continue to change due to extensive and frequent land reclamation schemes. In 1986, Bahrain became linked to Saudi Arabia by a 25-kilometre causeway. Most of the island is flat, the altitude being on average not more than 60 metres above sea level. The northern coast of the island, which is just under five kilometres wide, is cultivated, while the rest of the country is a desert, surfaced with hard limestone rock. In terms of climate, since Bahrain is an island it is humid and extremely hot in summer, while winter temperatures are below 20ºC. There is little rainfall.

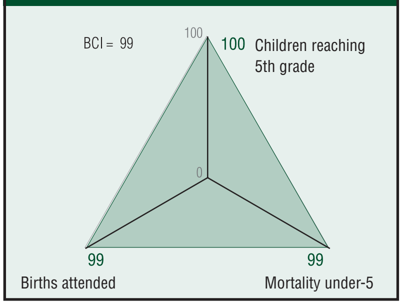
The country's total population, which was estimated at 70,000 in 1863, has grown rapidly as a consequence of Bahrain's economic development and improved living conditions. It had increased to 182,203 by 1965, then more than doubled in the next 26 years to a total of 508,037 in 1991, reaching 707,160 in 2004. Much of Bahrain's population growth can be attributed to the rise in the number of non-Bahraini nationals living and working in the country, as illustrated in Table 1.

Despite the Government's commitment to increasing the number of Bahraini nationals employed in the private sector, foreign workers, primarily from South and Southeast Asia, still held around 65% of private sector jobs in 2004, because of wage differentials with nationals. Women account for 18% of the purely Bahraini workforce. In 2004, the total workforce was estimated at above 284,969, of whom 99,767 were native Bahrainis (Ministry of Labour).

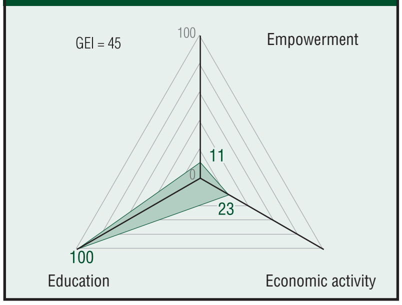
An economy fuelled by oil

Hydrocarbons remain the only natural resource in Bahrain. The domestic economy is still largely dependent on the production and export of oil to maintain its very existence and meet the basic requirements of the population. However, since 1970, the oil sector in Bahrain has been declining at an average rate of 6% annually, and according to forecasts, its oil supply will be depleted in nine years time. Bahrain's proven oil reserves are relatively small and the number of productive oil wells is limited. Since yields from the remaining wells are low, any attempt to increase production would mean higher production costs. Therefore, unless other sectors are developed to replace the oil sector, the economy is threatened with collapse.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Bahrain also has relatively substantial reserves of natural gas. Based on current extraction rates, Bahrain's gas reserves are expected to last for 25 years. Total reserves were estimated at 255 billion cubic metres in 1979 and were reduced to 201 billion cubic meters in recent years. The country depends on two sources for its gas production: associated gas (found in association with crude oil) and dry gas (found in natural gas fields). As rapid industrial development emerged and the need for more energy increased, Bahrain endeavoured simultaneously to utilize the associated gas and reduce the amount of gas that is flared (burned off) as "waste" from oil wells.

Given the declining production yields of Bahrain's onshore oil fields, the country has become increasingly dependent on the oil produced in the Abu Saafa offshore field, which it shares with Saudi Arabia. The Abu Saafa field currently accounts for the bulk of Bahraini oil production, as Table 2 illustrates.

Towards diversification

In recent decades, the Bahraini government has made concerted efforts to transform the economy from one that is dependent on the primary sector for output and employment into a modern industrial economy and services centre. The government's economic strategy is currently under review, and the liberalization of inward investment has been stated as a key issue. The government's main goals are geared towards:

- diversifying the economy and national income, which will be pursued through developing small- and medium-scale industries
- encouraging the services sector, notably commercial services
- developing off-shore banking and tourism by removing obstacles to foreign investment
- encouraging the contribution of the private sector to economic development.

In many countries, government revenue is largely derived from the different components of taxes. In Bahrain, as in other Gulf countries, the government's revenues are determined primarily by oil revenues. However, as oil revenues gradually decline alongside decreased production, a possible expansion of the role of taxation in the future is a distinct possibility. There has already been a marked trend in the increase of indirect taxes.

In Bahrain, the Government's budget consists of two income transfers – oil and non-oil revenues – and current and capital expenditures. Oil revenues are collected from two sources, the Bahraini onshore oil fields and the Abu-Saafa offshore field shared with Saudi Arabia, while non-oil revenues include grants, indirect taxes, and income from investment. Meanwhile, expenditures mainly comprise the Government's purchases of goods and services to meet the country's administrative, military and social services needs. Oil revenues are allocated by the Government to the construction and development of all other non-oil sectors in the country, such as transportation, manufacturing, agriculture, public services, commerce and others.

Public expenditure is most often determined by government revenues. Thus a rise in oil revenue is normally translated into higher public spending, leading to an overall improvement in economic growth conditions. It is important to emphasize that as non-oil revenue is proportionately smaller, current expenditure has been largely financed from oil revenue until now. Bahrain has benefited from the current rise in world oil prices, which has directly and positively affected all of the country's economic sectors, spurring economic growth and generating more job opportunities in both the private and public sectors. Nevertheless, no matter how high oil prices may be, as Bahrain's reserves dwindle, oil revenues will obviously decrease accordingly.

It would be difficult to decrease current expenditure, which comprises mainly wages, salaries and maintenance expenditure (62% of the total expenditure), without causing a great disturbance throughout society as a whole. The problem with this expenditure is that once it has reached a certain level or maintained a certain rate of growth, it not only becomes fundamental to the standard of living, but its growth will also influence growth in other sectors. Since reducing the growth or the volume of this expenditure is difficult, one can predict that it will remain high.

Capital expenditure is of two types, fixed capital assets and capital transfer, of which electricity and water constitute the largest part. This expenditure is partly financed from oil revenue and grants (mainly from Saudi Arabia and Kuwait) and partly from domestic borrowing. Any decline in capital expenditure would reflect a government policy of fiscal restraint as a measure to cope with lower oil income.

Grants and loans emerge as important elements in the state budget. In addition to providing financial aid, other Gulf States have also been involved in implementing social and development projects in Bahrain. Kuwait, for example, has paid for 18 primary, secondary and technical schools on the island. Saudi Arabia and the United Arab Emirates (UAE) have contributed to social services, and payment for part of the cost of the Bahraini distillation programme was promised by both of these countries. Grants, however, are determined by economic and political conditions in the region. The political instability in the Gulf since 1980 suggests that financial aid will become less readily available to Bahrain. Since 1980, the Gulf States have been more concerned with regional political development, while military expenditure has been increasing rapidly in almost all of the region's countries.

The level of government expenditure, rather than the level of oil prices or oil revenues, determines the level of surplus or deficit in the state budget. For example, in 1977 and 1983, with expenditure undergoing explosive growth, the state budget experienced a deficit of BHD 14.7 million and BHD 46.9 million respectively (USD 40.12 million and USD 128 million). The usual government reaction to the appearance of a fiscal deficit is to choose the easiest option by leaving some of the unimportant current expenditure intact, but cutting capital expenditures simply by postponing a few investment projects.[1]

TABLE 1

Population by nationality

Year	Nationality		Total
	Bahraini	Non Bahraini	
1941	74,040	15,930	89,970
1950	91,179	18,471	109,650
1959	118,734	24,401	143,135
1965	143,814	38,389	182,203
1971	178,193	37,885	216,078
1981	238,420	112,378	350,798
1991	323,305	184,732	508,037
2001	398,221	239,361	637,582
2004	438,209	268,951	707,160

Source: *Central Statistical Organisation*, 2001, and Ministry of Finance

TABLE 2

Production of crude oil (in 1,000 barrels) for the years 1981-2004

Year	Production of crude oil		Total production
	Bahrain onshore fields	Abu Saafa production	
1981	16,862	19,502	36,364
1983	15,273	19,206	34,479
1985	15,301	23,819	39,120
1987	15,216	22,491	37,707
1989	15,583	25,136	40,721
1991	15,373	26,351	41,724
1993	14,875	38,385	53,260
1995	14,459	38,585	53,044
1997	14,159	45,194	45,208
1999	13,677	61,746	77,422
2001	13,656	71,723	87,380
2004	13,647	62,690	76,338

Source: Ministry of Oil and Industry, *Bahrain Oil and Gas Statistics.*

Improvement in the standard of living

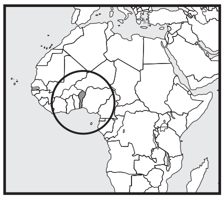
Bahrain has adopted an action plan to improve the standard of living of the average Bahraini. The plan includes improvements in healthcare (particularly preventive medicine), education and training programmes, an expansion in the existing infrastructure, and more housing projects. Bahrain is already one of the top-ranking Arab countries on the Human Development Index (HDI) compiled by the United Nations Development Programme (UNDP). With an HDI score of 0.846 in 2005, it was narrowly surpassed only by Qatar and the United Arab Emirates, which both scored 0.849. It also ranked number one on the UNDP's first Arab Human Development Index.

Bahrain has set a target of annual gross domestic product growth of 5%-6% over the next four years, a significant increase from the 4.5% average annual growth rate over the previous four years. Instrumental to achieving this objective is the attraction of an annual BHD 650 million to BHD 700 million (USD 1.77 billion to USD 1.91 billion). ■

1 Jaffar Alsayegh. Bahrain: A case study of Diversifying oil exporting Economy- 1971-1989.

BENIN

Public administration lacks transparency



There remains much to be done to ensure the development of basic capacities. More than 60% of the rural population lives in poverty and one of every two girls does not attend school. Corruption is widespread and mechanisms are necessary that favour transparency in public administration.

Social Watch Benin

Financing for social development, gender equality and the eradication of poverty continue to be the greatest concerns for the Government. The objectives established in these areas have not been met and corruption is reaching unprecedented levels. Poverty has grown and efforts to improve the gender situation are barely perceptible. At the same time, the traditional means of resource redistribution have splintered again, while the culture of individualism grows.

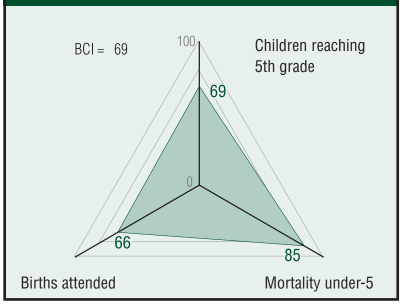
Extreme poverty has installed itself across the length and breadth of our country. Since 2002, Benin's economic and financial situation has deteriorated substantially, without experiencing improvements. The rate of economic growth has been declining, from 3.9% in 2003 to 2.7% in 2004, a year when growth of 6.8% was expected. In 2004 poverty reached 36.3% in urban areas and 63.7% in rural areas.

The State budget, in addition to the contribution of partners in development, only obtains fiscal resources. In terms of redistributing public resources, appropriate methods exist such as salaries, subsidies and other social programmes (infrastructure, health, education and others) but, in general terms, only those who exercise some activity benefit from the redistribution of the lean income of the State.

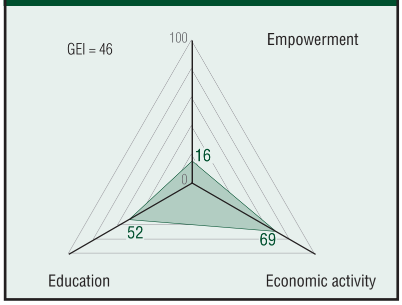
Corruption associated with the lack of resources destined to the resolution of social problems limits satisfaction of basic necessities for the great majority of poor people. The rate of enjoyment of health care services is very low, around 39% in 2004.

The Government's economic and social policy is not based on a rigorously equitable distribution of the national income. In any case, efforts are made with the goal of improving the distribution of budget resources, for example the creation of a budget programme dedicated to prioritizing sectors such as education and health. Some budgetary reforms permit a better evaluation of the activities whose execution is subject to shortages that reduce its efficacy for reaching its target recipients. Poverty persists generally in rural areas and the periphery of cities, affecting in particular women and children.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



In terms of budget reforms, budgets are created by State bureaucrats without much citizen participation. The express desire of the Government is to make the budget process more and more participatory with the founding of a programme at the level of the competent authorities. The implementation experience of the public spending adjustment programme (PERAC, its initials in French) in 1998 and 1999 meant that some ministerial departments created their own budgets on the basis of a participatory process. The experience of writing budget programmes at the local level would begin in 2007. Due to the lack of trained public officials, citizen participation in the budget writing and public expense tracking processes continues to be very limited.

The need for a budget provision for gender equity

An examination of the measures and programmes capable of favouring women's access to education, health and credit does not show encouraging results. The same occurs at the level of the Ministry of Women, the Ministry of Social Protection and that of Solidarity. The general State budget for fiscal year 2006 does not include any new measure for the promotion of women. But the fight against poverty cannot be realized successfully if the disequilibrium and the inequities between men and women are not addressed.

It is necessary to consider women as a specific group, keeping in mind that they do not face the same obstacles or the same opportunities as men in access to the public services of education and health. Focusing programmes on women is recognized as an effective poverty reduction strategy given that women constitute a greater proportion of the poor.

Nevertheless, this emphasis on women is difficult to implement from the viewpoint of public spending without including criteria that take into account the gender dimension. For this data are needed on the proportion of public spending that has a differentiating effect on men and women, as well as the proportion of public expenditures destined specifically to women. Nevertheless, insofar as policies are neither conceived nor formulated to take the gender dimension into account, budgets will not either.

Meanwhile, the participation and decision-making power of women in the economy compared to those of men have remained stagnant. At the level of political representation, the female presence in the parliament in 2004 was 7.2%.

One of every two girls does not attend school

An advance in the area of education is an initiative approved by the Government for the education of girls. Monitoring this initiative is difficult, if one takes into account the lack of gender awareness and training of public officials to deal with this difficult area.

Education rates reveal inequity between women and men. According to the World Bank, the gross enrolment rate for primary school increased from 94% in 2003 to 99% in 2004, with a difference of 24 points between boys and girls. The status of girls is worrying, as one of every two school age girls is not attending class, indicated by a net enrolment rate of 47% in the 2000-2004 period.

Corruption and lack of transparency

In terms of the fight against corruption, the experience of accountability to vote on the regulatory law is recent. From 2000, some measures have been taken in financial laws to make public business more transparent and to permit a better following of public spending. These laws continue to be insufficient to fight effectively against corruption, which has already profoundly penetrated into the society. Actions taken to combat corruption focus without success on the sectors of high incidence of corruption such as the customs administration, tax collection, the treasury and public finance. The institutional framework is not entirely favourable to the fight against corruption. Reform measures, and a better application of existing laws, are necessary. Immunity is the rule and no controlling body exists that is capable of exercising coercion against the poor administration of the State, while the Parliament does nothing more than issue recommendations which are generally ignored.

In regards to a strategy of providing information to the citizens about State administration, this is nearly nonexistent. The State does not say a word about its administration and no body can obligate it to do so. Recently a sporadically-published news magazine has begun to publish the results of the mismanagement of public finances. The institutional and informational weaknesses amply favour corruption.

The rare formal occasions in which citizens are informed about government management are provided for by:

- Article 72 of the Constitution, that obliges the President of the Republic to give an annual speech to the National Assembly regarding the State of the Union;
- Article 113, that establishes that the Government must give the National Assembly all explanations asked of it regarding its management and activities;
- written or oral questions directed at the Government and the parliamentary investigating commissions thanks to which representatives of the citizenry gain some information from government ministers about public management or individual questions of national interest.

Besides these constitutional mechanisms, the government ministries sporadically put out press releases that reflect the official viewpoint on public administration.

It is notable that the sources of information related to State management are true taboo themes in the Republic of Benin. With or without reason, this information bears a secret or confidential seal of the State, meaning that the citizens cannot gain access to it. The reports of the governmental investigating commissions created with great media support are never made public.

The new Government has brought forward perceptible efforts for better informing the population. With the objective of informed management, all the Ministries and public services will be interconnected thanks to information and communication technologies.

Conclusion

To sum up, some laudable efforts at development do exist, but there remains much to be done to meet the real needs of the citizens and to ensure transparency in State administration. The actions of the focal point of Social Watch in Benin are oriented toward this end. ■

TABLE 1

Public investments by sector of activity (in millions of FCFA) – 2005-2006

Sector	Total 2005	Total 2006	Variation %
Rural	21,412	28,191	+31.66
Industry, artisanship	5,009	5,079	+1.40
Water, electricity	8,513	12,808	+50.45
Infrastructure	67,067	68,495	+2.13
Commerce, services and tourism	2,977	2,095	-29.63
Total for productive sectors	**104,978**	**116,668**	**+11.14**
Health	18,244	20,043	9.86
Education	25,793	19,012	-26.29
Housing	1,869	1,304	-30.23
Other social sectors	6,724	;∏ë95	+7.00
Total for social sectors	**52,630**	**47,554**	**-9.64**
Administration	2,651	32,193	+20.79
Total for all sectors	**184,259**	**196,415**	**+6.60**

Source: Presentation Report of the Public Investment Programme 2005 and 2006. (FCFA 1,000,000 = USD 1,870.)

TABLE 2

Comparison of social measures contained in budget proposals (millions of FCFA) – 2005-2006

Areas of intervention	2005	2006	% Variation
Health	7,284	9,708	+33.27
Education	13,113	6,615	-49.55
Hydraulics and energy	8,339	13,594	+63.01
Rural development	3,339	19,226	475.80
Security	-	2,119	-
Decentralization	19,044	21,532	13.06
Other social measures	8,062	-	
Total	**59,225**	**72,794**	**22.91**

Source: Presentation Report of the Public Investment Programme 2005 and 2006. (FCFA 1.000.000 = USD 1,870).

Economic model limits change

Public investment has increased but not significantly so in the social and production sectors. There is still no strategy for redirecting the new resources generated by increased tax pressure and higher priced gas and oil exports to these areas.

Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA)

The higher prices of export goods[1] have resulted in increased Gross Domestic Product (GDP) growth from 1.68% in 2001 to 4.06% in 2005. This reflects the Bolivian economy's high level of dependence on the economic performance of industrialized countries.[2]

During the last two years this favourable external context has had a positive effect on the level of internal tax collection and revenue from royalties and taxes on hydrocarbons but has not remedied the fiscal deficit. Although the latter was 1.9% in the middle of the 1990s, in 2002 it reached 9%, the highest in Latin America, due to public expenditure pressures, public income volatility and global economic fluctuations. After that peak the deficit was curtailed – falling to 2% by 2005 – through public expenditure control policies, extraordinary tax collection measures, foreign aid and most significantly new revenue from the Direct Tax on Hydrocarbons (DTH).[3]

Nevertheless problems with the makeup of public expenditure and income remain unsolved. In 2005 more than 70% of public expenditure went on debt servicing, salaries and pensions. Several aspects of the economy are worrying: the limited growth of public investment in social and production sectors and the high level of dependence on both increased tax pressure (that emphasizes indirect taxes on individual's income) and the behaviour of gas and oil exports and prices.

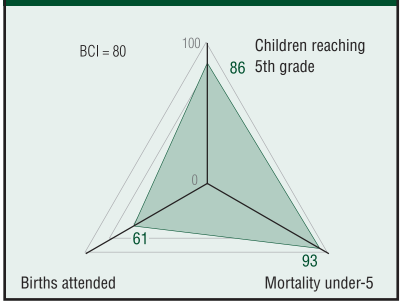
In June 2006 the Government presented a new Development Plan aimed at reducing poverty by 9%, from 58.9% to 49.7%, extreme poverty from 35.3% to 27.2% and the Gini Coefficient from 0.59 to 0.58, all before 2011.The success of this plan could be threatened by a high dependency on public investment if the generation of employment, the main source of household income, is left to the market.

1 The export prices index registered an increase of 111.5 % between 2000 and 2005.

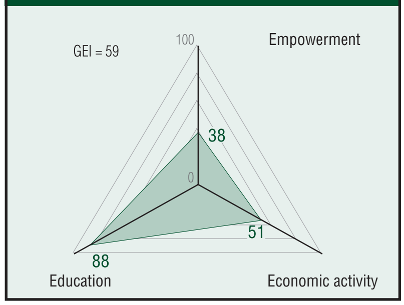
2 According to a report from the Economic Commission for Latin America and the Caribbean (ECLAC) in 2005 this economic performance will not be maintained.

3 In May 2005 Hydrocarbons Law 3058 was passed. Among other things, it provided for the creation of a direct tax on production, generating revenue for the State of USD 287 million in 2005.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The fragility of public income

Faced with the need to loosen fiscal policy and strong pressure from social organizations to nationalize the hydrocarbon industry, in 2005 resources from this sector were used to reduce the deficit. Although the tax system structure was maintained, measures geared to more efficient collection were approved and additional taxes were created.

The population has not seen a return on its tax payments in the form of social expenditure on investment for essential services such as health care and education. From 1995 to 1997 health and education expenditure represented 10.24% of GDP while taxes paid by consumers amounted to 12.07% of GDP. In short, the population contributed more than it received in terms of essential public services.

As previously mentioned, in recent years there has been no, or insufficient, public surplus to sustain investment in production and social services.[4] Finally it has to be taken into account that just over 60% of the population live in poverty and that the current tax system is regressive. As a result taxes have a significant effect on most families' consumption.

For the last five years, as was the case in the 1990s, tax collection has been the main source of public income. During this period an average 45% of public income came from tax collection. With the present administration this has risen to 54%.

A second element that has not changed is a dependence on foreign resources. Foreign credits and donations make up almost 32% of total income.

4 In the last three years the average growth rates for investment expenditure in production and social services were -8.4% and -7% respectively (data based on information in USD).

Finally, the Other Internal Income category has gradually diminished from 33% in 2000 to 14% in 2004, principally due to the privatization of refineries that reduced income from hydrocarbons sales.

This scenario stems from the economic reforms of the 1990s, especially the privatization of state companies that led to a reduced income from the sale of goods and services.[5] Between 1980 and 1986 such income made up 77% of the total current income while by the period 1997-2004 it had fallen to 18%.[6]

The structure of public income has not significantly changed due to the maintenance of a regressive tax system very susceptible to fluctuations in economic activity and to a continuing high dependence on bilateral and multilateral sources of finance.

The new government and finance

Available fiscal information for the first two months of 2006 shows an overall surplus of approximately BOB 1 billion (USD 128 million), which differs from the first two months of the last six years.[7] However considering the fragility and volatility of public income it is too early to get enthusiastic about this.

The principal elements behind this fiscal surplus in the first two months of the current administration are: a still favourable external context,[8] the orthodox

5 Unidad de Análisis de Políticas Sociales y Económicas. *Evaluación de la economía 2000, 2001, 2002.* p. 30, 35, 38.

6 Arze Vargas, Carlos (n.d.). *Crisis fiscal: La insolvencia del estado neoliberal.* CEDLA. The figure of 18% was calculated with data from the Fiscal Programming Unit.

7 Over the last six years January and February have registered an average deficit of BOB 320 million (USD 40.25 million).

8 According to ECLAC in 2005 South America's GDP grew by 4.9%, which is higher than the average growth of industrialized economies calculated by the IMF at 2.5%.

economic policies of previous governments, amongst them rate modifications for the Special Tax on Hydrocarbons and Derived Products (STHD); measures geared to improving tax collection (tax pressure); and fundamentally, the passing of the new Hydrocarbons Law as a result of social pressure.

As Table 1 shows, in 2006 there was an extraordinary growth in public income of almost 40%, mostly due to a 115% growth in the hydrocarbons sector. Comparing January-February 2005 with January-February 2006, the increase in revenue from taxes on hydrocarbons was BOB 860 million (USD 108.2 million), which represents 67.7% of the increase in total public income.

Approximately BOB 800 million (USD 100.6 million) was collected in DTH during the first two-month period of 2006, a figure that represents almost 90% of capital outlay (investments) during that period. When revenue from STHD and royalties is added to this figure it amounts to BOB 1.6 billion (USD 202.3 million), a sum almost twice that spent on investment and representing 36% of total income, 13% more than in 2005.

Regressive tax system

The 14.8% growth in tax revenue is the result of both old and new tax measures but all of them respect and have continuity with the logic of an income management policy oriented towards improving tax efficiency by combating evasion, avoidance and smuggling. It could be said that in general there has been no change or innovation in income policy.

In summary, public income growth in the first two months of 2006 reflects and reaffirms the income policy management logic developed by the State, an orientation that emphasizes greater tax pressure and efficiency while maintaining the regressive nature of the current tax system. In the face of this, changes proposed by the current Government are not apparent, leaving only good intentions but so far no concrete policy.

Still no defined strategy for public expenditure

During the first two months of 2006 public expenditure grew by just 2%, a figure influenced by, among other factors, the reduction of interest payments on internal debt (11%), lower pension expenditure (0.5%), increased expenditure on goods and services (50%) and a growth in capital outlay (25.9%).

Investment expenditure grew by 25.9% because municipalities and prefectures received DTH transfers.[9] Although DTH resources have made an increase in public investment possible, up to now there is no new strategic framework to redirect these new resources to strategic sectors. Such a reorientation would not only involve restructuring public expenditure but also an assessment and identification of public stakeholders or public sector bodies to which DTH resources would be allocated

TABLE 1

Income, expenditure and fiscal deficit (in million BOB)

			GROWTH (%)			STRUCTURE (%)	
	2002 JANUARY-FEBRUARY	2006 JANUARY-FEBRUARY	2004 JANUARY-FEBRUARY	2005 JANUARY-FEBRUARY	2006 JANUARY-FEBRUARY	2005 JANUARY-FEBRUARY	2006 JANUARY-FEBRUARY
Total income	2,475.3	4,470.3	0.8	26.4	39.7	100	100
Current income	2,318.8	4,325.9	-0.02	27.0	41.5	96	97
Capital income	156.5	144.4	-13.3	15.5	1.0	4	3
Total outlay	2,747.6	3,452.3	2.9	11.1	2.0	100	100
Current outlay	2,276.5	2,560.7	-7.8	11.9	-4.3	79	74
Capital outlay	471.2	891.6	20.7	8.1	25.9	21	26
Current surplus/deficit	42.4	1,765.2	-109.1	2,151.0	363.4		
Total surplus/deficit	-272.4	1,018.0	-12.2	-64.2	-652.9		

Source: Calculated with data from the Fiscal Programming Unit.

The figures reflect two aspects:

- The growth in public investment expenditure due to increased hydrocarbons tax collection, which should not imply a deepening of the current regressive tax system.
- Reduced outlay resulting from measures taken within the Austerity and Rationality in Public Expenditure Framework established during Carlos Mesa's government (2003-2004)[10] that are being maintained by the present administration of President Evo Morales, which began this year (2006).[11]

In the first months of 2006 some significant matters have been dealt with very superficially by the present Government but will undoubtedly require greater attention in the medium term and perhaps will be part of the much anticipated management plan:

- External debt cancellation within the framework of the G8 initiative. Although the World Bank has ratified its cancellation and the IMF has already cancelled, it remains to be determined which are the appropriate public sector bodies for the administration of resources accruing from cancellation. This has led to an assessment of municipal governments' efficiency in administering resources liberated by cancellation under the Heavily Indebted Poor Countries initiative. It seems that the Government's attempts to include IDB debts within the framework of G8 cancellation have not produced positive results but it is waiting for an answer regarding this by September 2006.
- DTH resources. These have undoubtedly been fundamental to fiscal deficit reduction and the main enabling element for public expenditure increase. However in the medium term, discussion about the efficient use of these resources could lead to their redistribution, although this may cause conflict with municipal governments.

This detailed analysis of public finance during the first months of 2006 aims to show the trends in Bolivia's economy that the Morales Government inherited, and at the same time to make it clear that improvements have not been generated by public policy reforms but rather by the extraordinary behaviour of the prices for raw materials exported by Bolivia. In general, central aspects of economic policy continue unchanged, as demonstrated by the ongoing restrictive fiscal policy. ■

9 According to the 2006 Budget, DTH resources allocated to investment represent approximately 17% of the investment planned for that year.

10 Supreme Decrees 27327, 27407 and 27450.

11 Supreme Decrees 28609 and 28618.

Inverted priorities

While more than 40% of the population live in zones without sewerage systems and so live with open sewers, the National Bank for Economic and Social Development, with a budget greater than that of the World Bank, does not operate as a development promotion institution generating policies geared to inclusion and well-being.

IBASE
Luciana Badin [1]

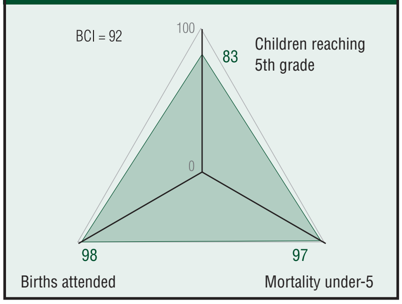
With continental dimensions, a population of 184 million and countless inequalities to overcome, the country viewed with concern a growth rate of 2.3% in 2005. It is necessary to return to the path of development and emphasize not only financial resources but also a right orientation of economic and social policy. As Carvalho (2004) says, development results from the conjunction of sustainable economic growth and social, political and institutional transformations that translate into reduced inequality and increased democracy.

Orthodox economic policy

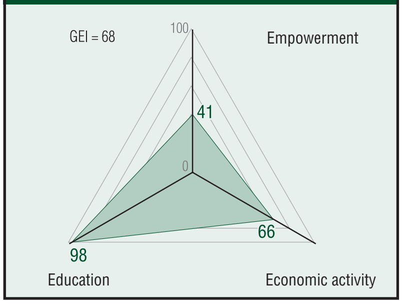
The adoption of a restrictive and austere monetary and fiscal policy has in various ways obscured the pressing need to resume economic growth and to translate an increased Gross Domestic Product (GDP) into raised social indicators. In recent years, macro-economic policy based on economic orthodoxy has been geared exclusively to achieving price stability and fiscal balance. Out of a static vision for maintaining this balance, high interest rates, aimed at containing demand and inflation, have been combined with contracted public expenditure and investment.[2] The net government debt representing 51.6% of GDP continues to keep the base interest rate at 15.25%, which explains last year's poor growth.

One of the main tasks to be undertaken for the revitalization of development is to go beyond the neo-liberal agenda by implementing a macroeconomic policy geared to the creation of employment and the redistribution of income and wealth. The current orthodox policy has devastated the State's investment capacity. The data in Chart 1 shows that a substantial part of the national budget goes to service public debt, using resources that could otherwise drive development. In 2005 the government had to pay BRL 139 billion (USD 62.5 billion) in interest on the debt, and with a primary surplus of only BRL 93.5 billion (USD 42 billion), the difference became more debt.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



This perverse mechanism has contributed to a concentration of wealth and income. It is estimated that interest payments on the debt will rise to BRL 180 billion (USD 80.4 billion) in 2006. In contrast, little more than BRL 7 billion (USD 3.1 billion) will be spent on the Family Basket programme.

This economic policy has an effect on the financial capacity of the State in that private investors will only invest in a widening of the production base if they can see that economic growth is likely. Otherwise it is much safer and more profitable to invest in financial assets.

Questionable usage of public resources

To finance its development Brazil has a public bank with a larger budget than that of the World Bank. In 2005 the National Bank for Economic and Social Development (BNDES) spent BRL 47 billion (USD 21.1 billion), while "investment" spending by the federal government did not exceed BRL 9.7 billion (USD 4.4 billion). In a country with an underdeveloped capital market and high interest rates and in which private banks have attached little importance to long term project funding, this public body, operating with a long term interest rate of 8.15%, is central to financing development.

BNDES was created in the 1950s in a political and historical context that recognized the importance of the State's role as promoter of development. However in the 1980s with the import substitution process ending and an economic policy geared to stability, the State distanced itself from its central role in economic development and BNDES lost its original focus. During the following decade the Bank assumed a principal role in the privatization process and the sale of a significant part of the nation's assets to foreign capital, placing all its technical and financial capacities at the service of this new orientation.

There is at present a certain ambiguity about BNDES in that it is increasingly operating as an investment bank, with a profitability and insolvency rating[3] that reflect its healthy performance as a financial institution, while as a public institution for the promotion of economic and social development its performance is unclear. Although operating with capital from the Workers' Protection Fund, which comes from taxes on workers' wages and company income, as BNDES does not have a public information policy, comprehensive data on its operations are not available, which makes a more detailed evaluation of its investment activities impossible. The scarcity of available information is not encouraging. The Bank does not apply social evaluation parameters in its analysis of the projects it funds or its own programmes.

A look at the different regions demonstrates BNDES's inability to promote inequity reduction. In 2005, consistent with the trend over recent years, the north and northeast regions, which are the lowest ones on the Human Development Index, received 4% and 8% respectively of the Bank's total outlay while the southeast, the richest region, received 60%.

Another example is the amount of expenditure allocated to the Social Inclusion area, which was BRL 1.1 billion (USD 464 million) in 2005, a figure lower than in 2004 and equivalent to 24% of the BNDES budget. Over a three-year period, from a

1 The author is an IBASE economist and researcher.

2 The 2005 primary surplus represented 4.84% of GDP.

3 In 2005 BNDES made a profit of BRL 3.2 billion (USD 1.44 billion) while 90.1% of its credit operations portfolio was classified between AA and B risk levels.

total of BRL 122 billion (USD 51.5 billion), the Bank only provided BRL 4.5 billion (USD 1.9 billion) for the financing of projects considered as social, just 3.6% of its total budget.

The Bank argues that the nature of its outlays is not a consequence of deliberate policy but rather stems from commercial demand, which confirms that it does not operate as a development promotion institution. Following this logic, in 2005 it provided BRL 2.5 billion (USD 1 billion) to finance the pulp and paper company Suzano Bahia Sul. This sum represented 5.5% of the Bank's total outlay during that year. In terms of promoting a more democratic development model that redistributes income and is environmentally responsible, this loan to the Suzano Company is questionable as the sector has a large negative environmental impact and has been at the centre of many land use conflicts.

Exclusive development

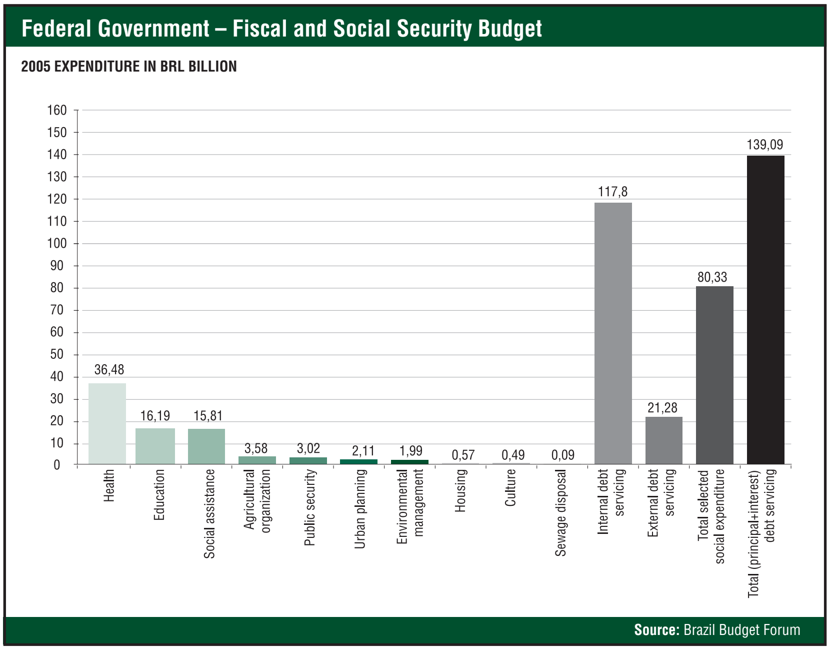
The development finance issue is not only concerned with acquiring financial means but also involves choices about their allocation; in the case of Brazil, the existence of a State bank with surplus capital to invest provides a good example. The choice of development model can contribute, or not, to social development and the elimination of inequality. Development involves other dimensions beyond the mere quantification of GDP growth rates and a more critical vision is needed when choosing projects for economic and social development in Brazil.

As described by Mineiro, the Brazilian government has adopted a "short term pragmatism" that is made apparent by the importance attached to external account adjustments and in its emphasis on a rapid increase in the balance of payments (Mineiro, 2005). This strategy justifies the ever-increasing provision of finance to the pulp and paper sector by BNDES. The volume of loans to this sector grew by 145% in 2005 while the sectors of food and drink, textiles, clothing and accessories, leather, and domestic appliances registered a fall of 5%, 51%, 52% and 58% respectively.[4] If there was a relation between Government economic policy and the adoption of incentives for BNDES loan contracts, these sectors should be given priority. It is well known that the manufacture of products for mass consumption is labour intensive and therefore contributes to reducing unemployment. These sectors are able to drive the virtuous cycle of an increase in working families' income, a broader mass consumption base, investment, increased productivity and competitiveness, further increasing working families' income.

Additionally, BNDES could look for ways of investing in social infrastructure that use intensive labour. According to the Brazilian Institute of Geography and Statistics 42.7% of the population lack access to sewerage networks or a septic tank, which means that more than 80 million people live with open sewers.

4 See *Boletim Desenvolvimento, Democracia e Direitos:* www.ibase.br/dvdn/edicao-15122005.htm

CHART 1



Another question to consider beyond the availability of resources is whether certain projects presented as "big development projects" are really promoting development in a broad sense. As Novoa (2006) says, due to their dimensions and scope some infrastructure projects have the power to consolidate development trends that in reality follow the logic of private interests.

Building development strategies involves an inversion of this logic and a redefinition of priorities to reorientate the use of financial resources. It is estimated that between BRL 9 - 10 billion (USD 3.8 - 4.2 billion) a year would have to be invested over 20 years in order for most Brazilians to benefit from basic sewage disposal systems.[5] If BNDES is a development promotion bank why does it not use part of its resources to solve these problems? Instead of financing the construction of new hydroelectric plants with large-scale negative socio-environmental impacts, BNDES could invest in projects orientated towards the cheapest way of solving the energy deficit.[6]

However, as we have endeavoured to demonstrate, such decisions have not been technical but political and have reinforced the interests of groups benefiting from a model that is not committed to fighting inequality or protecting the environment. Commercial agriculture in Brazil is an emblematic example of this. In May 2006 the government provided BRL 50 billion (USD 20.4 billion) to assist agricultural producers thus demonstrating the political influence of soy, timber and agricultural produce exporters who have been partly responsible for the deforestation of the Amazonian and central-west regions, which has had wide international repercussions.

An important step for improving this situation could be the re-politicization of the economy by the definition of values that orientate decisions towards favouring an inclusive development. Although Brazil has consolidated its democracy during the last 25 years, this has not had much effect on the structure of economic relations and for this reason growth continues to feed social inequity and the denial of rights while damaging its natural and cultural assets. ■

5 National Industry Confederation data quoted in an interview in *O Globo* journal, 24 May 2006.

6 A study sponsored by the World Bank and the United Nations Environment Programme concluded that China, India and Brazil could reduce their energy consumption by 25% through adopting simple low cost measures.

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The challenge of redirecting reforms and resources towards the human factor

The neoliberal model of economic development promoted by the IFIs and imposed by the Bulgarian government has brought the country to a turning point: further economic growth and full integration in the EU cannot be sustained without income convergence with the EU and greater labour market participation, qualifications and skills. This calls for efforts to reduce poverty and inequality, promote social inclusion and integration in the labour market, and achieve a high and sustainable level of education.

Bulgarian Gender Research Foundation
Bulgarian-European Partnership Association

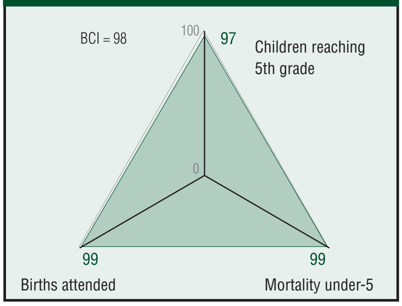
Recent economic analyses undertaken by international agencies, including the World Bank, have highlighted the need for a major shift in the allocation of resources in Bulgaria. The pressing need for new reforms to increase productivity, per capita income, competitiveness and efficiency, according to the latest neoliberal discourse, is in fact the need to invest in fundamental human rights. It means redirecting reforms and resources towards people, which is also the only way to curb the severe demographic crisis and to meet the goals and commitments of the EU Lisbon Agenda.

Contrary to the expectations and rhetoric of the major trade players and the international financial institutions (IFIs), international trade and structural adjustment programmes (SAPs), tend to increase inequality and cause so-called "immiserating growth" (Joekes, 1999). But it is precisely this model of growth, followed by the Bulgarian governments during the transition, that now poses an obstacle to full integration in the EU, which requires more equal and competitive partners.

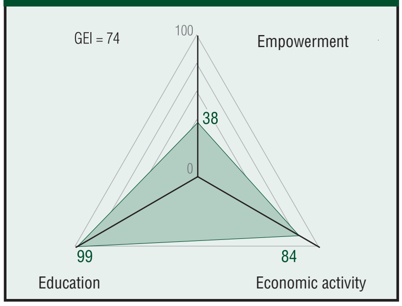
The very promoters of this model, such as the World Bank, recognize its failure by admitting that reforms did not bring about the desired results. Consequently, they now recommend new ones, including budgetary reforms and resources reallocation. Above and beyond any differences in language and interpretation, one thing seems clear: that reforms and restructuring can no longer ignore the human factor, which is central for achieving sustainable economic development, and this fact has its budgetary implications.

According to the World Bank's assessment, over the last seven years Bulgaria "has made impressive progress towards long-term stability and sustained growth" (World Bank, 2006a). Average growth reached the levels of New Member States (NMS-8) at about 5% per year between 2000 and 2004. Despite this overall positive performance, however, it is recognized that Bulgaria is still one of the poorest countries in Central and Eastern Europe. In 2003, the country's per capita income in PPS (purchasing power standards) was 30% and 57%, respectively, of the average level in the European Union-25 (EU-25) and NMS-8 countries. Given Bulgaria's large income gap with EU-25 and its rapidly aging population, serious measures in the labour market and social sector are needed if the country's accession to the EU is to result in sustained and meaningful improvements in its standards of living.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Aging population leads to shrinking labour force

One of the most daunting obstacles facing Bulgaria is its negative natural rate of population growth (about -0.7% per year) which, together with net out-migration (about -0.1% per year), has resulted in negative population growth averaging -0.8% annually during the 1990s and early 2000s. As a result, the working-age population is declining rapidly, while the aging population is growing equally rapidly. It is estimated that in 20 years the working-age population will have shrunk by 19% and the population over 64 years of age will have increased by 17%. In the meantime, Bulgaria currently has the second-lowest labour market participation rate (49.4% versus 58% in EU-25 in 2003) and lowest employment rate (43.6% versus 53% in EU-25 in 2003) in Central and Eastern Europe.[1] As a result, meeting the Lisbon Agenda criteria of increasing the employment rate to 70% by 2010, which implies increasing labour market participation and reducing unemployment levels, seems highly questionable, if not impossible. Moreover, productivity growth cannot compensate for low labour market participation. Even if productivity were to increase, without the needed increase in labour market participation, Bulgaria's per capita income would remain below one-third of the EU-25 level.

Therefore, trapped in the results of reforms that led to demographic crisis and abstract growth, without taking into consideration the human factor, Bulgaria faces the challenge to find a way out, namely by adjusting budgetary flows to the Lisbon Agenda.

Investing in productivity

In this respect, overemphasizing the importance of the prospective EU funds for the 2007-2013 period – the estimated net amount is only EUR 5.5 billion, bearing in mind the agreed contributions of Bulgaria to the EU budget – would divert attention from the real problem. Bulgaria urgently needs to mobilize its domestic resources through more effective spending in the public sector and mainly through productivity growth. The effects achieved by increasing productivity will be three times greater than by merely raising public expenditure.

Shifting resources from lower to higher productivity sectors would require radically different investment policies to the ones the Government has favoured so far. In fact, although significant in quantitative terms, FDI inflows have tended to go to sectors that are oriented towards the domestic market and are generally characterized by lower productivity, such as financial services, real estate and tourism. The expansion of the services sector has been more pronounced than in the NMS-8. Externally oriented activities, where productivity is higher due to increased competition, tend to be in unskilled, labour-intensive, higher energy-consuming sectors,

1 National Statistical Institute. <www.nsi.bg/Population_e/Population_e.htm>.

TABLE 1

Consolidated State Budget by Function (in BGN million)

	2003 Reported	2004 Reported	2005 Programme	2006 Programme	2007 Projection	2008 Projection
I. General Government Services	**1,097.8**	**1,115.2**	**1,232**	**1,546.1**	**1,374.1**	**1,419.9**
% of GDP	3.2%	2.9%	3.0%	3.4%	2.8%	2.7%
II. Defence and Security	**1,787.7**	**1,946.4**	**2,086.8**	**2,345.2**	**2,440**	**2,667.7**
% of GDP	5.2%	5.1%	5.0%	5.1%	5.0%	5.0%
III. Education	**1,504.7**	**1,652.4**	**1,798.9**	**1,899.6**	**2,094.3**	**2,272**
% of GDP	4.4%	4.3%	4.4%	4.2%	4.3%	4.3%
IV. Health Care	**1,697.7**	**1,769.1**	**1,777.7**	**1,997.4**	**2,109.5**	**2,289.1**
% of GDP	4.9%	4.7%	4.3%	4.4%	4.3%	4.3%
V. Social Security	**4,805.2**	**5,238.4**	**5,596.5**	**6,169.3**	**6,431**	**6,766.2**
% of GDP	13.9%	13.8%	13.5%	13.5%	13.2%	12.8%
VI. Housing, Construction, Public Works, Public Utilities and Protection of the Environment	**497.3**	**586.3**	**946.8**	**981.0**	**1,106**	**1,209.8**
% of GDP	1.4%	1.5%	2.3%	2.2%	2.3%	2.3%
VII. Recreation, Culture, Religious Activities	**286.1**	**303.7**	**286.1**	**330.7**	**318.3**	**335.6**
% of GDP	0.8%	0.8%	0.7%	0.7%	0.7%	0.6%
VII. Economic Activities and Services	**1,621.8**	**1,838.5**	**1,786.4**	**2,100.6**	**2,032.3**	**2,291.8**
% of GDP	4.7%	4.8%	4.3%	4.6%	4.2%	4.3%
IX. Expenditures Unclassified Within the Other Functions	**770.1**	**748.8**	**1314.3**	**1100.5**	**1212.1**	**1179.2**
% of GDP	2.2%	2.0%	3.2%	2.4%	2.5%	2.2%
TOTAL EXPENDITURES	**14,068.5**	**15,198.7**	**16,461.5**	**182,588.0**	**18,853.4**	**20,158.6**
% of GDP	40.7%	40.0%	39.8%	40.0%	38.7%	38.0%

Source: Government of Bulgaria (May 2005), Budget Projections for the period 2007-2008; and Budget for 2006.

such as textiles and wood processing, which represented about 41% of Bulgaria's total exports in 2003. Capital and skilled labour-intensive exports, in contrast, reached a share of about 29% of exports. Therefore, in addition to very low labour market participation, a broad share of employment remains in largely unproductive segments of the economy or in activities where productivity is stagnant. It is obvious that maintaining a large number of workers in low-salary, low-skilled sectors at high risk of exploitation, such as the garment industry, does not increase productivity.

Investing in human capital

Investing in human capital means not only shifting resources between sectors but also investing in raising the standard of living, and in the health and education of the country's citizens. In addition to the extremely low average salary in Bulgaria and a minimum salary of around USD 100, the subsistence minimum for a family with two children had risen to USD 954 by early 2006. According to trade unions, between March 2005 and March 2006 alone, life in Bulgaria became 10.9% more expensive. These trends left three million Bulgarians under the poverty line (set at USD 117 per household member) and 55% of citizens at risk of poverty. Raising the living standards of members of vulnerable groups and their integration in the labour market should be priorities for mobilizing public resources.

Investing in upgrading labour skills and education is another major direction for reallocation of state budget funds and further public expenditure restructuring. The main tasks are improving the quantity and quality of human capital and access to education by vulnerable groups, as well as strengthening the links between the skills acquired in the education system and those needed in the job market. This can be achieved through more resources for education and vocational training and more effective spending of public resources. Optimizing expenditure on education involves quality-enhancing inputs, such as the modernization of curricula, textbooks, and teaching materials and teachers' wapes and qualifications. With average wages close to the overall national average, Bulgaria currently falls among the countries with the lowest-paid teachers.

This is a major point of disagreement with the advice of the IFIs, which discourage increased public spending on education as a share of GDP and instead recommend "better outputs with the same cost" and decreasing the role of the state by expanding the role of private education providers. These recommendations from the IFIs, if followed by the government, will lead to an even deeper crisis in the sector, similar to what has happened in the health sector and the failure of a series of reform programmes undertaken on their advice. State expenditure on education was 4.3% of GDP in 2004, which is significantly lower than in other European countries, and specifically the NMS-8, for instance: Estonia 5.7%, Hungary 5.5%, Latvia 5.8%, Lithuania 5.9%, Poland 5.6%, Slovenia 5.9%.[2] Instead of the IFIs' advice, the Government should follow the example of the NMSs, which obviously took the appropriate measures in order to meet the Lisbon Agenda requirements.

Reallocation of resources towards education and vocational training is fully possible in the framework of the current state budget. For example, the share for Defence and Security of 5% of GDP in 2005 is a heavy burden for the budget and the citizens. The share for Defence in particular was 2.3% of GDP in 2004, an amount assessed as very high by the World Bank economic analyses as well. Comparison with the defence share in the NMSs – which are also NATO member states – is very indicative: Estonia 2%, Hungary 1.4%, Latvia 1.7%, Lithuania 1.6%, Poland 1.8% and Slovenia 1.4%.[3] Clearly, the Government has to redirect resources from state security to human security.

Fighting corruption

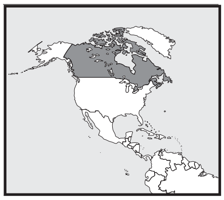
Meeting the requirements of the Lisbon Agenda will also require stamping out corruption and improving the efficiency of the administration and the judiciary. These are conditions set by the European Commission for Bulgaria's full EU membership as of 1 January 2007. Despite the Government's efforts to convince the public of its efficiency in this area, a report from the Sofia Centre for the Study of Democracy, based on a country-wide survey earlier in 2006, argues that perceptions of corruption are increasing and the general view is that the boundaries between organized crime and public authorities, including the highest levels of government, remain porous.

(Continued on page 258)

2 Data obtained from: Bulgaria, Ministry of Finance; IMF, Government Finance Statistics; Eurostat; and OECD.

3 *Ibid.*

Fighting mad – Canada's new focus on the world



Canada is in the enviable position of having posted a budget surplus for nine consecutive years. While these resources could be used to remedy the eroding access to basic services like health care, education, and even clean water and housing, the Conservative government has chosen to adopt massive tax cuts that will further increase the gap between rich and poor, while substantially expanding its military capacity without explanation or debate around this significant change in Canada's international role.

Canadian Centre for Policy Alternatives
Armine Yalnizyan[1]

A newly elected minority government is redefining the meaning and purpose of the federal government in Canada.

A decade of fiscal surplus is scheduled to end, with little to show for it except the prospect of a more militarized and "security-conscious" Canada, and a growing gap between rich and poor.

Despite being in a minority position, the disarray of the opposition parties has allowed the Conservative government to pass sweeping change through Parliament. The Government's two main federal priorities are now focused on slowing revenue-generating capacity through massive tax cuts, so as to reduce expectations of the Government, and redirecting the purpose of government away from supporting social security towards providing military security.

The commitment to expanding Canada's international role in combat requires huge investments in equipment, infrastructure and personnel. No other sector of interest – including Canadians' number one concern, health care – is afforded this kind of support (Laghi, 2006).

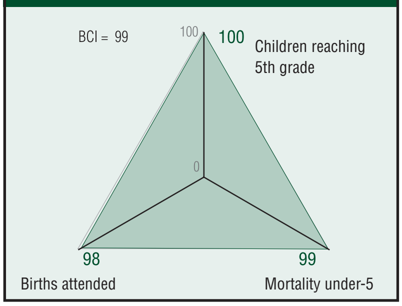
Eliminate the federal surplus, eliminate expectations

Canada has enjoyed an unbroken string of budgetary surpluses at the federal level since 1997. It is the only nation in the G8 to have such fiscal luxury. Until this latest budget, Canada was set for surpluses as far as the eye can see. It stands atop almost CAD 18 billion in surplus funds this year, and over CAD 19 billion next year (DoFC, 2006a, p. 160).

This minority federal government plans to eliminate "unplanned" surpluses, principally by reducing taxes and paying off national debt. It also plans to decrease the rate of growth in federal spending, largely by reducing the scope of government and shifting its focus (DoFC, 2006a, p. 21).

The 2006 budget speech notes that spending will become more consistent with areas of federal responsibility (DoFC, 2006b, p. 18). This is widely interpreted to mean a tight focus on international issues, as well as a devolution of programs and funding to the provinces for supports on social issues. Within the context of international issues, the Government has placed emphasis on defence/security and trade rather than international development, assistance or reconstruction.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

The combined surplus between 2005-2006 (the year the new government was formed) and 2007-2008 is CAD 54.6 billion. Without question, enormous change could be financed through such "extra" revenues. Indeed, large changes are afoot.

The May 2006 budget allocated half of the surplus to new tax cuts (CAD 26.2 billion until 2007-2008) and promises more to come. When debt reduction is included (CAD 14 billion to 2007-2008), almost three quarters of the surplus disappears. Net new spending initiatives total CAD 9 billion over the two-year horizon (DoFC, 2006a, p. 160).

A further CAD 3.6 billion is provisionally allocated to a set of spending initiatives brokered by the previous minority government and is the source of one-time funding for:

- Housing (CAD 1.4 billion, of which CAD 800 million goes to an "affordable housing" program that appears to be part of the new fiscal arrangements with the provinces, (DoFC, 2006a, p. 111), and a potential CAD 600 million for off-reserve Aboriginals and the northern territories)
- Public transit supports (CAD 900 million)
- Supports to colleges and universities (CAD 1.1 billion infrastructure trust fund)
- Foreign assistance (CAD 320 million)

A final CAD 2 billion remains as unallocated surplus.

Of the CAD 9 billion that will go to new spending initiatives, most goes to three areas:

- The Conservative approach to child care, the so-called Universal Child Care Benefit (a taxable allowance which sends CAD 3.9 billion in cheques to families with children under age 6 rather than actually expanding child care)
- A new focus on the military and security (totalling CAD 2.6 billion by 2007-2008)
- Infrastructure deals that are targeted at highways, border and "gateway" security, with some renewals of existing municipal infrastructure funds (totalling about CAD 2.5 billion over the next two years).

Resources were also freed up by abandoning two major initiatives undertaken by the previous minority government, which were viewed as breakthroughs in fields that had faced decades of difficulty in gaining access to funding.

One was the Kelowna deal with Canada's First Nations, Métis and Inuit peoples, which provided CAD 5 billion over five years to address chronic shortfalls in education, housing, health and water services in Aboriginal communities. This was replaced with CAD 450 million to meet all the needs but housing. "Up to" CAD 300 million was provided to address housing issues among off-reserve Aboriginals. Another "up to" CAD 300 million was directed to the northern territories to create affordable housing, but does not flow to reserves or Aboriginals.

The other cancelled agreement provided CAD 5 billion over five years to launch Canada's first-ever bid to create a national approach to child care. The plan to create 250,000 licensed child care spaces by 2009 was shelved in order to finance the Conservatives' Universal

1 The author is Research Associate with the Canadian Centre for Policy Alternatives.

Child Care Benefit, discussed above. This spending program does nothing to help working families find child care. Further, because it is taxable, few families will get the full amount. Ironically, the ones that do are families with one parent at home and the other earning more than CAD 106,000. Families on social assistance receive only CAD 950 because the Universal Child Care Benefit is also partially financed by the young child supplements that previously went to the poorest families (worth about CAD 250 a child).[2] It should be noted that the CAD 3.9 billion "face-value" of this program costs the public purse 28% less because it is taxable and replaces an existing program (Goff, 2006).

Despite the economic largesse available at the federal level, Canadians from rural, remote and urban regions across the country continue to voice concern about eroding access to basic services like health care, education, even clean water and housing.

The mayors of the biggest cities recently warned that mounting infrastructure needs threaten to swamp local coffers. They seek senior government assistance in functions that were devolved a decade ago to the local level without passing on commensurate resources. Needed transit investments are estimated to require an additional CAD 4 billion in operating costs per year for Canada's urban centres (Big City Mayors' Caucus, 2006). Other estimates of the funding gap for hard infrastructure (roads, sewers, electricity, etc.) run at about CAD 50 billion currently, growing to approximately CAD 100 billion over the next 20 years (Robertson and Horsman, 2005, p. 25-29; and De Bever, 2003).

The existing surplus amounts could have helped address these concerns. Instead, a flurry of tax cuts will most benefit those with the highest income, further accentuating the growing gap between rich and poor.

Tax cuts and debt reduction will continue shrinking the federal presence in the economy and society. Federal spending and revenues as a share of gross domestic product (GDP) are at levels not seen since just after World War II, and even then only fleetingly before the federal government engaged in the project of postwar reconstruction in Canada (Yalnizyan, 2005, p. 59). The budget plan seeks to contract federal spending further, to 13% (from 13.7%) by 2007-2008, and shrink revenues to 15.5% (from 16.4%) (DoFC, 2006a, p. 22).[3]

Consider that 1% of GDP will be worth about CAD 15 billion by 2007, enough to finance much of the annual costs of the nation's infrastructure and social needs, not to mention finally arriving at the goal of providing 0.7% of GDP in the form of international assistance. That goal was first set in 1969 by former Canadian Prime Minister Lester Pearson. By 2007-2008, official development assistance (ODA) will have reached about 0.26% of GDP, down from 0.54% in 1975,[4] and the defence budget will be more than four times as large as the budget allocated to ODA.

This is the backdrop against which the new government is setting its directive to gear up for greater combat in the world. This represents a significant cultural shift in Canadian politics – one that is taking place without political debate.

Gearing up the military

At first glance, the increase in military spending in the budget is not stunning. This budget adds CAD 1.1 billion to the Department of National Defence over the next two years. There is a further CAD 1.5 billion in spending on other security issues such as border and port security, police, and prisons.

But there is more here than meets the eye. At the end of June, mere weeks after the Budget was tabled, the Minister of Defence had a whirlwind week of announcements that totalled CAD 17 billion in spending on capital military equipment, including trucks, ships, helicopters, and tactical and strategic airlifts.

The Conservative promise is for at least CAD 5.325 billion more in the defence budget over the next five years. This comes on top of the previous government's allocation of CAD 7 billion over five years to the Department of National Defence in the 2005 budget, which described its expansion as the "largest increase … in 20 years" (DoFC, 2005, p. 22). That CAD 7 billion in budgetary funding "will support CAD 12.8 billion in additional expenditures by the Forces in that period" (DoFC, 2005, p. 221).

Budgetary figures that look modest today will grow quickly over time. The CAD 17 billion in new capital spending appear as quite small amounts in budgetary terms in 2006-2007 and 2007-2008. That is because expenditures for capital are amortized over the lifetime of the equipment, so they look very small in annual budgets.

Such logic has not held sway in the search for financing urgent community infrastructure needs such as upgrading hospitals, repairing schools, building affordable housing or creating child care spaces. It took three rounds of highly publicized federal-provincial negotiations over more than five years to come up with CAD 3 billion for desperately needed investments in medical equipment, despite a concern across the country that Canadians are getting sick or dying because underinvestment in capital needs has led to delays in diagnostic tests.

The CAD 17 billion currently allocated for the military's capital needs vastly eclipses these other demands, but CAD 17 billion is just the beginning. A recent Senate report states that capital requirements for big-ticket equipment items over the next 20 years range between CAD 58 and CAD 81 billion – almost equivalent to the rest of the nation's needs (Standing Committee on National Security and Defence, 2006, p. 47).

The 2006 budget plans to add 23,000 soldiers to Canada's current complement of forces, which stands at about 62,000 regulars and 26,000 reservists (DoFC, 2006a, p. 135). The goal of 75,000 regular forces may also be only a first step. Senator Colin Kenny (2006), chair of the Senate Committee that has been studying military needs since 2003 states the need is in the order of 90,000 regular soldiers (with a commensurately larger reserve army).

It should be noted that, despite more than a decade of hand-wringing about the crisis in health care, this budget did not fund even one more doctor or nurse for the health sector.

The planned growth in the size of the military is staggering compared to everything else the federal government does. No other federal budget line has seen this breathtaking rate of expansion – doubling in a decade, and still growing. One expert has noted this "will put Canadian military spending at a higher level than any amount of spending in adjusted dollars since the Second World War."[5]

The Canadian public has not been told why we need to expand our military capacity by this scale. Where are these troops going to be deployed? What are we doing overseas? Why?

Growing inequality – poverty reduction falls off the policy menu

Meanwhile, inequalities among Canadians are accelerating on a whole host of dimensions.

Differences based on where a person lives or the size of their wallet increase with every passing year in access to basic needs like child care, training and education, affordable housing, clean water, public transit, programs for youth, income supports when jobs run out, recourse to the justice system, etc.

Those differences are accentuated for women.

For decades Canadian women have worked hard to minimize their economic vulnerability. There are now more female than male graduates of post-secondary education. Women keep setting records in labour force participation rates. More women own their own homes and invest in their own retirement savings plans than ever before. Women are also having fewer children, more women are having no children, and more women of all ages are living on their own.[6]

Yet women still earn less than men, represent fewer positions of influence within business and public institutions, and are still more economically vulnerable.

The economic progress that Canadian women have made has been on their own steam. Over the past decade, public policy changes have worked against women, despite the federal government's 1995 commitments to reduce poverty and gender inequalities.[7]

(Continued on page 258)

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2 See www.universalchildcare.ca for more information.

3 Note that new accounting and reporting rules make all these figures approximately 1 percentage point higher than they were before, but the trend lines remain unchanged.

4 Based on Budget Plan 2006 figures estimating that international assistance will total CAD 4.1 billion in 2007-2008 (p. 137) and that nominal GDP will rise to CAD 1,517 billion in the same year (p. 22). Even aid has shifted focus. Between 2001 and 2004, 28% of new resources for aid were targeted to Iraq and Afghanistan, neither of which were priorities previously (RoA, 2006, p. 258).

5 Staples, S. Director of Security Programs, Polaris Institute, Ottawa, Presentation to the Standing Committee on National Security and Defence, 8 June 2006.

6 Documented by Statistics Canada in a number of publications.

7 Canada is signatory to a variety of UN international agreements on poverty reduction and gender equality, including the World Summit for Social Development (1995); the Fourth World Conference on Women (1995); the Millennium Development Goals (2000); and the International Conference on Financing for Development (2002).

Progress towards parity

Student mobilization for educational improvements has echoed a general discontent with social inequity. Led by Chile's first woman president, the new Government has announced measures to improve the privately funded pension system, with a particular emphasis on achieving parity for women.

Equipo de ACTIVA[1]

"Copper sky high, education rock bottom" was the most representative slogan of Chile's largest social protest movement since the return to democracy in 1990 after 17 years of military dictatorship. Between April and June 2006 there was a countrywide mobilization of some 600,000 secondary students demanding government action to improve the quality of education.

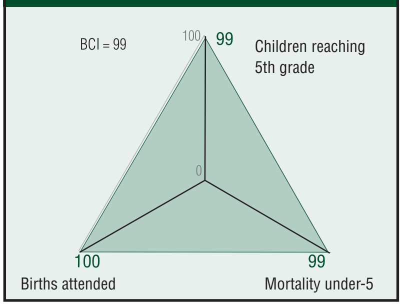
The slogan clearly alludes to the extra USD 11 billion that the State will collect this year due to an increase in the price of copper, the country's main export product. "The March of the Penguins" (a name arising from the students' blue and white uniforms) not only highlighted the poor quality of education but also echoed the discontent felt by hundreds of thousands of Chilean men and women with an increasing awareness of the unequal opportunities generated by acute social inequity.

Disaffected children of democracy

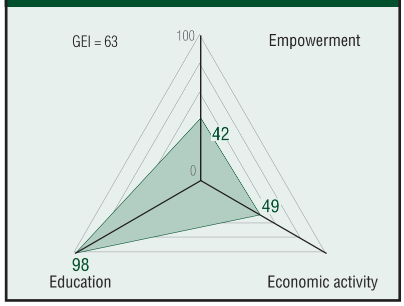
The outbreak of student unrest came as an unexpected shock to the Government. Particularly so because of undoubted efforts made by the governing coalition in education matters since they assumed power after the dictatorship. In fact the education budget increased from CLP 619.9 million (approx. USD 1.66 million) in 1990 to CLP 2.28 billion (USD 3.94 million) in 2005; the Constitution was amended to extend from 8 to 12 the number of years of compulsory free schooling provided by the State; at primary level full-day schooling is being introduced as a result of which more than 2 million pupils in 7,000 schools have access to better infrastructure and more class-hours. Between 1990 and the present day the number of young people enrolled in higher education has risen from 245,000 to over 600,000. In 1990, 72,000 of them were receiving financial assistance towards their studies amounting to a total of CLP 28 billion (approx. USD 75.03 million) and by the end of 2005 160,000 were receiving such assistance that then totalled over CLP 28 billion (USD 48.35 million). The overall fiscal contribution to higher education has risen from CLP 123 billion (approx. USD 329.58 million) in 1990 to approximately CLP 290 billion (USD 500.69 million) in 2005.

1 The report was prepared in consultation with members of Coalición Chile.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Why then has student discontent arisen? Largely because upon graduating from municipal schools it is very unlikely that students will be able to enter technical or higher education or acquire a trade enabling them to get a qualified job. These fourteen- to seventeen-year-olds are demanding that the authorities make radical changes to the education system, the inequalities of which are evident. There are around three million secondary students of which only 8.5% attend non-subsidized private schools. In these schools there is an average monthly investment of CLP 140,000 (USD 267) in the education of each pupil. For the 91% of young people attending municipal and subsidized private schools this figure is only CLP 30,000 (USD 57). The strength and persistence of the secondary students' movement and the echo and sympathy that it has found in the rest of the population are therefore not surprising.

The other side of the coin: an avalanche of dollars

The student mobilization interrupted a debate provoked by a new situation unprecedented in the history of a country characterized by decades of indebtedness and balance of payments deficit. With the price of copper close to USD 4 a pound, the dominant debate in the public domain – and in media headlines – focused on how to manage, and where to invest profitably, the avalanche of dollars produced by a period of steadily rising copper prices, instead of on discussing the best way of easing and managing the public debt.

Chile is increasingly different from the rest of the region's countries in becoming for the first time in its history a net creditor country, i.e. it is contributing to the financing of other economies' deficits.

The country's net consolidated public debt will have a positive balance of 2.5% of Gross Domestic

TABLE 1

Chile's macroeconomic performance

	2000	2001	2002	2003	2004	2005
Growth rate	4.5	3.4	2.2	3.9	6.2	6.3
Internal demand (real annual variation as %)	6.0	2.4	2.4	4.9	8.1	11.4
National income (real annual variation as %)	4.4	2.4	2.8	3.9	8.6	9.1
National savings (% GDP)	20.6	20.6	20.7	20.7	23.0	23.6
Inflation (to December each year)	4.5	2.6	2.8	1.1	2.4	3.7
Unemployment rate (%)	9.2	9.1	8.9	8.5	8.8	8.0
Exports (USD millions)	19,210	18,272	18,180	21,664	32,215	40,574
Imports (USD millions)	17,091	16,428	15,794	17,979	23,020	30,394
Current account balance (USD millions)	-897	-1,100	-580	-964	1,586	702

Source: Chilean Central Bank, National Statistics Institute.

Product (GDP) this year, estimated by the Central Bank to be between USD 2.5 billion and USD 3 billion. This is due to the application of the structural fiscal surplus rule that allows for a more expansive public expenditure only in low phases of the economic cycle while emphasizing fiscal saving in high phases.[2]

Pensioners expect change

One sector likely to gain from this fiscal boom are the hundreds of thousands of senior citizens who would benefit by the Social Security Reform promised by President Michelle Bachelet, of the Socialist Party, for her presidential term, which began in 2006 and was reduced to only four years of government by the most recent constitutional reform.

This reform is a high government priority because after 25 years there is now evidence that the Pension Fund Administration (PFA) system – based on individual capitalization capacity – will never by itself provide pensions to all Chileans.[3] In fact, only a fifth of PFA affiliates will receive pensions higher than the minimum guaranteed by the State, equivalent to some USD 85 per month, and more than half of them will receive no pension, only the possibility on retirement of withdrawing the limited funds that have accumulated in their individual accounts. In short, everything seems to indicate that the State will have to subsidize the millions of women and men who, based on the assumption that it would ensure an adequate income for life during old age, have since 1981 been paying part of their salaries into a system created during the military regime and administered by the private sector.

PFAs have become one of the most dynamic sectors in Chile's economy, yielding an annual return close to 25%.[4] In contrast with this thriving reality there are problems with the overall pension system of a seriousness that makes radical surgery unavoidable. Less than 60% of the labour force is contributing affiliates. Over 50% of the labour force has incomes of less than USD 370 per month. Half of the affiliates are wage-earners who pay contributions for less than 4.2 months a year in the case of men and 3.6 months a year in the case of women, resulting in only small accumulated sums in their accounts far less than the USD 26,415 required to obtain a minimum pension. Around 90% of self-employed workers do not pay contributions; 78.2% of senior citizens and 90% of over-seventies receive pensions but only 4.3% of them are PFA financed from funds accumulated in individual accounts of which a significant part are provided by the State.

TABLE 2

Participation, unemployment and pay: men and women between 20 and 60 years old (2002)

	PRIMARY EDUCATION	SECONDARY EDUCATION	MORE THAN SECONDARY
Income from work (CLP)			
Men	141,065	210,268	467,007
Women	95,126	144,321	293,909
Possibility of being in work (%)			
Men	77.6	84.5	88.6
Women	45.8	59.2	74.9
Participation Rate (%)			
Men	91.2	95.4	94.4
Women	59.8	71.4	83.7
Unemployment Rate (%)			
Men	14.9	11.4	6.6
Women	23.4	17.2	10.5

Source: PFA Superintendence

Gender disadvantage

The situation of pensioners in general is not encouraging and even less so in the case of women. The figures are explicit. The overall average contribution "density" is low at 52.1%, i.e. approximately 21 years of contribution in a 40-year working life. For women, the situation is even more precarious with an average contribution density of 43.4% as compared with 59.6% for men.

A government that has made gender parity one of its key priorities cannot overlook the discrimination against women and the disadvantage inherent in the pension system. This is due, among other reasons, to the increasing relationship between self-generated pension income and income received during the working life of an individual. Here it is evident that women suffer in three ways: because of the characteristics of their integration and permanence in the work market which are affected by child rearing, through gender related lower pay and as a result of high rates of female unemployment.

In the state pension system neither gender nor marital status affects the size of a pension which is determined solely on the basis of the wage at retirement and the number of payments made. However this is not so in the PFA system where women are required to make larger contributions than men because they tend to live longer. In addition a married man has to pay more than a single man to cover the probable longer life of his wife.[5]

Commitment to equity

The present administration's commitment to pensioners was demonstrated recently with the publication of proposals generated by the Social Security Reform Commission, a body of experts drawn from across the entire political spectrum and charged with making recommendations on this subject. The Commission's nine main proposals included the creation of a solidarity pillar with the aim of ensuring a basic universal pension of USD 142, suggestions for encouraging contribution payments by self-employed and young workers, tenders for portfolios of affiliates that have just entered the work market and the subsidizing of monthly contribution payments made by low income workers. Two of their proposals received immediate but differing responses from the Chilean President. On the one hand a categorical rejection of the proposal that the retirement age for women be made the same as for men at 65. On the other hand a positive reception for the recommendation to subsidize the pension payments of 60% of the poorest women in the population by providing one year's contribution per live birth. For feminist groups this is a clear indication that Chile is approaching the old aspiration of 'a pension for the housewife'. ■

2 The structural fiscal surplus regime, introduced in 2000, is an anti-cyclic rule that determines fiscal expenditure levels compatible with a 1% of GDP surplus if the economy grows in accordance with its potential and the average price of copper remains in line with 10 year estimates.

3 Decreed Law No. 3500, 1980, instigated an obligatory pension regime based on individual capitalization, no fixed benefits, private and competitive administration and the free choice of affiliates. This regime replaced the old system of shared funding that was based on generational solidarity, state administration and fixed benefits.

4 According to estimates by Economist Marcel Claude, "PFA administered funds amount to over 40 thousand million pesos, which in 2004 represented 64 % of Chile's GDP. That is, out of every 100 pesos generated in the country during that year, 64 were PFA managed". *Radio Universidad de Chile.* 22 March 2006.

5 Bernstein S. and Tokman, A. (2005). *Brechas de ingreso entre géneros: perpetuadas o exacerbadas en la vejez?* Working Papers Series Nº 8. Pension Fund Administration Superintendence. Santiago, Chile.

A resource allocation that will not meet the MDGs

Increased social expenditure has not been accompanied by an improvement in coverage or service quality. The Colombia Plan, partly funded by the USA and international cooperation, allocates 74% of its resources to military build-up and only 26% for social purposes. Assistance for people displaced by the armed conflict is very limited.

Corporación Región
Ana María Arteaga (Research and texts)
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More than a decade after the World Summit for Social Development (1995) and the international commitment to "the goal of eradicating poverty in the world, through decisive national actions and international cooperation, as an ethical, social, political and economic imperative of humankind", the situation of the poor in the world is not encouraging and Colombia is no exception to this. In 2005, 66% of the population were in a state of poverty,[1] of which more than 18% were in extreme poverty (Garay, 2002, XXIV).

The Government has a strategy for poverty and inequality reduction[2] with the goal of reducing the incidence of poverty to 41.1% by 2010 through "social expenditure compatible with fiscal balance, high and sustained growth that is not over-sensitive to the economic cycle, greater access to basic and higher education, a dynamic work market and a rural development strategy". This programme is ambitious in its goals but insufficient if the reality of the country is compared to the Millennium Development Goals (MDG).

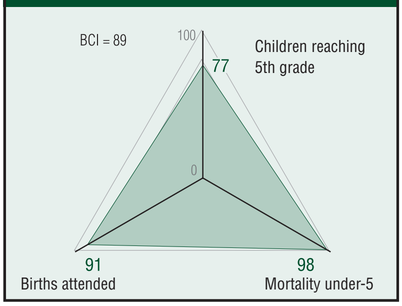
More expenditure but less coverage or less quality

Tax income represented 10.7% of the Gross Domestic Product (GDP) in 1990 and 13.6% in 2003. In terms of the 2003 peso (COP), it doubled from COP 15 billion in 1990 to COP 30.97 billion (USD 11.26 million) in 2003 (Ossa, 2004). Expenditure has also increased: in 1990 it represented 9.6% of GDP and in 2003, 20.9% of GDP.

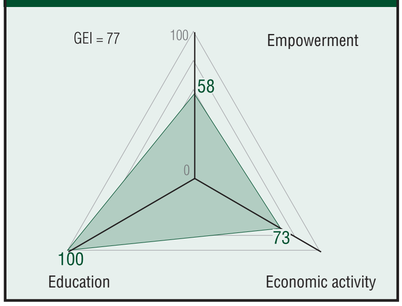
Economic growth has been cyclic and unstable (Sarmiento, 2006). Without solving structural problems, social expenditure has partly compensated for a development model that has generated exclusion and polarisation. However this trend of increasing social expenditure has not produced a proportional growth in the coverage, quality and relevance of social services (Garay and Rodríguez, 2005, p. 22). The justice and defence item is an important element of the "Towards a Community State" Plan and is allocated resources equivalent to a 4.9% of GDP, mainly destined for the army and the police. The main item of social expenditure is the General Participation System, which in 2005 represented 5.6% of GDP, comprising 58.5% for education, 24.5% for health and 17% for general purposes.

The planned social objectives have not been met partly because of the privatisation of basic services and the fact that increased investment (in terms of a percentage of GDP) has been overwhelmed by growing social demand.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The Colombia Plan

After more than three years of implementation the Colombia Plan, mostly funded by Colombian public resources and assistance from the USA, has focused on the military sector, leaving social investment projects in the background. With 74% allocated to military (60%) and police (14%) build-up, only 26% is channelled to social investment. Currently the Colombia Plan is associated with the armed conflict, the war budget, illegal cultivation substitution and the strengthening of military structure and the Defence Ministry. Of the Plan's total cost, 61% is financed with national debt (internal 22% and

TABLE 1

Budget items as a percentage of GDP (2002-2005)

	2002	2003	2004	2005
I.OPERATIONS	**16**	**15.2**	**16.9**	**17.1**
Personnel	3.6	3.4	3.4	3.2
General Expenditure	1.1	1.1	1.1	1.1
Transfers	11.1	10.5	12.2	12.5
Commercial operations	0.2	0.3	0.2	0.3
II.DEBT SERVICING	**11.2**	**11.9**	**10.1**	**10.9**
External Debt	4.6	5.8	3.3	4.5
Amortizations	2.8	3.4	1.6	3.0
Interest	1.9	2.4	1.7	1.6
Internal Debt	6.5	6.1	6.8	6.4
Amortizations	4.0	3.1	3.8	3.3
Interest	2.6	3.0	3.0	3.0
III. INVESTMENT	4.5	3.8	4.2	4.2
TOTAL	31.6	30.9	31.2	31.2

Source: National Public Budget General Department (Sarmiento, 2006).

1 Comptroller General of the Republic and Development Research Centre. The National Planning Department's figure is 52%, equivalent to 21,953 million people living in poverty.

2 See <www.dnp.gov.co/paginas_detalle.aspx?idp=623>.

external 39%), 35% with assistance from the USA and 4% with international cooperation (Comptroller General of the Republic, 2002).

Investment in economic, social and cultural rights

Health

According to the Ombudsperson (Defensoría del Pueblo, 2003), in order to guarantee health rights four guiding principles have to be observed: availability, accessibility, acceptability and quality, for which the State has specific obligations. This is about the right to a healthy life in a broad sense, which implies a guarantee of minimum essential levels of access to services and medicines, nutritive food, a basic domestic sewerage and drinking water service, appropriate work conditions, public health programmes and a healthy environment.

The legal framework establishes two objectives, service efficiency and universal coverage of an adequate quality. To achieve them two strategies were proposed: an endeavour to make health insurance coverage universal and the introduction of regulated competition to guarantee efficiency in the General System of Health Social Security. The latter however utilised the application of macroeconomic principles that ended up turning the health sector into a market.

In 2003, ten years after the System began operating, health insurance coverage reached 62%. Total affiliation increased by 33.5% between 1993 and1997 and by only 4.6% between 1997 and 2003, which reflected the limitations of the system for achieving universal coverage. (Garay and Rodríguez, 2005, p. 119).

Health rights are not guaranteed by affiliation to the system. Administrative obstacles result in a systematic denial of service provision by Health Service Provider Companies and Health Risk Administrators, both of which work with a profit rationale rather than with social service provision criteria [3] (Defensoría del Pueblo, 2004).

Education

Fulfilling the education provision obligations established by international human rights doctrine and jurisprudence involves guaranteeing the right to availability, access, permanence and quality.

Between 2003 and 2006 General Participation System funds for education grew by 15.2% from COP 364.6 million (USD 143,600) to COP 420.1 million (USD 165,460).[4] However the quality policy has turned into one of using measurements to evaluate students and teachers reducing the concept of education quality to the mere attainment of certain standards. Also, the rapid rise in the cost of matriculation in recent years induced the sacrificing of quality for coverage and prompted the creation of finance schemes for primary, secondary and higher education so that the population could have access to education, which according to the Constitution should be free.

Indicators show that advances are difficult and slow and "when they do occur, they demonstrate how precarious the right to education is due to both the significant ongoing shortfalls and the disillusionment that is engendered... It could be said that the denial of expectations is a regressive factor because it separates people more and more from the effective exercise of their full right to a quality education" (Pinilla, 2006, p. 18). An education that is comprehensive but lacks quality contributes to increasing the divide between social groups and producing social exclusion.

State contributions to education continue to be allocated almost exclusively to covering teachers' pay. Investment in quality has for the most part been completely ignored and the allocation of resources is decreasing.

Secure food supply

The objectives set in the 2002-2006 Development Plan for the agricultural sector had a regional focus, especially on rural conflict zones and productive zones where security is deteriorating. However, the implementation of policies that guarantee land rights has been increasingly difficult since the merging in 2003 of four bodies to form the Colombian Institute for Rural Development, which has resulted in greater hindrances to rural economic development and to production in small family agricultural units (Garay and Rodríguez, 2005, p. 260). Added to this, are the strong interests that parties to the armed conflict have in land. Also, according to the Ministry of Agriculture, in 2003 the resources budgeted for the sector were 29.9% less than in 2002.

According to Economist Luis Jorge Garay, agricultural sector public policies were designed to allow the market to be the distributor of resources and as a result less and less resources were provided from the national budget. Policies that were adopted focused on productivity and prices through the use of subsidies and on protection for the interests of a small minority, without solving structural problems that affect the entire rural population (Salgado, 2004).

There is no public policy that guarantees the right to food. In Colombia poverty is the direct cause of the hunger of millions of people who, without a minimum and regular income, cannot have access to basic food requirements. There are 2.318 million children aged 5 to 17 who will be working in the streets in 2006.[5]

Displaced population

Among the most perverse consequences of the armed conflict is forced displacement, which has made Colombia one of the countries with the greatest incidence of this phenomenon. More than three million people, 7% of the national population, have been victims of forced internal migration (CODHES, 2006).

The Comptroller General of the Republic (2005) estimates that COP 4 billion (USD 1.58 million) is needed to meet the displaced population's needs. This sum is almost nine times the amount allocated for this purpose between 2000 and 2003. The government has only been able to provide assistance for 31% (360,830 people) of the total number of victims of forced displacement, who on average receive only 42% of the resources that they need.

Although the displaced population budget allocation increased significantly in 2004 due to a decision of the Constitutional Court, resources continue to be directed principally to the democratic security policy and specifically to the demobilisation and reinsertion of members of armed groups operating outside the law. Between 2000 and 2003 each demobilised member of these groups received COP 19.5 million (USD 7,680), while an entire displaced family received only COP 5.5 million (USD 2,167).

Displacement deprives people of their means of survival and it is extremely difficult for them to re-establish these in the place where they arrive. Being displaced from their lands and having great difficulty in gaining access to work opportunities, health services, education, recreation and property, they become a highly vulnerable population that can easily fall into poverty or destitution. ■

3 Between 1999 and 2003, the Constitutional Court received almost 145,000 writs of injunction, 25% of them invoking the right to health, with an average of 7.8 tutelage actions per 10,000 inhabitants during that period. 71% of them were based on medical attention rights violations.

4 National Education Ministry. Planning and Finance Consultation Department. Executive summary. March 2006.

5 *El Colombiano.* "Ya son 2.000.000 de niños los que trabajan en el país" (There are already two million children working in the country). 12 June 2006, p. 1A, 3A and 11A.

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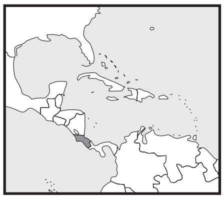
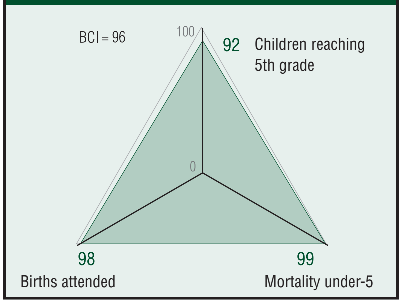
Improved articulation between social programmes needed



Some social indicators show an improvement but poverty has increased and salaries have decreased. Not all of the finance destined for the Social Development Fund actually goes into it and poor articulation between different assistance programmes impedes efficient management.

Programa de Participación Ciudadana
CEP - Alforja
Red Costarricense de Control Ciudadano
Carlos Pentzke
Mario Céspedes

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

During 2006 the focus of debate and social mobilization will be on the proposed Free Trade Agreement (FTA) between Costa Rica, the USA and the Dominican Republic. The action will take place in several arenas: the Legislative Assembly, where negotiations between political parties will result in the approval or rejection of the agreement, the Chamber of Commerce, civil society organisations and the streets, where the social movement holds sway. The situation is becoming potentially conflictive because the government of Oscar Arias, which took office in May, has failed to promote bridge building with the various stakeholders, resulting in a radicalisation of positions.

Social indicators: advances and setbacks

The prospects for a universal improvement in the quality of life have deteriorated. This can be seen in an increased incidence of poverty, reduced income from employment at all levels and reduced State provided social security payments made to households through various programmes and services. The poorest and most vulnerable social sectors are the hardest hit.

Life expectancy, child mortality and educational coverage have shown a predictable improvement in view of the ongoing increases in public expenditure. In 2004, child mortality was 9.25 per 1,000 live births, the lowest rate in the history of the country. Secondary education coverage expanded with a greater attendance at schools and other post-primary education facilities, but at the same time dropout rates increased.

However, indexes for income generation, poverty, employment and pensions, which indicate opportunity distribution through the population, show clearly negative trends.

Measured in terms of income, poverty has increased from 18.5% to 21.7%. This represents approximately a million people and 38,000 poor households. Measured in terms of unfulfilled basic needs, poverty affects 36% of households and one in every three Costa Ricans. The situation is worst in the metropolitan central region and in the south.

The average per capita income in households fell by 6% and real minimum salaries decreased.

In 2005 the economy grew by 4.2% and 13,000 jobs were created. In 2004 the unemployment rate for women was 8.5% and for men 5.4%. Young people aged 16 to 20 experience particular difficulties, with an unemployment rate for that group of 17.2%.

Some 45% of the economically active population contribute to the pension system. Reforms were adopted in the system for invalidity, old age and survivor benefit of the Costa Rica Social Security Fund, which has the problem of a wide coverage (close to 87%) and a limited contributor base.

After a period of rapid advance in the acknowledgement of women's rights and other gender issues, some fundamental changes still have to be addressed. In general, women's employment situation is more precarious than men's and this is particularly so for self-employed women. At the same time, the number of women holding political office has increased and women occupy 50.9% of seats in the 2006-2010 Legislative Assembly.

Civil society keeps a wary eye on the FTA

Campaigning for the election, contested by the National Liberation Party and the Civil Action Party, took place in the context of polarised positions for and against the FTA. If approved, this agreement will affect the region's economic, legislative and social orientation, as well as levels of political governance. Of the potential signatories Costa Rica is the only one that has not yet finished its parliamentary discussion process on the FTA. The main factor that has led to a change in the timetable for approval is an increasing social opposition to it, expressed by the articulation of civil society organisations in processes of information dissemination together with the organisation and mobilisation of communities across the country. Public Universities, the Ombudsman's office, the Costa Rica Electricity Institute Board of Directors and the Catholic Church's Social Ministry, among others, have made public their objections to the FTA. In addition, the narrow margin of victory in the election (the National Liberation Party won by a mere 18.000 votes) has denied the present Government team a clear-cut mandate.

The Government's goal is a country "open" to foreign investment as a foundation for economic growth in order to generate wealth that will be redistributed with compensatory mechanisms and policies to the social sectors adversely affected by commercial liberalisation. However, the poorest provinces, the ones that practically delivered the election victory to Arias, do not necessarily understand the relation between FTA approval and the capacity to sustain long-term social programmes.

Poverty elimination strategies

The plans for combating poverty implemented during the last two decades have not significantly reduced it. The situation has been exacerbated by an accelerated demographic growth. In the middle of 2005 an audit by the Comptroller General of the Republic detected a series of deficiencies in the formulation of the New Life Plan, implemented by the administration of Abel Pacheco (2000-2006). Irregularities dating from previous administrations were identified in budgetary allocation and the implementation of assistance programmes. These irregularities require structural corrections to ensure the continuity of social programmes. Among other things, the audit detected inconsistencies between the poverty reduction plan and the National Development Plan, economic policy weaknesses incompatible with poverty reduction objectives and a lack of communication between the Social Council and the Economic Council on relevant issues. As a consequence, poverty elimination measures are haphazard and have little impact. Also, institutional efforts to implement programmes take place in a strategic framework that focuses on providing assistance to poor families. This generates dependence on assistance. Defects were also found that resulted in the exclusion of some of the communities that registered highest on the poverty index.

Family Allocation Fund: weakened mechanism

The finance for the Social Development and Family Allocation Fund (FODESAF) comes from a 5% company payroll tax and 20% of sales tax income. It finances several social programmes implemented through state institutions. Due to the nature of its funding structure, the Fund's actual resources vary according to the rhythm of the economic cycle, which reduces its response capacity during periods of public expenditure contraction. Although its legal status is maintained its weaknesses are increasingly evident. The financial resources actually received by the Fund and by social sector institutions are much less than the allocation authorised by the Finance Ministry and some institutions are not able to apply all of the resources allocated to them by the end of the year. The Fund registered a surplus of CRC 5.7 billion (USD 11 million) in 2003 and of more than CRC 2 billion (USD 3.9 million) in 2004.

According to the latest State of the Nation Report (2005) the real value of resources provided to the FODESAF by the Finance Ministry diminished by 23% between 2000 and 2004. Also, according to Marcela Román, one of the Report's expert authors, the stipulation that 20% of sales tax income be allocated to the FODESAF has not been complied with since the late 1980s.

As shown in the State of the Nation report the Comptroller General of the Republic revealed that in 2004 institutions implementing social programmes registered a surplus of CRC 17.5 billion (USD 34 million) in spite of the fact that in real terms their allocation had decreased. This surplus was almost equivalent to the sum allocated to them in the National Budget. A partial explanation for this is that the Finance Ministry tends to transfer resources to the institutions in the last month of the year, which prevents the implementation of activities planned for that year. In addition Budget Law provisions prevent institutions from making use of these funds during the following year. It is not clear whether by this device the Finance Ministry seeks to reduce public expenditure through non-implementation or, even worse, if it is obeying a hidden strategy to reduce state capacity for exercising social policy.

Social Watch activities

The Costa Rica Social Watch Network organised activities within the framework of the Global Call to Action against Poverty campaign including information dissemination, training, the formulation of a document critically analysing poverty in the country and a campaign in the mass media. In addition activities linked to civil mobilisation against the FTA were organised, since this agreement represents an institutional framework that would reduce the State's capacity to design and implement social policies.

TABLE 1

Transfers to the FODESAF from Sales Tax (S/T) - 2000-2005

(IN MILLION CRC, WITH CRC 510 = USD 1)

	AUTHORIZED TRANSFER TO FODESAF IN THE NATIONAL BUDGET FROM S/T	AUTHORISED TRANSFER AS A PERCENTAGE OF TOTAL INCOME FROM S/T	ACTUAL TRANSFER	ACTUAL TRANSFER AS A PERCENTAGE OF TOTAL INCOME FROM S/T	ESTIMATED TOTAL INCOME FROM S/T
2000	42,300	12.07	18,198	5.19	350,250
2001	48,739	12.18	12,500	3.12	400,100
2002	51,944	15.53	24,183	7.23	334,475
2003	19,687	4.73	10,845	2.60	415,850
2004	20,938	4.00	2,000*	0.43**	456,340
2005	25,000***	4.83	517,000		

* Sum actually transferred up to 31 October 2004

** Percentage corresponding to the sum actually transferred up to 31 October 2004

*** Sum approved in the first legislative debate on the National Budget Project for 2005, in November 2004. However the Budget project formulated by the Executive proposed an allocation to FODESAF of only CRC 10,498.8 million.

Source: DESAF.

Injunction writ

In mid-2005 a delegation of representatives from social organisations and FODESAF beneficiaries sought an injunction writ in the Constitutional Court demanding the immediate provision of due resources to the Fund to ensure compliance with requirements established in various articles of the Constitution and to meet the basic needs of the population, as well as measures against public officers for not having lodged the pertinent legal actions necessary to comply with juridical obligations in relation to the Fund. It was also requested that the Costa Rica Social Security Fund be provided with its due funds. In May 2006, almost a year later, the Constitutional Court delivered its ruling to the organisations of the Social Watch Network granting the injunction writ and "warning the public officers concerned not to repeat in future the omissions cited in support of the injunction." Under the ruling the State was ordered to pay costs and damages.

In addition the Network's report on poverty in the country was presented to government authorities, members of the Legislative Assembly, public institution officers, the media, international bodies and representatives of social organisations. This report proposes, among others, the following initiatives:

- The formulation of an equitable national employment policy that accommodates gender, ethnic-cultural and regional differences and is based on employment development criteria rather than macroeconomic indexes.
- The implementation of a development strategy based on the decentralisation of State functions and public services through local government strengthening and civil society participation.
- The promotion of a rural development policy that incorporates smallholdings, the development of organic production technologies and agro-industry and guarantees food security and national self-sufficiency.
- The implementation of educational reform through State policy that transcends political-electoral cycles, guarantees access to free education and encourages humanitarian values that will promote the development of a citizenry committed to building a free, democratic and independent society based on tolerance and solidarity.
- The re-direction of FODESAF resources to families and persons excluded from the economically active population, in order to fulfil the constitutional requirement for adequate wealth sharing. The procurement of an immediate provision of finance legally due to the Fund and the re-definition of its objectives along with the articulation of its efforts with civil society organisations and institutions. ■

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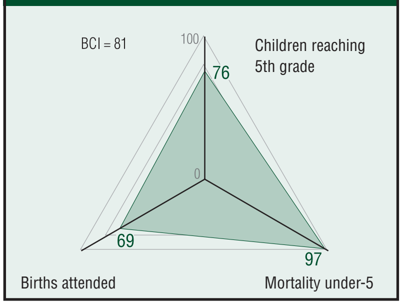
Oil exploitation versus citizens' rights

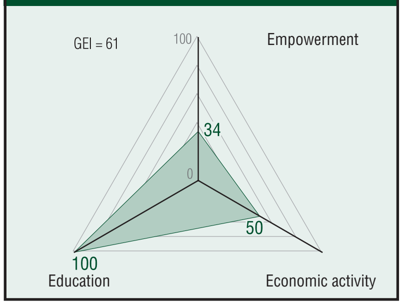
There is going to be more investment in health and education thanks to a new social reactivation fund, but valuable resources have been lost due to difficulties in implementing the scheme, and there are no long term programmes. The Government ought to provide the services that are a constitutional right for the population, seek alternatives to over-dependence on oil, and take measures to counter the negative impact that oil exploitation is having on the environment and on local and indigenous communities.

Centro de Derechos Económicos y Sociales (CDES)

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



More money has been flowing into the treasury in the last few years because Ecuador's main source of foreign currency is oil, and the price of oil has been rising. This has meant increased funds for the national budget, so the Government has no excuse for not fulfilling its constitutional obligations to ensure that the economic, social and cultural rights of the population are provided for. However, for more than 20 years structural adjustment policies have been in operation because of pressure from the international financing organizations, and because successive administrations have done a poor job of managing the economy. Their policies have made for increased indebtedness. The argument was that it would be easy to pay off these debts by intensively exploiting the country's oil and by raising taxes, but citizens' rights have been overlooked and there has been no serious attempt to improve the quality of life of the population as a whole.

These government policies, and structural changes they have caused, have had a severe negative impact on people's rights in Ecuador. Unemployment rates are high, emigration is on the rise, more people are going hungry and fewer people have access to good quality health and education services. This dynamic is not conducive to fostering economic growth or sustainable human development.

The national budget clearly shows what the Government's priorities are. The figures speak for themselves. In 2003, spending on long term defence assets went up by 196% while the amounts spent on educational and hospital equipment went down by 88% and 49% respectively. In 2004 the main priorities were still foreign debt payments and allocations to the telecommunications sector and the military, and there was a series of regressive measures in areas of vital importance like education and housing.

The oil-based budget

Governments over the last 10 years simply do not seem to have been aware that the citizens have a whole range of rights including decent work, adequate food, housing, health, education and an unpolluted environment, and that the programmes and services to provide these depend on the Government's own economic and social policies, on the way these policies are implemented, and on the amount of resources that are allocated to these areas in the annual budget (CDES, 2006). According to the Ecuadorian Integrated System of Social Indicators, in 2001 some 61.3% of the population were living in poverty and their basic needs were not being met. This is just one of the consequences of an economic and social policy in which human development is disregarded.

In 2006 the total national budget came to USD 6,254 million, an increase of 15.2% on the previous year. Some 28.6% of this total came from the export of oil and the sale of the by-products of this industry. In 2006 social investment went up by 13.1% over the previous year. This was a considerable increase, but most of the allocation went on current costs, mainly salaries, rather than on specific long-term social policies. In the 2002-2003 period, Ecuador ranked second to last out of 21 countries in the region in terms of social expenditure as a percentage of GDP (5.7%). Only Trinidad and Tobago allocated a lower proportion. In the same period social spending in neighbouring Peru doubled (to 8%), and in Bolivia it nearly tripled (to 13.6%) (ECLAC, 2005).

Accumulated social debt

Successive governments have not honoured their constitutional obligations to allocate a specific proportion of State income to basic services for the people. According to article 71 of the Political Constitution, the Government should allocate at least 30% of current income to education and to eradicating illiteracy, but the figures show that this is simply not happening. When we consider current income and budget provisions and compare these with the allocation for education stipulated in the Constitution, it emerges that over a ten-year period the State has built on an accumulated debt of USD 1,285.92 million that should have been allocated to the education system but never was (Central Bank of Ecuador, 2005).

The education budget in 2006 was USD 112 million higher than in 2005. Of this, USD 89 million (79.4% of the increase) went on salaries in the sector. This shows that there is political will to improve funding for education, but more of the available finance was eaten up in salaries than was invested in long term policies and programmes. This makes it clear just what the Government's priorities are when it comes to drawing up budgets and choosing where to allocate extra funding.

It is the same story with the nation's health system. It is laid down in the Constitution that the health budget should be increased every year by the same percentage that general income increases, but it is no surprise that this has not happened. If we make the corresponding calculations it emerges that the total extra amount that should have been allocated to health between 1995 and 2004, that is to say the money the State "owes" to the health system, comes to USD 1,143 million (Central Bank of Ecuador, 2005).

Another complicating factor is that for some programmes the level of effective execution in a particular year – which stands at an average of 60% for the social sector – determines the amount allocated in subsequent years. This means that in spite of overall increases in social spending, there are some programmes and sectors for which the allocation is actually falling year by year.

Lastly, it is a sad fact that the gap between the tax burden and social expenditure is among the widest in the region. The ratio between the percentage of taxes and GDP is nearly double the ratio between the percentage of social investment and GDP. Out of all the countries in the region perhaps Venezuela is in the best situation in this respect since social expenditure there is higher than the percentage of taxes. But in countries like Argentina, Chile and even Bolivia the gap is much narrower than in Ecuador (ECLAC, 2005).

More funding for health and education

It has frequently been pointed out that Ecuador is in a paradoxical situation. On the one hand oil prices have soared to record levels in the last two years, but on the other hand the country does not have sustainable human development programmes, and the profits from the oil business have not been spent on improving living conditions for the population as a whole.

In July 2005, in an attempt to tackle precisely this problem, the Government set about reforming the so-called Organic Law of Responsibility, Stabilization and Fiscal Transparency, and this involved changing the Fund for Stabilization, Social and Productive Investment and Public Indebtedness Reduction (FEIREP) into a Special Account for Social Reactivation (CEREPS). The aims of this reform were to "improve the quality of public investment, protect human capital and bolster the economic reactivation of the country". The reform was a response to the crisis in social institutions and programmes, and it is designed to foster long-term social investment. In quantitative terms this change has had positive results since, under the old system, only 10% of FEIREP funds were allocated to education and health, while 20% was for stabilization and no less than 70% went on buying back and servicing the country's debts.

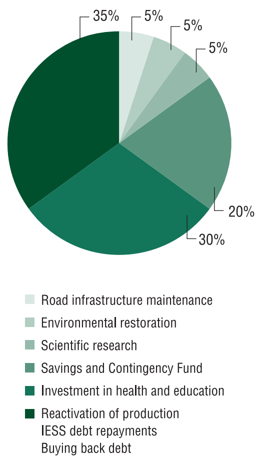
Under the new system, CEREPS, there has been a marked increase in the percentages invested in education and health, a set percentage is allocated to restoring damaged segments of the environment, and the percentage that goes to foreign debt servicing has been cut by half.

In terms of fiscal policy the setting up of the CEREPS has been important for the social sector, and it is one of the positive changes that has taken place in the last year. Nevertheless, certain difficulties arose when the FEIREP was changed into the CEREPS in 2005. Between August and December of that year the CEREPS had USD 97 million available for education, USD 97 million for health, and other funds for various other areas as laid down in the new provisions. However, between 16 and 31 December 2005, USD 170 million (apart from repurchases of internal debt) was transferred out of the account. This meant that only USD 48 million was actually available for education and only USD 56 million for health, which amounts to only about half of the funds originally allocated.

It is clear that the resources were handed over in a hurry at the end of the year. This made it impossible for government bodies to use these funds in a programmed and planned way, and it was inevitable that public funds received at the last minute would be wasted. Balances that have not been used when the fiscal year closes on 31 December must by law be transferred automatically to the Savings and Contingency Fund, whose function is to guarantee the flow of the oil income budgeted and support the tax system (OJO, 2006). In practice, however, all resources allocated to social investment are lost if they are not paid out.

CHART 1

Distribution of CEREPS resources



Source: Ecuadorian Social Security Institute (IESS). Based on the Organic Law of Responsibility, Stabilization and Fiscal Transparency of June 2002.

How far should the oil frontier go?

The CEREPS has certainly given cause for optimism, but there will be surplus profits available for social investment only if the current trend for rising oil prices on international markets continues for the next few years.

At the present time there are plans to extend the geographical area of oil concessions and increase the yield of the wells that are already in production, and this poses a potential threat of enormous proportions. Further exploitation of this natural resource will put even more pressure on indigenous rural communities in the Amazon region of the country to abandon the struggle to defend their rights to the land that they live on. The oil frontier is advancing, and this is putting the economic, social and cultural rights of the communities in the area in jeopardy. The Government should take measures not only to save the environment from destruction but also to safeguard the human rights of these local people which have been, and are now being, violated by the State and by the transnational oil companies.

Increasing long-term social investment cannot be a justification for pillaging natural resources or violating human rights. It would be very perverse indeed to maintain that it is acceptable to destroy the environment and the land and lives of one sector of the population so that another sector of the population can enjoy an improved quality of life.

Conclusions

In the latest budget, for the first time in the last six years, social expenditure went up less than total expenditure, which shows that it is still a low priority area. Nevertheless, the creation of the CEREPS has been a step in the right direction, and the sectors that have benefited most are health and education. It seems that, in the future, oil profits will be better used to foster human development.

However, it is not enough to rationalize public expenditure and increase investment in the social sector, it is also essential that social projects should be planned with a long-term perspective and implemented efficiently. This is complicated by the fact that the funds allocated to social investment are still insufficient not only to improve the living conditions of the most vulnerable sectors of the population but also to meet the State's domestic and international obligations in the sphere of economic, social and cultural rights and protecting the environment.

Unfortunately, in practice, the formulation of social policies is quite separate from the formulation of economic policies, and this makes for inefficiency in public spending and insufficient funding for social investment, which affects the poorest and most vulnerable population groups in the country. These resources are not allocated in line with state policies aimed at promoting the well being of the whole population. Ecuador urgently needs to change track to ensure that budget resources are distributed more equitably and to generate public policies that are geared to bringing about a real improvement in people's quality of life.

The big challenge for the country's finances in the years ahead is to find alternatives to dependence on oil. This challenge also involves not only implementing policies that reduce as much as possible, in the short and middle term, the negative impact that the oil industry is having on the lives of people and communities, but also preserving the country's environment and keeping it clean and healthy for everyone. ■

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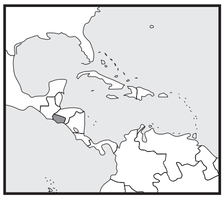
EL SALVADOR

In need of increased long-term social spending



It will be impossible to reach the Millennium Development Goals without greater fiscal income, control of foreign debt, and eradication of corruption. Also needed are sustained growth and long-term public spending.

Social Watch El Salvador
Jeannette Alvarado
Rudy Romero
Mario Paniagua [1]

Large increases in the prices of electricity and public transportation, the constant increase of basic living costs, rates of violence among the highest in Latin America, with an average of 12 homicides per day, and the weakness of democratic institutions, all contribute to a country in critical condition at the political, economic and social levels.

With more than a third of the population living in poverty, nearly three million emigrants, high rates of underemployment and unemployment (more than 40% combined) and lagging behind in regional economic growth, El Salvador needs to change its public policies in favour of greater social investment and an equitable distribution of wealth. In the last years there was neither economic growth nor implementation of measures – such as job creation or significantly increased social investment – directed at reducing poverty; however, there was a constant increase in basic living costs.

In 2004, the incidence of poverty ascended to 36.4% of the population, absolute poverty to 12.6% and relative poverty to 22%, with the greatest concentration in rural zones (43.7%). Nevertheless, these figures contrast with the 2003 El Salvador Human Development Report, produced by the UN Development Programme (UNDP), which states a poverty level of 42.9%.

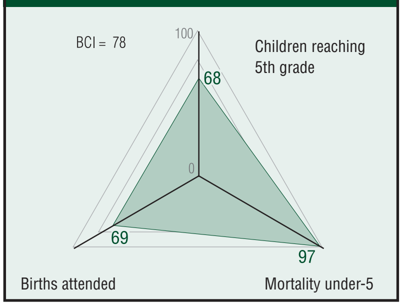
After one year in existence, "Solidarity Net", the Government's programme for the alleviation of poverty, has made no real impact and has been criticized as the monthly allowance of USD 15-20 per family in extreme poverty implies a total daily amount of USD 0.1 per person. Furthermore, it did not reach all the population set as its goal, and it spent much on publicity costs.

Aid from remittances

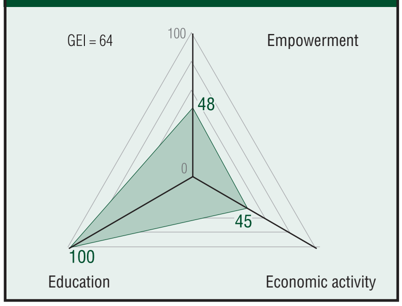
President Elías Antonio Saca stated to the UN that the proportion of people in extreme poverty was reduced by 18 percentage points between 1991 and 2004, from 33% to 15%. The UNDP has questioned the official method of determining poverty and has signalled that government statistics do not take into account poor people who are "expelled from the country" and sustain the national economy with their remittances.

The remittances, which in 2005 surpassed USD 2.83 billion, allow many families to satisfy their basic needs. The Economic Commission for Latin America and the Caribbean (ECLAC) and the UNDP have indicated that remittances alleviate poverty by between 7% and 8%. Figures from the Central American University (UCA) establish that each year some 145,000 people emigrate, with a total of 2.8 million Salvadorans living abroad, a figure equivalent to one fourth of the population.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Low public expenditure for health

The public expenditure for health continues to be one of the lowest in Central America, representing 3.3% of Gross Domestic Product (GDP), while private expenditure (direct investment from the population) constitutes 4.9% of GDP. The health system is inequitable, regressive, unsustainable and inaccessible to the poorer sectors.

A large part of the funds assigned to health are allocated to salaries (more than 70%, on average) and the rest are distributed for medication, medical supplies and other costs.

Suspension of "voluntary" fees

In 2006 the Minister of Health acknowledged that the public health system has survived thanks to great amounts of funding from the charging of "voluntary" fees actually imposed on patients, who generally cannot afford this service cost and who pay it to the detriment of other basic needs. The total amount of these funds is calculated at USD 18.2 million.

A complaint lodged with the Consumer Protection Authority by civil society organizations revealed the compulsoriness of the so-called "voluntary fee", leading the President of the Republic to order the suspension of this charge.

Lack of funds

Nevertheless, there are no mechanisms for supplying these funds to the Ministry of Public Health and Social Security, which has admitted having a deficit of approximately USD 5 to 7 million, in view of which it could request a budgetary supplement for the 2006 fiscal exercises and the 2007 general budget.

In spite of this deficit, in 2005 this Ministry was one of the State portfolios that had a budget surplus. Under the heading of infrastructure the Ministry used only USD 11 million of the USD 31.3 million available.

In relation to the fulfilment of the Millennium Development Goals (MDGs), there have been no concrete actions in the assignment of resources that indicate a willingness to attend to these requirements, no mechanisms that permit a social monitoring of all its phases (planning, budgeting, execution, evaluation).

The infant mortality rate has been reduced, but not the maternal mortality rate, nor have there been improvements in aid during childbirth, for HIV/AIDS and tuberculosis, or vaccination against measles. The World Bank proposes a minimal package of health and nutrition services that demands an additional 0.2% to 3% of GDP.

1 Members of the organizations that compose Social Watch El Salvador (APSAL, CIDEP, Human Rights Consortium, FUMA) would like to thank Carolina Constanza, Armando Pérez, Claudia Hernández, Jorge Murcia and others for their support.

TABLE 1

Indicators of the MDGs in education

EL SALVADOR					GROUP OF LOW TO INTERMEDIATE INCOME		
	1991	2002	2004	CHANGE	1990	2002	CHANGE
Net primary enrolment							
National	78	88	88	10	95	93	-2
Urban	87	91	90	3			
Rural	71	84	87	16			
Completion of fifth grade							
National	58	74.1	75	17	85		
Youth literacy (15-24)							
National	85	93	94	9	93	95	2
Urban	94	97	97	3			
Rural	76	88	90	14			
Ratio female/male pupils in primary and secondary education							
National	99		95	- 4	90	97	7
Urban	100		100	0			
Rural	98		91	- 7			

Source: Report of the Advancement of the Achievement of the MDGs. Education as a key factor of development. MINED. 2005.

Education: insufficient resources to achieve MDGs

In recent years, the Ministry of Education (MINED) has made efforts to improve the coverage and quality of the national system, among these the creation of a Presidential Commission and a long-term National Education Plan known as "Plan 2021." This plan integrates the international requirements of Education for All (EFA) and the MDGs.

Nevertheless, the assigned financing is insufficient.

The percentage of GDP dedicated to education (3.14%) is half of that recommended by UNESCO (6%) and is below the Latin American average (4.5%). Achievement of the MDGs would require an additional investment of 1.8% of GDP in the next 10 years. The resources exist, but greater tax revenue and private investment are needed, as well as increased bilateral and multilateral cooperation. "Plan 2021" intends to arrive at 6.29% of GDP, a goal compliant with the MDGs, but which lacks adequate backing under the current administration.

Of the entire school-aged population, 12% do not attend classes. In 2004 the average level of education was at 5.6 grades; 6.9 grades in urban areas and 3.7 in rural areas. In rural areas, 27.1% of women are illiterate, and at the national level 17.7% are, in contrast with 13% of the men.

The index of gender parity was 0.95 in primary and secondary education, with a slight advantage for the male pupils. Gender equity in education is a significant challenge, considering the loss of 4 and 7 percentage points at, respectively, the national and rural levels, in relation to 1991.

Other indicators like enrolment in primary school, progress to 5th grade and illiteracy reveal advances, greater in rural areas.

Public expenditure in education passed from 1.7% of GDP in 1990 to 3.4% in 2001. In 2002 and 2003 it underwent a decrease of 3.3% and 3.2% of GDP respectively, down to 2.88% in 2004; then increased again to 3.1% in 2005 and 3.14% in 2006. In 2006, the general budget for education is USD 510 million, and although it grew by USD 6 million with respect to 2005, it is still USD 47 million below the budget recommended by Plan 2021 and represents only 17.29% of public expenditure.

Fluctuations in recent years (after the Millennium Summit) reflect the lack of a consistent policy of increasing resources to achieve the MDGs. Even so, the global enrolment rate increased from 1.2 million students in 1992 to 1.7 million in 2003. Of these enrolled students, two thirds are in rural areas, where poverty is concentrated.

Despite the elimination of "voluntary" fees in 2006 in the public schools and the assignment of a school budget for each student, 85.2% of educational centres consider that budget insufficient and in 2006 40% of the total cost of the education of each student will be supplied by his or her family.

In this sector the distribution of resources must also be reformed. Between 72% and 75% of the funds are consumed by preschool and basic levels, between 12.4% and 10.4% go for administrative costs and other costs, while investment in educational quality represents only 16% of total expenses per student.

Greater social investment is feasible

Between 1996 and 2003, the funds intended for social development increased from 4.7% to 7.3% of GDP. In education they increased from 2.2% to 3.1%, but in health only from 1.4% to 1.5% of GDP. The World Bank has expressed that more social investment is needed for the poor to benefit from economic progress and that this investment is feasible.

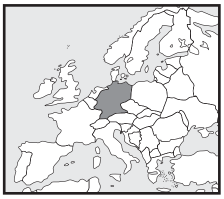
In order to reach the MDGs, the World Bank suggests that in the next ten years social expenditures increase from 3.2% to 3.6% of GDP, which demands a gradual increase of 4% in GDP by 2009. According to ECLAC, in order to achieve the MDGs high rates of growth are needed, but that these would be lower if there were an improvement in income redistribution. For El Salvador, without this improvement the necessary rate would be 5.4%. The average annual growth rate in the region is 2.8%.

These facts should be considered by the Government, which preferably should make its own estimates and, based on these, take the necessary and urgent measures to design a national budget that allows the achievement of the MDGs.

All social sectors coincide in the need for an increase in tax revenue and the GDP in order to obtain the resources that social investment requires. The differences are founded in the manner in which it is done. Social Watch, the Global Call to Action against Poverty and other civil society organizations consider a better distribution of the country's wealth necessary. Measures must be taken for a fully progressive fiscal reform, so that more taxes are paid by those with higher incomes. It is also necessary to increase the production of goods and services (especially giving incentives for agricultural production and new technologies) to strengthen the State and make it more efficient, generate worthwhile jobs and regulate economic activity, eradicate corruption, avoid tax evasion on the part of businesses along with other bad practices and control public indebtedness. Approximately 25% of the national budget is directed toward the payment of debt.

Among these measures, the eradication of corruption is the most urgent. This only requires political will and is an action of good management and transparency. After 17 years in the government, the Nationalist Republican Alliance (ARENA) has been involved in noted cases of corruption for amounts in the millions, but those responsible are not in prison. During 2004, due to income tax evasion the State failed to receive a sum of USD 2.5 billion. Clearly the resources can be made available. ■

No social progress in Germany, artificially inflated development aid abroad



The tax burden has been increasingly shifting towards lower income sectors, despite a continued decrease in real wages and social assistance payments. One result is the alarmingly high number of "working poor", many of whom depend on state support despite being employed. Meanwhile, contrary to its claims of increased contributions to development assistance, Germany's genuine ODA spending has actually fallen in recent years.

Social Watch Germany
Forum World Social Summit
Uwe Kerkow

For years, politicians aiming to consolidate government revenue in Germany have relied on types of taxation whose impact is felt mainly by people living on low and medium incomes. According to statistics produced by the trade unions, over the last 25 years, the share of business and wealth tax has fallen by around 10% and now constitutes just 17.7% of total tax revenue. (Eckelmann *et al*, 2006).

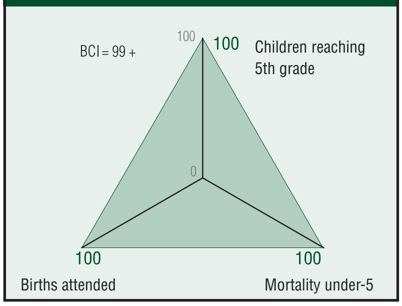
This socially inequitable policy is still being pursued rigorously despite the fact that the incomes of the dependent employed (waged or salaried workers), as well as government hand-outs, when adjusted for inflation, have been shrinking for some time. The last Social Watch Report notes: "In 2004 alone, national income rose by 3%. However, while government hand-outs, wages and salaries stagnated, there has been a substantial rise (10.4%) in income generated from business activity and capital assets." This was not exceptional, as the report also bears out: "In 2001, the German Trade Union Confederation (DGB) calculated that workers' purchasing power had decreased by an annual average of 0.7% between 1991 and 2000. In total, there has been a drop of 5.9% in purchasing power since 1991." (Social Watch, 2005). And now, the trade unions calculate that since 1998, "all the tax measures affecting the business sector" have cost the State EUR 12 billion annually in lost revenue. They reject the politicians' claim that low tax revenue means higher investment and therefore more jobs, pointing out that between 2000 and 2004, gross fixed capital formation fell by 11%, with the result that the rate of investment now stands at a lamentable all-time low. (Eckelmann *et al*, 2006).

Business and wealth taxes fall

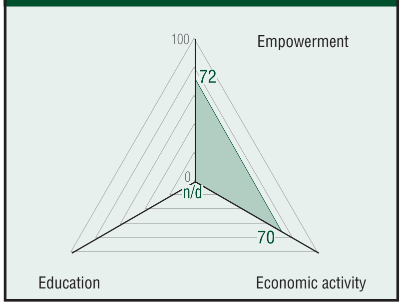
So far, however, these warnings have gone unheeded. As of 1 January 2007, the standard value added tax (VAT) rate will rise by three percentage points to 19%. This tax hike will have a disproportionate impact on low earners, pensioners on small incomes, families and people on state benefits, who have to spend almost all of their disposable income on consumption. Higher earners and the wealthy spend only part of their income on consumption and invest the rest at good rates of interest, so a rise in living costs has less of an impact on them. There is concern that the social divide will widen even further as a result of this VAT increase.

Moreover, despite the policy failures of recent years, plans are afoot to introduce a further cut in business taxes in 2008. For incorporated companies, the overall tax burden will fall from 39 to 30%, while corporate income tax will be cut from 25 to 16%. Partnerships can also look forward to a lower tax rate of 30% if the proprietors do not withdraw their profits for private use.[1] In the first two years alone, this tax cut is likely to cost the State between EUR 5 billion and EUR 10 billion. The proportion of the tax burden borne by those in dependent employment therefore seems set to increase further in future.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Social funding under pressure

The financing of the social systems has also come under growing pressure in recent years. In Germany, employees are compulsorily insured against social risks such as illness, the need for long-term care and unemployment, as well as for retirement. However, anyone earning a relatively high income or belonging to specific occupational groups (self-employed, freelancers and civil servants) can take out private insurance against these risks, thereby effectively opting out of the community's system of solidarity, which consequently loses these contributions. The widening gaps in the funding of the social insurance schemes are the result of Germany's high level of unemployment as well, since the jobless also pay no contributions to them. And finally, increased life expectancy will also play a role in the future, because a larger number of pensioners will need to be provided for.

Yet instead of trying to increase the number of contributors, politicians are funding the revenue shortfalls from taxation.[2] And in an effort to limit this expenditure, they are reducing the range of benefits and services available. For example, patients are increasingly being required to pay a contribution from their own pockets towards the healthcare services provided by their insurers. However, the most significant issue for the under 45s is that in the future, they will have to work until they are 67 instead of retiring at 65. Anyone taking early retirement – for example, on health grounds – will receive less money.

Working and non-working poor

Let's look more closely at the current social situation in Germany: according to Diakonisches Werk, the German Protestant Church's organisation for welfare and social work, at the end of 2005, more than seven million people in Germany – including some two million children and young people under 18 – were living on benefits at the level of social assistance.[3] In December 2005, 4,955,770 people

1 *Süddeutsche Zeitung*, 4 May 2006.

2 This point is made by Professor Christoph Butterwegge in a lecture based on his book *Krise und Zukunft des Sozialstaates*. Available from: <www.labournet.de/diskussion/arbeit/realpolitik/allg/butterwegge.html>. For a shorter version of this lecture, see Social Watch Report Germany 2005, p. 71ff.

3 Diakonisches Werk [online]. Available from: <www.diakonie.de/nl/fiba/20060131-Statistik-BSHG-2004-2005.pdf>.

were receiving Unemployment Benefit II and 1,779,859 people were claiming "social money" (Sozialhilfe), the two forms of basic social assistance. A further 500,000 or more people, including around 250,000 asylum seekers, were receiving other state benefits.

The second major group of the poor or people living in relative poverty is found in the so-called low-wage sector, where wages are sometimes even lower than state benefits. As a result, large numbers of people in work are still reliant on state support. According to Employment Minister Franz Müntefering, around 300,000 people are in this position.[4] As for the rest of the working poor, they cannot earn enough to achieve an income above the relative poverty line. The United Services Union, known as ver.di, estimates that almost seven million people now work in the low-wage sector.[5] Contrary to popular belief, however, this group is not under-skilled: according to ver.di, two-thirds of them have vocational qualifications and only a quarter of them are actually employed in unskilled occupations. Women, yet again, are especially hard hit.

The poor die younger

In light of this situation, it is hardly surprising that an alarming trend is emerging in the health sector as well: studies show that Germany's increasing social inequality is also reflected in variations in life expectancy.[6] The German Medical Association (Bundesärztekammer) has stated that the life expectancy of people living in poverty is as much as seven years lower.[7] This variation in mortality can only be partly explained by inequalities in access to health services. Personal pressures (work or family-related) are more significant factors. However, health-damaging behaviour (e.g. smoking, obesity) has proved to be the most important factor of all, and in Germany, this is particularly prevalent in the lower strata of society, especially among people with a poor level of education.

Development policy

Officially, the share of expenditure on official development assistance (ODA) in Germany rose to 0.35% of gross national income (GNI) last year, compared with just 0.28% in 2004. In line with the European Union's phased plan, the EU member states are to increase their ODA/GNI ratios to 0.51% by 2010 and to the internationally agreed target of 0.7% by 2015. Germany's Development Minister Heidemarie Wieczorek-Zeul has pledged her support, saying: "We are committed to this plan." According to the minister, the EUR 300 million increase in ODA funding this year shows that "the plan [will be] implemented consistently."[8] The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) also reports that Germany's ODA contributions have increased from USD 7.534 billion in 2004 to a total of USD 9.915 billion in 2005 and states that in real terms, Germany is the world's fifth-largest aid donor.[9]

Inflated Aid

However, a closer look at the figures reveals a different picture: only part of this total is actually "new money" for development cooperation. When calculating its ODA/GNI ratio, Germany routinely includes various items of often substantial non-aid expenditure, resulting in a higher ODA/GNI figure. German NGOs therefore talk about "inflated aid". According to the OECD's statistics, a total of USD 3.573 billion included in the calculation of Germany's ODA/GNI ratio was spent on debt cancellation alone, with the lion's share going to just two oil-producing countries, Nigeria and Iraq.[10] If this figure is removed from the calculation, we see that Germany's ODA spending has actually fallen by 9.8% since 2004. Another item which has accounted for an increasingly significant portion of German ODA in recent years is the spending on subsidized education for students from developing countries studying in Germany. According to the OECD, Germany's spending on this item amounted to USD 774 million in 2004.[11]

Little support for innovative funding for development

As described above, Germany's tax burden – which of course also provides the funds for development cooperation – is increasingly shifting onto average earners. And yet so far, Germany's pledge as a member of the Lula Group[12] to play an active role in introducing innovative instruments for the financing of poverty reduction and development has been followed by nothing more than declarations of intent. Responding to a parliamentary question from the Left Party, the Federal Government indicated that it currently has no plans to introduce a tax on securities or on foreign exchange transactions, nor does it intend to join the International Finance Facility (IFF) or, indeed, to levy separate charges on major corporations as a means of financing development.[13]

In its answer to this parliamentary question, the Federal Government's reaction to France's decision to introduce a levy on airline tickets is terse: "The Federal Government has… followed the French decision with great interest and is working in the international community's Leading Group for innovative financing for development." And yet at the Paris Conference on Innovative Financing Instruments this past 28 February, Minister Wieczorek-Zeul was still asserting that: "If we are to achieve the Millennium Development Goals, we have no option but to introduce innovative financing instruments… One possible initial concrete step could be the introduction of a development levy on air tickets. Such a levy could be introduced in a short period of time."[14] Since then, other countries besides France, including Brazil, Chile, Congo, Côte d'Ivoire, Cyprus, Jordan, Luxembourg, Madagascar, Mauritius, Nicaragua, Norway and the United Kingdom (with some restrictions)[15] have declared their willingness to levy this charge. The revenue will be used to help fund malaria and HIV/AIDS control programmes. ■

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4 *tagesschau.de* [online]. Available from: <www.tagesschau.de/aktuell/meldungen/0,1185,OID5390026_REF1,00.html>.

5 Michael Schlecht, chief economist at ver.di, in the Internet edition of *Frankfurter Rundschau*. Available from: <www.fr-online.de/in_und_ausland/politik/meinung/standpunkte_aus_der_zeitung/?em_cnt=886919>.

6 See, for example, the findings of a European Science Foundation research programme on "Social Inequalities in Health in Europe". A German-language summary (Siegrist) is available from: <www.bundesaerztekammer.de/30/Aerztetag/108_DAET/24Referate/Top04SiegristFolien.pdf>.

7 Bundesaerztekammer [online]. Available from: <www.bundesaerztekammer.de/30/Aerztetag/108_DAET/10Presse/200505051.html>.

8 Federal Ministry for Economic Cooperation and Development. Press release no. 34/2006, 29 March 2006. Available from: <www.bmz.de/de/presse/pm/presse_200603291.html>.

9 Federal Ministry for Economic Cooperation and Development. Press release no. 35/2006, 4 April 2006. Available from: <www.bmz.de/de/presse/pm/presse_20060404.html>.

10 <www.oecd.org/dataoecd/34/24/36418634.pdf>.

11 Organization for Economic Cooperation and Development, Development Assistance Committee (2005). *DAC Peer Review Germany*, p. 32. Available from: <www.oecd.org/dataoecd/54/0/36058447.pdf>.

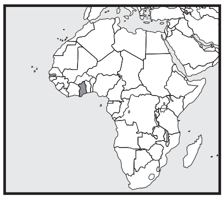
12 The Technical Group on Innovative Financing Mechanisms, commonly referred to as the Lula Group, was founded by Brazilian President Luiz Inácio "Lula" da Silva, French President Jacques Chirac and Chilean President Ricardo Lagos in January 2004 with the aim of identifying new sources of financing to increase development aid.

13 Bundestag Printed Paper 16/1072 (Interpellation): <http://dip.bundestag.de/cgi-bin/getdokg?s=++bt+d+16/1072 and 16/1247>. Answer, 18 April 2006): <http://dip.bundestag.de/cgi-bin/getdokg?s=++bt+d+16/1247>.

14 Federal Ministry for Economic Cooperation and Development. Available from: <www.bmz.de/en/press/speeches/ministerin/rede200602028.html>.

15 Tourism Watch. Available from: <www.tourism-watch.de/dt/43dt/43.entwicklungsabgabe/print.html>.

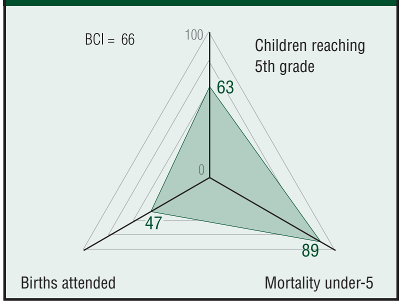
Growing dependence on inadequate foreign aid



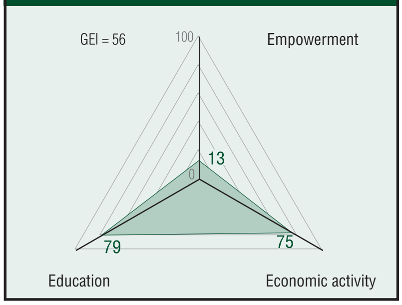
While foreign aid has increased significantly in recent years, it has been erratic and has largely fallen short of expectations. Nevertheless, dependence on this aid has been growing, as the domestic share in development spending becomes ever smaller. At the same time, domestic resource mobilization has largely focused on taxation, leading to a disproportionate burden on women and the poor.

Third World Network-Africa (TWN Africa)
Network for Women's Rights in Ghana (NETRIGHT)

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The issue of how best to finance national development as part of the larger global effort to address poverty and promote social justice has attracted a great deal of attention among both policy makers and development practitioners. Since the adoption of the Monterrey Consensus[1] in 2002, the debate has particularly focused on a number of options, including the need for raising resources through fair trade, the cancellation of poor countries' foreign debts, and increased official development assistance (ODA) for poverty reduction.

But there are limits to each of these policy alternatives. While free and fair trade may give poor countries the opportunity to export, there are constraints in domestic production that can only be addressed over a long period. Externally imposed conditionalities for accessing debt relief also weaken policy ownership in poor countries and leave many still financially constrained.[2]

The erratic and fragmented nature of foreign aid not only makes development planning and management difficult but it also distorts the policy priorities of countries like Ghana. The multiplicity of donor-country assistance frameworks – such as the Worlds Bank's Poverty Reduction Strategy Papers (PRSPs), the US's African Growth and Opportunities Act, the Millennium Challenge Account, and the United Kingdom's Commission for Africa – creates the conditions for poor countries eager for financial resources to produce "development plans" that do not reflect their locally determined policy priorities. Many such plans have tended to ignore the gender dimensions of poverty or have attempted to pay lip service to addressing them after pressure from women's groups.[3]

The paradox of aid augmentation

Ghana has long been the darling of the international development community for its record of two-decades-plus of "reforms" and, more recently, "macroeconomic stability." But behind this façade of success lies a record of rising but disruptive and inadequate levels of foreign aid, contrasted by a declining trend in the domestic share of development spending.

Table 1 provides an insightful outline of this paradox. Disbursed foreign grants between 1999 and 2005 consistently fell below the forecasts in every year except 2004, the year Ghana reached the completion point of the Heavily Indebted Poor Countries (HIPC) initiative, when disbursements constituted 161.8% of the forecast. These shortfalls, however, occurred against a background of generally rising levels of external grants. When adjusted for inflation (using 1999 prices), these grants rose from GHC 303 billion (USD 117 million) in 1999 to GHC 1,708 trillion (USD 186.7 billion) in 2005, a cumulative increase of 464%.[4]

Over the same period, the domestic share of capital expenditures fell from 48% to 20%, having reached a low of 12% in 2001, the year that the Ghanaian Government declared its intention to seek HIPC debt relief. That same year, the Government put a freeze on spending as part of a larger strategy to restore macroeconomic stability, hence the steep fall. But the restoration of macroeconomic stability has not been matched with a corresponding rise in the domestic share of capital expenditures. Significantly, this large fall in the domestic share of capital spending corresponds to a downward trend in tax-revenue growth over the period. After jumping from 14.1% in 2000 to 23.5% in 2003,[5] inflation-adjusted growth in tax revenue fell to 15.5% in 2004, and then further to 5.1% in 2005. (It is projected to grow in real terms by 5.7% in 2006).

In summary, it appears that while foreign aid, particularly grants, has increased significantly, from GHC 303 billion in 1999 to GHC 1,708 trillion in 2005 in inflation-adjusted terms, it has been erratic and largely fallen short of expectations in all but one of the seven years. Simultaneous with these developments is a decline in the domestic share of capital spending from 48% in 1999 to 20% in 2005. While such increases in aid, even if erratic, are in accord with the Monterrey Consensus, they also pose a paradoxical problem of Ghana increasing, rather than decreasing, its dependence on foreign aid.

Challenges and opportunities for domestic resource mobilization

For the Government, there are two main types of domestic resources, namely, borrowing from the local financial markets and raising revenue through taxes. However, decades of misinformation, championed by the IMF, about the role of public debt in development

1 The Monterrey Consensus was adopted by the heads of State and Government on 22 March 2002 at the end of the Conference on Financing for Development (FfD) in Monterrey, Mexico.

2 In December 2005 the *Daily Graphic* published that Ghana was reported to have received total debt cancellation of USD 381 million from the IMF, but with the relief spread over 15 years, only about USD 37 million was scheduled to be disbursed in 2006. Similarly, the same newspaper informed that during the IMF's Regional Roundtable on Debt Relief in Zambia on 16 March 2006, only USD 70 million out of total debt relief of USD 4 billion from the G-8 was expected to be available in 2006. Ablordeppey, S.D. (2005). "IMF Cancels $381m debt". *Daily Graphic*, 23 December, p. 1; and Ablordeppey, S.D. (2006). "Ghana Ready for Higher Aid Inflow - Finance Minister". *Daily Graphic*, 20 March, p. 1.

3 The Network of Women in Ghana (NETRIGHT) has been active in advocating for more commitment to gender issues in poverty policies and has questioned the conceptual basis of the Ghana Poverty Reduction Strategy Papers (GPRSPs).

4 Unadjusted for inflation, grants rose from GHC 303 billion to GHC 5.354 trillion. The data for this section of the analysis was obtained from the relevant government budget statements; inflation adjustment done by author.

5 This was largely due to a real growth of 30.4% in payroll taxes, from 19.4% the previous year.

TABLE 1

Actual revenue (and grants) in GHC millions of 1999	1999	2000	2001	2002	2003	2004	2005
Total tax revenue + grants	3,392,259	3,985,030	4,885,451	5,272,575	6,817,075	8,199,118	8,418,557
A. Tax revenue	3,089,259	3,526,296	3,940,678	4,474,783	5,528,399	6,386,229	6,709,867
Percent Change	n/d	14.1%	11.8%	13.6%	23.5%	15.5%	5.1%
B. Foreign grants – actual	303,000	458,733	944,773	797,791	1,288,676	1,812,889	1,708,690
Forecast	343,000	768,416	1,125,073	1,037,720	1,319,046	1,120,620	1,792,676
Difference	-40,000	-309,683	-180,300	-239,929	-30,370	692,269	-83,986
Actual as % of forecast	88.3%	59.7%	84.0%	76.9%	97.7%	161.8%	95.3%

Source: Ministry of Finance and Economic Planning (various budget statements).

has led to a disproportionate concentration of resource mobilization efforts on taxation, to the near-repudiation of domestic borrowing for development.

The 2003 budget statement (paragraphs 683 and 526) captured this lop-sided approach to domestic resource mobilization as follows:

Delays and shortfalls in donor inflows have often forced government to cut back on development expenditures. Sometimes, the shortfalls in budgetary aid have resulted in unprogrammed domestic financing (which adds to the build-up of the domestic debt) and recourse to non-concessional external borrowing… The 2003 budget aims at reducing the reliance on net domestic financing and minimizing the dependence on donor inflows… Our firm belief is that a government that mobilises its revenue through a well-developed domestic tax system and manages its expenditure efficiently is able to respond to the needs of its citizens even in the face of adverse external shocks.

This pledge was followed by over 12 policy initiatives aimed at increasing domestic revenue for development. This must have contributed to the sharp growth in real payroll taxes in 2003, from 19.4% the previous year to 30.4%, with corporate taxes growing in real teams by 10.9%, more than double the 4.7% recorded for 2002. By contrast, growth in "self-employed" taxes decelerated sharply from 32.3% in 2002 to 6.7%. With 64% of economic activity in the hands of self-employed persons, this category of Ghana's tax-paying units is clearly under-taxed. Indeed, a trend analysis of tax revenue since 1983, when the economy was at its nadir, shows that self-employed taxes in 2005 amounted to only 23% of their potential level, compared with 134% for payroll taxes and 100% for corporate taxes in 2005.

The Government's revenue position has been harmed further in recent years by a number of corporate tax concessions that are supposed to help spur economic activity but have had no such effects because the presumed relationship between tax rates and business activity in Ghana's mercantilist and foreign-dominated economy is very weak. In the absence of efficient infrastructure, it has been shown that lower tax rates do little to enhance growth prospects.[6] Additionally, because such tax breaks benefit mostly foreign-owned and large businesses, which constitute less than 1% of industrial establishments in Ghana, a significant part of these tax concessions are repatriated abroad as profits.

Clearly, weak taxation and internally inconsistent administration means that several potential corporate and individual taxpayers, many of them among the richest in the country, remain outside of the tax net, despite several pledges by the Government to plug the loopholes. Under these reforms, tax-collecting agencies were reinforced in terms of recruitment, training, compensation, equipment and other facilities, but no attempt was made to simplify tax-payment procedures. The long distances often involved in getting to tax offices and the cumbersome procedures involved once people get to these offices are all factors that discourage compliance and lead to lower tax intake.

A low national savings rate also remains a problem for domestic resource mobilization.[7] After declining from 18.1% in 1996 to 10.6% in 2000, the rate rose to about 19% in 2003, only to fall down to 15.1% in 2004. The domestic saving rates, which, unlike the national saving rate, excludes foreign financial resources and is made up of household savings, business profits, and government surpluses, has traditionally been lower than the national rate. Indeed, at about 5%, Ghana has one of the lowest domestic savings rates in the world. Most of the variations in the national rate, therefore, were due to foreign financial resources.

Against this background, misconceptions about Ghana's domestic debt, coupled with faulty measurements and analyses, have also led to an undue government aversion toward borrowing as a means of financing development. The selection of ratios, without regard for their impact on a government's ability to finance its development, has become arbitrary and often ideological, on the grounds of "fiscal conservatism", where the government is supposed to borrow or owe less. This approach of course ignores the social implications of under-spending by government in key sectors of the economy.

In the 2006 budget, for instance, central government allocations to rural water provision were cut by about 50%, against the background of reductions in the public debt and budget deficit. A possible consequence of this retrenchment in rural water expenditures is that rural residents, particularly women and children, would have to walk long distances for water needed for basic cooking and washing. This further militates against the Government's poverty reduction efforts. An example of mismeasured debt stress appears in Table 2. With the exception of 2003, the popular debt-GDP ratio based on the December-only debt stock overstated the debt stress from 1999 to 2002. The alternative measure based on the full year's debt stock is never used in conventional analysis.

TABLE 2

Measuring and mismeasuring debt stress	ANNUAL DEBT STOCK AS % OF ANNUAL GDP	DECEMBER-ONLY DEBT STOCK AS % OF ANNUAL GDP
1999	25.70	28.17
2000	24.08	28.88
2001	22.97	26.82
2002	24.32	29.19
2003	22.29	20.83

Source: Bank of Ghana.

Lastly, it must be stated that mere ratios at particular points in time do not capture the dynamic interactions between debt, economic growth, and the Government's ability to service that debt.

Gender considerations in domestic revenue mobilization

Issues of equity are integral to tax policy and cannot be overlooked in any serious discussion of domestic revenue mobilization. Depending on the nature of the tax and how it is administered, it will affect different socio-economic groups differently. Understanding these differential impacts of taxation and taking appropriate measures to deal with them is essential not only to promoting economic growth but also reducing poverty and ensuring social and economic justice.

(Continued on page 258)

6 World Bank (2005). *Doing Business in 2006: Creating Jobs*. Washington, DC: World Bank.

7 The national savings rate is the sum of the domestic savings rate, comprising households, businesses and government, and foreign financial resources that come into the country as investment or aid.

Excluding strategies

The partial cancellation of Honduras' foreign debt has given the economy a breath of fresh air, and the Government has pledged to use those funds to combat poverty, which continues to affect more than half the population. A national alleviation strategy needs to go from words to deeds and apply programmes that address inequity and gender violence.

Centro de Estudios de la Mujer Honduras
Suyapa Martínez / María Elena Méndez / Ana María Ferrera

After Hurricane Mitch in 1998, the country's debt reached extremely high levels, and in 1999 the International Monetary Fund and the World Bank declared Honduras eligible for the Highly Indebted Poor Countries initiative. Between 1990 and 2003, Honduran foreign debt grew by USD 2 billion, reaching a total of USD 4.8 billion by the end of 2003 and USD 5.2 billion by 2004. In 2005 the foreign debt service reached USD 225 million.[1]

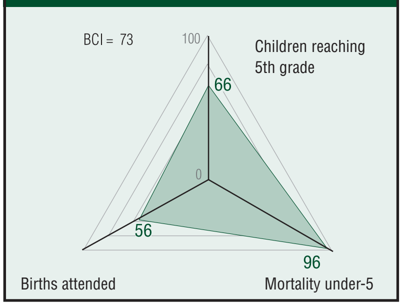
In March 2006, the Paris Club condoned USD 1 billion of that debt (FOSDEH, 2005). This gave the economy a breath of fresh air, and the Government has pledged to use the written-off funds solely to carry out the Poverty Reduction Strategy (PRS) and comply with the Millennium Development Goals (MDGs) adopted by the UN in 2000. But the MDGs will only be met through responsible social and macroeconomic measures that include judicial reform, a more frontal combat against various types of violence, a stronger fight against all forms of corruption, the consolidation of equitable economic growth and competitiveness, better tax collection, the modernization of the State, and the implementation of transparency ensuring mechanisms.

Persisting poverty

Honduras has a per capita income of approximately USD 1,000. It is estimated that 64% of the population lives under the poverty line. Of this proportion, 45% live in extreme poverty. In 1999, 20% of the population with the highest income received almost 49.8% of the total income, while the 20% with the lowest income received only 4.7% (FOSDEH, 2005, p. 48).

As happens in other Central American countries, the situation of poverty in Honduras has remained unchanged. According to the UNDP, the percentage of poor people fell from 80.5% in 1990 to 79.1% in 1997, a difference of barely 1%. Between 2000 and 2004, extreme poverty dropped from 49% to 44.6%, while poverty in general was

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

reduced to 64%, a drop of only 2% during that period (FOSDEH, 2005). The funds allotted to the Poverty Reduction Strategy during those years have not managed to reduce it significantly.

Honduras has pledged to meet the MDGs by 2015. However this will not be possible at the rate shown by poverty indicators. Although there have been changes in health and education indicators, and the coverage of electricity and sanitation infrastructure has improved, deficiencies in the quality of education and health persist.

Telephone coverage also expanded after the privatization of the services policy implemented by the Government. However in the mid-term this privatization could have a negative impact on Hondurans, whose poverty situation could become exacerbated as of the adoption of the Free Trade Treaty (FTT) between the Dominican Republic, Central America and the United States that came into effect in January 2005.

Gender inequity

Of the seven million people estimated living in Honduras, 51% are women, of which at least 7 in 10 are poor. The 2003 census registered 1,262,020 households, 25% of which are headed by women (FOSDEH, 2005, p. 49).

The difference between the values of the UNDP Human Development Index (0.667) and the Gender-Related Development Index (0.650) reflects the persistence of significant inequities among men and women in the development of their basic skills. The 2006 Human Development Report on Honduras reflects major economic and political inequalities among the sexes. Although the legislation mandates the inclusion of at least 30% of women in elected positions, of the 298 mayors only 23 are women, which amounts to only 7.7% of all local positions. Although women have an average of 5.7 years of schooling, above the 5.3 years averaged by men, this is not reflected in better wages for women, who earn approximately 67.6% of the average wage earned by men for the same job (INDH, 2006, p. 35).

Women continue to live situations of violence. The number of cases of domestic violence taken to the national courts grew to 10,392 in 2004 and to 11,850 in 2005. Only 10% of these cases led to legal proceedings ending in a sentence. In spite of the growth in the number of cases, the Government still fails to hasten the access of women to a fair trial. Courts specialized in domestic violence required by law have not been implemented yet.

The number of women that die each year from violent deaths is growing. In 2003, 138 women were victims of femicide, a figure that rose to 168 in 2004 and to 171 in 2005.[2] These crimes showed aggravating characteristics and reflect great cruelty against the female body.

So far, the battle waged by the Colectivo de Mujeres Contra la Violencia (Women's Association Against Violence) for the Government to take measures to put an end to the high percentage of femicides and violence against women has not made any progress.

The strategy toward the MDGs

After Hurricane Mitch hit Honduras in October 1998, and as part of the demands from international

1 Data from Foro Social de la Deuda Externa en Honduras (FOSDEH) <www.fosdeh.net> and Ministry of Finance <www.sefin.gob.hn>.

2 Data from the General Board of Criminal Research.

financial institutions, the Government drew up the PRS, a programme aimed at reducing poverty by 24% during the following 15 years as well as reducing inequalities. The PRS Fund is made up of funds that international donors have pardoned from the country's foreign debt service.

A Consulting Council to the PRS (CCPRS), formed by Government officials and civil society members and – more recently – with women's participation, was created to implement the Strategy. Sector Bureaus were also set up formed by representatives of the Government, international cooperation and civil society. Seven Bureaus were in operation during the previous Administration.

One of the major objections against the operation of the Sector Bureaus is that they have squandered funds in consultancies aimed at improving only technological aspects of the new institutions. Furthermore, proposals presented by civil society were not taken into consideration. Finally, the Bureaus were also criticized for their high degree of politicization and it was proposed that they become more engaged with the local and national implementation of the PRS.

Civil society organizers have continuously complained about the funds allotted to the PRS. Instead of increasing, these funds have fallen from the HNL 4 billion (USD 221 million) announced by the previous Government for the CCERP to a mere HNL 2.7 billion (USD 142 million). The new administration of President Manuel Zelaya Rosales allotted only USD 47 million for this purpose. Of these, Congress decided USD 37 million would be distributed through the local administrations.

The decision taken by Congress caused a series of reactions from the CCERP and civil society in general which led to the massive resignation of Council members. Public mobilizations led to negotiations with the Government calling for it to support the decisions taken by the CCERP in relation to the priority granted to each project and what percentages of the funds would be distributed.

According to the experts, the amount invested in the ERP does not reach the rate needed per year to reduce poverty from its current 64% to 42% by 2015. For that to happen, Honduras should have annual poverty reduction rates of 1.5%. Only nine years are left for the deadline and it is not foreseeable that the goal will be met in time.

Of the amount assigned to PRS projects in agreement with civil society, less than 2% will go to special programmes for women. This reveals an inconsistency between the Strategy's aims – which includes gender cross-cutting – and the scarcity of funds meant to fight poverty among women.

A large part of the funds assigned to the ERP was demagogically allocated to comply with electoral campaign promises, such as free tuition fees for one year (a measure which does not solve the issue of education quality) or the appointment of 2,000 new agents to the police force in order to address the problem of crime, but the essential structural problem of violence –gender violence in particular – has not been addressed.

A questionable budget

The national budget should be one of the means available to a country of meeting the MDGs and therefore cutting poverty by half by 2015. However, regional budgets – and especially Honduran budgets – have done little to change an economic and social situation whereby the wealthy sectors accumulate more riches and the poor continue to be poor.

As of 2000 the tax policy has been regressive, since the State receives more taxes from the lower income groups than from the wealthier segments of the population. This clearly reveals how it is the most underprivileged who support a PRS whose results are very different from what was expected. With the approval of the FTT, Honduras will no longer receive more than HNL 1.2 billion (USD 63.25 million) each year in taxes and its national interests will be jeopardized by, e.g., having to take generic drugs off the market.

Education and health absorb 42% of resources in the national budget.[3] However, these resources are not reflected in investments that imply an improvement in services, a better quality education or a wider health coverage. In 2005 and early 2006 there was an evident shortage of drugs in health services, to the point that urgent purchases had to be made to fulfil demand.

MDGs 5 and 6 seek to reduce maternal mortality by three fourths and combat HIV-AIDS. However "malnourishment levels among the indigenous and Garifuna population in the country are significant, with malnourishment levels in children under 14 estimated at 95% and a maternal mortality rate among the highest in Latin America: 147 per 100,000 live births" (Coiproden, 2005). In addition, "between 1985, when the first AIDS cases appeared, and November 2005, the country had a total of 22,366 people infected with HIV, of which 41.8% are women. These data show a rise in HIV-AIDS cases among women" (Public Health Ministry, 2005).

Government agencies that care for social groups in vulnerable conditions are those that receive the lowest budget. The percentage allotted to all of the agencies with social goals[4] add up to 2.1% of the total national budget, while the National Women's Institute receives only 0.03% of that total.

One of the deficiencies of the country's budget system is the lack of references for operational plans of a general, sectorial and institutional nature based on an evaluation of the impact of the various programmes. Also, the Government boasts of gender cross-cutting in the national budget, but the administration of president Ricardo Maduro (2002-2006) closed down the Gender Unit created by the Secretary of Finance in order to monitor through indicators the production and implementation of budgets.

Key issues

The Maduro administration complied with the tax demands of international financial institutions and those deriving from the FTT, while it favoured the interests of the country's most powerful corporations. This was reflected in a rise in fuel prices, which caused a reaction from the population in general and from the taxi-drivers' union in particular, which paralyzed Tegucigalpa by blocking the city's main access roads. The energy crisis at the end of Maduro's government has been inherited by the Liberal Party administration, which came to office with the promise of lowering the price of fuel and applying the recommendations of the Commission of Experts appointed to bring solutions to the crisis.

Another source of tension in the country has been the mining concessions. More than 31% of the national territory has been given over to foreign metal and non-metal mining companies. The measure caused a sharp reaction from social movements, especially from environmentalist groups. Such is the case of former presidential candidate from the Democratic Unification Party Juan Almendares Bonilla, who in the last two years has questioned the Government for the way in which it hands the country away without taking into consideration environmental depletion and the quality of life of Hondurans.

Leaders of women's movements claim that the failure to appoint politicized women with clear views of women's rights to the various spaces of power is one of the major obstacles to an equitable distribution of resources aimed at fighting poverty. It is mostly men, rather than women, who make up the Government, civil society and international cooperation circles.

The current neoliberal model is exclusive, patriarchal and based on a double standard, since in theory it favours democracy, social justice and equity, while in practice it takes political decisions leading to the exclusion and the discrimination of the majority of its people, including women. ■

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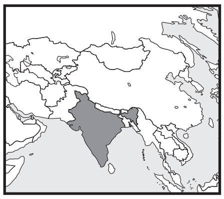
3 FOSDEH. *Análisis del Proceso Presupuestario en Honduras.* p. 93.

4 Instituto Hondureño de la Niñez y la Familia, Instituto Hondureño para la Prevención del Alcoholismo, Drogadicción y Farmacodependencia, Patronato Nacional de la Infancia, Instituto Nacional de la Mujer, Programa de Asignación Familiar and Instituto Nacional de Juventud.

Balancing goals, commitments and means



The Indian Government is faced with a delicate balancing act as it strives to reconcile its commitment to a neo-liberal economic policy of fiscal prudence with ambitious commitments to social development. This challenge is further complicated by the leakages and corruption that act as a drain on already insufficient social expenditure.

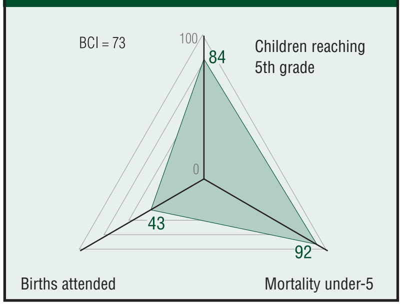
Social Watch India
Himanshu Jha

The challenge currently facing the Government is to maintain a balance between the changes in the two paradigms that have taken shape in the political and economic policy realms since the turn of the 1980s. The dilemma of two conflicting paradigms makes it necessary to reconcile the resulting contradictions with regard to needs, commitments, political will and finances. Under these pulls and pressures, the Government is performing its own balancing act to deal with this emerging dilemma, leaving the citizens clueless about the outcomes of their demands and expectations.

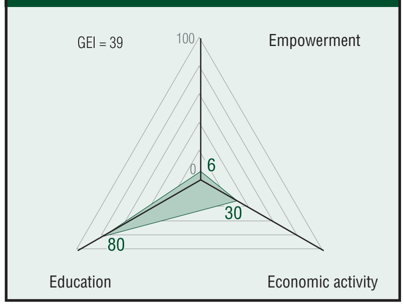
In the political field, resurgent political formations and repeated social upheavals are forcing new expectations and demands on the Government. Several of these political groups have gained influence by supporting the demands behind these upheavals and promoting the "social justice" ideology. Nevertheless, their impact is limited by the fact that their political support comes almost exclusively from the most deprived social sectors of Indian society. At the same time, however, socio-economic realities like rampant poverty, multi-layered deprivations, and the emancipation of marginalized social groups and women cannot be ignored in any policy framework.

In terms of the economic development paradigm, the challenge lies in the Government's commitment to the neo-liberal framework and to a pattern of economic and institutional planning that ostensibly emphasizes economic prudence, an approach that often conflicts with and contradicts its political and social policy commitments. Policy makers must keep in mind the "welfarist" considerations which are both politically and socially advisable, while simultaneously designing economic policy in line with the considerations of new economic compulsions, both national and global. Governments both at the national and state levels are perpetually caught in this paradigmatic dilemma. Added to this is an overall problem of "institutional decline", where institutions of governance have been caught in unprecedented atrophy and are unable to carry out the programmes to which they have committed themselves. Many of these governmental commitments, both sociopolitical and economic, remain "half achieved" at best and unfulfilled at worst.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Therefore, while the Government has shown its commitment to social development through initiatives like the Common Minimum Programme[1] and its Five-Year Plans, as well as its adoption of the Millennium Development Goals (MDGs), on the one hand, it remains subject to its commitments to the prevailing global economic paradigm, on the other. This deepens the predicament of the common citizen, who is caught between these conflicts. To be fair, the Government is increasingly taking steps to follow a participatory model when it comes to decision making and implementation. But how effective has this participation really been? Has it sufficiently impacted on financial policy instruments, like budgetary allocations for social development programmes?

In the light of the dilemma outlined above, it is imperative to explore the following questions: Are the Government's social commitments being reflected in the budgetary allocations of recent years? Do the governmental institutions have the capacity to deliver on these commitments? Are the institutions effective enough to carry the programmes to the target groups? What is the extent of corruption, leakages of public funds and inaction on the part of functionaries?

Analysis of the annual budget

While all-around development, including economic development, remains the overall goal of the Indian State, social development and equitable distribution remain priority objectives, at least on paper. An overview of the Government's stated commitments is provided by the Common Minimum Programme and the Tenth Five-Year Plan, which visibly coincide with the MDGs. Obviously, these commitments must be matched by proper and effective means to achieve them. They should not only be backed by the required financial allocations, but also an effective institutional infrastructure. A closer look at the Government's annual budget demonstrates its commitments, on the one hand, and its changing priorities, on the other. The budget is also indicative of the direction in which policies are progressing.

The Fiscal Responsibility and Budget Management Act of 2005-2006 was aimed at a one-to-one revenue-expenditure relationship. In other words, if the Government's expectations of revenue are not realized, which is often the case, there would be a curtailing of expenditures, the major brunt of which is borne by the social sector.

While the 2005-2006 budget raised the grants provided as aid to the state governments, it also signalled an end to central government loans to the states for the implementation of their annual plans. This meant that the states were obliged to raise INR 29,003 crores[2] (USD 6.47 billion) from the market. It also resulted in the decline of the central government's direct assistance to the states and the union territories from INR 54,858 crores (USD 12.24 billion) revised estimates for 2004-2005 to INR 33,112 crores (USD 7.39 billion) budget estimates for 2005-2006. This trend is disturbing, as it will directly hit the poorest, most backward states.

1 The Common Minimum Programme is the policy agenda adopted by the Government in May 2004, and places heavy emphasis on addressing the needs of the country's poor, particularly in rural areas.

2 A crore is a unit in the Indian numbering system and is equal to 10 million.

TABLE 1

Social sector expenditure by central and state governments				
YEARS	EXPENDITURE ON SOCIAL SECTORS BY THE CENTRAL GOVERNMENT (INR CRORE)	COMBINED TOTAL EXPENDITURE (CENTRAL+STATE GOVERNMENTS) (INR CRORE)	EXPENDITURE ON SOCIAL SECTORS BY THE CENTRAL GOVERNMENT AS A PROPORTION OF COMBINED TOTAL EXPENDITURE (%)	SOCIAL SECTOR SPENDING AS A PROPORTION OF COMBINED TOTAL EXPENDITURE (CENTRAL+STATES) (%)
2000-2001	18,115.34	591,300	3.06	22.3
2001-2002	20,881.46	644,700	3.24	21.4
2002-2003	22,726.63	704,900	3.22	20.6
2003-2004	25,458.83	796,400	3.20	19.7
2004-2005*	30,625.44	904,500	3.39	20.7
2005-2006**	34,656.82	979,800	3.54	20.9

*revised estimates **budget estimates

Source: Economic Survey 2005-2006, Government of India.

The rising expenditure on defence as a proportion of total expenditure has been another worrying trend, in view of the substantially higher expenditure needed for social services.

The effect of this pattern of allotment is immediately reflected in the expenditure on rural employment and poverty alleviation schemes, which has remained stagnant and even declined during the period 1995-2001. The Food for Work Programme, for instance, was allocated a paltry INR 1,818 crores (USD 405.75 million), which was increased to INR 5,400 crores (USD 1.21 billion) in 2005-2006, while the Finance Minister himself has admitted that the programme would cost another INR 5,600 crores (USD 1.25 billion) to fully implement. The Sampoorna Gramin Rozgar Yojna and Swarnajayanti Gram Swarozgar Yojna, programmes to create wage employment opportunities and provide food security for rural households below the poverty line, were subjected to significantly reduced allocations in the most recent budget. With regard to rural infrastructure, the Government made a commitment in its Tenth Five-Year Plan to connect all of the country's villages with all-weather roads. However, while INR 1,600 crores (USD 357.09 million) was proposed as an additional budgetary support for this initiative, it would actually cost roughly INR 70,000 crores (USD 15.62 billion) to fully implement, according to the Government's own admission.

Agriculture, which supports 57% of India's population and contributes 21% of its gross domestic product (GDP), has been plagued by stagnation in the last few years. This can be largely attributed to the decline in public investment in the agricultural sector, which fell from 1.92% of GDP in 1990-1991 to 1.31% in 2003-2004.

The Government's goal to include socially marginalized groups in the development process is not reflected in its expenditure. The overall budgetary allocation for marginalized groups as a proportion of total budgetary allocations has declined from 0.62% in 1998-1999 to 0.30% in 2004-2005. Even after the negligible increase of 0.43% in 2005-2006, the current rate of spending remains well below the 1998-1999 figure.

Gender budgeting, contained in a separate statement on gender sensitization regarding budgetary allocation, was introduced for the first time in the budget of 2000-2001. In 2005-2006, the total allocation for gender budgeting was INR 14,379 crores (USD 3.21 billion), which in proportion to total expenditure is only 2.8%.

TABLE 2

Union (central) government expenditure on social services and defence services				
YEARS	EXPENDITURE ON SOCIAL SERVICES AS A PROPORTION OF TOTAL EXPENDITURE (%)	EXPENDITURE ON DEFENCE AS A PROPORTION OF TOTAL EXPENDITURE (%)	EXPENDITURE ON SOCIAL SERVICES AS A PROPORTION OF GDP (%)	EXPENDITURE ON DEFENCE AS A PROPORTION OF GDP (%)
1996-1997	4.83	14.68	0.71	2.16
1997-1998	5.15	15.20	0.79	2.32
1998-1999	5.28	14.28	0.85	2.29
1999-2000	5.82	15.80	0.90	2.43
2000-2001	5.56	15.24	0.87	2.37
2001-2002	5.76	14.98	0.92	2.39
2002-2003	5.50	13.47	0.92	2.26
2003-2004	5.40	12.74	0.92	2.18
2004-2005	6.32	15.74	1.00	2.51
2005-2006*	7.58	16.54	1.09	2.38
2006-2007**	7.69	16.27	1.10	2.32

*revised estimates **budget estimates

Source: Economic Survey 2005-2006, Government of India.

Leakages and corruption

To make matters worse, even the insufficient funds allocated for social services and development are not fully put to this use. Former Prime Minister Rajiv Gandhi himself once acknowledged that only 15% of the finances allocated for welfare schemes reached their target groups, while the remaining 85% were absorbed by administration costs, leakages and corruption. This was confirmed by later studies on the Public Distribution System and poverty alleviation, which found that only 20% of the food ration items meant for the poor through this channel actually reached them. Of the total funding for rural housing schemes, between 25% and 40% is appropriated by middlemen, while only 20% of government spending on food subsidies reaches the poor, and the rest is either wasted or goes to the middlemen. And these are just a few examples of the widespread leakages and misappropriation of government funds (Gupta, 2004).

According to the 2005 Transparency International Corruption Perceptions Index, India scored 2.9 on a scale from 10 (highly clean) to 0 (highly corrupt). Meanwhile, a 2005 report by Transparency International India estimates that common citizens pay bribes of INR 21,068 crores (USD 4.70 billion) a year while availing the 11 public services covered in the study, which include the police, the judiciary (lower courts), land administration, government hospitals, electricity and the Public Distribution System ration programme. As many as 62% of citizens have had first-hand experience in paying a bribe or "using a contact" to get a job done in a public office, while three-fourths said they believed that the level of corruption in public services had increased during the previous year (between 2004 and 2005).

It has been repeatedly emphasized by research studies, the media and public opinion that the web of corruption encompasses not only government officials all along the hierarchy, but politicians at every level as well. A 2006 report released by India's national Social Watch coalition revealed that nearly 25% of members of the lower house of Parliament (Lok Sabha) have criminal records. Numerous central and state government ministers have repeatedly faced charges of corruption of different types. The most pessimistic aspect of this depressing scenario is that average citizens come to be convinced that the "high and mighty" will always escape unscathed from these acts of corruption. This sense of acquiescence rings a disturbing bell for good governance and for the health of the polity. ■

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Shrinking resources for development at home and abroad

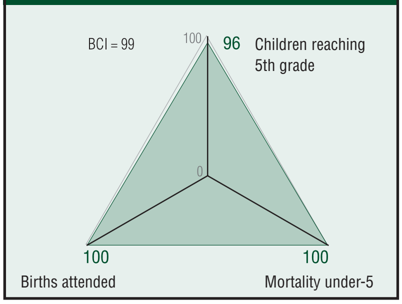
The previous five years in Italy have been marked by deep cuts in social spending, regressive fiscal policies, rampant tax evasion and a serious decline in the quantity and quality of cooperation aid. This situation has led civil society organizations to call for a radical review of the country's fiscal and development aid policies.

Italian Social Watch Coalition
Tommaso Rondinella / Jason Nardi [1]

Government policies in the last five years have been characterized by the attempt to cut back the State's role and collective responsibility in favour of private initiative and the market, by reducing the resources allocated to the welfare system and undertaking severe cuts in public spending. Without resources, there can be neither an adequate welfare system to respond to the needs of the citizens, nor the necessary development support and aid for the poorest regions. In general, the local authorities (municipalities, districts and regions) are no longer able to guarantee basic services to their communities. Poverty in Italy reflects a marked difference between the centre-north regions, where poverty rates are consistently below 10%, and the southern regions, where poverty affects 20% of the population, and reaches as high as 30% in the case of Sicily. (CRISS, 2006).

The Berlusconi government drastically reduced the fund for social policies, which in the last three years has dropped from EUR 1.884 billion in 2004, to EUR 1.301 billion in 2005 (of which 482 million remains unspent), to EUR 1.157 billion in 2006, reflecting a 30% cut altogether since 2004. In addition, Italy remains the only country in Europe, except for Greece, that does not implement a guaranteed minimum income scheme. The poverty rate among families with dependent children increased between 2000 and 2004 by almost four percentage points (from 24.9% to 28.5%), and the most severely affected are the largest families, for whom the risk of poverty increased by slightly more than 10 percentage points, from 48.2% to 58.3% (NENS, 2006). Overall, an estimated 19% of Italians are at risk of poverty (CRISS, 2006), and 11.7% of the population, meaning some 2.6 million families, live below the poverty line, while the wealthiest 20% of families control 40% of the country's resources.[2]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

Fiscal policies promote tax evasion

The notable recent growth of tax evasion has been promoted by the fiscal policies of the last five years. Evaded taxes total some EUR 100 billion and businesses that operate illegally account for an estimated 15% of the total GNP.[3]

The enormous extent of tax evasion increases fiscal pressure on law-abiding companies and citizens and reduces the amount of resources available for the country's economic and social development. By implementing 22 tax amnesties and the «fiscal shield» (which allows capital illegally kept abroad to return to Italy «protected»), the Berlusconi government clearly encouraged undeclared employment and tax evasion.

Regressive tax policies

The past government's efforts to reduce taxes focused on the adoption of deeply regressive measures. On the one hand, cuts in direct taxes have almost exclusively corresponded to higher revenue levels; on the other, these reductions have been compensated by increases in indirect taxes, which are regressive by definition. Moreover, the inheritance tax, another means of redistribution of wealth, was abolished, to the advantage of the richest 10% of the population and to the significant detriment of the state treasury. Through the tax reforms adopted, the richest 20% of the population reaped the benefits of over 78% of the total tax relief (Pennacchi, 2004).

The growth in indirect taxes over recent years has increasingly eroded the principle of progressiveness in the country's fiscal system. Public administration revenue from indirect taxation rose from EUR 176 billion in 2001 to EUR 200 billion in 2005, versus practically unchanging direct tax revenues. This means that the tax burden has been distributed with no regard for the income levels of taxpayers.

Cuts in funding of local administrations

The only «effective» measure for balancing the budget - while clearly negative in terms of its social effects - has been a further cut in federal funding for local administrations. Between 2001 and 2004, local taxes increased by over EUR 11 billion, rising from 6.3% to 6.5% of GNP, mainly due to cuts implemented in the state budget. With the last Financial Act (2006), cuts in financing for local administrations have been even heavier, with a decrease of 6.7% in transfers to municipalities and of 3.8% to the country's regions. (Sbilanciamoci/Nuovo Welfare, 2006).

The tax cut policies of the Berlusconi government have had a wide range of other negative impacts on social services, including EUR 2.5 billion less for the national health system and 65% less towards applied research.

Employment and gender inequity

Despite progress over the long term since 1990, the latest Organization for Economic Co-operation and Development (OECD) reports reveal a clear slowdown in employment growth in Italy, where this growth is now less than one half of most other European countries. The employment growth rate was 0.7% in 2005 and 0.6% in 2006 and will decrease to 0.4% in 2007. The worst off are women workers, among whom the employment rate is 45.3%, as compared to an average in the OECD countries of 56.1%.

Women also earn markedly less than men do: 28.2% of female workers fall into the lowest income level, as compared with 12.3% of their male counterparts. As far as gender equity in general is concerned, the situation up until 2005 remained substantially unchanged, if

1 Tommaso Rondinella is a researcher at Lunaria in Rome and coordinator of the Sbilanciamoci campaign. Jason Nardi is a campaigner at UCODEP and coordinator of the Italian Social Watch coalition. The Italian Social Watch coalition is made up by ARCI, ACLI, Campagna Riforma Banca Mondiale, Fondazione Culturale Responsabilità Etica, Lunaria, Mani Tese, Movimondo, Sbilanciamoci, Sdebitarsi, Unimondo and UCODEP.

2 The methodology adopted by ISTAT to calculate poverty is different from the EU's: it is based on families' consumption, not on their incomes, and figures are aggregated in terms of families, not of individuals.

3 Il Sole 24 Ore, 29 May 2006.

not slightly worsened, especially with regards to women in decision-making positions (OECD, 2006).

Distorted official aid figures

When it comes to Italy's contributions to development assistance, the figures and indicators provided in official reports are not always trustworthy. An independent report released in April 2006 by CONCORD, revealed a number of anomalies in Italy's official development assistance (ODA) accounts. According to the figures reported by OECD/DAC, Italy's ODA allocations represent 0.29% of GNI. In reality, effective development aid is around 0.12%[4] (excluding USD 1.4 billion of cancelled debt and other improperly used figures), thus remaining far below the 2006 objective of 0.33% of GNI and positioning Italy as the lowest OECD contributor together with the United States.

As a result, there is an almost total lack of «fresh resources» for development programmes, especially bilateral aid initiatives. Less than one-fourth of the total amount allocated resulted in new interventions in 2005, while the rest represented debt remission.

Tied aid

The problem is not only the limited amount of resources allocated to development aid; another fundamental issue is the quality of this aid, since most of it is still tied to Italian goods and services. There are no exact figures regarding how much of Italy's development aid comes back to subsidize Italian businesses, because the Government has refused to publish these figures since 2001 (Eurodad *et al*, 2005). The difficulty in analyzing Italian development aid also derives from the fact that there is no coherent and unitary management of the funds, which is instead fragmented across various ministries. In any case, according to the latest available data, tied aid represented over 92% of Italy's total ODA in 2001 (Outterside *et al*, 2004). Nevertheless, the director-general of the Foreign Ministry's development cooperation office declared that tied aid is not a real problem, since it is in the national interest of the country to support its industries. NGOs have called on the Government to produce a coherent and transparent report on official aid spending to enable public scrutiny of aid allocations.

HIPC debt cancellation

After almost a year's delay, the previous government presented its report in Parliament on the application of Law 209/2000 on debt cancellation for HIPC countries. Unfortunately, the report says nothing new and confirms the tendency that developed over the course of the Berlusconi government of a progressive elimination of commitments in the fight against poverty and financing for development. The law has resulted in the cancellation of EUR 2.56 billion in debt for 25 HIPC countries, far less than the original goal of cancelling EUR billion in debt for 38 eligible HIPC countries over a three-year term, to have been completed by June 2004.

Nothing is said in the report with regards to the corresponding debt cancellations in favour of Nigeria and Iraq, and on the limited conversion of Indonesia's debt as a result of the 2004 tsunami. This marks a serious gap in the information presented to Parliament, since these amounts are believed to total approximately EUR 1.4 billion, practically half of the funds Italy allocates to development aid.

Priority for multilateral aid

In 2005, as in previous years, Italy confirmed its priority on multilateral channels for aid. DAC estimates for 2005 (DAC, 2006) show that of the EUR 4.065 billion allocated for ODA, EUR 2.282 billion (or 56%) have gone to multilateral channels (international financial institutions and UN agencies) and EUR 1.782 billion to bilateral aid. This priority can be explained by the fact that multilateral aid offers a «refuge» to hide the structural insufficiency of the Foreign Ministry to manage its programmes, as well as an easier way to cover cliental relations, as the procedures are more discretionary and less controlled.

At the beginning of 2006 the Italian government decided to cancel its voluntary contributions to certain UN agencies, including UNHCR, UNICEF, FAO, UNDP, UNFPA and UNRWA, for a total of EUR 52 million, approximately one half of Italy's voluntary contributions. Although voluntary, these contributions have been vital for the UN in its financial crisis. A positive note is that around EUR 885 million in multilateral aid have been allocated to refinance the HIPC initiative for the cancellation of multilateral debts owed by the poorest countries to the World Bank, IMF, African Development Fund and other institutions, while another EUR 180 million have been contributed to the Global Fund to Fight AIDS, Tuberculosis and Malaria, to cover the overdue payments for Italy's 2004 and 2005 commitments.

Recommendations

It is clear from the foregoing analysis that a radical review of Italy's fiscal and development aid policies must be urgently undertaken. They must be inspired by the principles of legality, equality, progressiveness and social justice. Socially and environmentally damaging production, consumption and behaviours must be punished. The tax burden must be lightened on work-related income and accentuated on profits and annuities. In addition, there must be an extraordinary effort to fight tax evasion.

The following proposals from the Italian civil society organisations united in the Sbilanciamoci fiscal justice campaign are intended to re-establish the principle of social solidarity as the foundation of the use of the fiscal lever.

Progressiveness. A revision of the fiscal treatment of individual citizens should be started, in order to more effectively enforce the principle of progressiveness enshrined in the Italian constitution (Article 3) by raising the highest tax rate from 43% (the current rate) to 48% for incomes higher than EUR 100,000.

Tax evasion. Many businesses in Italy, while presenting high values in their activity balance sheets, declare low or even negative profits at the same time. It is thus necessary to introduce a form of minimum tax in our legal system, similar to what happens in other countries, such as the United States.

Income. Savings in banks today are taxed 27%, while interest on bonds, capital gains and returns on individual and collective financial managements are taxed just 12.5%. This results in the creation of unjust phenomena: millions of euros earned by big stockholders or real estate speculators are in fact de-taxed. A proposal to correct this is to unify the tax rates on deposits and financial income, creating a single rate of at least 20% for all forms of financial income.

Inheritance tax. The reintroduction of the inheritance tax on the largest estates, such as those worth more than EUR one million, is a basic redistribution measure, especially since it relates to issues like unearned income and supposed «birth right».

Targeted taxes. New targeted taxes should be levied on private production and consumption activities that are harmful for the environment and society. While increasing tax revenues, such measures can also serve to redirect development and consumption towards a better quality of life. Here are some examples:

- Carbon tax. A tax on the emission of carbon dioxide could bring EUR 1.2 billion into the state coffers, which would cover the necessary resources to implement Italy's commitments under the Kyoto Protocol.
- Arms trade. A tax increase of at least 4% on the profits of defence companies that sell arms to foreign countries, with the resulting revenue allocated towards fighting poverty in developing countries.
- Firearms licences. An increase of at least 20% in the cost of firearms licences, allocating the revenue to the creation of a national fund for non-self-sufficient elderly people.
- Advertising. A 5% tax increase on profits in the advertising sector, with the double goal of reducing its intrusiveness and raising resources to devote to the school system and cultural activities for the population as a whole. Potential income from this measure is around EUR 450 million. ■

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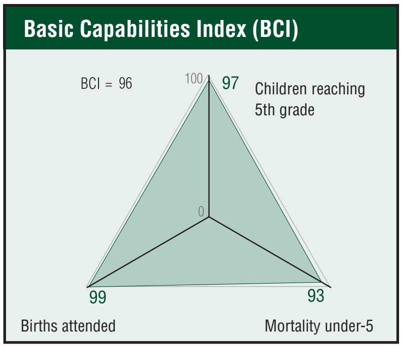
4 Though officially recognized around 0.19%, the effective ODA/GNI has been recalculated by the new government and made public on national radio by Deputy Minister of Foreign Affairs Patrizia Sentinelli (June 2006).

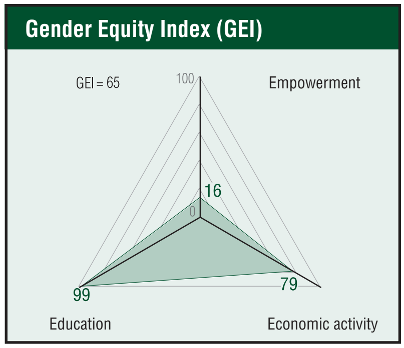
KAZAKHSTAN

Introducing a gender perspective: a case study

Poverty alleviation programmes are more effective when they include a gender perspective and are specifically designed for women and other vulnerable groups. This case study examines the lack of the gender dimension in a public project at the local level as well as the efforts of civil society to achieve development without exclusion.

Women's Federation 'Status'
Irina Unzhakova
Center for Gender Studies
Svetlana Shakirova





Considering the gender dimension is essential for achieving economic and social development with equity. The inclusion of special gender programmes within public budgets should be part of the gender planning of governmental actions. Kazakhstan is taking its first steps in this direction, and civil society has a decisive role to play in constructing a society of equal opportunities. The Women's Federation 'Status' is undertaking a project called the "Public Council for a Gender Budget", which is aimed at expanding knowledge on the principles of gender budgeting among civil servants, members of Parliament, and NGOs at the local level. The project is part of the organization's National Action Plan on the Improvement of the Status of Women (1999).

The project focuses on the implementation of the Government's poverty reduction programme in Ust-Kamenogorsk, an industrial city in the *oblast*[1] of East Kazakhstan[2]. The two tools for measuring the extent of gender budgeting are the gender sensitivity of the actors involved in the programme's implementation and the impact on its beneficiaries.

The evaluation of the implementation of this programme at the local level has shown that the civil servants involved in the budget process are not informed about gender budgeting. Therefore, it is no surprise that the programme in question is not gender-sensitive, despite the fact that gender considerations are mentioned in the introductory section of the programme document. Among the principles of poverty reduction outlined in this introduction, the seventh principle clearly refers to the need to consider region, gender, age and other aspects. Obviously, it is the most vulnerable groups of a population who have the greatest need for a fair distribution of resources and public goods, as well as access to public services.

In Ust-Kamenogorsk, the most vulnerable group is made up of women over the age of 40 with low scores on health indexes and with one or more minor dependent children. Despite having spent a considerable length of time in the work force (18 years and more), these women have been either employed temporarily, self-employed or unemployed for more than one year, and as a result, their income is variable and occasional. Most of these women speak Russian but not Kazakh, and the only social support they have are regressive pension savings. Many of them have approached public and private employment services and NGOs in search of advice and assistance. Roughly 70% of their requests are related to seeking assistance to find permanent employment, whereas the remaining 30% were directed at obtaining social benefits in healthcare, help for taking care of sick and disabled family members, protection from domestic violence, and information about emigrating to Russia, among other services.

Specific needs

The goals and targets of the poverty reduction programme are aimed at the local population as a whole, but do not specifically address the needs of those whose income is below the poverty line, most of whom are women. At the time the programme started, the average per capita income of the poor population was KZT 1,871 (USD 12), which represented 12.5% of the per capita nominal income of the urban population. In 2003, according to official statistics, 8,000 people (2.6% of the population) were living below the poverty line. The main expected outcome of the programme is to reduce the number of poor people by 3,000 between 2003 and 2005. However, the programme provides no disaggregated data by gender, age, or health status.

Another major obstacle is that the information available is not sufficiently specific. For example, it is not clear if all 5,604 people registered at the local employment centre could be considered poor. Half of the female population of Ust-Kamenogorsk suffers from anemia, but it is not known how many of these women are in fact poor. The latest statistical data show that over a third of Kazakhstani women have anemia, and the proportion is higher in Ust-Kamenogorsk, which is a major contributing factor to the high rates of infant and maternal mortality in the region. Infant mortality was estimated at 20.6 deaths per 1000 live births in 2004, while maternal mortality reached 64.8 deaths per 100,000 live births the same year. The implementation of a treatment programme, including iron deficiency anemia prophylactics, would help to decrease maternal and child morbidity and mortality in the region.

Unspecific data

Unlike the stated principles of the poverty reduction programme, the selected indicators do not take into consideration gender, age and other factors frequently related to poverty. These indicators include the number of targeted social assistance recipients, the number of housing support recipients, the number of microcredit recipients, the number of people trained for a new profession, and the number of people provided with social service employment.

1 Administrative division or region.

2 Eastern-Kazakhstan Oblast Program on Poverty Reduction (2003-2005).

Within the programme, the basic actions aimed at the development of infrastructure include primary healthcare, food and water quality control, the strengthening of preschool facilities, roads, transport and others. Actions focused on poverty reduction are implemented through activities for income generation, as well as access to basic social services such as healthcare, education, and social support for the poor.

Although public expenditures on the social sector continued to grow between 2003 and 2005, actions for income generation have been underfinanced. The possibilities of obtaining increased income are doubtful. Temporary social service employment could hardly be considered as a serious poverty reduction tool, due to its short duration and low effectiveness (only 10% of the unemployed find a permanent job).

The list of programme beneficiaries includes young people who are neither studying nor employed, children from low-income families, orphans, single elderly poor people, disabled people, and members of marginalized groups. None of these categories has been gender-disaggregated. Hence, the difference between girls and boys or young and elderly women and men has not been taken into consideration.

For instance, there is a clear need for specific preventive measures for young women, since many of them become involved in street prostitution and sexual exploitation (not necessarily in foreign countries, since the situation is widespread within Kazakhstan). This leads to the increase of sexually transmitted diseases, early pregnancies, abortions and loss of reproductive health.

Conclusions and recommendations

The existing poverty reduction programmes have a low effectiveness because they target the population as a whole and do not focus on the specific population group of those living below the national poverty line. At the same time, the gender specificity of the poor population has not been taken into account.

In each of the groups of potential beneficiaries, the needs targeted and actions implemented should be differentiated by gender. This would considerably increase the effectiveness of public expenditures on poverty reduction in both economic and social terms.

The civil servants involved in the budget process have to be informed about the principles of gender budgeting. For this, they need to receive special training. The Kazakhstani network of NGOs, in cooperation with international experts, is prepared to organize the necessary training. ■

BUDGET ISSUES

Thirteen years after gaining independence, Kazakhstan has transformed itself from an agriculture-based republic of the Soviet Union to one of the fastest-growing economies in the region. Recent years have also witnessed improvements in budget processes and in civil society participation in the budget. However, much room remains for further improvement.

In April 2004, Kazakhstan Revenue Watch of the Soros Foundation-Kazakhstan held an international roundtable conference at which civil society groups discussed the need to strengthen Parliament's role in the budget process. Problems cited by members of Parliament at the forum included their lack of budget knowledge to analyze the President's draft budget, their inability to hire external experts to help them do this job, and the limited time they have to review the draft budget, negotiate amendments with the Government, and approve the budget. However at the moment there is a green light for gender budget initiatives.

Kazakh legislation clearly states what budget information should be made public and provides penalties for violating the people's right to information. In 2005 a civil society organization, the Tax Standards Formation, compiled a list of these legal requirements in the report "Analysis of Expenditures on Healthcare, Education and Social Protection in the Budget of Almaty City".[1] However, this legislation often does not work in practice. Public officials sometimes hide cases of misappropriation and embezzlement or resist cooperating with civil society.

Also, only a limited number of Kazakh NGOs are involved in the budget process given the lack of knowledge about the budget, inexperience in dealing with the appropriate officials and difficulties in obtaining professional legal assistance when authorities refuse to provide the required information. ■

Gender Budget initiatives in CEE/CIS Region
Network of East-West Women

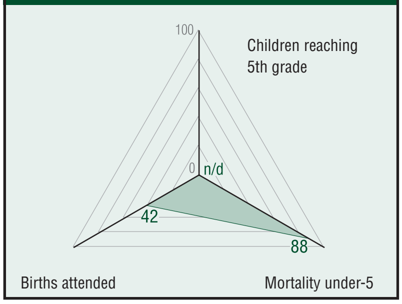
1 Available from: <www.taxpayers-kz.freenet.kz>.

Constituency Development Fund disappoints hopes for community-based development

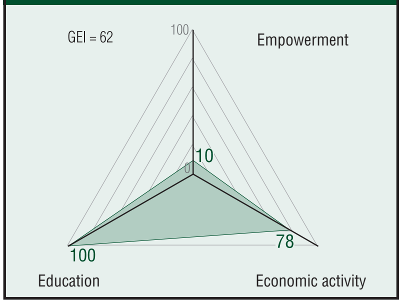
The creation of the Constituency Development Fund was welcomed by Kenyans as a means of focusing national budget expenditure on the specific development needs of local communities. In practice, however, it appears to have served more as a political tool for members of Parliament than a genuine instrument for community-based development.

Social Development Network (SODNET)
Edward Oyugi / Ayoma Matunga
Southern and Eastern African Trade Information and Negotiations Initiative (SEATINI) Kenya
Oduor Ong'wen
Kenya Land Alliance
Lumumba Odenda
Kenya Debt Relief Network (KENDREN)
Njuki Githethwa
MDG campaign KENDREN
Wahu Kaara
DARAJA
Andiwo Obondo
Undugu Society of Kenya
Alloys Opiyo

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Aid and debt, the twin curses of the African political economies, have increasingly alienated financing for development from the domain of national economic planning. It was therefore a refreshing relief when the current Kenyan parliament passed a law establishing the Constituency Development Fund (CDF).[1] Its main objective was to open a new window of opportunity for the promotion of social development at the constituency level and, therefore, to lend reality to the imperative of subsidiarity as a *global* response to sub-national demands for development policy attention. Following closely on the heels of an aborted constitutional reform effort aimed at economic devolution and deconcentration of political power, many Kenyans felt that for the first time in post-colonial history, the execution of the budget process would once and for all be freed from the dictates of the Executive.

Until now, budget allocation for development has always been carried out in the shadow of executive manipulation. For decades, budget planning has been held hostage to the monopolistic whims of the Executive as long as it continued to provide the pork barrel for rewarding and punishing political cronies and adversaries, respectively, through the provision or non-provision of resources for their constituencies. Whereas for many the CDF was devolution by default, for others it heralded an opportunity for local development needs to find unmediated resonation with national budget allocation.

However, a closer and critical analysis of the statutory architecture of the law and the institutional framework for its implementation evokes a rude reminder that the CDF is not the panacea for rural development challenges that the Kenyan rural poor had anxiously been waiting for. The democratic wirings and the legislative machinery meant to deliver the economic benefits to the rural poor are increasingly appearing to be prone to short-circuiting, and therefore open to abuse by those who gave them the force of law – namely, the members of the National Assembly or Parliament. With that realization, the prospect of a genuine devolution seems to be turning into a top-down replication of the centralizing tendencies that many had hoped the CDF would free them from.

Decentralization offers opportunities not only for the expansion of democratic space and the active engagement of the people in development endeavours, but also for effective and efficient delivery of public services. Like all processes of social engineering, its benefits come with strings attached: it can lead to fragmentation if not properly balanced with the necessary retention of reasonable power at the centre. It is not intrinsically democratizing. A trigger is needed to put its benefits within reach of the various critical stakeholders. As critics point out, devolution in the hands of democratic pretenders can add layers of local bureaucratic authority to those that already saturate the political centre. This makes the nexus between decentralization and popular participation a not-so-straightforward matter.

The statutory architecture of the Constituency Development Fund

In the recent past, Kenyans have been treated to an intense debate concerning the political integrity and possible abuse of an instrument of governance whose fundamentals still need much more comprehensive articulation: the newly established Constituency Development Fund, which acquired the force of law through an Act of Parliament on 31 December 2003.

The Act in question places at the disposal of members of parliament, through a Constituency Development Committee (CDC), financial resources equal to no less than 2.5% of all the Government's ordinary revenue collected in every financial year and any monies accruing to or received by the National Committee from any other sources. The fund is supposed to be administered through a wide range of statutory bodies and processes, a good number of which add to or overlap with existing public finance management systems. The management of the fund has kicked off controversies that touch on:

- the conflict of roles of the main executors of the policy – the members of parliament
- the democratic integrity of competitive politics at the constituency level
- resource allocation efficiency
- multi-jurisdiction overlaps in the management of the fund

The CDF purports to enlarge and deepen strategic options for entrenching the principle of subsidiarity in financing for social development. By that very token, it seeks to bypass the state-bureaucratic machinery through which traditional budget allocations are processed into legitimate expenditures. It does this by virtue of targeting the constituency and community development initiatives therein as the focus and site of state expenditures.

1 Constituency Development Fund Bill (2003). *Kenya Gazette Supplement* No. 30 (Bill No. 13).

The principal organ through which development projects are identified, prioritized and adopted as undertakings deserving CDF support is the Constituency Development Committee. In between are several bureaucratic agencies and processes which are provided for in the Act for the purpose of overseeing or monitoring the implementation of the projects in question. These range from the District-Based Development Committee and project-relevant local and central government departments to the National Constituency Development Fund. At stake in this long chain of CDF execution, which encompasses implementation, monitoring and control, is the larger question of conflict of interest as it is likely to infringe on the delicate issue of the imperative of relative jurisdictional sovereignty within the budget process. And this has been the bone of contention since the CDF was enacted into law in Kenya almost three years ago.

There is no question that the democratic integrity of the governing authority in question largely determines the relative importance of an efficient and transparent execution and monitoring system for budget implementation. Such monitoring needs to recognize that implementing the budget calls for striking a delicate balance between responding to changing political exigencies and strict adherence to the corresponding statutory structures. At the same time, it needs to be understood that in many countries – Kenya included – both the Executive as well as the Legislature have exceeded their mandates in not abiding by budget laws.[2]

Delimitation of the controversial issues involved

Generally, when public budgeting is considered from the legal point of view, the critical issues seem relatively straightforward. A clear distinction is presumed between "material" and "formal" budgeting laws. The former provides that in a given budgetary year, specific quantities of monetary units are expected to be collected from the various sources and may be spent for specific purposes as determined by the finance bill. On the other hand, formal budgetary law spells out procedures in the four principal phases of budgeting, which are drafting, voting, execution and accountability/auditing. These presuppose the underlying principle of separation of jurisdictional powers between legislation, execution and adjudication. The following questions are important for a comprehensive picture of budgetary law:

- The stages and the time-table for the drafting of the budget estimates
- The role and powers of the corresponding ministerial portfolio
- The stages and time-table for debating and voting on the budget estimates in parliament
- The extent to which parliament is aware of details and its powers to amend the draft
- Procedures in the event that the appropriations bill is not passed in time
- The introduction of provisions to ensure proper execution of the budget

Finally, there is the overarching question as to which specialized authority will audit the execution of the budget, and that authority's relationship with the other organs of the State, particularly the Parliament.

On the other hand, when the public budget is considered from the good governance point of view, the issue of proper and prudential management and fair distribution of public resources brings up a host of broader, deep-rooted questions of democracy as it relates to the imperative of good governance in the management of public resources. Some of the more specific questions that arise have to do with the extent to which the required amount of detail in the budget estimates is provided by the relevant arm of the Executive, and whether or not Parliament can exercise effective control over budgeting as a critical economic governance instrument.

The CDF as a budget allocation instrument is supposed to be informed by the Economic Recovery Strategy for Wealth and Employment Creation.[3] This government strategy is centred on enabling existing and newly identified actors to create wealth with the potential for a "trickle down" effect on poverty reduction, through micro-economic levers firmly placed in the invisible hands of the market. As controversial as the underlying assumption may be, we are mainly interested here in the governance implications of the CDF, rather than in the putative strategic linkage with the policy framework that informed its articulation and subsequent enactment.

The political and institutional framework for the budget process

There is no doubt whatsoever that the proper functioning of a budget system is to a large extent determined by the institutional and political framework conditions within which it operates. From the perspective of the capacity of all the legitimate actors engaged in the budget process to decide on the outcomes to be sought, probably the most important feature of the framework is the creation and observance of the legitimate jurisdictional boundaries that will serve as the basis to determine who does what, when and how. A framework with a clear demarcation of jurisdictional powers and delineation of functional roles is more conducive to an effective budget process than one in which confusion of roles and overlaps of jurisdictions are the order of the day.

Another important factor that can adversely affect a country's budget system is the jurisprudential quality of a particular budget law. When a budget process undergoes a significant modification, it is important that the legislature adopts a comprehensive appreciation of the need for checks and balances that help in the regulation of procedures for budgeting, economic reporting, auditing and so forth. In this particular respect, the CDF falls far short of meeting these criteria.

Since its inception, the CDF has attracted controversy from a wide range of social actors, especially competing political interests at both the national and local levels. The Act is relatively clear on the constitution and role of the principal organs charged with the responsibility of managing the Fund. Apart from underscoring that no political bodies should benefit from the allocation of any of the Fund's resources, the Act also stipulates that the projects to be supported by the Fund should be community-based. All of this is good governance from a rhetorical point of view. The political reality underlying the implementation of the Fund is quite a different ball game.

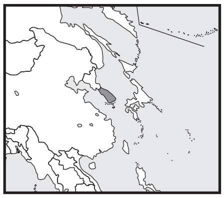
For some time now, the Kenyan media – both print and electronic – have been awash with all manner of complaints, accusations and counter-accusations regarding the implementation of the Fund. Generally, they all point to obfuscation of the principle of separation of powers between the three arms of a democratic government. Underlying these controversies are the dual and conflicting roles that the legislative arm of the State has arrogated: legislative and executive. The political implication of the arrogation of conflicting mandates undermines the integrity of the political process in general, and the principle of representation and its underlying democratic assumptions in particular. In the majority of cases, incumbency has been used to give unfair advantage to sitting members of parliament: they are more than likely to stack the constituency committees with their supporters, excluding actual or potential adversaries from the social development process. All too frequently, incumbent members of parliament will give priority attention to projects that will benefit and possibly reward their political allies in the constituency. This will no doubt unduly influence their popularity as far as electoral politics in the constituency are concerned. The fact that 75% of the funds are allocated equally to all the electoral constituencies in the country hardly ensures a fair distribution of public resources, given the unequal levels of development among the various regions of the country, a legacy of the poor distributive capacities of the colonial and neocolonial states. The remaining 25% that is supposed to take care of such inequalities is far too inadequate to make any meaningful difference.

In view of the complaints arising from every sector of society on the implementation of the CDF, something will clearly have to be done to address the emerging image of the Fund as yet another parliamentary misuse of its special role in the budget process. This perception is shaped by what appears to many observers as parliamentary abuse of good governance in public finance, backed up by the plethora of cases of direct misallocation of CDF money. In this particular sense, the statutory integrity of the parliamentary Public Accounts Committee (PAC) remains hugely compromised and saddles the role parliamentarians play with the dual and conflicting responsibilities of making and executing a law, when they should more appropriately be keeping an eye on its implementation on behalf of the taxpayers. ■

2 Falk, S. and Shapiro, I. (1999). *A Guide to Budget Work: A Systematic Overview of the Different Aspects of Effective Budget Analysis.* Center on Budget and Policy Priorities.

3 A creative strategic modification of PRSP in the era of the NARC government.

Concrete action needed on domestic social welfare and foreign aid policies



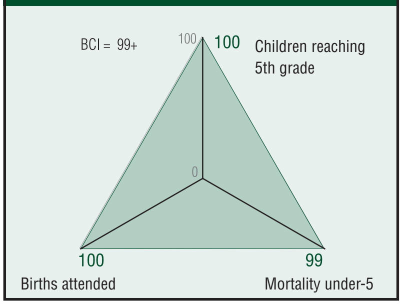
Korea's current development policies are problematic, in both the domestic and international spheres. Domestically, despite growing income stratification, taxation policy and social expenditure have been poorly executed and have failed to provide more equitable income distribution. At the same time, while Korea as an emerging donor country faces ever greater requests from global society and Korean NGOs to enlarge its role, it has struggled to increase the quantity and quality of its aid.

Staff, CCEJ International
Dohye Kim

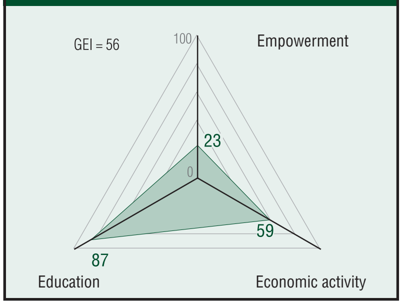
Stratification in Korean society has caused substantial negative effects as the economic gap between classes has widened over the past several years. While enormous profits have arisen in the domestic economy, this has largely been the result of inflated housing prices in the real estate market, with most of this income vested in the hands of landowners representing only a small fraction of the population. For this reason, Korean public life has been swept by talk of "stratification", from the New Year's speech given by President Roh Moo-hyun, to the policy pledges made by all of the candidates for local governorships in the 31 May elections. While discussion on the causes of stratification has been varied and has occasionally resulted in controversies between political parties, no real steps for tackling income stratification and the widening gap in income have been taken. For their part, civil society organizations have been analyzing the causes and suggesting possible solutions.

As the world's 10th largest economy, Korea has also encountered considerable pressure from international society to assist developing countries through effective aid in a manner commensurate with its economic status. Since 2005, civil society groups have joined together in order to make their voice heard on the issue of foreign aid, and to urge the Government to take proper steps by observing international standards for the quantity and quality of aid. NGOs were the first in Korean society to express their interest and concern about the effectiveness of foreign aid, which had previously never been a part of the nation's social agenda. While local NGOs have succeeded in raising some issues with the Government, they continue to await more improvements in the near future.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Stratification inspires a lot of talk but little action

The widening income gap in Korea was illustrated by a press release from the Korea National Statistical Office on 11 May 2006 regarding household income distribution by quintile. In the first quarter of 2006, incomes in the 1st Group and 2nd Group - that is, the two lowest income groups - reflected an increase of 2.4% and 3.3% percent respectively in comparison with the same quarter the previous year. However, as Table 1 illustrates, incomes in the 3rd, 4th, and 5th Groups expanded by 5.1%, 4.7%, and 4.1%, respectively (Korean National Statistical Office, 2006). The ratio obtained by dividing the 5th Group income by that of the 1st Group increased 0.83%, thus marking the largest gap between the lowest and the highest income groups since 2003.

In response to the growing phenomenon of income stratification, the Government has announced new policies to provide for a social safety net and to enlarge budget allocations for the economically disadvantaged. For example, the Administration promised that it will expand social welfare spending to amount to 25% of the total governmental budget.

However, the Government's social expenditure has amounted to just 2.4% of gross domestic product (GDP) since 2001, which is one-seventh of the average in the Organization for Economic Cooperation and Development (OECD) member countries (Jeon, 2006, p. 4). Within this limited social expenditure, social insurance and corporate welfare, which have relatively little impact on income redistribution, take the lion's share at 74.3% (Lee, 2006). Even though the Government has expressed its firm intention to reduce the gap between income groups and enhance the social safety net, it has yet to reform the composition of social expenditure and failed to increase public expenditure that would have a real impact on the lowest income groups.

Along with the small public social expenditure and the high share earmarked for social insurance and corporate welfare, taxation policies have also contributed to worsening income stratification. Based on annual tax revenue from 2004 to 2006, the Citizens'

TABLE 1

Income distribution by income quintile

Unit: KRW 1,000 (USD 1), % year on year

CLASSIFICATION	FIRST QUARTER 2005			FOURTH QUARTER 2005			FIRST QUARTER 2006		
		SHARE	PERCENT CHANGE		SHARE	PERCENT CHANGE		SHARE	PERCENT CHANGE
Average	2,937.5	100.0	5.8	2,941.2	100.0	4.1	3,062.3	100.0	4.2
1st Group	754.2	5.1	1.8	803.1	5.5	4.6	772.2	5.0	2.4
2nd Group	1,744.2	11.9	2.9	1,791.3	12.2	3.9	1,802.5	11.8	3.3
3rd Group	2,514.3	17.1	4.7	2,561.0	17.4	3.3	2,642.3	17.3	5.1
4th Group	3,471.8	23.6	5.1	3,499.6	23.8	4.0	3,635.9	23.7	4.7
5th Group	6,201.9	42.2	8.0	6,049.2	41.1	4.4	6,458.1	42.2	4.1

Share = (Income) / (Total income of all groups) x 100

Source: Korean National Statistical Office (2006). "Household Income & Expenditure Trends in the First Quarter 2006". Available from: <www.nso.go.kr/eng/releases/report.html?category=7>.

Coalition for Economic Justice (CCEJ) found that the Government's taxation policy did not play a positive role in redistributing income or slowing the increasing trend toward income stratification. Based on the CCEJ's findings, there has been unfair taxation in terms of withholding and collection, meaning that tax deducted and withheld at the source from the income of salaried workers is expanding more rapidly than income tax collected from the self-employed. Specifically, withholding tax increased 29% from 2004 to 2006, but corporate income tax increased only 13.9% during the same period. Furthermore, value added tax (VAT) applied inversely against income increased by 11.41%, while special excise tax falling on luxury goods decreased by 22.9%. Therefore, the tax burdens for middle and low income households increased, and tax policy did not contribute to redistribution of income.

In recent years, stratification in Korean society has emerged as a key issue on the political agenda. Nevertheless, while both the President and opposition party representatives have presented their own perspectives on the causes of and solutions to the growing problem of stratification, "real" policies for addressing the matter have yet to be developed. Instead, income stratification has merely become an issue to be used by Korean politicians from both the ruling and opposition parties for the purpose of attacking their opponents.

Civil society groups, including the CCEJ, have taken note of the attitude of Korean politicians in paying lip service to the problem of stratification for political and diplomatic gain. Throughout the first half of 2006, Korean NGOs analyzed the causes of income stratification, such as regressive taxation policies, and have suggested solutions to both the Administration and the opposition party. Unfortunately, neither has responded to our requests, but civil society groups will nevertheless continue to wage these campaigns.

Insufficient and ineffective aid flows to developing countries

As an emerging donor country, Korea's policy on aid to developing countries has become an increasingly prominent issue. While Korea ranks as the 10th largest economy in the world, with a GDP of USD 793 billion in 2005, the volume of its official development assistance (ODA) amounted to USD 744 million, or 0.09% of GDP in 2005. Not surprisingly, this falls far short of the average for member countries of the OECD Development Assistance Committee (DAC), which is 0.26% of GDP (OECD, 2006).

As well as the disappointing scale of ODA, the quality of aid bears further scrutiny. As Korea is not one of the member countries of the DAC, it is not obliged to provide full reportage of its ODA for peer review. For this reason, the quality of ODA is unsatisfactory in that grants accounted for 64.1% of bilateral aid in 2004, in comparison to the 90.1% DAC average grant ratio for bilateral aid. Moreover, according to the Korea International Cooperation Agency (KOICA), nine of the top ten grant recipient countries are other Asian nations, which received around 70% of all bilateral grants in 2004. While aid to the least developed countries increased to 26% in 2004 (20.5% if excluding the post-war reconstruction of Afghanistan and Iraq), aid to sub-Saharan Africa (7%) remained the same as in 2003. In addition, most of Korean bilateral aid - including aid to the least developed countries - is tied aid, which means it must be used to purchase goods and services from the donor country. Not only does this lessen the value of the aid, but it also leads to placing priority on the provision of goods, technology and consulting from donor countries, rather than on the needs of recipient countries (Kim, 2005).

As well as the quantitative and qualitative shortcomings of Korean ODA, it is also devoid of a legal and institutional framework, as there is no basic ODA law or charter, resulting in a lack of consensus on the objectives of Korea's aid policy. Partly because of the low awareness of ODA among the public, even many policy makers regard development aid as merely a diplomatic means for enlarging Korea's slice of the economic pie in the future. Moreover, the so-called "dual system" for Korean ODA makes it difficult to promote efficiency and consistency. In bilateral aid, the Ministry of Finance and Economy is in charge of supervising loans and the Export and Import Bank of Korea is in charge of executing them; the Ministry of Foreign Affairs and Trade takes the lead in supervising grants, and KOICA is in charge of executing them. If communication between these organs was fluid, the dual execution system might be seen as reliable. However, channels for communication between the two different supervising agents and the two executing agents have been irregularly promoted and rarely implemented.

Recognizing there is room for improvement not only in quantity and quality, but also in the institutional and legal frameworks for ODA, the Korean NGOs' Network Against Global Poverty was established in June 2005 with the participation of 21 development and advocacy NGOs, including the CCEJ. The Network drafted a letter outlining its views on what Korea's future ODA policy should be and presented it to the President, who was preparing to visit the UN for the September 2005 World Summit. The letter called for enlarging the scale of ODA, creating an appropriate institutional and legal framework, and improving the quality of aid. Subsequently, following a conference organized by the Network and attended by government officials and members of parliament, the Government responded with a full report on the future of Korean ODA policy.

The Government's proposals for ODA policy directions surprisingly matched the NGOs' proposals in several areas. In particular, the Administration agreed on the need to enter the DAC sooner and to regulate ODA by law. The report also pledged actual numbers for an increase in the scale of ODA and stipulated the creation of a Committee for International Development Cooperation to serve as a channel for communication among the different ministries and agencies involved in development aid. The Committee includes members from universities, NGOs, and the private sector.

Despite these welcome developments and the noteworthy achievements of the civil society groups, there are certain issues that require further monitoring from civil society. These include the fact that the Government did not accept suggestions from NGOs when filling the NGO seats on its Committee, as well as the fact that the mechanism s to formulate an ODA law appear too slow to meet the promised deadline of 2006. The CCEJ is now developing two ways to monitor the Government's progress in living up to its pledges: by forming an "ODA Watch" group, and by inviting other NGOs to participate in this follow-up. In the meantime, the NGOs' Network will continue the advocacy and awareness-raising campaign launched upon its founding in 2005.

Conclusion

In view of the unique situation of Korean society, the nation now faces two distinct obstacles: the problem of domestic development and the problem of overseas development. Even though the country has shown great progress in its economy over the past 20 to 30 years, it has failed to solve the problem of worsening income stratification and the concomitant deterioration in the quality of life for the economically disadvantaged. In the meantime, as one of the world's largest economies, Korea needs to adopt an adequate aid policy to provide effective assistance to developing countries.

Economic growth without revision of social welfare and taxation policies does not hold much promise for the majority of Korea's citizens. Likewise, verbal promises from politicians made for political gain will not actually guarantee the establishment of alternative policies. That said, in recognition of the initial stage of its foreign aid practices, the Government has taken significant steps for further development of its aid policy. However, if Korea really wishes to enter the DAC in the near future, it needs to consider more carefully the principles of aid and the effectiveness thereof. These two distinct areas therefore require the continuous attention of Korea's NGOs. ■

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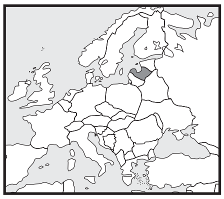
Learning to give as well as receive



Just over two years after joining the EU, Latvia is taking its first steps in development cooperation, despite its status as the bloc's poorest member state. This cooperation involves both government institutions and a small but growing number of non-governmental development organizations. One of the main challenges they face is to change society's view of the country from that of a support receiver to a support giver.

Latvian NGO Plataform
Gunta Berzina

Historical and economic background

Following the collapse of the Soviet Union, Latvia regained its independence and was recognized as an independent and sovereign state in 1991. After creating the fundamentals of a market economy in the early 1990s, Latvia quickly established a new macroeconomic environment, which for several years served as the basis for the transition from a planned to a market economy. Latvia became a member of the European Union on 1 May 2004.

Latvia has also become successfully integrated into international structures. However, its achievements have been focused on the most immediate needs of the country, while overall development has been insufficiently consistent and coordinated. Pride in its accomplishments is tempered by acknowledgement of its status as the poorest EU member state, in terms of per capita GDP.

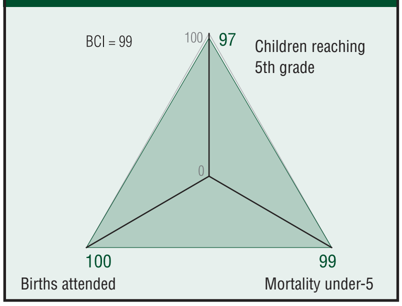
The rapid growth that has taken place in recent years has increasingly led to the emergence of inequalities in the national economy. This is evidenced by the rise in inflation and the high current account deficit in the balance of payments. More and more economic indicators show that the supply of the national economy cannot satisfy the growing domestic demand. Low employment levels, long-term unemployment, the risk of social exclusion, and the growing prevalence of undeclared work have become significant sources of concern in Latvian society. Social segregation and the increasing income gap between rural and urban populations are the country's main social problems. Because Latvia has the lowest salaries, lowest minimum wage and lowest pensions among the EU member states, there has also been a significant exodus of workers to other member states and other countries around the world.

Until Latvia has achieved the status of a developed nation with a sufficiently stable economy, Latvian society will continue to view the country as a support receiver, as opposed to a support giver.

First steps in development cooperation

The Ministry of Foreign Affairs has been designated as the institution responsible for designing and implementing Latvia's development cooperation policy.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

Since the beginning of the 1990s, Latvia has made regular payments to international organizations in order to provide assistance to developing countries and transition economies, including the UN, UNESCO, World Health Organization (WHO), International Red Cross and International Organization for Migration (IOM). Up until 2005, Latvia's direct development cooperation activities were basically ad hoc responses to specific situations or events.

In 2004, Latvia allocated 0.06% of its GNP, or approximately EUR 6.4 million, to development cooperation. Of this total funding, 97% represented payments to international organizations and their programmes, such as the EU, UN agencies, the IOM and the IMF. Bilateral assistance projects through which Latvian institutions provide assistance to less developed countries accounted for the remaining 3%.[1]

Bilateral assistance in 2004 was mainly directed towards countries in South and Central Asia (Georgia, Uzbekistan, Kazakhstan), the Balkan countries (Bosnia and Herzegovina, Croatia, Albania) and Moldova as *ad hoc* technical assistance. In addition, the Ministry of Foreign Affairs, in cooperation with UNDP Latvia, supported a technical assistance project in Iraq. Latvia also provided humanitarian assistance to Iran following the earthquake in Bam in late December 2003.

In implementing its development cooperation, Latvia does not provide direct financial assistance. Rather, it provides assistance by sharing its experience in implementing public administration reforms, promoting a democratic society and social development, environmental protection and improving the educational system.

For example, consultants from the Bank of Latvia have provided assistance to the National Bank of Georgia in matters of bank supervision and human resources management; consultative assistance has also been provided in the public administration sector.

In 2005, for the first time ever, separate budgetary resources were provided for development cooperation, in the amount of EUR 140,000. The funding allocated within the budget of the Ministry of Foreign Affairs for the implementation of development cooperation activities in 2006 was increased to EUR 214,000. Because it has never had bilateral lending arrangements with the countries it has assisted, Latvia has never engaged in any debt relief activities.

The funding allocated for bilateral assistance in 2005 was used to implement several technical assistance projects in Latvia's priority countries –Moldova and Georgia– in sectors such as border security, customs, administration of penitentiary institutions, coordination of EU matters, establishment of local government systems, and others.

Of the EUR 108,240 allocated to bilateral projects, NGOs received EUR 31,840.

YEAR	ODA (EUR)	ODA/GNI	BILATERALLY MANAGED AID
2002	716,547	0.01%	10%
2003	702,835	0.01%	10%
2004	6,657,910	0.06%	3%
2005	8,336,138	0.07%	8.81%

Thanks to the expertise and practical experience of Latvia's national experts, the Ministry of Foreign Affairs believes it can contribute considerably to the promotion of stability and development in the neighbouring region.

1 Republic of Latvia, Ministry of Foreign Affairs. <www.mfa.gov.lv/en/DevelopmentCooperation>.

Latvia's priorities with regard to the European Neighbourhood Policy are the key elements in planning and implementing its development cooperation policy. Latvia pays particular attention to the European Neighbourhood Policy in its foreign policy, since its goal is to ensure increased stability and welfare in the countries to the east of the EU's external border and of Latvia's national border.

The Development Cooperation Policy Plan for 2006 has set the implementation of bilateral and trilateral cooperation projects as one of its priorities, as well as public information activities to raise awareness and support for the implementation of development cooperation policy.

Development cooperation and humanitarian aid are considered to be areas of shared competence, which means that both the EU and its member states may legislate on these topics. For the Latvian government, like those of other new member states, there seems to be little understanding of the need to "untie" aid, since development cooperation is already very difficult to "sell" to their constituencies. The current predominance of tied aid – bilateral assistance that must be used to purchase or use goods or services from the donor country – allows Europe to use its development funds for its own economic benefit. Unfortunately, the shape of Latvia's development cooperation policy clearly reflects the tendency to satisfy its own interests first. Moreover, this tendency is fully supported by Latvian society.

As of 2005, there had been no national private resources allocated to development cooperation.

Civil society's role

Since 1991, more than 10,000 NGOs have been registered in Latvia. Their main target area is the wide range of social problems in the country. Until now, no more than 10 organizations in Latvia have been actively involved in development cooperation. There have been several projects designed together with western NGOs or experts and short-term consultants provided to developing or neighbouring Eastern European countries. There are only three pure non-governmental development organizations (NGDOs) in Latvia, but there are a significant number of NGOs that intend to begin working in the development field: 24 of them are members of the Latvian NGDO platform that was established in 2004. It should be acknowledged, however, that the creation of the NGDO platform was motivated mainly by the European example, not by the country's own internal drive.

The Latvian NGDO platform is primarily supported by the Soros Foundation. The first projects will be implemented in 2006 with the support of the Presidency Fund and in cooperation with other NGDO networks in Europe. The platform will undoubtedly have to struggle in order to survive.[2]

Successful implementation of any development cooperation policy is only possible if NGOs, the private and academic sectors and society at large work together with governmental institutions. Unfortunately, this is not the case in Latvia. Public awareness of development cooperation is practically non-existent, and until now, not a single NGDO has been able to attract national private funding for its activities.

2 Additional information available from: < www.trialog.or.at/docs/lapas_ct2006.ppt >

TABLE 2

ODA sectors of intervention (%)

SECTOR	2004	2005
Governance and reform of the State	40	95
Security and conflict prevention	50	0
Justice	0	0
Local economic development (agriculture, small and medium-sized companies, etc.)	7	0
Human rights and civil society support	0	5
Private sector and investment	3	0
Decentralization and strengthening of local authorities	0	0
Migration	0	0

The country's first genuine NGDO, GLEN Latvia, arose from a trilateral project with the main stakeholder in Germany. GLEN Latvia is a politically neutral, non-profit organisation that seeks to raise awareness about global development issues and promote the ideas and basic values of sustainable development and global justice. Through the organization, young people are given the opportunity to participate in projects in Africa and Asia, and are thus able to experience and compare diverse understandings of development and development cooperation and to exchange knowledge and skills. GLEN Latvia encourages young professionals to use these unique project experiences to educate society on development issues.

As of now, it is impossible to speak of public support or even understanding of development cooperation. Even humanitarian assistance in crisis situations is seen as the responsibility of "rich countries". The first and so far only show of support for humanitarian actions from the Latvian cultural sector has come from singer Marie Naumova, who was designated UN Goodwill Ambassador for Latvia and organized a concert for the victims of Beslan[3] in 2004.

Broader public participation in humanitarian aid actions, such as assistance for the December 2004 Indian Ocean tsunami victims, has been extremely limited and short-term. For the most part, people are disinclined to even think about the situation in low-income countries and about their global responsibility, at the same time that they are being asked to make a contribution. Globalization is viewed only as an instrument for ensuring their own welfare, and in some cases, even NGOs are open to cooperation merely in the event that somebody will offer a competitive salary for the work involved.

Facing the reality

It is a huge challenge to be a support receiver and giver at the same time. Latvia's three NGDOs and 20-odd likeminded NGOs face enormous pressure in competing with the 10,000 NGOs that focus on solving the growing problems within the country itself. The Ministry of Foreign Affairs has already made enormous progress from the moment back in 2002 when the Development Cooperation Policy department was created. On the basis of Latvia's commitment to development cooperation, as well as its economic growth and experience in reform implementation, there are plans to significantly increase the budget for bilateral and trilateral projects in the less developed countries in the coming years. The Ministry of Foreign Affairs has drafted a concept document that establishes annual increases in Latvian development cooperation funding so as to reach 0.1% of GNP by 2010.[4]

This commitment may seem meagre in comparison with the EU average, but considering the social situation within the country, it is more than adequate. In the meantime, a number of serious questions need to be answered in view of the pressures from the "old" EU member states and the growing number of NGOs that are willing to act as experts and share their transition-period experience.

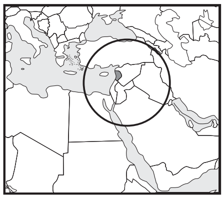
- Is an increase in funding the only responsibility involved in achieving the Millennium Development Goals?
- Do the current EU policy and the way it is implemented genuinely contribute to reducing poverty and injustice in the world?
- Have we truly established a global partnership for development?
- Are we ready to recognize that a huge part of funding is spent on ensuring our own participation in the "game" that goes by the name of global development?
- Do we want to be players, fighters or students in this global game while injustice, poverty and human suffering continue to grow?

Perhaps it would still be possible to achieve the Millennium Development Goals if we were ready to accept the fact that the time has come to truly cooperate in giving for the sake of the world, as opposed to taking under the pretence of giving. ■

3 The Beslan school hostage crisis (also referred to as the Beslan school siege) in the Russian town of Beslan in North Ossetia, which began 1 September 2004 and ended 3 September with hundreds of deaths.

4 Republic of Latvia, Ministry of Foreign Affairs. <www.mfa.gov.lv/en/DevelopmentCooperation>.

Economic social and environmental consequences of the war: a preliminary assessment



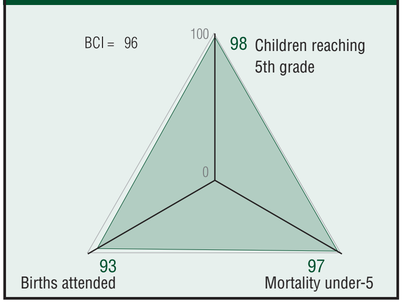
Due to the emergency situation in Lebanon, the national report by Amal Moukarzel-Damien in collaboration with May Hazaz (École Libanaise de Formation Sociale, Université Saint-Joseph), written before the Israeli attacks, was replaced at the last moment by this overview contributed by ANND on 23 August 2006.

Arab NGO Network for Development

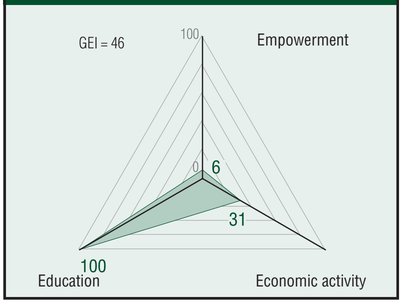
On 12 July 2006 Israel launched a massive attack on Lebanon that only ended 33 days later with a UN Security Council resolution and unprecedented world public opinion outrage. The Lebanese Association for Human Rights documented 57 massacres while the attack lasted. The number of dead in those incidents ranged between 6 and 35 (the Association highlighted that they were only reporting the events that they documented). As of 23 August, the Lebanese government had published these official estimates: 1,183 dead; 4,059 injured; 256,184 displaced; 15,000 homes destroyed and 77 bridges hit.

The effects of the war, by all estimates, are so massive in relation to the size and capabilities of the Lebanese economy, that many government and private-sector analysts are describing it in terms of massive natural disasters such as earthquakes and tsunamis. Overall losses (actual and lost opportunities) are being estimated at USD 9.5 billion or 40% percent of GDP. However, basic economics would say that if the total economic consequences were similar to those of an earthquake, the Lebanese would, believe it or not, be relatively lucky.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The damage in infrastructure, factories and other productive facilities is estimated at around USD 2.5 billion. The minister of Agriculture said the losses inflicted to the agricultural sector were estimated at USD 500 million. The implications of these losses on economic activity are severe, and several agencies have already significantly revised their growth projections for 2006 down from 6% to 0% at best, i.e., a loss of USD 1.1 billion. The implications on the fiscal front, for a country with an already very high debt ratio, will also be hard, including loss of revenue from taxes and customs duties, estimated at around USD 700 million. Additional expenditures to deal with the effects of the war, such as health issues, compensation, and reconstruction, are difficult to estimate at this stage.

As for the balance of payments, the loss of exports, estimated at USD 200 million, combined with the loss of revenues from a promising tourist season, estimated at USD 3 billion, will weaken the current accounts, which will in turn weaken the balance of payments if capital inflows are not stepped up. Indeed, the lost opportunities in foreign direct investment are already estimated at USD 2 billion. If international investors, tourists and even residents start to see the present war as a harbinger of indefinite conflicts in the future, the full economic implications of this war would be much higher indeed, observed economist Mazen Soueid in a column for *The Daily Star.*

Fadel al-Shalaq, head of the Lebanese Council for Development and Reconstruction (CDR), compared the devastation to the damage from the 1975-1990 civil war that tore the country apart, saying, “the result is that you can compare these losses with the losses Lebanon sustained over 17 years, except this time we witnessed it in one month”. He added that 30,000 homes had been hit, a quarter of them in the crowded southern suburbs of Beirut, a Hezbollah stronghold that was battered by Israeli air strikes. If rebuilding began immediately, it would take at least a year to repair the infrastructure and three years to replace or repair damaged buildings. It took years and billions of dollars for Lebanon to recover from the 1975-1990 civil war, and now, in many cases, the country must start the process again.

ISRAEL’S HISTORY WITH LEBANON

Counting the costs of Lebanon’s economic losses over years of Israeli attacks: 1968-2006: 24,000 killed; 49,000 wounded; USD 4.5 billion in physical damage and USD 25 billion in lost GDP

Between 1968 and 2006, Israel waged over 5,000 military attacks against Lebanon, including five invasions and/or major campaigns. Most of the economic damage was caused in the 1978 invasion (USD 418 million), the 1982 invasion (USD 1.7 billion) and the 2006 onslaught (USD 1.6 billion). The attacks harmed all economic sectors and targeted hundreds of thousands of housing units and private property at a cost of USD 1.6 billion, and of commercial establishments (damages valued at USD 938 million), manufacturing (USD 338 million), and airports, airline property and radars (USD 328 million). The largest single number of human losses occurred in 1982 when Israel launched a major invasion of Lebanon, killing over 19,000 Lebanese and wounding 32,000. In total, almost 24,000 Lebanese were killed during Israeli attacks between 1948 and 2006, and 49,000 were wounded.

In the period of 1968-2006, all major incursions caused the displacement of hundreds of thousands of civilians, especially from the southern regions to safer areas up north. For example, the current crisis forced almost a million Lebanese to leave their homes, which means loss of safety and security and hardships in obtaining shelter, medicine, food and the amenities of life.

By Kamal Dib, Canadian economist of Lebanese origin, author of several books on the Middle East, most recently “Warlords and Merchants”. From an article published by The Daily Star.

Airport losses

The losses at the airport have been estimated at around USD 170 million with average daily losses of USD 5 million, including the losses of government revenues, the duty free market, and the airlines. This is in addition to the losses due to damages of fuel storage and airport infrastructure, which amount to around USD 18 million.

Port losses

The siege on ports continued after the ceasefire, inflicting chaos and delays in the resumption of work on the Lebanese ports, which are close to and competitive with the Israeli port of Haifa.

The losses to transport companies and the port administration are estimated at USD 4.5 million. The losses due to export and import stagnation and the related losses in taxation amount to around USD 60 million. This brings the overall direct losses to the port to around USD 65 million (from an article by Adnan el Hajj in *As-safir* newspaper).

Impact on the hotel sector

Lebanon had expected 2006 to be its best year for tourism since 1974, with estimates of 1.8 million tourists spending USD 2.5 billion. These expectations vanished into thin air, along with the exodus of tens of thousands of vacationers and expatriates. The overall hotel occupancy rate in Lebanon hovered around 34%, but several five-star hotels were all at least 70% full, and are typically frequented not by wealthy Gulf nationals, but by the international press, including the crews for the BBC, CNN and Fox News, multinational corporations, and global humanitarian groups.

The average price of a hotel room in Lebanon has dropped from USD 160 to USD 120 a night since the onset of the violence. Since the new market is ephemeral at best, most hotels have offered tour groups reductions of 30-40% on commercial tour packages and are organizing promotional campaigns to woo Gulf tourists back to Lebanon in time for religious holidays (based on reporting by Lysandra Ohrstrom, *The Daily Star*).

Migration, unemployment

Unemployment has increased dramatically since the attacks, as the work contracts of thousands of employees were cancelled. The number of Lebanese who left the country because of the war exceeds 210,000, many of whom will not return immediately. There were close to a million internally displaced persons.

Debts

The damages to the financial and monetary sector in this context were much smaller, but for banks the problem is that of investment plans that exceed USD 3 billion and which are all set on hold or cancelled. This is in addition to the problem of private sector debt, which amounted to around USD 18.6 billion before the Israeli attack, and which will increase as a result of the attack.

Environment and health

The war has badly polluted the air, sea and land. During the conflict, Israel's air force carried out approximately 7,000 aerial attacks throughout Lebanon while its navy conducted more than 2,500 bombardments of the Lebanese coast, according to the Israeli military. "A crater caused by Israeli munitions in Khiam contained a high degree of unidentified radioactive materials", reported Mohammad Qobeissi, a member of the National Council for Scientific Research. Qobeisi, along with Ibrahim Rashidi from the Faculty of Sciences at the Lebanese University, have inspected the crater – which is three metres deep and has a diameter of 10 metres – with a Geiger-Muller counter, used to detect nuclear radiation and radioactivity. The Israeli weapons launched on Khiam and the neighbouring areas of South Lebanon probably contained a high level of uranium, Qobeisi added. The inspection was done in the presence of former French health minister Bernard Kouchner.

Leftover cluster bombs kill after the ceasefire

On the morning of the ceasefire between Lebanese Hezbollah militias and the Israeli military, 11-year-old Hadi Hatab stepped out to play in the street for the first time in more than a month. Seconds later a cluster bomb exploded. Hearing the blast, Hadi's father, Moussa Hatab, 32, ran to help his son, detonating another bomb that killed him 72 hours later.

On 14 August, the Lebanese army began the painstaking task of clearing the thousands of unexploded cluster bombs that litter the fields, gardens, doorsteps and playgrounds of Nabatiyeh and its surrounding villages. A Lebanese soldier said he had detonated 1,000 such devices already.

"I have never seen anything like it before. It is far more widespread than in Iraq", said Sean Sutton, spokesman for the Nabatiyeh office of the Mines Advisory Group (MAG), a UK-based NGO. Sutton said the group was struggling to cope with the quantities of cluster bombs lying around Nabatiyeh. He added that he saw both M42 and M77 cluster bombs, which are either US-made or Israeli copies. The leftover bombs are hampering the delivery of relief food. "The threat is enormous", said Matt Hollingworth of the United Nation's World Food Programme.

These cluster bombs, or submunitions, are small metallic canisters, about the size of a torch battery. Typically, tens to hundreds of these bomblets are ejected from artillery shells in mid-flight, showering a wide area with explosions that kill anyone within 10 metres of where they land. The types of artillery-delivered submunitions used by Israel have an initial failure rate of at least 14%, according to U.S. military testing data. However, up to a quarter fail to explode. In Yohmor, 7 km from the Israeli border, locals say nearly three-quarters of the people from the area have been unable to return to their homes, because there is no safe path through the explosives.

Despite a decades-long campaign by human rights groups to ban cluster bombs altogether, they are permitted under international law as long as they are not used in urban areas. An Israeli military spokesman insisted on 17 August that Israel used these munitions "within the confines of international humanitarian law". "Because of their wide dispersal pattern, cluster munitions should never be used in populated areas", said Kenneth Roth, executive director of Human Rights Watch. "The laws of war don't ban cluster munitions in all circumstances. But the use of cluster munitions in or near civilian areas violates the ban on indiscriminate attacks, because these weapons cannot be directed at only military targets". Cluster submunitions with high initial dud rates "effectively become antipersonnel landmines", Roth said. "Even if civilians are not present at the time of attack, they risk stumbling onto the submunitions weeks, months or even years later, triggering fatal explosions".

United Nations deminers, beginning emergency survey and clearance work in the south of Lebanon, have identified 10 locations where Israel used artillery-delivered cluster munitions during the recent hostilities, Human Rights Watch reported. They have been able to visit only a limited region so far, and fear that the 10 sites identified in the first two days could be the "tip of the iceberg".

Toxic air a major health hazard

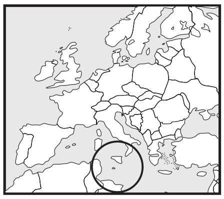
Local non-governmental organizations and government officials have warned that chemicals and dust from the buildings hit during Israeli air strikes on Lebanon have badly polluted the air and land. "The combination of toxic fumes that has been spreading for the past five weeks, which people have inhaled and is already in their bodies, is a great source of contamination", said Greenpeace campaigner Zeina al-Hajj.

Israel's attacks on fuel tanks at the Jiyeh power station on 13 July and 15 July caused a 10,000-tonne oil spill into the Mediterranean Sea, which could not be cleaned up because of the ongoing fighting. These bombings on the fuel tanks also resulted in a fire that burned for three weeks, releasing a cloud of smoke which hung over Beirut and central Lebanon and which could be seen from 60 km away.

"The oil spill is the most visible environmental damage of this disaster but of course there are many more", al-Hajj said. "The bombs themselves are a problem. With all the chemicals that are in them and the amount that have been dropped, there you have an environmental disaster in itself". The bombing of factories that made products such as glass, foodstuffs and plastics has also released these chemicals and chlorine into the atmosphere in central areas of Lebanon, potentially affecting as many as two million people.

The bombing of electricity transformers such as the one that was hit by Israeli air strikes in the town of Sidon on 12 August resulted in the release of polychlorinated biphenyls (PCBs) into the atmosphere. Lebanon still uses transformers that contain parts that were made with PCBs, despite an international ban on the substance. "These are chemicals that are bio-accumulative and persistent so when you inhale them they stay in your body, and they cause cancer", said al-Hajj. ■

The benefits and challenges of EU membership



The economic and social changes entailed by EU membership have had a positive impact on Malta in such areas as gender equality and living standards. But joining the bloc has also posed new challenges through the transition to a market economy and the growing phenomenon of irregular immigration.

Kopin
Joseph M. Sammut

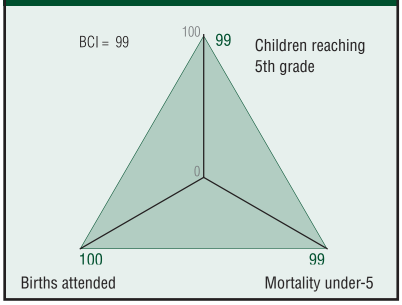
Malta became a member state of the European Union (EU) on 1 May 2004. The past few years have been marked by a wave of rapid and unprecedented changes in various sectors of society in order to bring the country's laws and policies in line with the *acquis communautaire*, the body of EU legislation which candidate countries must adopt to become members of the bloc. EU membership has brought positive changes, including the adoption of gender equality legislation and improvements in living standards. But membership has also posed new challenges resulting from economic restructuring and the transition from a centralized to a market-driven economy.

Gender equality

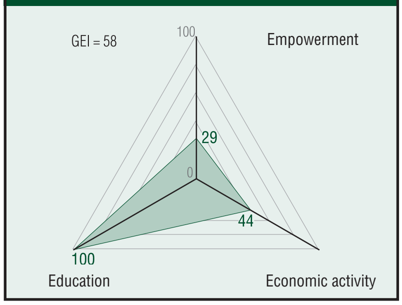
Malta's commitment to the promotion and actual implementation of gender equality has been recognized by reports from both the EU (EU Commission Report COM, 2005) and the United Nations (UN Economic and Social Council, 2004). The National Commission for the Promotion of Equality is working towards reaching the Lisbon Agenda goal of raising the employment rate by increasing the number of women in the workforce. In addition, an ongoing exercise has been undertaken in which all legislation and government policies are monitored in order to make them gender-inclusive and to eliminate all forms of written discrimination.[1] Nevertheless, gender balance remains an area in which Malta continues to lag behind the other EU member states. According to the Eurostat Labour Force Survey for the third quarter of 2005, the male employment rate (the percentage of working-age people who have jobs) in Malta was 77.9% and ranked 13th among all European countries, while the female employment rate stood at 37.0% and was the lowest in Europe (Eurostat, 2006). There are ongoing projects co-financed by the European Social Fund to increase the participation and advancement of women in the labour market. Such projects are especially crucial given the fact that women tend to make up a higher proportion of people living in or at risk of poverty in Malta.

1 The *EU Directive 2002/73/EC* came into force in October 2005.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Unemployment and poverty

The economic and social changes taking place in Malta are creating new demands and new expectations. Although an improvement in living standards has been registered,[2] certain pockets of the population are falling behind. The unemployment rate has been rising, and as a result, unemployment benefits as a percentage of GDP have increased from 0.9% in 2000 to 1.2% in 2005. In 2005, 8.9% of children aged 0-17 were living in jobless households, an increase of one percentage point over 2000. At the same time, the population is aging, due to changes in family size and structure. In 2005, the most prevalent household size in Malta comprised four persons (27.3%), followed by two persons (24.3%), three persons (22.2%) and one person (13.2%) (NSO, 2006c).

Meanwhile, although great strides are being made towards achieving gender equality and eradicating poverty, there is still a section of Maltese society, mainly female, that still faces the risk of poverty. As a consequence of the changing social environment, the proportion of births outside marriage has increased significantly, from 2.2% of all births in 1992 to 19.8% in 2005 (NSO, 2006c). This may put more women and their offspring at risk of poverty. In addition, women who choose the traditional role of staying at home looking after the family and thus do not participate in the formal economy receive a non-contributory pension or widow's pension, which is considerably less than a contributory retirement pension, and will mean a lower income for these women later in life. The government has been encouraging citizens to buy private pension schemes to safeguard their standard of living when they reach retirement age, which may increase the gap between the "haves" and the "have-nots" in the future.

The Maltese economy is facing stiff competition in the globalized market economy. The manufacturing sector has experienced difficulties due to lower demand, and several factories have closed down, while others have reduced the number of employees. On the other hand, new jobs are being created in the service industry and pharmaceuticals and information technology (IT) sectors. Redundant workers need re-education and training in new skills to help protect them from remaining jobless. Unemployment registration statistics (NSO, 2005b) show that 50% of the unemployed were found to be at risk of poverty; the average for the EU-15 (the 15 member states of the EU before the 2004 enlargement) is 38%. Moreover, 45% are young people who lack a contributory history or still live at home and so are not entitled to social benefits, and one in five or 20% did not complete secondary education. This category is more likely to be unemployed than those who have completed school, and will tend to remain unemployed for a longer period.

Public financial administration

Table 1 gives a bird's eye view of the generation and distribution of public finances for 2004-2005. The Maltese Government revenue comes mainly from direct and indirect taxes (86.86%). The economy is undergoing a restructuring process through which government and commercial cor-

2 In UNDP *Human Development Report 2005*, Malta ranks number 32 on the Human Development Index (HDI) with a per capita gross domestic product (GDP) of USD 17,633 in 2003.

porations are being sold to the private sector. This is generating revenue for the government, but it is also reducing the social responsibility towards the common good that government corporations used to provide.

Malta is classified as the second most indebted country in the EU. Eurostat statistics show that Malta comes after Cyprus (72.2%) with a 72% gross debt relative to the gross domestic product (GDP) (Eurostat, 2004). In 2005, the government allocated 8.99% of its budget towards public debt servicing, which compared to expenditure on education (6.65%) reveals a gap of 2.34% or MTL 17.92 million (USD 51.91 million). The resources spent on debt servicing show that the government needs better financial management in controlling and balancing its budget.

Irregular immigration

Malta has witnessed a considerable increase in irregular immigration. Most of these immigrants are from sub-Saharan African countries, attempting to emigrate towards Europe. Between 2004 and 2005, 3,210 persons were registered as irregular immigrants; the majority had arrived by boat after setting out from North African countries (NSO, 2005c).

The irregular immigration phenomenon in Malta started in 2001 with the arrival of 1,686 asylum seekers (NSO, 2005c). Malta is a densely populated island country, with 1,282 inhabitants per square kilometre (NSO, 2006a). It is at the crossroads of the Mediterranean, making it one of the main routes for the "boat people" leaving North Africa to reach mainland Europe. Upon joining the EU, Malta became part of the Dublin Convention, which states that asylum seekers must remain in the first country where they land. Thus, all "boat people" passing through the Maltese search and rescue area are referred back to Malta. This is seen as a convenient way for larger EU countries to keep immigrants out of their own backyards.

Irregular immigrants are taken to detention centres that are currently accommodating 1,279 detainees. The centres are overcrowded, with the overflow of immigrants living in tents. Detainees are managed by army and police officials, who are responsible for security, accommodation, meeting basic needs, providing access to medical care and day-to-day administration. Soldiers are trained to kill, not to look after people, and are clearly not the right people to be entrusted with this task. In the meantime, most of the Maltese public looks upon the "boat people" as a burden and as such they are unwanted by the local population. This has made irregular immigration in Malta a hot political issue, and has led to the formation of new right-wing parties that are vocally opposed to providing asylum to these individuals.

The Maltese population must learn to be more tolerant towards asylum seekers and to better understand their situation. At the same time, however, the EU must recognize the fact that Malta is by far the member state that is bearing the heaviest burden relative to its size and resources. The EU member states should show solidarity with Malta and the asylum seekers by accepting them in their own countries and working towards eradicating poverty in the impoverished nations that these people are attempting to emigrate from.

TABLE 1

Comparative Maltese Government Finance Data 2004-2005 (in USD millions)

Maltese Government Finance	2004 MTL 1 = USD 2.9061*	% Distribution	2005 MTL 1 = USD 2.8959*	% Distribution
Total Revenue *consisting of:*	***2,679,060.94***	***100.00***	***2,988,702.01***	***100.00***
Loans	**290,458.88**	**10.84**	**318,549.00**	**10.66**
Receipts from sale of shares			**63,104.56**	**2.11**
Other Extraordinary Receipts	**25,861.38**	**0.97**	**11,111.57**	**0.37**
Recurrent Revenue	**2,362,737.76**	**88.19**	**2,595,936.89**	**86.86**
of which:				
Grants	88,084.00	3.73	193,894.98	7.47
Customs and Excise	181,076.18	7.66	190,173.75	7.33
Consumption Tax	411,417.00	17.41	487,469.74	18.78
Income Tax	613,701.48	25.97	642,194.78	24.74
Social Security	551,162.21	23.33	566,400.39	21.82
Others	517,297.42	21.89	515,803.23	19.87
Total Expenditure *consisting of:*	***2,714,033.00***	***100.00***	***2,854,060.04***	***100.00***
Recurrent Expenditure *of which:*	**2,129,721.00**	**78.47**	**2,218,184.11**	**77.72**
Education	145,921.09	6.85	147,453.44	6.65
Social security (benefits)	602,893.69	28.31	639,501.60	28.83
Others	1,380,906.07	64.84	1,431,229.07	64.52
Public Debt Servicing	**280,275.91**	**10.33**	**256,530.41**	**8.99**
Capital Programme *of which:*	**304,036.00**	**11.20**	**379,345.52**	**13.29**
Productive Investment	78,569.32	25.84	84,493.67	22.27
Infrastructure	121,164.03	39.85	143,598.99	37.85
Social	104,302.84	34.31	151,252.86	39.87
Gross Government Dept *of which:*	***3,933,127.36***	***100.00***	***4,065,226.77***	***100.00***
Treasury Bills	**713,026.17**	**18.13**	**550,866.79**	**13.55**
Government Stock	**2,948,808.05**	**74.97**	**3,258,851.83**	**80.16**
Foreign Loans Outstanding	**199,274.18**	**5.07**	**188,922.72**	**4.65**
Other dept assumptions	**77,479.53**	**1.97**	**72,032.62**	**1.77**
MGSF Investment in Government Debt	**-5,460.56**	**-0.14**	**-5,441.40**	**-0.13**

Source: Extracted from NSO: Government Finance No. 92/2006, p. 6. *Annual exchange rate

Official development aid

Malta is a signatory of the Millennium Development Goals (MDGs) and has made a commitment to contribute 0.17% of its gross national income (GNI) as official development aid (ODA) to developing countries. A recent report published by the European Commission (2006) shows Malta to be the highest donor among the 10 new member states, with an ODA contribution of 0.18% of GNI. However, another report released by CONCORD (2006) – a European non-governmental development organization (NGDO) platform of which the Maltese NGDO Platform, coordinated by Kopin, is a member – states that Malta's overseas development aid is deceptively doubled by including the spending on refugees in Malta. Genuine ODA is money allocated as development aid to improve the welfare of the poor in poor countries, and not money spent on refugees or foreign students studying in the donor country. In addition, Malta wrote off MTL 2.8 million (USD 6.3 million) in debt owed by Iraq in 2004, and this money was included as part of Maltese ODA for 2003-2005 (Calleja, 2006).

(Continued on page 259)

Investments that do not guarantee rights

When public-private associations that provide basic services do not guarantee economic accessibility – one of the key components of economic, social, and cultural rights – and both coverage and access are defined by the ability to pay, the Government fails to fulfil its obligation to satisfy these rights. Also, if the Government allows or favours foreign direct investment in development projects that are neither socially nor environmentally responsible it fails to comply with its obligation to protect human rights.

DECA Equipo Pueblo[1], Espacio DESC[2]
Areli Sandoval Terán[3]

The hotly contested and disputed results of the 2 July 2006 federal elections, and the ensuing socially and politically tense climate, have brought out into the open the ideological confrontation between the different visions of the country, and the very different experiences lived by the various sectors and regions with respect to the impact of the economic and social development model. The profound divide and inequality that we are living demands a profound, serious and participative revision of the economic liberalization model that has been dominant in Mexico for the last quarter of a century. As a contribution to this challenge, the Social Watch Mexico report analyzes from a human rights perspective some of the schemes applied by the Government to mobilize resources – public, private, national and foreign – toward development, and looks into their effects on the living conditions of the population. It also proposes alternatives and recommendations toward the attainment of the right to development.

Associations that are more private than public

The report made by UN Secretary General Kofi Annan to the Preparatory Committee to the Monterrey Conference on Financing for Development, stated that although private foreign capital can play an important role insofar as it supplements domestic resources, there have been negative experiences when these investments do not comply with labour or environmental regulations. Annan emphasised that both governments and transnational corporations should act responsibly in these areas (A/AC.257/12, paragraphs 46, 47 and 60, 18 December 2000).

Alleging budget restrictions that made it difficult to meet the need for infrastructure and basic services, between 1983 and 2006 governments promoted foreign direct and indirect investment and set up different kinds of public-private associations (PPAs) in the energy, roads, water supply, health, housing, and higher education sectors. For example, the Vicente Fox administration (2001-2006) implemented a mixed investment scheme called Projects for the Provision of Services, a different kind of PPA.[4]

Fox maintains that the PPAs improve the quality and coverage of public services because they bring efficiency and capital from the private sector, they promote the development of domestic providers and make them more professional, and they reduce costs and free resources for other social projects[5]. But this is simply not happening. As health, education and drinking water services and the construction of new housing are privatized, the coverage they provide is now determined by people's capacity to pay. In addition, transnational capital has replaced the domestic private sector, and contrary to what is claimed, the Government has de-capitalized key social sectors like education, health and social security. The State has not fulfilled its obligation to allocate the maximum resources available to working towards establishing the rights enshrined in the International Covenant on Economic, Social and Cultural Rights (ICESCR).

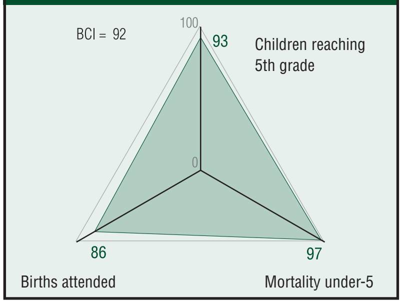
The PPAs are "following the general trend towards the commercialization of services ... and they are still a form of privatization" (McDonald and Ruiters, 2006) so they are more geared to making profits than to enhancing social development. To make matters worse, the privatization of services can lead to violations of human rights if economic accessibility, a basic element in economic, social and cultural rights, is not guaranteed. This happens, for example, when a transnational corporation raises its charges for basic services so much that this compromises the enjoyment of other rights. In all cases of privatization the State should fulfil its obligation to protect people's human rights against non-State third parties by supervising and regulating how these organizations operate, and by providing mechanisms and resources to defend human rights if violations take place. The example below is a good illustration of this situation.

Privatizations that trample human rights

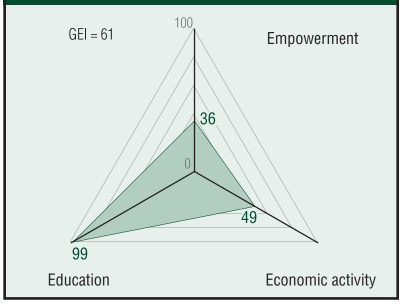
The National Water Commission claims that Aguas de Saltillo in the state of Coahuila, a mixed public-private association that involves the Spanish corporation Aguas de Barcelona,[6] is a successful privatization scheme that provides drinking water and sewage facilities.

However there was no adequate prior consultation with the local population, charges for the services were illegally increased above the level of the National Consumer Price Index, and the demands of the Users Association of Aguas de Saltillo were not considered in due time. The Public Treasury Auditor's Office of the Coahuila Congress discovered a series of irregularities like the fact that the

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



1 Social Watch focal point in Mexico.

2 Mexican reference group for Social Watch and other international networks.

3 Coordinator of the Citizenship Diplomacy Programme (Programa Diplomacia Ciudadana), DESCA and Social Watch of DECA Equipo Pueblo, A.C. <arelisandoval@equipopueblo.org.mx>.

4 Secretariat of Finance and Public Credit: <www.pps.sse.gob.mx/html/que_son.html>.

5 Presidency of the Republic. Press release, 21 October 2004: "Inaugura el Presidente Vicente Fox la Primera Cumbre de Asociaciones Público-Privadas para las Américas", at: http://presidencia.gob.mx

6 The Municipal System of Aguas de Saltillo holds 51% of the shares and 49% are held by Aguas de Barcelona, of which the French transnational Suez is a shareholder.

main officers of the corporation were receiving salaries in excess of the levels stipulated in the legislation by which it was set up, some work was not reported to the Administration Council, some vehicles were purchased in contravention of the Acquisitions Law, and there have been labour rights violations such as unjustified dismissals and threats (Castañeda Bustamante, 2006).

In General Observation No. 15 concerning the right to water, the UN Committee on Economic, Social and Cultural Rights (CESCR), interpreting the ICESCR, ruled that "water, and water services and facilities, must be accessible to all. The direct and indirect costs and charges associated with the provision of water must be affordable and must not compromise or endanger the exercise of other rights recognized in the Covenant" (E/C.12/2002/11, paragraph 11, c, ii). Therefore Aguas de Barcelona is contravening the ICESCR and various ILO conventions and other commitments involving good business practices. When it comes to managing water in Mexico, the new Government must consider "the great potential of participation and democratization to improve the public water supply" and should recognize that "privatization is not the answer" (Balanyá *et al*, 2005).

Negative impacts of foreign direct investment

The way that foreign direct investment (FDI) operates was also analyzed by the DESCA Alternative Report that 105 NGOs submitted to the CESCR in May 2006. We reported how FDI projects in areas where the local people are highly dependent on the environment for farming or because they inhabit areas rich in biodiversity are doing social and environmental damage with the consent or complicity of the State. Such is the case of the Plan Puebla Panama (PPP), which affects the area from the south-southeast of Mexico to Panama in southern Central America, for which the Inter-American Development Bank as part of the High Level Committee seeking to raise financing for the PPP projects, is channelling its own funds and promoting leadership from the private sector as a financing alternative. In its fourth periodic report to the CESCR (E/C.12/4/Add.16), the Government mentions the PPP as one of the measures it is taking, in line with a 1999 recommendation by the Committee, to alleviate the negative impact that the North American Free Trade Treaty has had on economic, social and cultural rights.[7] Unfortunately, this project lacks a holistic vision of the right to development, and there are no measures to guard against or compensate for land appropriation, to prevent damage to the environment, to limit the appropriation and over-exploitation of natural resources, or to safeguard the country's cultural heritage.

At Espacio DESC we have also documented reports from communities that have suffered or are suffering violations of their human rights as a result of mega-projects. One typical case is a plan, which is part of the PPP, to build a hydroelectric dam at La Parota in the state of Guerrero. This will involve the flooding of 17,000 hectares of farmland, roads and bridges in an area that is home to 21 communities, and around 25,000 people will be displaced. The project will indirectly affect more than 75,000 people downriver and will cause irreparable damage to their health and to the ecosystem (for example, an endemic species of frog will become extinct). The La Parota project is opposed by the joint owners of common land in the area on the grounds that it does not constitute sustainable development and is a threat to community life because of its high ecological, social and economic costs. The municipal, state and federal governments have ignored these complaints, and in promoting the project at all costs they are acting in an authoritarian and undemocratic way (Espacio DESC, 2006).

The new Government, which will take office on 1 December 2006, should not fail to take action in this situation, which is so serious that it merited a specific recommendation from the CESCR urging Mexico to ensure that the indigenous local communities affected by this project, or by other mega-projects, should be duly consulted so as to obtain their informed consent beforehand. This applies to all decision-making processes connected to projects that affect people's rights and interests, as recognized in the ICESCR. The Committee also urged Mexico to recognize the rights of indigenous communities to the possession and ownership of lands they have traditionally occupied, and, should the need arise, to ensure that the indigenous and local rural communities affected by the work at La Parota, or other PPP infrastructure projects, should be suitably re-located and receive adequate compensation and alternative fertile farmland, and that their economic, social and cultural rights should be protected.[8]

The need for prior informed consent

Another mega-project that is to be undertaken with mixed investment is a wind energy facility in the Tehuantepec Isthmus, in the state of Oaxaca. Some 14 firms have shown interest in this, including Spanish corporations like Gamesa Eólica and Iberdrola (Castañeda Bustamante, 2006). While legal problems that are delaying the start of construction work are being resolved, the foreign investors are negotiating with the co-owners of common land to acquire leasing contracts for sites where the wind turbines can be located. The Government has promoted a Certification Programme for Common Land Rights and Title Deeds (PROCEDE) to be able to take possession of the land, and community representatives are having to negotiate without sufficient information or counselling, which makes it difficult for them to reject the project or strike a bargain that will benefit the community. This means the transnational corporations involved are taking advantage of the fact that the community is poor. In this situation it is very important for the authorities to analyze seriously the possible environmental, economic and socio-cultural impacts about which various organizations that are absolutely opposed to the construction of the energy facility have already sounded the alarm.

Conclusions

It is clear that unrestricted free trade and foreign investment has mostly worked in favour of transnational corporations. We agree with the UN commentators that the negative impact of globalization on the exercise of human rights "is multi-dimensional, and therefore calls for a critical re-think of trade policies and instruments, international investments and finance, and that human rights should no longer be treated as something peripheral to how the system is formulated and how it operates" (E/CN.4/Sub.2/2000/13).

In the light of these problems, the new Government should apply every human rights instrument, principle and recommendation,[9] and show that it has the political will to act in accordance with them. We also demand that it take account of the proposals and recommendations regarding ESCR set out in the national diagnosis from the Office of the UN High Commissioner for Human Rights as it is faced with an economic model that has not been socially responsible (Office of the UN High Commissioner for Human Rights, 2003). The Government should also consider the 1999 and 2006 CESCR recommendations; promote UN standards in the new Human Rights Council (of which Mexico is the current president) and UN standards concerning the responsibilities of transnational and other commercial corporations in the human rights area (E/CN.4/Sub.2/2003/38/Rev.2); promote the facultative protocol of the ICESCR to set up a mechanism to report violations; uphold the supremacy of international human rights instruments over other kinds of treaties – in line with the UN Charter – and set up suitable spaces for civil participation in public economic and social policies. Investment in economic and social development with a human rights perspective is a crucial task and one of the major challenges in the 2007-2012 period. ■

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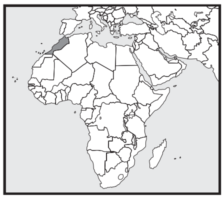
7 Final observations made by the CESCR to Mexico in 1999: E/C.12/1/Add.41, paragraph 35.

8 Final observations made by the CESCR to Mexico in 2006: E/C.12/CO/MEX/4, paragraph 28.

9 The impacts of economic globalization on human rights have been analyzed by various bodies, commentators and specialist UN agencies. For example the Human Rights Commission resolution on globalization and human rights (E/CN.4/RES/2003/23) and the High Commissioner for Human Rights report on trade, investment and human rights (E/CN.4/Sub.2/2003/9), etc.

Programmes do not address the roots of poverty



The development programmes are not coordinated and lack monitoring to evaluate and modify the impact, quantity and quality of the resources they mobilize. The new National Human Development Initiative has a limited budget and while it proposes citizen participation, the NGOs feel barely represented.

Espace Associatif [1]

In recent years various reforms were announced in the fields of education and of laws related to family, work and criminal justice, as well as Obligatory Health Insurance, among others. Nevertheless, the real results do not meet the expectations of the citizenry, especially the civil society organizations that work toward the development of democracy. An examination of diverse indicators related to socio-economic development, equality of opportunity and the fight against poverty is not encouraging.

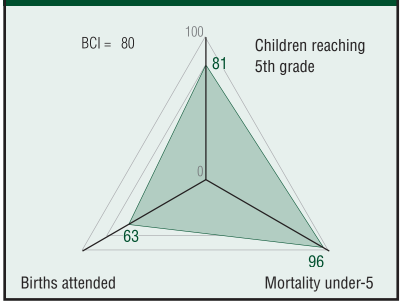
The Social Watch 2006 report, dedicated to the theme of financing for development, is a logical continuation of the 2005 report on poverty and gender five years after the United Nations Millennium Summit and 10 years after the Beijing Conference on Women. The latter made public the deficiencies that still exist and which are a true challenge to meet in order to achieve the Millennium Development Goals.

This contribution from Espace Associatif to the 2006 report has been preceded by the implementation of a consultation that established a platform made up of 32 NGOs from different regions of the country that operate in different sectors linked to development. The objective is to answer the question: "How can we mobilize diverse financial resources and put them to the service of social development, the fight against poverty and discrimination?"

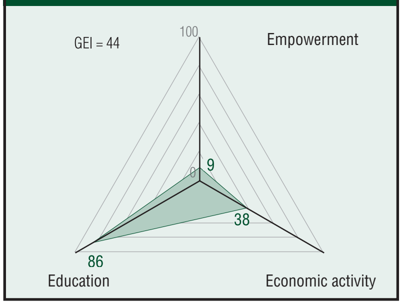
The debates on this question about financing for development have shown how this question has raised many others, linked to democracy, good governance and respect for human economic, social and cultural rights, as well as participation and in particular women's rights.

Before making a general empirical assessment of the funds in Morocco that are already being used and those that can yet be utilized to ensure social development, we have defined social development as the satisfaction of economic, cultural and social needs; and as society's answer to certain risks that affect developing peoples: the abusive exercise of power, the marginalization of its members and the unequal distribution of the fruits of economic growth. Social development is thus a social process characterized by active collective attitudes that promote integration of individuals by society, the establishment of social solidarity relations within society and the implementation of a good management system. Actions taken for social development will imply measures tending to suppress discrimination and eradicate poverty.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Poverty and emigration

The analysis of poverty from the perspective of income has reaffirmed the importance of transfers within families and above all those that spring from emigration as an attenuating factor. This remark highlights the decisive role emigration plays as a means of compensation. Migration policies and the behaviour of States in terms of management of labour flows are principal components of the actions to take against poverty. Flows of labour which are free from all obstacles are a decisive means of fighting against poverty because they alleviate the demographic pressure on regions that lack resources and capital, which for structural reasons cannot achieve a level of competitiveness that will ensure a decent life for their population.

Insufficient economic growth limits the balance of the labour market and determines an internal and external migratory movement. Internal migrations translate into a demographic pressure on the cities and a structural labour surplus in the urban labour market. This situation requires development actions on three levels: investment in campaigns to fight poverty and create employment for rural young people, investment to fight against unhealthy housing and to correctly equip the urban peripheries and finally, investment in productive activities to generate a level of growth and employment sufficient to eradicate poverty and unemployment and create an accumulative process of growth and improvement in the quality of life of the people. As the productive apparatus does not succeed in absorbing the labour force offered in the internal market, there is a strong pressure for emigration.

TABLE 1

State income in 2003 (MAD billions)

Customs duties	11.30
Internal consumption taxes	15.80
VAT	18.25
Various loans	40.50
Revenue from State assets	4.40

Public spending without monitoring or evaluation

State spending reaches MAD 117.3 billion,[2] around 83% allocated to operational costs. In the general budget, investment continues to be limited, and 53% of the budget is used for paying the salaries of government employees. The remainder is assigned to the purchase of goods and services, to servicing the external debt and other matters.

For the moment, public expenditure for the different departments are stipulated based on previous budgets without economic evaluation of the performance of public projects that would permit reorganizing the budget.

Public expenses are dominated by salaries of government employees and debt service. Social

1 Representatives of 32 associations from different regions that operate in multiple sectors participated in the consultation meeting organized by Espace Associatif (www.espace.cjb.net).

2 USD 1 is equal to MAD 8.77 (June, 2006).

budgets for education and health consume a great part of public spending. The State pays for food and gas subsidies. In addition, it supports rural medicine and tries to fight poverty by means of a series of programmes in infrastructure, housing and promotion of activities that generate income, above all micro credit loans.

In 2003, the State spent MAD 18.9 billion on formal education and MAD 4.3 billion on health. For programmes in infrastructure, rural development, housing, food subsidies and others it invested MAD 18.9 billion.

Our analysis has revealed an extreme dispersion of the means mobilized by the State and also a lack of coherence and monitoring of the effects of the plans and resources mobilized.

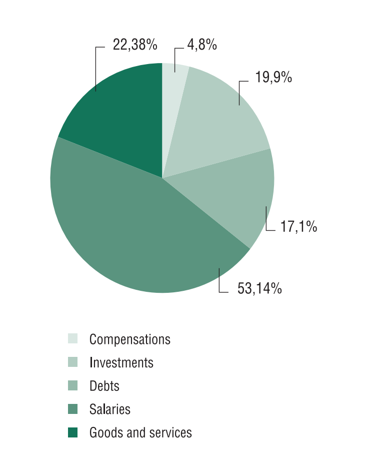
The balance between spending and investment in the last few years makes evident a surplus principally in the homes and in financial ventures. The State and non-financial ventures recur to the savings of other economic agents to finance their investments. In 2003, contributions from households represented a third of the total national investment (MAD 120 billion), while the non-financial entrepreneurial ventures contributed with more than half (MAD 65 billion), above all the public enterprises. Public companies only contributed 10% of the total investment, approximately MAD 13.7 billion.

National accounts do not provide information on the modalities of distribution of household savings (positive as well as negative) or on the rate of evolution of poverty.

Economic activities generate resources whose modalities of redistribution cause the restructuring of wealth. The sectors that generate savings have got richer and those who live on their earnings have got poorer. This phenomenon is significant because for a very long time the productive sector was predominantly household-based. Only in 2001 did the added value generated by non-financial enterprises exceed that generated by households.

The internal market is open to foreign direct investment. Reduction of customs barriers, within the framework of trade policy, harms the artisan sector. The activities that maintain themselves in this context are those protected by public regulations or investment. The initiatives of the sectors exposed to international competition need to be restructured.

State expenditures in 2003 (MAD billions)



Meanwhile, the remittances sent by emigrants are very important and contribute significantly to the reduction of poverty.

The State maintains a fiscal policy that takes social objectives (such as waivers of the value added tax, waivers to the agriculture sector, progressive income taxation and others) into account in determining tax rates, the tax structure and fiscal quotas. The effects of these objectives are a larger compartmentalization of the labour market, the underutilization of the qualified workforce in the sectors exposed to international competition and high unemployment in the sector of highly qualified workers. Urban employment is estimated at 20%.

Development assistance

Some actions taken by the State, the private sector and international financial institutions have attempted to address poverty and its effects. These actions imply direct or in-kind fund transfers, and interventions in the areas of prices, salaries and the social security framework. Nevertheless, these actions are not well focused and do not aim to solve the root of the problem of the lack of jobs, which contributes to increase poverty.

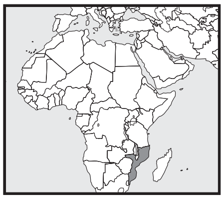
The State is trying to commit the private sector more and more to the offer of social loans, but the social policy is irrational, lacks homogeneity and does not address the causes of poverty.

Public development assistance is directed at infrastructure, education, water, electricity, the environment, health and agriculture. In general, it comes from European Union countries, Japan and the Arab countries. France, Japan and the Arab countries contribute more than 80% of bilateral aid to Morocco (and 70% of total aid).

New programme, little participation

The lack of relevance and focus of social policies, as well as their ineffectiveness, led to the creation of the National Human Development Initiative in 2005. This initiative, which is the starting point of a strategy of revision, proposes a change in the concept of social policy, in particular a more participatory implementation, mobilizing with equal responsibilities the Government and the public administration as well as civil society and the political classes. Nevertheless, the sum of MAD 10 billion directed at financing these actions during a five year period is highly insufficient for alleviating all of the weaknesses. Some civil society actors also criticize the management committees of the National Human Development Initiative for being composed primarily of representatives of the state and for incorporating little representation of NGOs. ■

The challenge to eliminate extreme poverty



The international community has offered significant financial help with the aim of eliminating extreme poverty. The Government faces the challenge of improving its management and monitoring mechanisms, overcoming corruption and promoting transparency.

Social Watch Mozambique
Mozambican Human Rights League
Custódio Duma
Joaquim Dimbana

In its second year in office, the Government continues to face great difficulties in terms of human development. In the 2005-2009 Five Year Plan, the Government merely paid lip service to its anti-corruption strategies and its implementation of a policy to combat absolute poverty is inadequate and ineffective. Meanwhile, there are claims of economic growth and Mozambique continues to attract financial support, especially from the West.

In terms of income, the Government foresees collecting MZM 27 billion (USD 1.08 billion) for 2006. Of this total, 97.3% corresponds to current income and 2.7% to capital income. In terms of total expenses, the State foresees spending MZM 52.53 billion (USD 2.09 billion) this year; 50.9% of these funds will be used for current expenditure, 41.5% for investment expenditure and 7.6% for expenses from financial operations.[1] Current income is employed primarily to improve education, health, justice and law, security and public order and the financial administration of the State.

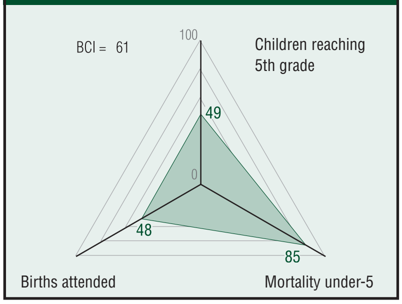
In terms of promoting sustainable economic growth and budget sustainability, in 2006 the State should avoid resorting to domestic public bank credit, thus granting expansion possibilities for credit to the private sector.[2]

Difficulties in public management

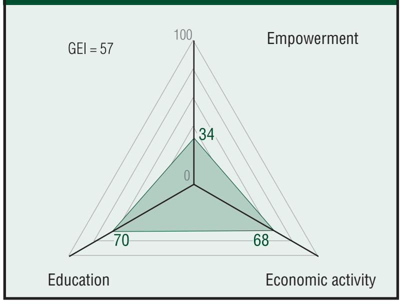
Two great limitations affect the population's standard of living: the illicit wealth of minorities linked to the power structure and the absence of public policies promoting a family income capable of providing an economically stable life and meeting basic needs. The inequality of opportunities and a minimum wage of USD 50 (the lowest in southern Africa) tend to be the principal cause of extreme poverty.

Due to the growing levels of corruption, impunity and corporativism in the public sector, the public administration is unable to carry out its duties effectively. A report published by the United States Agency for International Development (USAID) in May 2006 refers to the Mozambican economic system as a favourable setting for corruption, with a judicial system that protects offenders, particularly those connected to the power structure.[3]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The lack of transparency in the administration, the lack of training and technical knowledge, as well as the ineffectiveness of the auditing and monitoring of government management contribute to the weak execution of plans drawn up since 1992, when the General Peace Treaty put an end to the civil war.

The plan for the decentralization of district governments shows the difficulties in diagnosis, planning and execution of public projects for rural areas, where the majority of the population lives and where state-provided services are scarce. The districts received MZM 1,578 million (USD 62.9 million) for the implementation of development projects of reduced scope and complexity, while MZM 1,334 million (USD 53.2 million) went to the provinces and MZM 18,081 million (USD 721.2 million) remained at the central level. All districts received the same amount of MZM 7 million (USD 279,200), without taking into account the needs and potentialities of each local government.[4]

High mortality rates

Although the mortality rate has not yet been reduced, the population continues to grow, reaching a total of some 20 million inhabitants – 13 million in rural areas, where they survive thanks to small-scale subsistence agriculture carried out by rudimentary methods.[5] Citizens who live far from Maputo find that the involvement, effectiveness and presence of the State in their lives becomes weaker as distances grow.

Mozambique is one of the least developed countries of the world. The proportion of people living under the national poverty line exceeds 65%. More than half the population suffers from malnutrition and more than a quarter of children under five are underweight for their age.

The general mortality rate is high (21.2 per 1,000 live births in 1997) and the infant mortality rate is especially high at 124 per 1,000 live births (Demographic and Health Survey – IDS, 2003). The maternal mortality rate is situated at 408 per 100,000 live births (IDS, 2003). Malaria, HIV/AIDS, cholera and endemic diarrhea continue to be the greatest health problems and principal causes of death. Twenty per cent of pregnant women carry the malaria parasite, and 15% to 30% of maternal deaths result from this disease, which is also a primary cause of pediatric hospitalization and death.

As regards the Millennium Development Goals (MDGs), the economic plan has made advances in some areas, but in others almost nothing has been done; for example, with respect to the reduction of absolute poverty, the incidence of HIV/AIDS, improved efficiency of services, job creation, increase of state income, reduction of dependence on external aid and the capacity for effective response to natural disasters.

The goals of the Government

The Government conceived a Population Policy Action Plan in order to address the demographic balance and migration from the country to the city, ensuring rural as well as urban development and

1 <www.dnpo.gov.mz/sis_info/orcamento/apresentacao_AR/2006/apresentacao2006.htm>.

2 Economic and Social Plan for 2006, <www.dnpo.gov.mz>.

3 USAID (2005). Evaluation of Corruption: Mozambique. Final Report.

4 Ministry of Finance. 101/GM/MF/06, 12 May 2006.

5 <www.ine.gov.mz>.

guaranteeing reproductive health rights and the reduction of infant and general mortality.[6] The fight against extreme poverty calls for a prioritization of education, health, agriculture, infrastructure, government and the regions with relatively low levels of development.[7]

For 2006, the Five Year Action Plan for the Reduction of Absolute Poverty (PARPA III), in agreement with the MDGs, listed, among others, the following goals: a 50% reduction of absolute poverty before 2010, an increase in the number of people with access to drinking water and improved sanitary services in urban and peri-urban centres.

Educational goals include achieving a net enrolment rate of 88% in primary education and a gross enrolment rate of 161.7%,[8] as well as raising the number of schools and teachers and achieving a net rate of 86% for girls completing primary school. The Government has not specified how it intends to achieve these goals.

As regards infant mortality, the plan affirms that from 1997 to 2003 the country reduced by nearly 19% the mortality rates in children under five, citing malaria, respiratory infections, diarrhoea, malnutrition and measles as the main causes of death in children.

Concerning maternal health, the goal for 2006 is to reduce in-hospital maternal mortality to 160 per 100,000 live births. The main hindrance lies in that more than half of births are not attended by skilled health personnel. Sexual and reproductive health policies, good management and planning, monitoring, evaluation and coordination among institutions are nonexistent.

There is no concrete goal for the fight against HIV/AIDS, malaria and other illnesses. The National Council for the Fight against AIDS, created in 2002, is multi-sectoral and its objective is to lead and coordinate the response to the pandemic. In less than five years the Council has demonstrated a scarce capacity for direction and management of resources. AIDS projects get turned into sources of funds for other projects.

In terms of environmental sustainability, the objectives are many, but a means for achieving them has not been specified.

As for justice, in 2006 efforts will continue in the sense of implementing a Strategic Integrated Plan with the objective of simplifying processes and increasing efficiency in the provision of services on the part of the judicial system. The main actions include legal reform, access to justice and professional and technical training. Another component of the plan is that 20 inmates from each prison be taught a trade. Meanwhile, jails are overcrowded; the Central Penitentiary of Maputo alone accommodates 3,000 inmates.

In access to justice, the goal is to expand the Administrative Tribunal to the national level, carry out seminars in the provinces about judicial pluralism and freedom of religion, and create a human rights commission and a corresponding national human rights plan. Another intention is to work together with the media, as well as distributing leaflets informing the public of their rights and guarantees, and providing free legal assistance to citizens who lack this resource. It should be noted that the Institute for the Sponsorship of Legal Assistance created by the State in order to offer free legal assistance transformed itself into a kind of society in which technicians and legal assistants began to charge fees as if they were private lawyers, despite being under the public budget.

Legal reform goals for this year include the production of the Referendum Law, HIV/AIDS regulations and laws relating to disabled people, including victims of war, terrorism, consumers' and buyers' rights, and loss and reacquisition of nationality.

TABLE 1

Total spending in PARPA areas of priority compared to resource allocation

	2004	PLAN 2006
Total spending (millions of MZM)	29,503	52,530
Debt interest	1,228	1,568
Financial operations	—	4,007
Total spending in prioritized sectors	17,803	32,649
Percentage of total spending excluding debt interest	62,9%	69,5%
Education	5,909	9,466
Health	2,978	6,850
HIV/AIDS	115	687
Infrastructure	3,725	7,486
Roads	2,911	4,652
Water and public works	814	2,834
Agriculture and rural development	1,236	1,574
Government, security and judicial system	2,746	5,861
Other prioritized sectors	1,094	726
Percentage of total spending excluding debt interest and financial operations	63,0%	69,5%
Education	20,9%	20,2%
Health	10,5%	14,6%
HIV/AIDS	0,4%	1,5%
Infrastructure	13,2%	15,9%
Roads	10,3%	9,9%
Water and public works	2,9%	6%
Agriculture and rural development	4,4%	3,4%
Government, security and judicial system	9,7%	12,5%
Other prioritized sectors	3,9%	1,5%

Source: 2006 General State Budget, <www.dnpo.gov.mz>.

International cooperation

Thanks to its political stability, the country has received different forms of financial aid, a factor that in some way should contribute to the fight against extreme poverty. In February 2006, the Government and the European Union signed an agreement for a new programme of budgetary aid for PARPA, so that the European Commission will grant a total of USD 114 million in 2006 and 2007.

In June 2006 Germany announced a donation of USD 25.4 million to the State budget in 2007 and 2008.

Portugal is one of the 17 Partners for Programming Support for Mozambique (PAP).[9] Since February 2004 Portugal has made an annual contribution of USD 1.5 million, while the Programme contributes a total of USD 178.29 million, of which USD 77.7 million (43.6%) is assumed by the European Commission as largest donor. Under this programme, the Government promised in April 2006 to implement the actions described in the calendar, setting as its goal the reduction of absolute poverty and an improvement in the management of public finances.[10]

Conclusion

Although the socio-political and economic atmosphere favours a rapid and increased improvement of its citizens' quality of life and the fulfilment of the MDGs, the public administration suffers from a lack of ethics as well as clarity and objectivity in the goals that it intends to achieve.

Also urgently needed is a policy of auditing and monitoring that will demand accountability from each branch and agent of the State.

The assignment of a decentralized budget for districts, more than an interest in the development of remote areas, demonstrates the incapacity of the central Government to reach the places where the majority of Mozambicans actually live. The lack of objective criteria in the assignment of resources already demonstrates this programme will be a complete failure insofar as some administrative officials have declared publicly that they do not know how to make use of resources in the situation of extreme poverty in which we live. ■

6 <www.npad.gov.mz>.

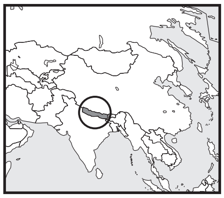
7 2006 Action Plan of Population Policy, <www.dnpo.gov.mz>.

8 <www.dnpo.gov.mz/sis_info/p_global/pes/pes.htm>.

9 <www.pap.org.mz>.

10 <www.ipad.mne.gov.pt>.

The urgent need to mobilize public resources to finance development



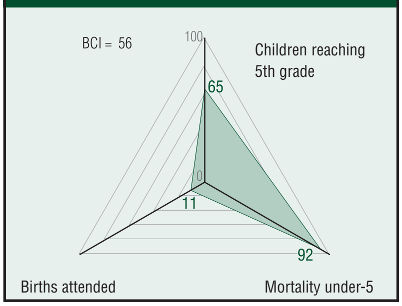
The trend to increasingly allocate the country's scarce resources to security and debt servicing has led to diminishing financing for social and economic development and poverty alleviation in Nepal. With the recent return to multi-party rule and the start of peace talks between the Government and Maoist insurgents, there is hope for a renewed focus on pro-poor and participatory development processes.

Rural Reconstruction Nepal
Karen Bernstein
Prerna Bomzan
Arjun Karki

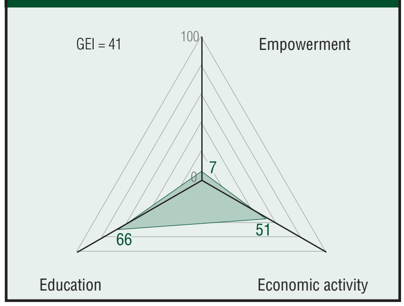
Nepal's political crisis – which deepened from 2002 to 2006 with the transfer of power from a series of weak elected governments to King Gyanendra[1] – reached a new transition point in April 2006, when the King was forced to restore power to an elected parliament after mass popular demonstrations. But even before the King usurped control and further stalled development, Nepal – already categorized as one of the world's least developed countries – was suffering under the burden of a Maoist insurgency and a feudalistic socio-economic system. The insurgency began in 1996 after people became dissatisfied with the country's elected leaders, following the advent of representational democracy six years earlier.[2]

Since then, the conflict has caused thousands to be wounded and disabled, and resulted in the death of more than 12,000 civilians, the abduction and displacement of an estimated 64,000 people, and the destruction of billions of rupees of government and private infrastructure (HMG/N Office of the Prime Minister and Council of Ministers, 2006, p. 27). Additionally, a leading newspaper recently reported that the Government's spending capacity in development activities has also been collaterally damaged (Khanal, 2006). As a result of political and governance problems, quality of life has deteriorated and the economic growth of the country has been negatively affected.[3] Those who have been the worst hit are the marginalized communities and indigenous people, who historically have been the most deprived of economic, social, political and human rights.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Domestic budget processes and macroeconomic policy

Nepal's macroeconomic policies have been ineffective in addressing poverty alleviation issues, and have been particularly unable to promote pro-poor growth and equitable income distribution. This is largely because macroeconomic policies are structured according to international liberalized financial and trade regimes. The current national development plan, the Tenth Plan (2002-2003 to 2006-2007), mainly focuses on poverty alleviation through liberalization of the economy and concentration of government resources on physical and social infrastructure. Although the Government has declared that under the Ninth Plan, the percentage of people living in poverty decreased from 41% to 32%, many have questioned these figures and the structures and effectiveness of such policies in truly addressing poverty (GCAP Nepal, 2005).

The State has also been unable and unwilling to incorporate a pro-poor and inclusionary approach in its budget-making processes. Women, Dalits ("untouchables"), Janajati (indigenous) and other ethnic groups and the disabled have rarely been given the chance to play a role in policy decisions and in the formulation and monitoring of national development plans and policies. In fact, the United Nations Development Programme (UNDP, 2004, p. 11) evaluation of the country's governance structures in relation to poverty has identified the absence of citizen participation in the decision-making processes as one of the foremost weaknesses in the system. Furthermore, disruptions caused by the civil war have now made public consultations impossible in the many districts where rebels maintain effective control.

As the provision of basic services is necessary to reduce poverty and move the development process forward for the rural poor, the conflict situation has further compounded the financial vulnerability of the marginalised population. The Government has continued to increase its security-related expenditures at the expense of social and economic service expenditures, and the poor have subsequently become increasingly poorer and unable to access social services. In fiscal year 1997-1998, for example, the total security expenditure rose steadily and accounted for 9.03% of the budget. By 2003-2004, the allocated budget for security increased even further to a startling 16.58% of the total budget (GCAP Nepal, 2005, p. 9).

Meanwhile, budget expenditure for social development and economic development dropped from 18.40% and 31.90%, respectively, of the total budget in the year 1997-1998, to 14.98% and 18.74% in the year 2003-2004 (GCAP Nepal, 2005, p. 9). This decrease in the development budget has compromised the content, range and reach of government programmes and services and this has been detrimental to those who need them most.

At the same time, a large proportion of the allocated budget for social services and development goes under-utilized due to the non-release of the

1 King Gyanendra seized absolute power in February 2005. His rule curtailed fundamental human rights and crushed any political and development progress made until that point.

2 After a series of unresponsive governments failed to deliver on their promises – specifically and significantly along the lines of caste, gender, ethnicity, social exclusion – the Maoist armed insurgency began to take form and gain power.

3 The country's economic growth, which stood at about 5% on average during the 1990s, dropped to 2% in 2004-2005 against estimated growth of 4.5%. In 2005-2006 growth is expected to be the same and per capita income will decline as in 2004-2005. Nepal's Civil Society Report, 2006, p. 10.

budgeted amounts. The *Kathmandu Post* has estimated that 48% of development budget allocated for the 2006 fiscal year will not be spent by the end of the year. In the health sector, of the allocated NPR 7.68 billion, only 34.5% was distributed, and in the education sector only 54% of the allocated NPR 21.05 billion was spent. In some projects, such as the "Education for All" project, this figure dropped to 11% of the budget (Khanal, 2006, p. 7).

As regards gender budgeting, it is primarily the Ministry of Women, Children and Social Welfare (MWSCW) that conducts this kind of analysis. Although the MWSCW develops its own programme budget that integrates key elements of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and is responsible for ensuring that gender equality is engrained in those of other ministries, it has little influence on the latter's programme budgets. Considering inflation, the 2003-2004 budget of the MWCSW has actually declined in comparison with past years as a result of volatile funding. This kind of uncertainty and the under-utilization of the budget has led to the inefficient programming of government-funded projects (MPEG, 2003).

Access to credit

Access to credit sources is important in upgrading the socio-economic status of the marginalized and poor sectors of society. However, less than 20% of the population have access to institutional credit, and small, marginal and landless households have practically been barred from institutional borrowing, as 86% of formal credit is provided against the collateral of land and property.

Moreover, Nepal's formal financial system caters largely to the urban population. As agriculture is instrumental in reducing poverty, the lack and high cost of credit has resulted in its stagnation. For instance, none of the expectations of liberalization, such as the extension of the organized credit market to more rural areas, increasing access for small capital borrowers, or more efficient and productive use of financial resources have been achieved even partially (Acharya *et al*, 2003).

Lack of transparency, inefficiency and corruption

State efficiency, accountability and transparency are prerequisites for addressing poverty, and there is much work to do in these areas. Development projects implemented with both loans and grants, for instance, have been highly affected by corruption, unaccountability and non-transparency (Thapa, 2004 as cited in GCAP Nepal, 2005, p. 43). This is particularly reflected in "excessive political interference at key appointments in the project cycle, increasing corruption and leakage, politicization of the civil service and insecurity among the public officials which leads to either delaying sensitive decisions or passing even the routine matters to higher levels." (Acharya *et al*, 2003)

Capital flights have also been attributed to the State's inefficiency and corruption in managing its affairs. Historically, many of the companies with access to foreign accounts have also been the ones with the most links to the royal regime, so that many have supposedly transferred money out of the country before they can be caught and brought to trial. During the royal takeover, the palace gave itself a blank cheque to the State's financial resources, and began siphoning as much as possible into its private bank accounts abroad. The State's inability to influence financial transfer transactions also includes the financial impunity of the ruling classes; the role of India in influencing tariff setting and financial management; the lack of experience and understanding among successive governments about the impact of international trade treaties on Nepal's economy; and the huge amounts of red-tape that discourage inward investment.

Moreover, transparency issues have been one of the major problems plaguing Nepal since the advent of democracy in 1950. Even before this historical date, the feudalistic nature of Nepal lent itself to a feeling that the country and its assets belonged to its rulers. At present, transparency is still a problem with detailed programme costs difficult to verify within the relevant government ministries.

Lastly, as regards corruption, Nepal's trade and investment have been negatively affected by the whimsical changes in decisions made by corrupt politicians. Corruption has affected the implementation of some of the most important development projects in the country, including the Kali Gandaki 'A' (KGA), Nepal's largest hydroelectric project (Chintan, 2004, cited in GCAP Nepal, 2005, p. 43). The Index of Economic Freedom, published by the Heritage Foundation, gives Nepal a very poor rating on such issues as inefficiency and pervasive corruption. The impact of corruption on the poorest also has direct negative repercussions, as those who cannot afford to pay bribes are denied rights such as citizenship papers and land registration.

Susceptibility to global economic factors

As one of the world's least developed countries (LDCs), Nepal is easily susceptible to adverse effects from economic policies imposed upon it, particularly those related to liberalization-oriented reforms. The liberalization process has intensified the process of impoverishment and is increasing the disparity of income and access to resources. A vicious circle of poverty-powerlessness-poverty has resulted, and few of the 'poverty alleviation' strategies have actually made a difference in terms of promoting opportunity, facilitating empowerment, enhancing security and increasing "people's participation" (Acharya *et al*, 2003).

Nepal's accession to the World Trade Organization (WTO) in 2004, as the first least developed nation to join, alongside Cambodia, has not yet resulted in any putative benefits. This can be primarily traced back to the two types of commitments that are required for a country to receive WTO membership: (1) reducing trade barriers and (2) regulations and processes in the domestic economy. Nepal lacks the institutional capacity, understanding of the issues at play and money needed to carry out these measures.

Nepal's products – which are handicapped by a lack of human, technological, as well as financial resources – have a difficult time meeting the standards required for competitive trade as set by WTO. When looked at from the perspective of the poor, meeting such standards may actually hurt them. Additionally, other WTO agreements also limit both the incentives necessary for promoting small and medium enterprises, and the country's ability to impose conditions on foreign investors for using local materials. According to the UNDP, "all in all, failing to mitigate such impacts through policy interventions can disempower people and widen the development gap." (UNDP, 2004, p. 42)

Foreign aid and debt

External financial assistance has contributed greatly to the Nepali national economy, especially to the development and agricultural budgets. In 2003-2004, foreign grants and other aid accounted for 57.65% of the development budget and 3.82% of the GDP, at market prices (MoF/HMG/N 2005 as cited in GCAP Nepal, 2005, p. 38). The share of assistance to the social sectors has also been relatively high, although when one considers the integral relationship between access to the social sectors and poverty alleviation, it is not substantial enough.[4]

Gradually, Nepal is falling into a debt trap with the accumulating foreign debt being increasingly offset by debt service liabilities and worsening rates of internal revenue mobilization. Fresh loans are now being taken to service past loans: the proportion of debt service to net annual borrowing increased threefold between 1989-1999, when it was 43.78%, and 2002-2003, when it reached 121.43%. In other words, debt service payments actually exceeded net annual borrowing (GCAP Nepal, 2005, p. 41). In fact, within the eight years after the restoration of multiparty democracy, public debt increased seven-fold, forcing the country to put aside 3% to 4% of the GDP and 15% of the annual budget for debt servicing (Sharma *et al*, 1998 as cited in SAAPE, 2003, p. 128). It is currently estimated that more than half of the annual government revenue goes to foreign debt servicing (Pradhan, 2000, as cited in SAAPE, 2003, p. 128).

(Continued on page 260)

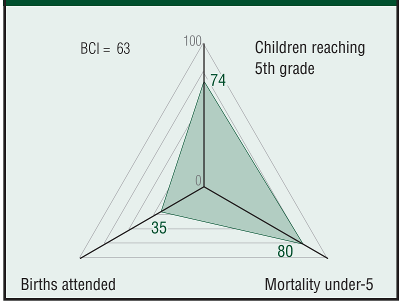
4 In the education sector, the share of aid was calculated at 22.03% of the total expenditure in 2003-2004.

Costly "debt relief" and trade agreements

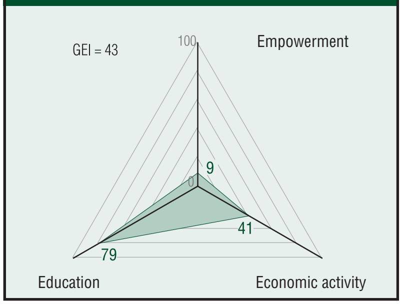
The "debt relief" granted to Nigeria by the Paris Club took a heavy toll on the country's finances: in order to have USD 18 billion in debt cancelled, it was obliged to pay out over USD 12 billion in the space of just seven months, a whopping sum in a country where 70% of the population lives under the USD 1 a day poverty line. In the meantime, negotiations to establish free trade agreements between the EU and the ACP countries are emerging as yet another threat to the capacity of impoverished nations like Nigeria to fund social development.

Social Watch Nigeria[1]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



In the third quarter of 2005, Nigeria was granted debt relief by the Paris Club of creditor nations, to which the country owed over 70% of its total external debt of USD 36 billion. However, the terms of repayment of the uncancelled part of the debt were so onerous that one wonders if the entire exercise could actually free any funds for social development in order to reduce poverty. The deal entailed payment of a princely USD 12.4 billion in two instalments in order for the country to have USD 18 billion in debt cancelled.

Moreover, a major part of this debt had long been disputed by Nigeria. Eminent Nigerian accountant David Dafinone has argued that several elements that constitute a valid debt were absent in Nigeria's debt overhang. He listed the elements as follows:

- A valid contract between a willing buyer and a willing seller;
- Adequate consideration;
- Absolute or partial performance;
- The goods which form the basis of the contract must be of merchantable quality, that is, the goods must be for the purpose for which the contract was meant;
- There must be probity, transparency and accountability;
- There must be justice and equity.

The debt in question involves several turnkey contracts where contractors fronting for members of the Paris Club were to build, operate and transfer projects. For example, in the case of the building of steel factories, this means that the contractors were supposed to have built and then managed the factories until they reached a high level of sales and profit, and then subsequently transferred them to the Government. This was never so. The funding was managed by the foreign contractors, who arranged and opened various foreign accounts for themselves, in addition to completing the necessary formalities for the Government and its agencies to open foreign accounts. It was into these accounts that the proceeds of all manner of bribes, kickbacks and gratification were paid. There is evidence that none of the projects that incurred the debts was adequately funded or completed after more than 20 years have passed since their establishment. Yet money claimed to have been spent on these projects was passed onto Nigeria as part of its external debt. These were highly capital-intensive projects, including three steel plants, five machine tool factories and three steel rolling mills, among others, which were never completed. There is also evidence that the controversy surrounding the projects involved both Nigerians and the foreign creditors.

Many of the debts held by overseas agencies including the Paris Club and the London Club were private sector debts and bills for collection that were converted to public debts. The full details surrounding them have been unavailable to the current Government, hence the continued disputes about the actual amount involved. The truth of the matter is that there were high level conspiracies between officials of the government of the day and some foreign creditors to ensure the irregular conversion of these debts into public debts. The foreign agencies took over the debts without even carrying out full due diligence on them. This has cost Nigeria a great deal of money that it could have directed towards poverty alleviation in order to meet the Millennium Development Goals (MDGs).

By the time the debt relief was granted, the conditions of its repayment constituted an enslavement of the country. The combined principal of the loans purportedly taken out was about USD 18 billion; Nigeria had paid over USD 42 billion yet still owed over USD 36 billion. Between 2003 and 2005, for instance, Nigeria paid USD 3.4 billion to service its debts, but the interest alone rose by USD 4 billion during the same period, causing the debt to jump from USD 32 billion to USD 36 billion.

Even with its oil wealth, the debt burden is still enormous, given its huge population of over 140 million and its extreme poverty, with an average annual income of USD 270. The country has become an increasing source of transnational security threats, including regular hostage taking of foreign oil workers; and has suffered a heavy toll from diseases such as HIV/AIDS. Most African countries have been granted debt relief from the Paris Club creditors, typically with a two-thirds stock reduction under the so-called "Naples Terms". In addition, 23 countries have also benefited from the multilateral Heavily Indebted Poor Countries (HIPC) Initiative. Nigeria was denied debt relief under both the Naples Terms and the HIPC Initiative, at least in part because its oil wealth prevents it from being considered a poor country. Excluding Nigeria from the HIPC initiative totally ignores the relationship between what the country earns from oil exports and its population. In fact, Nigeria's annual income from oil is less than USD 25 per capita.

Nigeria was eventually granted debt relief on the Paris Club option of case-by-case "Evian Terms" introduced in 2005 to reduce the Iraqi foreign debt. Following the payment of the first instalment in October 2005, the Executive Committee of the IMF approved a Policy Support Instrument (PSI) for the country as means of backing its economic reform policies.

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1 Social Watch Nigeria: Socio Economic Rights Initiative (Ray Onyegu); Women & Youth Advancement Foundation (Judith Ogunniran); Centre for Peace & Development (Luke Chukwu); CASSAD (Nicholas Dosumu); YDP Network (Ceicile Payne); Concerned Professionals (John Onyeukwu); Project Alert for Women's Rights (Josephine Chukwuma); Legal Defence & Assistance Project (Chinonye Obiagwu); Legal Defence Centre (Basil Ugochukwu).

The implications on Nigeria's capacity to meet the MDGs

In order to benefit from the debt relief, Nigeria paid USD 12 billion to the Paris Club between October 2005 and April 2006. The payment of such a whopping sum of money by a poverty-ridden, hugely populous country like Nigeria in the space of just seven months clearly deprives it of funds that could have been channelled towards social development and poverty alleviation. Given that 70% of the population currently lives below the USD 1 poverty line, this is obviously an urgent task. Indeed, the component states of the Nigerian federation whose debts were higher than the others continue to have huge chunks of their statutory allocations deducted at the source in order to pay back the states that had lower debts or no debts at all.

However, in order to ensure that resources freed from the debt relief are well utilized, the Paris Club inserted two conditions: (1) that the bulk of the money should be spent on social issues; and (2) that the monitoring and evaluation of the management and expenditure of the money must involve civil society organizations in Nigeria. In fulfilment of these terms, the Federal Budget 2006 provides that the sum of NGN 100 billion (USD 1 billion) released from external debt service will be used to fund projects in ministries, departments and agencies whose mandates are relevant to the attainment of the MDGs. This amount is in addition to the statutory allocations that are earmarked in the budget for MDG-related sectors but which are already included in the sectoral envelopes.

To guarantee that the funds are properly directed to MDG-related activities and that the expected results are achieved, a system for the effective monitoring of MDG-related projects executed with the "debt relief gains" has been put in place. This special tracking system is known as OPEN, which stands for Oversight of Public Expenditure Under NEEDS. NEEDS stands for National Economic Empowerment and Development Strategy, and is Nigeria's official poverty-reduction strategy paper. OPEN will follow allocated resources from the point of disbursement to the point of expenditure to ensure that the intended results are achieved.

The federal government has mandated the Office of the Senior Special Assistant to the President on the Millennium Development Goals (OSSAP-MDGs) to invite members of civil society to participate in the monitoring and evaluation of projects undertaken with debt relief gains. The OSSAP-MDGs has held two meetings on the subject with civil society actors, the first between 24 and 25 February 2006, and the second from 29 to 31 March 2006. At both meetings, the Government explained that civil society actors had been invited to monitor and evaluate the implementation of the 2006 budget as it relates to the debt relief gains spent on the MDGs as a means of developing a stakeholder feedback system, in which they will serve as primary contacts during the project implementation period.

Civil society actors and Nigerians in general believe that if the touted new regime of openness in the management and expenditure of public funds as exemplified by their participation in the monitoring and evaluation of budgets is adhered to, it will reduce the leakage of public money and free up considerable funds towards alleviating poverty in Nigeria.

The EU proposal of free trade agreements with ACP countries and their negative effect on the availability of financing for development

Since decolonization, the relationship between the European Union (EU) and 77 of its member states' former colonies in Africa, the Caribbean and the Pacific - known as the ACP countries - has remained important for both sides. This has been symbolized by the successive agreements of Yaounde (1963-1975), Lome (1975-2000), and most recently, Cotonou (2000-2020). An important feature of these agreements has been the preferential access to the European market that they have granted to exports from ACP countries. Even though the full potential of these trade preferences has never been realized, trade with the EU continues to be a crucial element in most ACP countries' development strategies.

The conditions of trade between the EU and ACP countries may change dramatically as a consequence of the current negotiations on Economic Partnership Agreements (EPAs), which are basically free trade agreements between the EU and ACP subregions where an internal free trade arrangement has already been or is being negotiated. All stakeholders in the EPA negotiations agree that development must be the primary objective of these agreements. However, much controversy has arisen over what kind of agreement would best serve development in the ACP countries.

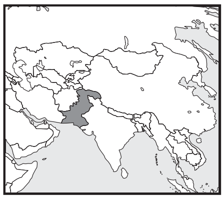
Many governments and other stakeholders, particularly civil society organizations in ACP countries, are deeply worried and have raised serious concerns about the EU proposals and the direction of the EPA negotiations. Some of the ACP countries' concerns include the following:

- The trend of EPA negotiations is not geared towards promoting development; rather, the proposals being made would serve to undermine the industrial and development efforts of the ACP countries.
- Free trade agreements are based on reciprocity. If the ACP countries have nothing to show by way of accrued benefits after more than 40 years of trade preferences, what is the basis of the expectation of developmental outcomes from a regime of reciprocal trade and competition?
- One of the reasons for the failure of the ACP countries to exploit these trade preferences is that they have problems of supply-side constraints (power, water, roads, etc.). With these problems still prevalent despite failed EU promises of aid to scale up infrastructure, how can the EPAs be proposing reciprocal access? Reciprocity derives from competitive positions, and the ACP countries are decidedly in no position to compete with Europe.
- The negotiating process is skewed against ACP countries, many of whom are in the club of Least Developed Countries (LDCs) and depend on EU aid for up to 40% of their national revenues.
- Tariff revenue currently makes up a substantial component of ACP countries' national revenue, but with increasing liberalization as demanded by EPAs, most national revenues would be hurt, thus compromising social spending in many countries.
- Negotiating EPAs at the same time as WTO negotiations are going on is over-stretching the negotiating capacity of the LDCs, who are then obliged to maintain negotiating teams both in Geneva and at their regional headquarters.
- Some of the issues proposed for negotiation under EPAs by the EU are issues that the LDCs have successfully resisted at the WTO. To raise them at the EPA negotiations would seem unfair and a roundabout way of reintroducing them at the WTO. Some of the proposals are not even trade-related.
- There is indecent haste in the process of bringing down tariffs as demanded by the EU; deep and rapid liberalization of the type proposed would not only wreak havoc on the ACP countries' economies, but also undermine their regional integration efforts. Some sympathetic EU governments have even suggested that liberalization should be phased over 20 years rather than the 12 years proposed by the EU.

Civil society organizations in ACP countries have raised serious concerns related to the development dimensions of these EPAs and their impact on poverty, on the regional integration process of the various ACP regional groupings, and on the unity of the ACP group as a whole. They have also analyzed the merits of reciprocal market opening, the capacity of ACP countries and regions to negotiate and implement EPAs, and the linkages and coherence with parallel trade initiatives like the WTO. Addressing these concerns in the context of EPA negotiations has proved a very difficult challenge. If the free trade agreements succeed, they will substantially erode the capacity of the affected countries to raise finances for their development. ■

PAKISTAN

The long distance between promises and realities



Despite the lofty promises made by successive governments, the socioeconomic situation in Pakistan remains dire, with the gap between rich and poor growing ever wider. Social development indicators in every sector are alarming, and women and girls are hit especially hard because of their lower social status.

Social Watch Pakistan
Aijaz A. Qureshi / Mushtaq Mirani / Jhaman Hirani

The socioeconomic situation facing Pakistan is daunting. After having fallen from 31% in 1979 to 17% in 1988, the poverty rate rose to 33% in 1999, and today an estimated 38% of the population lives below the poverty line. Poverty and the gap between the rich poor continue to grow alongside high rates of inflation.

For many years, Pakistan's development budgets were not fully executed, and many of the resources allocated for social expenditure – resources collected from the country's taxpayers – were instead siphoned off to corrupt government officials, bureaucrats and contractors. This rampant corruption has given rise to a neo-feudal class in Sindh and Punjab, the two major provinces of Pakistan.

Social Indicators

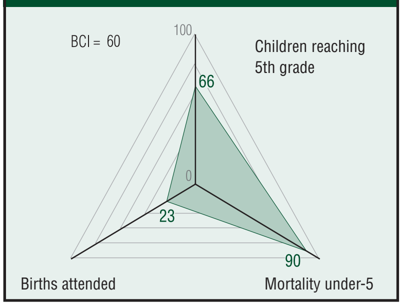
Education

The education sector in Pakistan is immense but fragmented and famously resistant to change. Of the approximately 18 million children in Pakistan, only 42% are enrolled in school, and historically, less than half of those enrolled complete five years of schooling. On any given day, close to one quarter of the teachers in public schools are likely to be absent, and this is in a country where the pupil to teacher ratio is already extremely high, with an average of 55 students for every trained teacher.

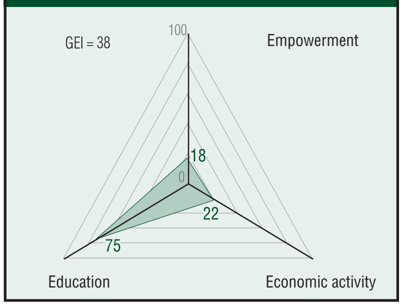
It is therefore no surprise that illiteracy is a huge problem in Pakistan. Despite the improvement in literacy rates since the country gained independence in 1947, its overall literacy rate of 45% (56.5% for males and 32.6% for females) still lags behind most of the countries in the region. Moreover, it may be true that literacy rates have risen in general terms, but due to the increase in population, the number of illiterate Pakistanis has more than doubled since 1951, while the number of illiterate women has tripled.

In addition to marked gender disparities in educational attainment, there are also heavy disparities between rural and urban areas and among the country's different provinces. The literacy rate in urban areas is 58.3%, while in rural areas it is 28.3%, and only 12% among rural women. The inequalities in literacy rates among the four provinces are particularly influenced by the disparities between men and women.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Health

It is estimated that every 20 minutes in Pakistan a woman dies from complications related to pregnancy and childbirth, while four out of five women are anaemic. Four out of seven children are malnourished at some point in their lives, and three out of seven are chronically malnourished. This proportion is nearly one in every two in the rural areas of the southern province of Sindh. One out of every ten children born dies before his or her first birthday, while one out of nine dies before the age of five.

The health status of women in Pakistan is directly linked to women's low social status. Pakistan's poor position internationally is reflected in the 2004-2005 Gender-Related Development Index (GDI) compiled by the United Nations Development Organization (UNDP), on which Pakistan ranks 129th out of 174 countries. Some 30,000 women die each year due to pregnancy complications, and 10 times more women develop life-long pregnancy-related disabilities. The health of rural women tends to be especially poor, due to the lack of health facilities and skilled health care providers. For example, the maternal mortality ratio in predominantly rural Balochistan is 800 deaths per 100,000 live births, compared to the national average of 340 per 100,000.

There is a wealth of examples of the marked differences between the health status of women and men in Pakistan. For instance, malnutrition is a major public health problem in Pakistan that disproportionately affects women and girls. More girls than boys die between the ages of one and four; the female mortality rate is 12 percentage points higher than for boys. This is a direct consequence of the lower social status accorded to women and girls, who as a result tend to eat less and face additional barriers when accessing health care. Women, girls and infants most often die of common communicable diseases such as tuberculosis, diarrhea, pneumonia and tetanus.

Essentially, the poor health status of women in Pakistan is as much a social as a medical problem. The underlying factors are the lack of awareness of and attention to women's health needs; women's lower educational and social status; and social constraints on women and girls, including the practice of seclusion.

Unemployment

Pakistan's labour force is calculated on the basis of all persons who are ten years of age and older and who at any given time are either working, seeking work, currently available for work or not working. Based on the current estimated population of 142.87 million and a labour force participation rate of 27.46%, there are roughly 39.23 million people active engaged in some form of employment.

On the other hand, the unemployment rate – calculated as the proportion of those who are out of work but actively seeking employment – was 6.2% in the second quarter of 2005, according to the Pakistani government's Labour Force Survey. However, it is widely considered that unemployment is in fact much higher than the official rate. In addition, it is often perceived that unemployment is greater in rural areas than in urban areas, because of the employment opportunities offered by the larger number of industries in the latter.

The environment and poverty

It has become increasingly apparent that a critical dimension of poverty has not been given sufficient attention, i.e., the link between environmental conditions and poverty. It is being discovered – particularly through the use of participatory poverty assessment – that many of the impacts of environmental degradation particularly affect the poor, and this serves to even further exacerbate poverty. The reason for this is partly because the poor are more likely to be dependent on environmental goods and services and partly because they have less capacity to protect themselves and hence are most vulnerable to environmental degradation.

In 2004, for example, dozens of people died and thousands contracted severe gastric illnesses due to the contamination of the water supply around the city of Hyderabad in the province of Sindh. The contamination was caused by irrigation officials mistakenly releasing poisonous water from nearby Manchar Lake into the Indus River, which passes through the province before emptying into the Arabian Sea. Although officials issued warnings advising people to boil the water or purify it with chlorine tablets, many continued to consume untreated water out of a lack of awareness or the means to protect themselves. Health officials also recognized that the hardest hit by the crisis were children who were already undernourished and thus weaker and more susceptible to disease.

Governance and development

A wide range of non-economic factors, such as the economic sanctions on Pakistan due to nuclear testing, the difficult law and order situation, terrorism, sectarian and ethnic division, non-democratic regimes, unrest in Balochistan, the tensions with India and the negative fallout of the war in Afghanistan have adversely affected the climate for investment and growth, which has created further hardships for the poor.

The World Bank recently prepared economic reports for all of the country's provinces. The report on Sindh, historically the most developed and prosperous province in Pakistan, was especially troubling. According to the World Bank researchers, while Sindh was 55% richer than rest of the provinces of Pakistan in 1947, it is now barely 16% wealthier. Although the number of poor is growing in both the urban and rural areas of the province, the incidence of poverty is particularly high in rural areas. In the year 2001-2002, one out of every two rural dwellers was living below the poverty line, as compared to one out of every four persons in the urban areas.

A survey of key stakeholders in the province carried out as part of the World Bank report revealed that the number one challenge to development singled out by respondents was poor governance, followed by corruption. Table 1 presents the results of the survey.

TABLE 1

World Bank stakeholders survey on obstacles to development in Sindh (2004-2005)

Overall governance	8.1	Directly or indirectly related to governance issues
Widespread corruption	7.3	
Law and order situation	7.1	
Inefficient use of public expenditure	6.9	
Inadequacy/poor quality of infrastructure	6.8	Infrastructure or fiscal issues
Water shortage	6.3	
Low level of public investment	5.8	
Feudalism and "old mindset"	5.1	Regional divide

0 1 2 3 4 5 6 7 8 9 10
Least important constraint —— Most important constraint

Broken promises, rising poverty

Successive governments in Pakistan have gained support with impressive slogans and ostentatious promises, knowing full well that the country had neither the financial resources nor the human resources needed to deliver on these promises. The pledge of earmarking more funds for the power sector to reduce the gap between demand and supply has been only very partially fulfilled, and while more allocations have been made to improve access to drinking water, this has mainly benefited the urban areas.

In the meantime, poverty and unemployment rates continue to increase, and rising inflation has made life increasingly difficult for the lowest income sectors. Gross domestic product (GDP) growth has been erratic for the last five to six years. In 2005, there was 2.6% GDP growth in the province of Punjab, 2.2% in the North West Frontier Province, 1.7% in Sindh and 0% in Balochistan. While the textile sector has experienced significant growth, this has only benefited a single class of society. The same can be said for the boost in the energy sector. Privatization has increased, with a consequent toll on government revenue. The national currency, the rupee, has undergone repeated devaluations. Gas, oil and diesel fuel prices have risen sharply in the last year and a half.

Pakistan's current economic situation is obviously critical, and the challenges it poses are formidable. Nevertheless, there are a number of steps that could be taken to begin remedying the situation. These include:

- A reduction in defence expenditure
- Enhanced financial autonomy for the provinces
- Enhanced fiscal devolution by transfer of sales sax to regional and local governments for increased spending on education, health, sanitation and public welfare.
- A more effective and equitable revenue distribution arrangement between federal, provincial and local governments.
- Placing top priority on rural districts in public sector development programmes
- Concrete efforts to improve governance
- The eradication of feudalism and neo-feudalism. ■

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Undeveloped potential

Extreme poverty continues to grow in one of the most unequal countries in Latin America, while development initiatives are largely disconnected and fail to specifically target the potential of society's most disfavoured groups.

DECIDAMOS – Campaña por la Expresión Ciudadana
Hugo Royg

With nearly 5,899,000 inhabitants, a per capita gross domestic product (GDP) of USD 1,301, an aggregate annual rate of production which has grown only 1.15% in the last decade and annual population growth of 2.6%, it is highly improbable that Paraguay will be able to generate the means necessary to improve the quality of life for its population.

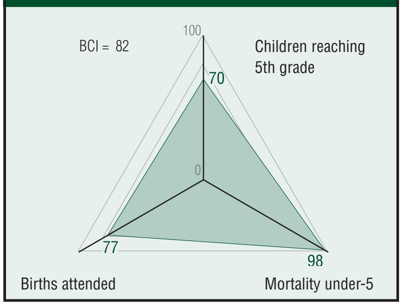
Viewed against this panorama it is reasonable to ask to what extent institutional efforts – development policies, social initiatives, redistribution of resources – are succeeding in launching processes of "expansion of opportunities for the people and improvement in the quality of life, growth of human capacities", according to the United Nations Development Programme (UNDP) 2003. Do the strategies begun in the country allow people better opportunities to live a life of dignity? To what end are resources and institutional efforts targeted? Are they effective? Which factors will allow for rapid modifications of the greatest impact?

The commitments assumed by the State

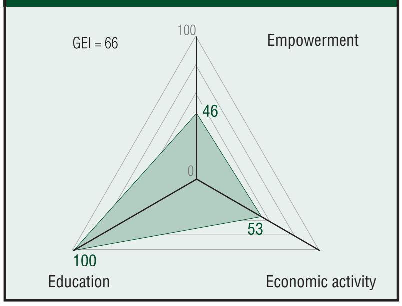
Paraguay ratified the American Convention on Human Rights in 1989 and the Protocol to the International Covenant on Economic, Social and Cultural Rights (ICESCR) in 1992. Both agreements guide institutional decisions and tend to prioritize the development of citizen capacities.

In 2004, together with representatives from the private sector and civil society, the Government signed the San Bernardino Declaration, a document that indicates strategic lines of action for the economic and social policies of the country and sets forth goals for 2008 and 2011. The Declaration ratified the Plan for Economic Growth with Equity that aimed for substantial advancement toward meeting the Millennium Development Goals (MDGs). Among other objectives, reducing extreme poverty to 13%, universal literacy and 87% coverage for health services stand out (Ministry of Finances, 2004). This Plan, strongly promoted by the Government, constitutes an important standpoint from which to evaluate the advances of the public sector in the area of social equity.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Growing poverty and inequality of capacities

Currently, 42% of the population lives in rural areas. Poverty has risen from 30.3% in 1995 to 38.2% in 2005, meaning over that ten-year period, 2.23 million additional people found themselves in poverty. Of note is the rise in urban poverty, which between those years rose from 23.7% to 39.4%, coinciding with the process of rural to urban migration. Rates of extreme poverty also worsened in the same period, rising from 13.9% to 15.5% (General Directorate of Statistics, Surveys and Censuses, 2005a).

According to the UNDP (2003), Paraguay is one of the most unequal countries in Latin America, with a high Gini coefficient of 0.522. Poverty in this country cannot be explained simply by insufficient economic performance, but by existing inequities as well, evidenced by the varying levels of access available to Paraguayans to improve their employment potential, income and opportunities.

Poverty is growing gradually although at a lower rate in recent years. Poverty is increasingly urban and characterized by unequal income distribution, limited quality of life due to low levels of human capital, a regressive tax regime and poorly focused public spending. The level of socioeconomic development will remain low if structural changes aimed at improving income distribution and addressing concrete problems of the various groups in society are not begun immediately.

Inequalities are most evident in an analysis of the statistics on the exercise of the right to education, health and employment. If half the population has fewer than six years of schooling (the national average is 7.5 years), 67% of Paraguayans in the richest fifth of the population achieve this level of education while only 30% of Paraguayans in the poorest fifth do. In Table 1, social variables are broken down according to income quintile.

The situation worsens upon analysis of undeveloped capacities. According to unofficial estimates, functional illiteracy (the ability to read and write without understanding exactly what is being read) could be as high as 60%. One of the factors of social exclusion is the Guaraní language, because social, economic and institutional networks operate principally in Spanish.

According to the World Bank (2005a) "Paraguay has been the Latin American country with the slowest progress in reducing infant mortality in the last 50 years, maternal mortality rates have not registered improvements in the last 15 years and differences exist in the statistics depending on the region and economic group, worsening in the poorest regions and quintiles of the population". In 2004, the infant mortality rate was 27 for every thousand live births (Survey of Demographics and Health, 2004). In 1990, the national rate was 35.9, reaching 42.9 in the poorest quintile and 15.7 in the highest income quintile.

Meanwhile, the National Constitution of 1992 obligates the Paraguayan State to "protect and promote health as a fundamental personal right" – making clear that "no one will be deprived of public assistance" – and providing free primary education together with programmes directed at students of limited resources. What is more, the Constitution highlights the establishment of health, education and social welfare systems with community participation in service provision, plans a minimum budget allocation of 20% for education and signals that policies should be put in place to guarantee complete coverage of the population, freedom from discrimination and attention to the most disadvantaged sectors.

Regressive tax regime

The tax regime was reformed in 1991 and again in 2003. The first reform aimed to reduce the number of taxes collected and increase the rate of collection; the second aimed to formalize a greater segment of the economy and to generate incentives for increased private investment. As a result, tax revenue rose from 10% of (GDP) in 2002 to nearly 12% in 2005.

The 2003 tax reform implemented the Personal Income Tax involving a single rate for income above 10 minimum salaries, expanded the Value Added Tax and lowered the Business Income Tax. These changes are regressive, and in relative terms would tax the most those who earn the least.

Running costs versus public administration

In the last decade public spending rose an average of 13.5% per year while revenue rose 13%. The extent of running costs is high, and largely destined to fund public salaries. The World Bank (2005b) suggests that "the high level of running costs, which account for 75% of total revenue and 137% of tax revenue, is displacing the necessary investments in infrastructure and social programmes (particularly in the areas of social assistance and health). Social spending constitutes 11% of public expenditures, while education and social security (contributing and non-contributing programmes) constitute 75%. Beginning in 2006 there has been a relative decrease in social spending in favour of funding infrastructure improvements (Public Works).

Spending for health and programmes to combat poverty is low; that for agrarian reform minimal and for policies to promote employment, nonexistent. The budget process places emphasis on defining the sums assigned to institutions and their responsibilities, without developing mechanisms to guarantee monitoring and evaluation of their management and public objectives. Thus, the evaluation of public spending is realized analyzing the degree of execution, or focusing on products generated and not on the impact achieved.

Fragmentation of social programmes

With the San Bernardino Declaration of 2004, the Government made a commitment to take action necessary to reach, by 2011, an annual economic growth of 6%, a tax collection rate of 12.5% of GDP and public investment equalling 7% of GDP. The Government also committed itself to launching the National Export Strategy, prioritizing agricultural and food production and taking steps to reduce poverty. The Declaration has two focuses: creating equality of opportunity in education to improve human capital and combating poverty and social exclusion. Nevertheless, it lacks a general plan to orient and integrate the assortment of public policies it implicates.

TABLE 1

Social indicators according to income quintile

	20% poorest	20% richest	National average
Rate of illiteracy (% of the quintile)	16.7	3.7	9.1
Average years of schooling (population over 15 years of age)	5.3	10.0	7.5
Guaraní language spoken a majority of the time (%)	78.3	21.8	47.4
Public water supply (%)	30.3	59.3	44.4
Average family disposable income			
PYG	361,000	3,905,000	1,783,000
USD[1]	58.43	632.08	288.60

Source: General Directorate of Statistics, Surveys and Censuses, 2005.

Since 1995 the Secretary of Social Action[2] is the agency in charge of coordinating activities in the fight against poverty. In 2005 it was strengthened as the executive agency in charge of diverse social projects with international cooperation, launching focused initiatives to combat poverty in specific segments of the population or determined geographic locations. These projects are neither directly nor indirectly linked to the National Strategy to Fight Poverty that was prepared in an open and participatory process together with various social and political sectors, and defined a short-term strategy of direct attention to the most vulnerable sectors of society by means of direct subsidies. Currently this strategy is being publicized but not applied.

The Social Cabinet was created in 2004 and funded for the first time in 2006. The creation of this agency opened a new chapter in the preparation of a new strategy to confront poverty. In accordance with public announcements, its programme will be similar to previous initiatives, which raises a warning flag because this means the agency will not specifically occupy itself with eliminating social exclusion.

Cristaldo (2005) reports that of the USD 1.16 million received in foreign investment, 19% is assigned to projects in education, health and water supply. This percentage is limited if one takes into account the low coverage of these programmes, which ignore sectors such as, for example, infancy, and problematic areas such as malnutrition, the lack of technical education, illiteracy and the necessity to assist vulnerable sectors of society.

If the portion of the budget assigned to social policies is estimated at approximately 50%, the current state of poverty suggests that the quality of public spending continues to be low and that little has been done to decrease existing inequities. The institutional changes necessary to reach levels of public spending adequate for the social necessities present have not been evident, nor have improvements in the implementation of programmes or provisions for evaluating their effectiveness at achieving their goals. In addition, public efforts find themselves duplicated by other initiatives that act with independence and without coordination.

Millennium Development Goals distant

The State has made commitments but the answers to those commitments have been insufficient. The civil society monitoring report signals that the MDG of "Eradicating extreme poverty and hunger" will be impossible to reach given the current situation, while the report of the UNDP indicates that the Paraguayan State faces "probable failure" on this MDG.

The current answers do not constitute structural policies nor do they propose complementary programmes that permit a permanent escape from poverty, favouring instead an economic structure that does not guarantee the development of human capacity, sustainable incomes or improvements to the quality of life.

At the same time, reform of the State is necessary to limit discretionary spending, break the perverse link to electoral cycles, prioritize social policies and expand the observance of the universal rights articulated in the Protocol to the International Covenant on Economic, Social and Cultural Rights (ICESCR), prioritize the most urgent necessities and link programmes so as to guarantee the comprehensiveness of social policies.

Conclusions and recommendations

- Spell out the constitutional mandate to coordinate with the community and generate spaces for diagnosis, design, implementation and evaluation of social policies with civil society and private sector actors.
- Define individuals within the institutions to coordinate their actions.
- The quality of public spending is deficient. In the country there is leeway to reassign public resources to social programmes.
- Instruments for wealth redistribution need to be developed both through public revenue and spending.

(Continued on page 260)

1 The 2005 average exchange rate of 6,178 Paraguayan Guaranies (PYG) per 1 United States Dollar (USD) was taken from the CIA World Factbook. See: <www.cia.gov/cia/publications/factbook/fields/2076.html>.

2 See: <www.sas.gov.py/>.

Macroeconomic growth and social exclusion

More than half the people are still living in poverty, but what the State invests in poverty alleviation programmes amounts to less than private remittances from Peruvians living abroad. There has been macroeconomic growth but no significant increase in development, and inequality, violence, destitution and discontent are rife. Tax policy favours the big enterprises since the main burden falls on production and consumption.

Conferencia Nacional sobre Desarrollo Social (CONADES)
Héctor Béjar

On the face of it Peru enjoyed excellent macroeconomic performance between 2001 and 2006, the period of President Alejandro Toledo's administration. Average annual growth in these years was 6%, which has raised GDP to USD 75 billion, while the annual inflation rate was less than 4%. The country's currency reserves increased from USD 8.2 billion in 2001 to USD 15 billion in 2005, and exports rose to USD 14 billion in 2005, creating a surplus in the balance of trade of USD 2.7 billion[1] in that year.

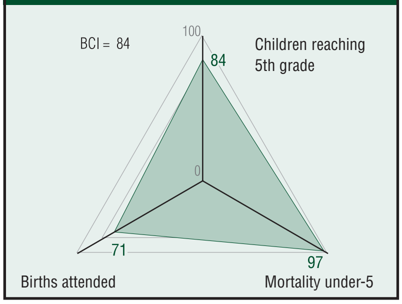
Although the economy grew 14% between 2001 and 2004, poverty only decreased by 2.7 percentage points, from 54.3% to 51.6%. Official sources show that extreme poverty fell by only 4.9 points, from 24.1% in 2001 to 19.2% in 2005 (INEI, 2006), but even this slight decrease has been called into doubt as independent research does not bear out the Government's estimates.[2] But even if we accept these figures, and even if the improvement continues at the same rhythm, there would have to be at least 50 years of sustained economic growth – fuelled by big increases in the prices of Peruvian raw materials on the international market (as is happening now) before poverty disappeared.

While Peru does have good macroeconomic indicators, the other side of the coin is that the country is almost overwhelmed by social problems. The cities and rural areas are plagued by under-employment, insecurity, violent crime, drug abuse, corruption at all levels, a chaotic transport system, environmental pollution and other symptoms of a deteriorating society, and this is damaging people's quality of life and their rights.

The reasons for this paradox

Why is it that a country that is apparently enjoying good macroeconomic growth should at the same time be suffering a fall in the level of people's well-being? The explanation for this paradox can be traced directly to the nature of Peru's growth and how it is organized in the country's economy.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

First, there has been an increase in speculation in international prices and the production of raw materials like gold and copper. These are sold in bulk by transnational corporations that give almost nothing in exchange, a system that has been in operation for centuries. The price of gold has soared from USD 250 an ounce (24 grams) in October 2000 to more than USD 500 an ounce today, and the price of copper has risen to USD 2.64 per pound (460 grams), which amounts to an increase of 77% in the last twelve months. Every year Peru exports 2 million ounces of gold.

The enterprises that exploit these minerals have tax privileges. According to an estimate by the National Tax Administration Superintendent's Office, in 2002 the Government did not collect some USD 300 million as a result of tax stability conventions, asset depreciation allowances and discounts on future tax payments. Taxes on production and consumption yield three times as much as the amount of profits tax that, according to their own estimates, the big enterprises have to pay. In Peru, the tax rate on income for private citizens is higher than that for legal entities. In 2004 the mining enterprises paid only PEN 989 (USD 300 million), in taxes on their income. In the 2000-2003 period, the hydrocarbon sector, which is rated in the third income tax category, paid an average of PEN 9.7 per PEN 100 of production (measured by GDP), while mining enterprises paid only PEN 3.5 per PEN 100 of production (SUNAT, 2002).

Tax stability contracts can in some cases reduce taxable income by 80%, allow profits to be sent abroad untaxed, exempt products from the general sales tax, and allow the double depreciation of assets and currency, which means that less tax is actually paid. Remittances of profits to foreign enterprises (income from capital) came to USD 3.2 billion in 2005 (Campodónico, 2005).

While the corporations suck resources out of the country and send them to their head offices, people who have emigrated send money home to their families in Peru to alleviate their economic plight. Around three million Peruvians out of a total population of 27 million live abroad, and they help their families financially. The total of these remittances is far more than the State invests in poverty alleviation programmes. An annual average of USD 2.5 billion flows into the country, and it goes to 10% of the population. This figure is equal to 10% of exports, or 1.7% of GDP. On average, each family receives USD 166 nine times a year (Fomin, 2005).

Why Peru is in debt

The State has a permanent deficit, and this will continue unless there is a reform in the tax system to annul the privileges that are an important part of the so-called neo-liberal model. According to the 2006 public sector budget, the accounting deficit fluctuates around 1% of GDP, but the real deficit, that is to say the difference between what is collected in taxes (USD 10.3 billion) and expenditure (USD 15.9 billion) comes to nearly USD 6 billion (MEF, 2006).

This shortfall is covered by increasing public indebtedness. Peru is a debt addict. Foreign indebtedness to multilateral bodies (the International Monetary Fund, the World Bank, the Inter-American Development Bank) is saturated and cannot be re-financed, so in 2001 the country started acquirinó domes§ic debt through so-called 'sovereign

1 Ministry of the Economy and Finance, Presidency of Council of Ministers.

2 If, instead of measuring the capacity of homes to buy the basic basket of foods, the apparent consumption of calories per household is measured directly, it emerges that the proportion of the population in the capital city with an insufficient intake of calories jumped from 18.7% in 2001 to 29.8% in 2003 (Herrera, 2004).

bonds' (treasury bonds), that are bought on the domestic stock market by the private pension funds (AFPs). These organizations use money that savers are legally obliged to deposit with them as a percentage of wages or salaries, but the savers themselves have no control over how their contributions are used. In 2005 public debt stood at USD 31 billion, or 39% of GDP, and debt servicing payments exceeded USD 3.4 billion, or 26.7% of the public sector budget. In 2000 total foreign debt was USD 24.3 billion, so between 2000 and 2005 it increased by USD 6.7 billion, or 27.6%.

The neo-liberal economic model has been very good business indeed for the international corporations, but it has been very bad business for the country.

Between 2001 and 2006 Peru allowed USD 3.2 billion to be sent abroad to tax-fee enterprises, and another USD 3.4 billion went in foreign debt service payments. In exchange the country received USD 908 million in credits (foreign indebtedness acquired in 2006), and much of this new credit was conditional on compliance with the neo-liberal programme. To make matters worse, the country has also had to incur domestic debt at the same time.

The rise in public spending might have been expected to translate into increased social investment, but this has not been the case. In 2005, some 45% of the budget went on current expenditure, 26% on servicing the foreign debt and 14% to the pension fund that the State had to pay to ensure that the AFPs would be able to make use of the savings of future pensioners without having to pay current pensioners. Only 15% was allocated to education, 7.9% to health and sewage facilities (in both cases a large part of the total went on current expenditure, salaries and wages) and 13% to capital costs, that is to say public investment. Social expenditure did not increase in line with the growth in public sector spending, in fact it remained almost unchanged in the 2001 to 2006 period. The same applies to poverty alleviation programmes, which were allocated only USD 361 million out of a total budget of USD 15 billion.

An unjust model

In 1992 President Alberto Fujimori tightened his grip on power in a so-called "self-coup" and his new administration closed Congress, suspended civil rights and imposed a new Constitution tailor-made for the big enterprises. The resulting economic model allowed these enterprises to buy up large slices of the country's assets at laughable prices and seize monopoly positions in the only profitable areas of the economy, namely the distribution and sale of electrical energy, telephones and communications, and the mineral extraction industries, above all copper and gold. Since then these enterprises have all operated with total disregard for environmental protection standards, they pay almost no taxes and they take their profits out of the country without any kind of control. The Free Trade Treaty with the United States will entrench this situation and rule out any kind of future call for redress.

The government is in deficit because it is unable to levy effective taxes, so it has had to resort to indebtedness. Tax pressure is not heavy, it amounts to only14% of GDP (the average in Latin America is 18%), and it is mainly exerted through the General Sales Tax. This is an indirect levy so it is consumers who have to finance the government. Thus the government is putting the tax burden on the public while at the same time it openly defends the high rates charged by private providers of public services such as telecommunications and electricity. Besides this, enterprises are currently putting heavy pressure on the Government to privatize the provision of potable water as well.

The country is borrowing funds from multilateral bodies, which are taking advantage of their role as lenders to reinforce the conditions of the neo-liberal economic model by promoting privatization and tax exemption policies. Domestic indebtedness is effected through treasury bonds that are bought by the AFPs with money deposited by savers. In this way the AFPs have now accumulated USD 8,000 million, and the total is increasing every month thanks to forced saving. This money is used by domestic and foreign enterprises, and the "investors" have no say at all in how it is managed and no share in the profits.

The Toledo government has legalized a practice that was employed by the Fujimori administration; it has granted the Peruvian Chamber of Construction – the association of private construction companies – control over the National Housing Fund, which amounts to USD 500 million in public and private employees' savings. This money is used to build housing for the middle and working classes, and these housing units, whose average construction cost is USD 8,000, are sold by private banks and construction companies at an average price of USD 50,000.

Sweeping it under the carpet

There is no debate in the media about the neoliberal programme; it is simply accepted as the only possible way to do things. The mass media point to GDP growth and talk of economic progress, but what is really growing are export prices and business profits. This growth does not rebound to the benefit of the majority of Peruvians or improve their quality of life.

The press also trumpets the defence of democracy, but more and more people are coming to see Congress merely as a lobby for enterprises, and ministers are seen to be promoting business interests instead of pursuing the well-being of the population as a whole. The media seem to have been captured by economic power and it is conducting an ongoing campaign to demonize any opinion that challenges the prevailing neo-liberal economic doctrine. This underpins a situation that is unbearable for more than half the population of the country and which openly benefits consumption by the minority that controls the wealth.

Where are the resources? How can they be mobilized?

With this panorama there is no prospect of any real reduction in poverty unless there is a radical change in economic policy. Changing the model would involve implementing tax reform so that the large enterprises actually pay taxes, and these resources could be used to support small urban enterprises and agriculture, which are the main generators of employment. Government finance should be based more on direct taxes on wealth than on indirect taxes on consumption. The public sector budget ought to be thoroughly reformed to give priority to investment in education and health, and a universal social security programme should be set up so that the benefits that the State "so generously pays" would become rights that the State satisfies in the form of social programmes. The different health services ought to be coordinated into one single organization, and the service could be improved and its coverage widened through use of the Public Health Fund, which should be based on a reformed tax system. Lastly, there should be a reform of the State so as to open the door for citizens' organizations to participate in local and regional government.

Civil action

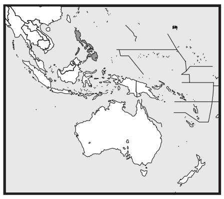
Over the last few years civil society organizations have been trying to bring these questions to the fore under the banner of "putting the economy at the service of the people". Some progress has been made. There is now a National Agreement involving enterprises, churches, unions and political parties that has resulted in the formulation of 31 State policies that respond to a shared concern for social policy. Through the technique of participative taxation, important sectors of civil society have gained access to formulating priorities for public investment. There are now more than a thousand coordination committees for the fight against poverty that bring together representatives from the Government, the churches and civil society in all parts of the country to plan local public investment in social development. But the struggle is complex and there is still a long way to go before there can be any hope of real change. Grassroots social organizations ought to muster their strength in order to lead the way in building a real democracy from the bottom upwards.

Outside the political parties, there have been many instances in recent years of people mobilizing against different manifestations of the neo-liberal programme, and sometimes these have managed to put the Government in check and paralyze the timetable for privatization, at least for a while. In the last presidential and congressional elections there were two candidates campaigning for economic and political change and they received massive popular support.

(Continued on page 261)

PHILIPPINES

The crisis of financing development



More than two decades after the global debt crisis of the 1980s and the subsequent adoption of structural adjustment programmes, the Philippines continues to face a severe shortage of resources for financing development. Significant funds are still drained by loan payments, while mistaken tax policies limit the mobilization of domestic financial resources. Unless the necessary additional resources are raised, the Philippines will fail to meet its commitment to achieving seven of the eight MDG targets.

Social Watch Philippines
Prof. Leonor Magtolis Briones

The Philippines is one of the countries devastated by the global debt crisis. It struck the country in 1983, one year after Mexico's default triggered the global conflagration that destroyed developing nation economies throughout Latin America, Africa and Asia. The Philippine government dutifully swallowed the bitter pill of structural adjustment imposed by the group of creditor banks led by the multilaterals, in spite of a national campaign calling for selective debt repudiation. Scarce financial resources went to debt servicing at the expense of social services, particularly education and health. Poverty levels escalated.

The devastating effects of the debt crisis still linger. Twenty-one years later, on August 23, 2004, Philippine President Gloria Macapagal Arroyo admitted the existence of a fiscal crisis and conceded that the government was having difficulty managing its mounting deficits. Thus the Philippines, despite its official classification as a middle-income developing country, continues to suffer from massive deficits. The problem of inadequate financial resources persists. The spectre of the debt crisis continues to haunt the economy.

This country's report seeks to identify problems and issues related to financing social development in the Philippines. Obviously, the Government's commitments to the Copenhagen Declaration as well as the Millennium Development Goals (MDGs) cannot be achieved without additional resources.

Obstacles to mobilization of domestic financial resources

It has been two decades since martial law was dismantled and democratic rule was restored in the Philippines. It has also been 20 years since the country endured a series of structural adjustment programmes to solve its huge debt problem. Three presidents have come and gone after Ferdinand Marcos: Corazon Aquino, Fidel Ramos and Joseph Estrada. The current president is Gloria Macapagal Arroyo.

Regressive taxation.

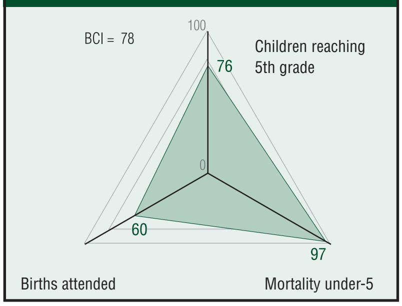
Why are public revenues never enough? There is general agreement that three reasons account for this persistent problem. The first is excessive dependence on indirect or regressive taxation. This has resulted in a double whammy: taxes based on income and wealth are not being fully exploited, and the low-income groups who compose the majority of the Philippine population are bearing the brunt of the tax burden.

The Constitution of the Philippines provides that the government must "evolve a progressive system of taxation." Yet, indirect taxes - particularly sales taxes - have formed the bulk of tax collections since the start of the Philippine Republic in 1946. During the administration of President Aquino, the regressiveness of the tax structure was aggravated by the imposition of the 10% Value Added Tax (VAT) which replaced the sales tax. It was considered the fastest way to generate more revenues. Aquino had inherited the Marcos era debts and needed more resources to pay them off.

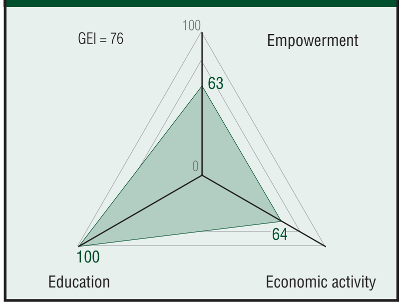
Twenty years later, President Macapagal Arroyo increased the VAT rate to 12% and expanded its coverage to encompass additional goods, including gasoline and other oil products. The reason was the same: her administration was mired in a fiscal crisis. Arroyo's financial advisers gave her a list of eight tax measures. She chose to implement the expanded VAT proposal over the proposals for more income and wealth-based taxes.

For the year 2006, for example, total projected revenue is PHP 969 billion (USD 18.9 billion). Of this total amount, PHP 566 billion (USD 11 billion) will be from indirect or regressive taxes and non-tax revenue. This constitutes 59% of total projected revenue. On the other hand, projected direct taxes total PHP 402 billion (USD 7.8 billion), which amounts to 41% of total revenue.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Inefficient tax administration

Tax administration in the Philippines has traditionally been perceived as both corrupt and inefficient. The government tax collection agencies are considered "flagships of corruption." In spite of the efforts of administrators to change this unsavoury image, public perception has remained largely the same. Inefficiency and corruption have resulted in the non-collection of significant amounts of government revenue.

Tax incentives

A third factor responsible for inadequate revenue collection is the practice of granting tax incentives to attract investors. While the government is passing new tax measures or collecting existing taxes, it is also granting incentives and tax benefits. Last year, the House of Representatives conducted a study on foregone revenue due to incentives. It was found that this amounted to PHP 150 billion (USD 2.9 billion). On the other hand, the projected financing needs of the government for 2006 amount to PHP 125 billion (USD 2.4 billion). Obviously, foregone revenue could have covered all or at least a part of the Government's financing requirements.

While the Department of Finance has been calling for a rationalization of fiscal tax incentives, the Philippine Congress continues to pass laws to provide more incentives, especially to foreign investors. The Board of Investments then grants these incentives. According to a study from the University of the Philippines, "the fiscal incentives granted by the Board of Investments in 2004 alone resulted in a negative economic benefit of PHP 55.72 billion," (USD 1.1 billion) which means that the amount of foregone revenues due to tax- and duty-free privileges was higher than the amount of economic benefits resulting from the investments for which these perks were provided.[1] Thus, while foreign investors are benefiting significantly from tax incentives, host countries like the Philippines are losing heavily and have to turn to regressive taxes and borrowing to cover urgent financing needs.

Limited external sources of public financing

Official development assistance (ODA) is an important source of financing for development in the Philippines. For 2006, for example, ODA accounts for more than 50% of projected funds for MDG-related health sector activities. While government funding is calculated at PHP 687 billion (USD 13.4 billion), expected ODA funding is PHP 784 billion or USD 15.3 billion.[2]

Policymakers tend to prefer ODA funding over borrowing from commercial banks, even if the Philippines does not qualify for grants. Interest rates are lower and terms can be generous. Nevertheless, there are downsides to ODA assistance. Bilateral partners have their own global, regional and country-specific agendas. Levels of assistance are determined by these agendas, even though there might be other national priorities. ODA-funded projects tend to be more costly than locally funded projects because of the involvement of consultancy firms from the donor countries and other service providers. Furthermore, complex and overlapping monitoring mechanisms add to costs.

Borrowing

The Philippines has never really recovered from the debilitating effects of the global debt crisis; the country is still paying debts that were restructured and securitized 20 years ago. Even the Government has adopted the phrase "unproductive expenditures", which civil society organizations use to describe debt service for debts that were wasted, mismanaged and tainted with corruption.

The following table shows the enormity of the problem. For the past eight years, the percentage share of interest payments in the national budget has been steadily rising. In 1999, 18% of the national budget went to interest payments. This will rise to 32% of the budget in 2006. In 1999, 34% of the budget went to social expenditures. In 2006, this will go down to 28% of the budget. In 1999, 25% of the budget went to economic development expenditures. In 2006, this is expected to go down to 19%. The percentage shares of all other sectoral expenditures are declining. Only interest payments continue to rise.

TABLE 1

Percentage share of budget expenditure by sector (1999-2006)

	1999	2000	2001	2002	2003	2004	2005	2006
Economic Services	25.25	24.5	20.18	20.19	20.59	18.06	17.54	18.72
Social Services	33.81	31.21	31.04	29.84	28.79	28.77	28.02	27.91
Defence	5.03	5.31	4.68	5.91	5.39	5.09	4.87	4.98
General Public Services	17.64	17.95	17.15	17.12	17.12	15.93	15.50	15.33
Net Lending	0.09	0.38	1.00	0.78	0.68	0.64	0.84	0.78
Interest Payments	18.17	20.65	25.95	26.16	27.44	31.51	33.24	32.28
Grand Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Department of Budget and Management

It cannot be denied that at present, the government is borrowing not so much for development as for the amortization of loans. For 2006, for example, the Bureau of the Treasury has programmed PHP 221 billion (USD 4.3 billion) in foreign borrowing. Of this amount, PHP 119 billion (USD 2.3 billion) will go to interest and principal payments. Less than one-half is left as net foreign financing, in the amount of PHP 102 billion (USD 2 billion). The situation in domestic borrowing is much worse. The Treasury has programmed PHP 310 billion (USD 6 billion) for domestic borrowing, and of this, PHP 263 billion (USD 5.1 billion) will go to interest and principal payments, leaving a mere PHP 47 billion (USD 916 million) in net borrowing. To summarize, out of PHP 532 billion (USD 10.4 billion) in programmed borrowing, net financing of only PHP 149 billion (USD 2.9 billion) is expected, because the rest will go to interest and principal payments. It is clear that in the Philippines, the debt burden is a major drain on government finances.

TABLE 2

Financing for health related MDGs - Summary

MDGS programs & projects	Total cost (PHP)	Department of Health funding (PHP)	ODA (PHP)	Budget gap (PHP)
Reduce Child Mortality	1,469,938,544	370,544,000	3,500,000	1,095,894,544
Improve Maternal Health	4,825,928,227	107,880,277	11,230,000	4,706,817,950
Combat HIV/ AIDS, Malaria & Other Diseases	2,692,233,557	208,976,667	768,978,810	1,714,278,080
HIV/AIDS	358,253,587	22,899,667	153,377,920	181,976,000
Malaria	1,727,102,970	19,200,000	354,400,890	1,353,502,080
Tuberculosis	606,877,000	166,877,000	261,200,000	178,800,000
GRAND TOTAL	**8,988,100,328**	**687,400,944**	**783,708,810**	**7,516,990,574**

Source: Department of Health

Underspending on social development

The Philippines is a signatory to the Millennium Development Declaration and has committed to attain seven of the eight MDG targets by 2015. Social Watch Philippines has consistently advocated adequate financing for the MDGs since 2000.

Social Watch Philippines was a key player in the unique process that mobilized civil society, government, the private sector and the donor community in producing a country position on financing the MDGs. It monitors achievement of the MDG targets and has raised issues ranging from statistical methodology and disaggregation of data to inadequate financing.

On June 22, 2006, Social Watch Philippines launched a new book in cooperation with the United Nations Development Programme (UNDP) and graduate students from the National College of Public Administration of the University of the Philippines. Entitled *Moving Forward with the Millennium Development Goals: May Pera Pa Ba?* (Is Money Still Available?), the book raises two major questions: Is there money available for the MDGs? And if there is money, is it adequate? The Department of Budget and Management was asked to submit a write-up on budget allotments for the MDGs. These numbers were compared with resource requirements for the MDG targets. The findings were astounding.

In the education sector, for example, the MDG target of universal primary education would require PHP 133 billion (USD 2.6 billion) in 2006. But the budget for education in 2006 is PHP 119 billion (USD 2.3 billion), which means the resource gap is PHP 14 billion (USD 273 million). The picture for health financing is just as dismal. The resource gap is calculated at PHP 7.5 billion (USD 146 million). What is surprising about health financing is that the donor community is contributing more to the health budget than the Government itself. The table below shows that while available resources from the Government amount to PHP 687.4 billion (USD 13.4 billion), the donor community is contributing PHP 783.7 billion (USD 15.3 billion).

(Continued on page 261)

1 Remo, M. (2006). "DOF wants to limit tax perks grant". *Philippine Daily Inquirer.* 10 July, p. B11.

2 Department of Health.

Working to develop capacity at the service of those most in need

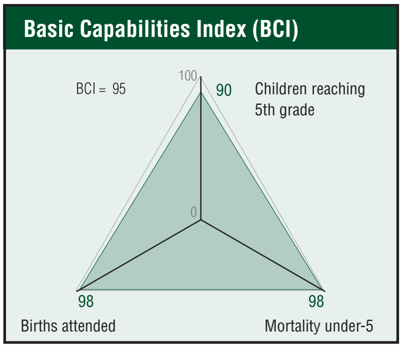
Throughout the difficult transition period, Romanian NGOs have provided vital social services with the help of international funding. When Romania joins the EU in 2007, these foreign donors will withdraw, making state funding crucial for the survival of NGO social service programmes. EU membership will also require Romania to step into the role of donor country itself, and the NGO sector has contributed significantly to addressing this new field of international cooperation and humanitarian aid.

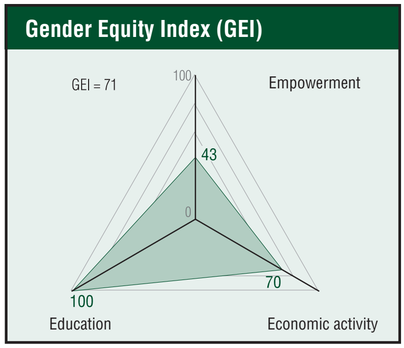
Fundatia pentru Dezvoltarea Societatii Civile
(Civil Society Development Foundation)
Valentin Burada

Since 1989, after the fall of the Communist regime, Romania has undergone a difficult transition to new political institutions and a new economic framework. The transition increased poverty and the risk for larger categories of people to become marginalized. Romanian NGOs, with the support of international institutions and other foreign donors, have worked to alleviate the negative consequences of the transition.

On 1 January 2007, Romania is expected to join the European Union. As such, it will have to align with EU development cooperation policies and move into the position of donor state. This transformation poses a double challenge: on one hand, although Romania will be an EU member, its domestic socio-economic conditions remain very difficult. Over the last decade, civil society organizations have built, developed and maintained a wide range of social services for vulnerable groups. This has been possible with the support of foreign donors, particularly through EU programmes. It is generally recognized that the social services provided by non-governmental agencies offer higher quality, standards and responsiveness to community needs than public ones. State funding, however, is directed almost exclusively to public social services. With the expected withdrawal of most of the foreign donors, the social services provided by NGOs will face serious difficulties, with their very survival being threatened. Therefore, we believe that public budgets should be adapted to ensure that the services developed by NGOs will continue to be provided. Likewise, civil society organizations need to play a greater role in influencing the national budgeting process, at both the local and central level, to ensure that the local funding available to social services is allocated in the best interest of the communities, providing the highest quality services with the most efficient allocation of resources.

On the other hand, by becoming an EU member, Romania has the opportunity to become more involved in the global arena. It needs to commit more resources and build capacity to act as a donor of assistance to poorer countries. International development cooperation is a recent preoccupation for both the Government and NGOs.





Social services and the role of NGOs

The domestic context, in socio-economic terms, continues to be a serious concern. According to government statistics, almost one in three Romanians lives in poverty. The situation is worse in rural areas, where wages are far below Romania's average of USD 140 per month. Economic restructuring has lead to social exclusion, and certain regions of the country, such as mono-industrial centres and rural areas, have been hit even harder.

Although the official unemployment rate was around 6% in the first quarter of 2006, a higher percentage of the population is under-employed, and attractive employment options remain limited. Over 40% of the population is engaged in agriculture, most on small subsistence plots. Moreover, many young, educated workers continue to leave the country in search of better opportunities elsewhere, particularly in EU countries. Over the last years, because of the absence of adequate social services, remittances from family members abroad have become an increasingly important means of support for vulnerable social groups.

The poor living conditions of such a large share of the population are not caused only by the limited resources available, but also by the way these resources are distributed and redistributed. To some analysts, the social policy promoted over this period has had an overly narrow focus on the objective of development and placed too little emphasis on social benefits, leaving large fields and sectors of the population excluded and socially marginalized while at the same time privileging others (Marginean, 2005).

Although a series of social policy legal provisions have been adopted in Romania over the last 15 years, the system of social policies has remained rather incoherent, with insufficient linkage among its various dimensions and actors (Marginean, 2005). Moreover, Romania remains one of the lowest ranked among EU member states and accession countries in terms of social spending. Since 2000, public social expenditure, including expenditure on education and housing, has increased, but throughout the transition period it has not exceeded 17% of gross domestic product (GDP), compared to over 25% in the majority of western European countries.

The public budget has been considerably diminished by a decrease in the number of taxpayers and by the fact that many companies and individuals avoid paying their due share of taxes. The recent adoption of a new Fiscal Code and of a 16% flat tax for salaries and profits aims to increase the rate of tax collection by encouraging fiscal discipline and offering incentives for increased investments. However, this move is only expected to have consequences for national social policies in the medium and long term.

It is considered that the social security and social services systems in Romania have been more adversely affected than other European countries' systems by globalization, demographic transition and migration of the population. Additionally, previous analysis has proven that many administrative units lack both the competence and the resources to provide the social services required in their area of activity (Chivu, n.d.). At the same time, the national social services system has had to contend with institutional fragmentation at both the central and local levels. Similarly, despite their efforts and the support of international donors, NGOs involved in social service provision are unevenly distributed across the country, with many areas not covered. Most of the extensive rural areas lack both public and non-governmental services.

The current legislation in Romania offers a general framework for the organization and administration of social services. However, a large number of problems persist, such as the uneven distribution of services; the wide differences between regions and counties and between urban and rural areas; gaps between the needs of beneficiaries and the available resources; the absence of any strategic community planning; the various differences among the categories of beneficiaries; and the poor management structures and lack of qualified personnel (Chivu, n.d.).

The individual initiatives of the Ministry of Labour and Social Solidarity and of other specialized central authorities in elaborating the legislation, as well as the poor cooperation among them, resulted in a series of incoherent regulations in the social services sector and an overlapping of attributions, procedures and methodologies, as well as legislative gaps. NGOs have repeatedly drawn attention to these incoherencies and overlaps.

In December 2005, the Government adopted the National Strategy for the Development of Social Services, accompanied by an action plan for its implementation in the period 2006-2013. Civil society actors have criticized the National Strategy for a number of reasons. They maintain that instead of bringing greater coherence to the social services system, it creates more confusion by proposing the adoption of 22 new pieces of legislation by 2010, including a Social Services Code. Moreover, the strategy was not based on an adequate analysis of the context: it did not include information on the economic and social situation, the resources within the system, or the actors interested in developing the system. Most importantly for NGOs, the new strategy failed to address the externalization of social services provision, which could help guarantee a more efficient use of public money and a viable solution to existing social needs.

As mentioned earlier, NGOs have built, developed and maintained a wide range of social services for vulnerable groups over the past decade with support from international institutions, particularly through EU programmes. In view of the expected withdrawal of the major foreign donors in the social field (the European Commission, World Bank, USAID) after Romania's scheduled accession to the EU in 2007, the funding policy for this field has to be carefully revised. The Government must provide more support to social services created and provided by NGOs, which have developed high quality standards, expertise and considerable knowledge of their beneficiaries' needs.

In fact, the public has acknowledged the positive contribution made by NGOs to social services. In a survey conducted by the Civil Society Development Foundation and the ISRA market research centre, as part of the CIVICUS Civil Society Index project, Romanian citizens were asked for their opinion on the effectiveness of different institutions in responding to marginalized people's needs. NGOs were given a rating of 56%, scoring second only to international organizations (62%) and higher than the Church (54%) and the business sector (48%). The state scored lowest, as only 43% of interviewees believed that it is able to respond properly to people in need.

Research has also shown that the provision of social services through NGOs has promoted increased solidarity with disadvantaged sectors of the population, as well as a change in attitude toward persons with disabilities (Balasa, 2004). Most of the activity of social services NGOs is directed to particularly vulnerable groups, such as the physically or mentally disabled, people living with HIV/AIDS, institutionalized children and the elderly.

The involvement of civil society organizations in the national budget process

In the last few years, civil society organizations have become more aware of the need for greater involvement in national and local budgeting processes.[1] However, research carried out by the Civil Society Development Foundation in 2005 found that civil society activity in influencing the overall national budgeting process is very limited and focuses only on specific budget components.

In theory, trade unions and employers' organizations are in a better position to influence the drawing up of the national budget because they participate in the Economic and Social Council (ESC), a tripartite body made up of government, trade union and employers' representatives that was established in 1997 to play a consultative role. In practice, however, the ESC has proven to have little impact on key issues like the national budget. According to the 2004 Annual Report, the ESC had been consulted on only 38% of all the laws and policies adopted that year, and its opinion or observations were only actually taken into account in the case of 48% of the laws on which it had in fact been consulted. And of all the draft laws analyzed by the ESC in 2004, a mere 6% were related to the national budget.

NGOs have sought to have a greater impact on the *local budgeting process*. There have been several important projects aimed at empowering citizens and building capacity for local NGOs to influence local budgets. In 2004, the Governance Reform and Sustainable Partnerships programme promoted the organization of public hearings and consultations on draft budgets.

In 2003 and 2004, the Pro-Democracy Association carried out the DIALOG Programme, aimed at involving citizens throughout the country in the debate over local decision making and local budget adoption, while since 2001 another organization, the Institute for Public Policy (IPP), has elaborated reports and offered expertise in this field.

However, NGOs have had little impact on the *national budgeting process*. Think tanks such as the Romanian Academic Society or IPP have sometimes criticized national government budgets and suggested proposals for improving the taxation system and changing expenditure priorities and the way public money is spent. The only visible way in which NGOs have managed to influence the national budgeting process is indirectly, through the modifications in the New Fiscal Code that allowed for the adoption of the "2% Law".[2]

A recent publication by the AnA Society for Feminist Analyses notes that gender budgeting has not been a priority for the Government (Grünberg, Borza, and Vacarescu, 2006). On the other hand, NGOs have been involved in sharing experiences at the international level on good practices in gender budgeting, and are interested in working on this issue.

International development cooperation and humanitarian aid

International development cooperation and humanitarian aid is rather a new preoccupation for the Government and NGOs. Although activities in this field have been carried out in the past, it has only recently started to become a distinct field of policy and intervention, primarily in the context of Romania's upcoming EU accession.

In compliance with the commitments made in the EU accession negotiation process and the recommendations in the European Commission's 2003 and 2004 Regular Reports on Romania's progress towards accession, Romania has begun to elaborate a national policy for development cooperation. In line with EU member state practice, development cooperation will be financed from the national budget, specifically through the budget of the Ministry of Foreign Affairs, which will be responsible for managing the policy. Romania, like the other new EU member states, will be expected to increase its expenditure on official development assistance (ODA) to 0.17% of gross national product (GNP) by 2010, and 0.33% of GNP by 2015. Romanian ODA is currently estimated at 0.04% of its GNP.

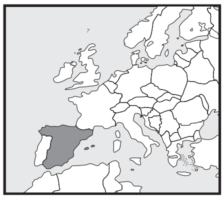
At the same time, NGOs have become more involved in specific initiatives at the European level and have started to develop the capacity to operate in the field of development cooperation. Although until very recently there has been no structured legal and institutional framework for Romania's international development cooperation, the non-governmental sector has gained significant experience in the context of the domestic socio-economic transition, which can be transferred to development cooperation projects.

(Continued on page 261)

1 The observations on the national budgeting process are drawn from a study carried out by the Civil Society Development Foundation (CSDF) within CIVICUS Civil Society Index process. (CSDF, 2005).

2 The 2% system enables individual taxpayers to allocate 2% of their income tax to a non-governmental organization. Essentially, this system allows citizens to tell the state how a part of their taxes should be spent. These funds are not considered donations, but rather a part of the state budget allocated by individual citizens to the non-government sector. NGOs that provide social services to vulnerable social groups are expected to benefit the most from this legal mechanism, but so far, its impact on the financial sustainability of NGOs has been extremely limited. See: <www.doilasuta.ro/sistemen.htm>.

The challenge of consistency



In the last year Rodríguez Zapatero's government has taken measures that amount to progress in international cooperation, but although it is half way through its first term it is still faced with the challenge of progressing from a policy of cooperation in development to a policy of support whereby the needs of poor countries are no longer subordinated to Spanish commercial interests.

Intermón Oxfam
Isabel Kreisler[1]

The Government has demonstrated its support for international cooperation by making commitments to increase funding for official development aid (ODA) and to forgive foreign debt and exchange debt for education.

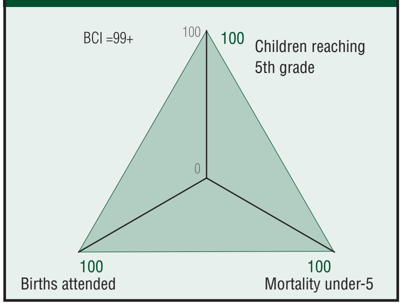
However, there is still a lack of direction and the necessary coordination to make this progress in the ambit of international cooperation consistent with other essential aspects of development like investment policy, agricultural policy or international trade.

ODA: Progress and conditioning factors

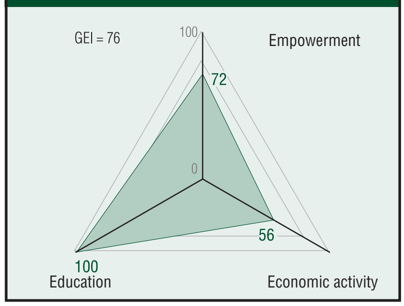
The present government has made a commitment to raise ODA to 0.5% of GDP by the end of its mandate in 2008. The Spanish Socialist Workers' Party (PSOE) has promised that, if re-elected, it will increase aid to developing countries to 0.7% of GDP by 2012. If it does so it will have honoured the commitment it reiterated before the international community in 2002 at the Monterrey Conference on Financing for Development.

- According to data from the Development Aid Committee (COD in Spanish) of the Organization for Economic Cooperation and Development, in 2005 Spain allocated USD 3,123 million to ODA, equivalent to 0.29% of its GDP.
- According to the Annual International Cooperation Plan, in 2006 ODA will be increased to some 3,234.96 million euros, or 0.35% of Spain's GDP.
- In the light of these commitments and figures, civil society organizations have recognized that the budget for international cooperation is considerable. Significant progress has been made, especially when compared to previous years (in 2004 the figure was 1,985.01 million euros or 0.24% of GDP).

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



However, Spanish aid to developing countries is still subject to conditions, so it is still a battleground for civil society organizations. On several occasions the Development Aid Committee has urged Spain to sever the links between official credits granted by the Development Aid Fund (FAD in Spanish) and the acquisition of Spanish goods and services. These links mean that Spanish aid operates as an instrument to internationalise Spanish business, so it should not be considered ODA.

According to the Spanish Cooperation Directing Plan this instrument will be re-structured before 2008, but so far, as of the middle of 2006, no visible progress has been made to do so. It would seem that yet again the good intentions of the State Cooperation Secretariat have been blocked by the barrier of Spanish economic and trade interests, which are stoutly defended by the Ministries of Economy and Trade. Studies of the FAD show that, when it comes to granting these credits, Spanish business interests are still given priority over development objectives (see Intermón Oxfam, 2006 *Créditos FAD: el debate que nunca llega* y *Renovarse o morir. Por qué la reforma de los créditos FAD no puede esperar*).

This mechanism of granting credit subject to conditions operates even when Spain sends help to countries in emergency situations. After the tsunami disaster in Southern Asia in December 2004, Spain announced on the international stage that it was making nearly 71 million euros available to help alleviate the effects of the catastrophe. Of this sum, 50 million euros (more than 70%) was made up of FAD credits, which would have been tantamount to creating foreign debt. It is no surprise that most of the countries in question declined this offer of what was purported to be emergency aid.

Commitments to forgiving and exchanging debt

The way that foreign debt is managed is at an interesting stage, and a new law about this is going through Parliament. In July 2005 the Council of Ministers announced new commitments to forgive debts of heavily indebted poor countries, and the Government has begun to explore ways of exchanging debt for education as a mechanism to finance development.

According to the new bill that is currently before Parliament, Spain will try to deal with the situation of the most impoverished and indebted countries by unilaterally forgiving the maximum amount of debt permitted under prevailing legislation in this area. At the time of writing, an announcement was expected of additional commitments to effectively forgive the maximum possible amount of debt and to take concrete measures to put into practice the political will reflected in the bill.

The bill is an attempt to lay the foundations for handling the foreign debts that other countries have with Spain in a more transparent way, and make public the information that the Government will have to submit to Congress every year. It will also give various social and economic actors in the debtor countries a wider role in the design of programmes to exchange debt, and try to give support to the economic and productive fabric in those countries. The provisions of this law constitute a definite step in the right direction since, up to now, agreements between Spain and her debtors to exchange debt for development have made such exchanges conditional upon the purchase, whenever possible, of Spanish goods and services to carry out the projects in question.

Another point that civil society organizations have raised, and that the Spanish bill is designed

1 In cooperation with Alberto Casado (Ayuda en Acción) and Marina Navarro (Global Campaign for Education).

to cater to, is that debt relief strategies should be accompanied by measures to safeguard the developing countries from falling back into debt. The new law contains a commitment to reform the FAD instrument within a year. This should make it possible to put an end to the paradoxical situation of Spain forgiving or exchanging debt and at the same time contributing to the creation of new debts by continuing to channel a large part of its foreign aid credits through the FAD (as has happened in its dealings with Honduras and Nicaragua for example).

Managing foreign debt in this way should serve to resolve the contradictions between development policies and the commercial and economic practices that the government is also promoting.

At the 15th Ibero-American summit of Heads of State in November 2005, Rodríguez Zapatero announced that the General Ibero-American Secretariat would be implementing programmes to exchange debt for education. In July of that year the Government made a public commitment worth 356 million euros to finance the exchange of debt for public investment in highly indebted poor countries.

In this year commitments have been announced, or exchange treaties signed, with Bolivia for USD 62 million, Ecuador (USD 50 million), El Salvador (USD 10 million), Guatemala (USD 10 million), Honduras (USD 138 million), Nicaragua (USD 39 million), Peru (USD 22 million) and Uruguay (USD 10 million).

New multilateral funding instruments

When it comes to new commitments using funding instruments managed in the multinational sphere, Spain's performance is a mixture of good and bad.

The Fast Track Initiative

In 2005 for the first time the Government made a firm commitment to the Education for All - Fast Track Initiative (FTI). Up to 2008 Spain is to make an annual contribution of EUR 5 million to the FTI Catalytic Fund, and in 2006 the Government announced that it was supplementing this with extra disbursements to Honduras (EUR 10 million), Vietnam (EUR 2 million) and Mozambique (EUR 1 million). In the 2005-2008 period Spain will make good on her most urgent commitments to education to the tune of EUR 33 million. This is good news, but the figure involved still falls a long short of the EUR 50 million that the coalition World Campaign for Education claims the country should pay.

The Fund against AIDS

Spain is committed to contributing USD 100 million in the 2003-2006 period to the Global Fund for the Fight against AIDS, Tuberculosis and Malaria, which amounts to about 50% of the Spanish aid to fight AIDS that goes through multilateral organizations. The average donation to the Fund is USD 25 million per year during the four years. Besides this, in September 2005, when making its payments to the Fund, Spain publicly made a new commitment to donate USD 100 million between 2007 and 2009.

Although these contributions are an improvement on previous years, the amounts involved fall short of what is considered equitable in function of Spain's per capita income. It is estimated that, to arrive at a "fair figure", Spain should pay USD 75 million for 2006 and USD 90 million for 2007 (Ayuda en Acción, 2006).

Immunization

The International Finance Facility for Immunization (IFFI), which was launched in 2006, is a new funding instrument whose aim is to provide sufficient funds for vaccination programmes against measles, polio, tetanus, hepatitis B and diphtheria in developing counties over the next ten years. The IFFI will double the resources of the Global Alliance for Vaccines and Immunization, which in the last five years has vaccinated more than 78 million children all over the world.

This year Spain, along with France, Italy, the United Kingdom and Sweden, announced they were implementing a plan that would make USD 4,000 million available for investment aimed at saving the lives of 10 million children before 2015.

In the hope that this sum will in fact be paid and a timetable for the Spanish contributions set, the development NGO has expressed satisfaction at this announcement.

The new air tax

Another new instrument for financing development that was unveiled in 2006 is a tax on aeroplane tickets. The French government led the way with its decision to levy a tax of between 1 and 40 euros on every air ticket. The aim is to generate some 210 million euros per year for the purchase of medicines for people in southern countries. This measure was approved by the United Nations, but not many countries have joined the scheme.

The Spanish government's reaction was that it felt the air tax would distort markets. The tourist and hotels sector (the country's largest economic sector in terms of contribution to GDP) put pressure on the Government not to adopt this measure as it was considered to be prejudicial to business interests in the country. The tourist sector even went so far as to demand that Spain's representatives in Brussels should resist the introduction of this measure in the European Union, arguing that "any fiscal measure could have a "weakening" effect on the number of passengers and flights, and ultimately on reaching tourist income targets." (Europa Press, 31 May, 2005). Spain eventually opted to oppose the new air tax at the meeting of European Union finance and economy ministers in Manchester in June 2006.

Unfair international trade

The 6th Ministerial Conference of the World Trade Organization (WTO) was held in Hong Kong between 14 and 18 December 2005, and, for the first time, the Spanish government allowed representatives from employers' and workers' organizations and from NGOs to join Spain's official delegation. This was a step towards greater transparency, wider participation, and openness to dialogue with social agents.

However, civil organizations are in agreement that Spain's stance at the Hong Kong Conference was not consistent with the Government's commitments in the fight against poverty. This position might have been at least to some extent softened if the Secretary of State for International Cooperation had been represented in the official delegation.

In the debate about eliminating agricultural subsidies for exports, which was one of the most important points on the Conference agenda, Spain lined up with the European Union countries that were most resistant to change. She took a similar stance in the debate about opening markets to the countries of the South, a step which is essential if those countries are to develop. Although a commitment to eliminating export subsidies was finally made, this measure will be delayed for eight more years, which means that many small producers from the South will be forced out of the market. Therefore there is no way that Spain's position in the negotiations about agriculture can be seen as consistent with the Government's repeated assertions that the country is committed to the fight against poverty.

There has been one exception to the country's hard line stance. In the 2005 negotiations about reform in the sugar sector Spanish interests happened to coincide with those of sub-Saharan Africa; both were in favour of retaining a system of quotas and guaranteed high prices. Although Spain's position on this question was based on catering to the interests of the Spanish sugar beet producers, for once she supported a policy that was not damaging to countries in the South.

In Hong Kong neither Spain nor the European Union as a whole supported the developing countries' interests in the negotiations about services. This question involves the liberalization and privatization of basic social services like education, health, energy and the provision of potable water, which are all vitally important for reaching the Millennium Development Goals, which Spain has made repeated public commitments to support.

In spite of systematic and explicit opposition from the G90 group (the poorest countries in the WTO), the Services Negotiations Committee is still trying to push through a resolution that would result in multilateral negotiations in which the Southern countries would have less chance to defend their own interests.

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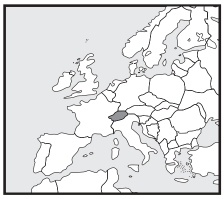
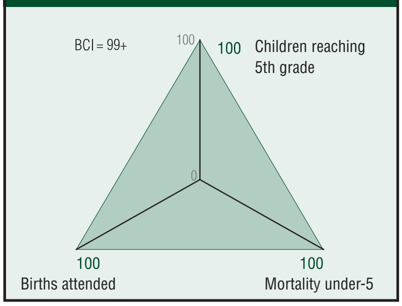
Development assistance and banking policies undermine MDGs



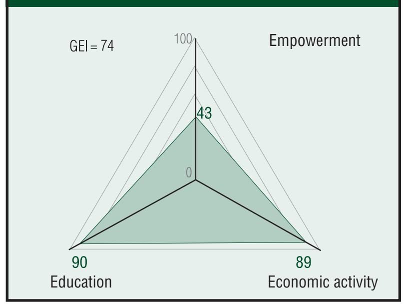
Switzerland is not fully complying with its obligations under the Monterrey Consensus. Its level of ODA is too low, and it does its utmost to shy away from innovative mechanisms to finance development. Meanwhile, it remains a safe haven for tax evaders and those seeking refuge for capital. In so doing, Switzerland undermines the efforts of numerous developing countries to fight poverty and to achieve the MDGs on their own merits.

Alliance Sud [1]
Bruno Gurtner / Pepo Hofstetter

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Switzerland adopted a very defensive stance during the discussions on financing the Millennium Development Goals (MDGs) at the United Nations Millennium+5 Summit held in September 2005 in New York. The Swiss Government is a coalition of three conservative parties and the Social Democratic Party. The right wing forms the majority, as it does in Parliament, and has championed a rigid austerity policy that provides tax relief for enterprises and the wealthy.

ODA target not met

This austerity policy has a negative impact on the official development assistance (ODA) budget. Politicians have so far not succeeded in cutting ODA, a move that would not be well received by the public and Parliament. On the other hand, the NGOs have not managed to achieve an increase in ODA. In contrast to the "old" European Union member states, Switzerland, as a non-EU member, has refused to commit itself to an increase to 0.7% of gross national income (GNI) by 2015.

Switzerland has never recognized the target set by the United Nations and Organization for Economic Cooperation and Development (OECD) for the industrialized countries to spend at least 0.7% of their GNI on development cooperation. It has set itself a target of 0.4% by 2010 and is now boasting that it already reached that objective in 2004 (0.41%). This was achieved, however, through an accounting manoeuvre; aid expenditures have not risen, and no additional resources have been channelled to the South. Switzerland previously applied quite restrictive criteria to its definition of development assistance, but since 2004, it has also included spending on asylum seekers from developing countries during their first year of stay. In 2004 this accounted for about 10% of Swiss ODA, roughly CHF 200 million (USD 160 million).

In 2005, as was the case for practically all industrialized countries, debt relief for Iraq and Nigeria was also included. However, this debt relief, consisting of export risk insurance payments totalling CHF 279 million (USD 219.4 million), had already been written off; nevertheless, it served to inflate Swiss ODA levels artificially to 0.44% of GNI. Along with the expenditures on asylum seekers and scholarships, the "virtual" aid granted by Switzerland last year accounted for 21% of its development assistance.

Swiss NGOs have criticized this contrived inflation of development assistance, and have demanded a deepened commitment from Switzerland with respect to the MDGs, including a coherent trade, economic and financial policy, as well as an increase in development assistance. In the coming year they will launch a major campaign urging the government to raise ODA to 0.7% of GNI by 2015.

Innovative mechanisms: wait and see

The Swiss Government has also adopted a very defensive position in the discussion on innovative instruments for financing development assistance. In its MDG status report the government categorically stated that Switzerland in principle rejected global taxes – referring in particular to the so-called Tobin tax on foreign exchange transactions – as well as proposals on a global International Finance Facility (IFF) to support the MDGs. If proposals on a levy on airline tickets or an International Finance Facility for Immunization (IFFIm) obtain broad support, the government would be prepared to consider participation.

Assistance to international tax evasion

Switzerland has not changed anything in the configuration of the Swiss financial centre. In its 2005 Peer Review of Swiss development policy[2] the OECD Development Assistance Committee (DAC) noted that the Swiss financial marketplace is highly attractive to flight capital from developing countries with weak financial systems and property rights, political instability, and poor monetary and fiscal policies. Switzerland therefore has a special responsibility: the Committee recommended that Switzerland should initiate an international debate on the problem of capital flight, its root causes and negative impact on developing countries.

Swiss banks manage one-third of all assets invested outside their country of origin. A large proportion of these funds are not properly taxed in those countries. As a result, developing countries are particularly plagued by major shortfalls in their tax revenue. This has a negative impact on poverty reduction and the achievement of the MDGs.[3]

Swiss banking secrecy is not the main instrument that facilitates tax evasion by rich foreign nationals. It can be lifted in the event of criminal activity. Rather, the decisive factor is a unique construct in tax law, namely the legal distinction between tax fraud and tax evasion. Forgery of documents (accounting balance sheets, profit and loss and income statements, etc.) is regarded as fraud. Such activity constitutes a criminal offence and may be punishable by imprisonment, or the perpetrator may be

1 Swiss Alliance of Development Organizations: Swissaid, Catholic Lenten Fund, Bread for All, Helvetas, Caritas, Interchurch Aid.

2 OECD (2005). "Switzerland (2005), DAC Peer Review. Main Findings and Recommendations". Available from: <www.oecd.org/document/43/0,2340,en_2649_34603_35105259_1_1_1_1,00.html>.

3 Cf. the article by Mike Lewis "Global Tax Evasion" in the thematic section of this Report.

fined up to CHF 30,000 (USD 24,250). The submission of insufficient data on income and assets, by intent or negligence, is considered tax evasion. In Switzerland this is subject only to administrative proceedings, such as the imposition of fines.

This discrepancy has serious implications on cross-border information exchange: in Switzerland the principle of dual criminality applies to any international judicial assistance and cooperation among competent authorities. In other words, Switzerland provides legal cooperation in cases where an offence is also punishable under Swiss law. Since tax evasion does not constitute a criminal offence, no such cooperation is granted. This provides an effective shield that protects foreign tax evaders seeking refuge from the fiscal authorities under whose jurisdiction they operate.

The elite from developing countries benefit considerably from these tax loopholes, for example, through funds placed in fiduciary arrangements. The banks invest these funds in their own name, but at the risk of the client. The *Financial Times* of London described this type of financial transaction as a perfect way to evade taxes. At the end of 2004, fiduciary assets entrusted to Swiss banks by wealthy customers from developing countries amounted to some USD 62.5 billion.[4] An additional USD 83 billion originated from Caribbean and European offshore financial centres. It is likely that as much as half of these funds come from developing countries, the major share of which is not appropriately taxed in the countries of origin and therefore represents missing tax revenue.

It is not possible to determine just how large the sums of flight capital and missing tax revenue are, since Switzerland's financial statistics are inadequate in this regard. Alliance Sud estimates that developing countries are losing out on USD 5 billion in tax revenue through monies managed by Swiss banks. This figure corresponds to five times the total sum Switzerland spends on development cooperation.

Knowing that the adoption of unilateral measures by Switzerland was unlikely to be accepted, due to the strong competition between financial centres, the OECD recommended that Switzerland should become a strong proponent of international reform. At the bilateral level, Switzerland should extend its agreement with the EU on the taxation of interest payments to include developing countries. Through such an agreement, along the lines of the agreement negotiated with the EU, interest earned on managed capital from developing countries would be returned to the countries of origin, to be used to combat poverty in those countries. The OECD has encouraged Switzerland to strengthen international exchange of information on taxation matters and to rectify the current situation of impunity with regard to tax evasion.

Almost a year has passed since those recommendations were made, but there are no signs that they will be implemented under official Swiss policy. Switzerland likes to draw the attention of the OECD to the mechanisms it has implemented that sustainably strengthen the financial systems of developing countries and all the steps it has taken to counter money laundering, yet it categorically refuses to extend the EU agreement to all developing countries. In response to questions raised in this regard before the Swiss parliament, the Government has stated that a successful strategy to combat capital flight needs to start in the countries of origin themselves.

Further announcements have made it clear that Switzerland does not intend to deviate one iota from its current policy. In November 2005, however, Switzerland participated for the first time (albeit as an observer) in a meeting of the OECD Global Forum on Taxation. At the Global Forum, OECD member countries and offshore financial centres meet and try to establish a common framework to improve transparency and strengthen information exchange on international taxation issues. As in the case of Belgium, Luxemburg and Austria, Switzerland had previously refused to participate because it was opposed to extensive information exchange. As a result of pressure from the OECD, many offshore financial centres in the meantime have somewhat improved their legislation and banking supervision, and are negotiating bilateral agreements on the exchange of information. Not without reason, they accuse the OECD of applying a lower standard to its own member countries than is required of other offshore centres.

When it made its first appearance at the meeting, Switzerland made it clear from the outset that it did not wish to commit itself: it does not at all feel bound by the conclusions of the Forum, and maintains its position, particularly with respect to banking secrecy. For years the government ignored the work of the United Nations Ad Hoc Group of Experts on International Cooperation in Tax Matters. Switzerland was represented at best by banking and industry executives. The group of experts was later upgraded to the status of a Committee following the 2002 International Conference on Financing for Development held in Monterrey. The Committee seeks to strengthen efforts to curb tax evasion and enhance processes of information exchange, for example, by aligning the provisions on exchange of information in its Model Double Taxation Convention between Developed and Developing Countries with those of a similar, but more comprehensive, OECD model law agreement. This has given Switzerland grounds enough to seek one of the 24 seats on the Committee, even though it had worked against the upgrading of the expert group behind the scenes. The representative of Switzerland, along with representatives of other interest groups, now works towards a "moderate" policy: exchange of information in taxation matters should not infringe on banking secrecy.

Alliance Sud believes that it is unacceptable for Switzerland to boast when it finally returns the millions stolen by former dictators like Sani Abacha of Nigeria and Ferdinand Marcos of the Philippines to their countries of origin. Alliance Sud calls on Switzerland to carry out much deeper structural changes within its financial centres. The current distinction between tax evasion and tax fraud must be abandoned. Switzerland must implement policies that lead to an effective international exchange of information on tax matters and apply customary international standards. This is why Alliance Sud is actively involved in the global Tax Justice Network.[5] ■

4 Swiss National Bank (SNB) (2005). *Banks in Switzerland.* Zurich, 2004 edition. Available from: <www.snb.ch>.

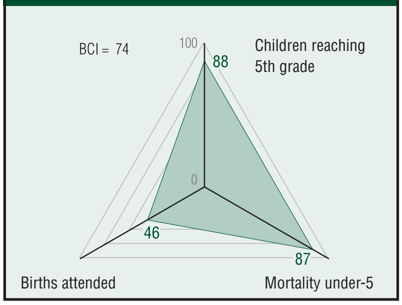
5 Additional information available from: <www.taxjustice.net>. Cf. also the article by Mike Lewis, *op cit.*

Ambitious poverty reduction plan faces daunting barriers

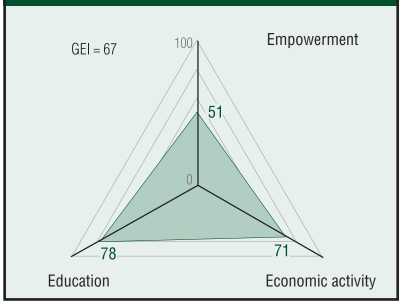
The Tanzanian government's National Strategy for Growth and Reduction of Poverty is an ambitious and laudable initiative that would contribute greatly to social development. Unfortunately, the funding required for its implementation appears to far outstrip the country's current fiscal means, largely because of the barriers to financial flows created by the wealthy developed countries.

Southern Africa Human Rights NGO-Network (SAHRiNGON) - Tanzania Chapter
Richard Shilamba

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The National Strategy for Growth and Reduction of Poverty (NSGRP) was adopted by the Tanzanian government in June 2005. As the successor to the Poverty Reduction Strategy Paper of 2000, it is the second national framework for placing the goal of poverty reduction at the top of the country's development agenda. The NSGRP is based on the objectives of Tanzania's Development Vision 2025, which are high and shared growth, high quality livelihood, peace, stability and unity, good governance, high quality education and international competitiveness. The strategy also reflects Tanzania's commitment to the U.N. Millennium Development Goals (MDGs) as internationally agreed standards for reducing poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women by 2015.[1]

While the NSGRP text maintains that Tanzania experienced improved economic performance at the macro level over the six years prior to the adoption of the strategy, that same period was marked by a certain degree of instability. The GDP growth rate had risen consistently until reaching 6.2% in 2002, but subsequently dropped to 5.6% in 2003, then rose once more to 6.7% in 2004. At the same time, although inflation was kept relatively under control, it was nonetheless subject to some fluctuation: the annual inflation rate decreased from 6% in 2000 to 4.4% in 2003, but inflation increased from 4% in July 2003 to 4.6% at the end of March 2004.[2]

According to a study by Tanzania's Economic and Social Research Foundation (ESRF), the effective implementation of the NSGRP will require massive funding beyond the current fiscal means of the Government.[3] Moreover, the country is currently facing a severe food shortage as the result of a prolonged drought. According to the Food Security Information Team coordinated by the Prime Minister's Office and the Ministry of Agriculture, Food Security and Cooperatives, this emerging crisis is affecting nearly 85% of Tanzania's 129 districts. As of February, some 3.7 million people, or nearly 11% of the mainland population, had been identified as facing a food shortage, and it was estimated that more than 565,000 Tanzanians were in need of emergency food supplies, as they did not have the resources to purchase even heavily subsidized staple foods.[4]

This unsatisfactory economic performance and the extreme poverty in the country is largely linked with deliberate international barriers preventing more money from flowing into Tanzania. A question that remains unanswered is how the government can obtain the necessary funding to fulfil its commitments while these barriers on financial flows into the country for social development remain in place.

Barriers to financial flows for social development

Unfair trade rules imposed by developed countries

International trade represents one potential source of financing for social development. It has been estimated that if Africa's share of international trade were increased by just 1%, it would earn an additional GBP 49 billion annually.[5] If that 1% increase in the share of world trade extended to all the countries of Africa, Latin America and East and South Asia, it could help 128 million people escape poverty.[6] If the poorest countries as a whole could increase their share of world exports by 5%, it would generate GBP 248 billion or USD 350 billion in revenue, which could be used to lift many millions more out of poverty.[7]

However, while the developed countries have pressured Tanzania to open up its domestic markets through trade liberalization, they have kept their own markets closed to agricultural and textile exports from Tanzania through the application of unnecessary and highly restrictive trade rules.[8]

Among the trade restrictions that act as a barrier to financial flows into the country is the developed countries' complex rule of product origin applied to imports from Tanzania. The rule stipulates how much of a product must be made from local inputs to qualify for export and entry into their domestic markets on the basis of preferential tariffs. In reality, however, only a third of imports from developing countries eligible for preferential access are able to meet these strict rule-of-origin criteria.[9]

1 United Republic of Tanzania. Vice President's Office (2005). *National Strategy for Growth and Reduction of Poverty*. p. 1. Available from: <http://www.tanzania.go.tz/pdf/nsgrptext.pdf>.

2 NSGRP. June 2005, p. 1.

3 *Financial Times*, 31 May 2006.

4 Food Security Information Team (2005). Rapid Vulnerability Assessment (RVA) of Food Insecure Districts in Tanzania Mainland for the 2005-06 Market Year. Cited in: International Federation of Red Cross and Red Crescent Societies (2006). Tanzania: Drought – Information Bulletin No. 1/2006. Available from: <www.reliefweb.int/library/documents/2006/IFRC/ifrc-tza-3mar.pdf>.

5 Yergin, D. (2002). "Globalisation - It Pays Off". *The Sunday Times,* London, 24 April.

6 *Edinburgh Evening News* (2002). "Poor nations 'cheated out of £69bn'". 11 April. http://edinburghnews.scotsman.com/index.cfm?id=389892002

7 Bain, S. (2002)."Bringing down the barriers". *The Herald*, Glasgow, 11 April, p. 21.

8 Pollard, S., Mingardi, A., Gabb, S. and Philippe, C. (2003). *EU Trade Barriers Kill.* Brussels: Centre for the New Europe.

9 Brenton, P. and Manchin, M. (2002). *Making EU Trade Preferences Work: The Role of Rule of Origin.* Working Document No. 183. Brussels: Centre for European Policy Studies. Available from: <www.ceps.be>.

Moreover, even if Tanzanian exporters were able to comply with this rule of origin, there are further restrictive regulations related to health and safety. For example, one regulation requires that milk must be taken from cows by machines and not by hand.[10] This represents a major obstacle for the majority of the country's dairy farmers in both urban and rural areas, because such machinery is either unavailable or prohibitively expensive. Although sanitary conditions could be ensured by wearing gloves to milk cows, this would not be enough to satisfy the regulations in question.

Anti-dumping regulations, applied when an exporter sells goods below production cost, act as another barrier to potential exports and revenue.[11] Obviously, a product made in Tanzania will have an extremely low production cost when compared with the same product produced in the wealthy developed countries of Europe, which poses yet another obstacle for Tanzanian-made products to be exported and sold in Europe.

These restrictive practices have discouraged investment in agriculture in Tanzania, as reflected in Table 1.

The shortage of investment in the agriculture sector – which is the main employer in rural areas and the primary source of livelihood and income for the majority of the population – has led to limited growth and in some cases even a decline in the production of the country's most important cash crops.

It is therefore recommended that the developed countries should remove unfair trade restriction rules for products made in Tanzania and open more markets to Tanzanian agricultural products, so as to attract greater investment and promote higher productivity in the agriculture sector.

Moreover, limited agricultural sector growth does not solely affect cash crops, which are a crucial means of earning revenue for the country. There has also been a marked decline in the production of various staple food crops, which obviously has a direct impact on the lives and health of the Tanzanian population.

The continued burden of external debt

Owing to its status as a poor country heavily burdened by external debt, Tanzania has benefited from a number of debt relief initiatives. In December 2005, for instance, Tanzania was provided with 100% debt relief on all of its outstanding debt to the International Monetary Fund (IMF). This amounted to some USD 336 million, or USD 297 million excluding the debts scheduled for cancellation under the Heavily Indebted Poor Countries (HIPC) Initiative. According to the IMF, these additional resources were made available by the international community to help Tanzania make progress toward fulfilling the MDGs.[12]

Despite initiatives like these, however, Tanzania's external debt load continues to grow, representing a serious drain on the country's limited resources. Tanzania's external debt was USD 9.73 billion in December 2004, but had risen to USD 9.96 billion in December 2005. As a result, the country was compelled to increase its external debt payments from USD 77.8 million in 2004 to USD 91.1 million in 2005.[13] If it were not for this debt burden, the Tanzanian government could channel the funds currently allocated for debt servicing towards social development efforts – including the National Strategy for Growth and Reduction of Poverty. ■

TABLE 1

Total number of investors in the agriculture sector

Year	2001	2002	2003	2004	2005
Number	77	93	115	145	169
Change in %	0	20.78	23.66	26.08	16.55

Source: Tanzania Investment Centre, reproduced in the Government of Tanzania Economic Status Report of June 2006, p. 133.

TABLE 2

Production of various cash crops (tonnes)

CASH CROP	2004	2005	CHANGE IN % (2004-2005)
Cotton	344,207	378,000	9.82
Tobacco	51,972	56,500	8.71
Sugar	223,889	263,317	17.61
Tea	30,259	30,000	-0.86
Coffee	51,970	34,334	-33.94
Sisal	26,800	27,794	3.71
Cashew nuts	100,000	90,385	-9.62

Source: Ministry of Agriculture, Food and Cooperatives, reproduced in the Government of Tanzania Economic Status Report of June 2006, p. 133

TABLE 3

Production of various food crops (000 tonnes)

FOOD CROP	2004	2005	CHANGE IN % (2004-2005)
Maize	4,286	3,131	-26.95
Rice	1,030	1,077	4.56
Wheat	66	44	-33.33
Millet	937	721	-23.05
Cassava	2,470	2,851	15.43
Beans	603	650	7.79
Bananas	2,576	2,007	-22.09
Sweet potatoes	1,245	1,300	4.42

Source: Ministry of Agriculture, Food and Cooperatives, reproduced in the Government of Tanzania Economic Status Report of June 2006, p. 132.

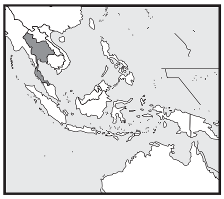
10 Pollard, S., *et al* (2003), *op cit,* p. 8.

11 *Ibid.,* p. 9.

12 International Monetary Fund (2005). *IMF to Extend 100 Percent Debt Relief to Tanzania Under the Multilateral Debt Relief Initiative.* Press Release No. 05/286 of 21 December 2005. Washington: IMF.

13 United Republic of Tanzania (2006). *Tanzania Development Status, June 2006*. p. 74.

Unsound government policies, successful grassroots solutions



Over the past five years, the Thai government's financial policies have served to benefit a small wealthy elite while failing to promote genuine development or create a sound welfare system. They also pose the risk of another economic crisis like the one that hit the country in 1997. In the meantime, an emerging grassroots movement has helped communities to meet their own financial management and welfare needs.

The Social Agenda Working Group
Ranee Hassarungsee / Poonsap S.Tulaphan / Yuwadee Kardkarnklai

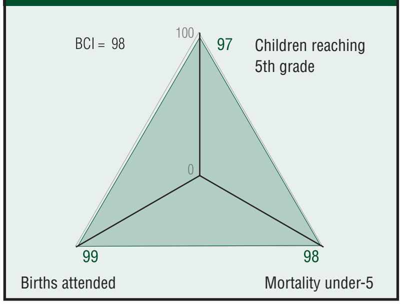
This report addresses the negative effects of populist "Thaksinomic" financial management to point out the importance of public participation in the management of national resources in a democratic and fair political system. It presents the case of savings groups created at the grassroots level to achieve self-sufficiency in local communities. These grassroots social financing groups have been led astray by the mainstream populism of the government. The Social Agenda Working Group believes that only strong determination can ensure the survival of these local initiatives.

Monopoly of finance and politics

The government of the Thai Rak Thai (Thais Love Thais) Party (TRT), a right-wing party formed in 2001 by telecommunications billionaire Thaksin Shinawatra, has combined populist policies with strong support for US foreign policies. Thaksin became prime minister in 2001 when the TRT was swept into power on a populist platform aimed at winning rural votes. In 2005, he became the first prime minister to lead an elected government through a full four-year term and was reelected in a landslide TRT victory in the general elections held in February of that year. However, when Thaksin's family sold its entire 49% share in the Shin Corporation telecommunications conglomerate to the Singaporean government investment house Temasek Holdings on January 2006, it prompted an angry outcry and protests from urban middle-class opponents, who viewed the deal – a tax-free windfall profit of THB 73 billion (USD 1.9 billion) – as the epitome of his sophisticated corruption and a betrayal of his proclaimed nationalism. The resulting controversy forced Thaksin to call a snap election in April, which was boycotted by opposition parties. In May 2006, a Constitutional Court ruled to invalidate the April election and ordered a new election to be held in October. In the meantime, Thaksin and his Parliament have retained their hold on power, despite rising opposition and unrest.

Many academics agree that from the beginning, Thaksin's government represented a group of powerful domestic capitalists who had survived Thailand's 1997 financial crisis. They believe that the TRT sought to "capture" state power through general elections in order to protect, promote and provide privileges for this group and their allies, who are engaged in telecommunications, entertainment, mass media and manufacturing, and control an estimated 42% of the total stock value on the Thai stock exchange.[1] Both the 1997 Constitution and the country's election laws are seen to favour big political parties, and the TRT is widely considered to represent Thailand's capitalist elite.[2] According to some critics, all of the components of democracy, including the elected government, Parliament, independent organizations, the judicial system, Constitutional Court, Election Commission, and government bodies such as the Revenue Department and Stock Exchange Commission have been transformed into "puppets" used by Thaksin to rake in further profits.[3] During the TRT's first four years in power, between 2001 and early 2005, its cabinet ministers were reshuffled 10 times. This was a viewed as a new approach adopted by Thailand's chief of the executive branch, whose party was further strengthened by the country's new Constitution.[4]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)

Money politics

According to some observers, the TRT administration has been marked by the emergence of an integrated policy of corruption, formed through the synchronization of economic exploitation with administrative malfeasance and political nepotism.[5] The Government gained control over ministries, state enterprises and banking and financial institutions, including the government-run Bank for Agriculture and Agricultural Co-operatives and the Government Savings Bank.

The rise of such a highly autocratic government made the government budget the current largest source of income for corrupt politicians. A second source of corruption money was foreign loans. The third was non-budgetary spending, or quasi-fiscal measures. For example, the Government Savings Bank, which had agreed to join the so-called SML Programme by providing small, medium and large community funds, was instructed to allocate these funds to various constituencies two days before the April elections took place. In addition, part of the government budget was used to increase the price of rice to an artificial high, which subsequently plunged to its actual level after the elections. Almost none of the public could understand how the price of rice had risen so high, but the farmers and parties involved were happy. The Thaksin administration has also reportedly been involved in stock exchange speculation.

The high risk of quasi-fiscal activities

The Thaksin government has used populist programmes and quasi-fiscal measures[6] to gain political popularity since 2001. According to influential social critic and academic Thirayuth Boonmee, "The government in fact set aside THB 780 billion (USD

1 Phongpaichit, Pasuk (2004), *Matichon Daily*, 17 March.

2 Sathitniramai, Aphichart and Laowakul, Duangmanee (2005). "Dual-Track Development Strategy: Successes and Failures". A commentary presented to the 2005 annual conference of the Faculty of Economics, Thammasat University.

3 Boonmee, Thirayuth, *Matichon Daily*, 5 March 2006.

4 Charoenmuang, Thanate (2005). "The Reformation of the Thai Bureaucracy". Annual conference of the Faculty of Economics, Thammasat University.

5 Piriya-rangsan, Sungsit (2005). In a conference on International Anti-Corruption Day 2005, held on 9 December 2005.

20.8 billion) for the restructuring of bad debts by the Thailand Asset Management Corporation. THB 2 trillion (USD 53.4 billion) would be required for the construction of new cities and mass transport system; another USD 2.56 billion was to be given to the Vayupak Fund to support the stock market; and USD 17.95 billion was earmarked as a fund for public utilities. All these projects amounted to about USD 91.79 billion. In the meantime, health care got USD 1.46 billion while USD 1.71 billion was given to the village fund. USD 365 million went to the farmers' debt relief project. Altogether, about USD 4 billion of the budget was allocated to support the low-income people, 20 times lower than the money set aside for big troubled business companies and financial institutions."[7] No economic cost-effectiveness evaluation of these schemes has been conducted.

Most of the budget allocated to quasi-fiscal activities every year is aimed at providing economic opportunities by giving loans to particular groups that the government wants to support, especially through the SME (Small and Medium Enterprise) Programme run by government financial institutions. The budget funds used for this purpose totalled USD 12.5 billion in 2004, an amount 137.9% higher than in 2003. This was a greater increase than in any other budgetary allocation that year.

The use of quasi-fiscal measures could cause potential negative impacts, such as operational risks for state-owned financial institutions, particularly the Krung Thai Bank, Government Savings Bank and Bank of Agriculture and Agricultural Co-operatives, which have been indirectly compelled to provide loans to individuals and groups of people that the government wants to help. Even more troubling are the risks posed by these practices to the country's fiscal and macroeconomic stability. As the money used in these activities was non-budgetary spending, the Parliament had no power to examine these measures. The Parliament was also prohibited from cutting the government's spending.

No welfare system

Over the past five years, the Government has done nothing to effectively promote any viable social welfare system, and has focused on adopting policies to stimulate domestic consumption. A survey by the National Statistical Office found that in 2002, Thailand's nationwide household debt was USD 1,918.3, which rose to USD 2,681.3 in 2004.[8]

TABLE 1

Quasi-fiscal activities in relation to GDP and the annual budget (in million THB)

	2002	2003	2004
Funding provided through quasi-fiscal activities	103,669.0	295,993.0	569,597.9
Percentage of GDP	1.9%	5.0%	8.7%
Percentage of annual budget	10.1%	29.6%	49.0%
Gross domestic product	5,446,043.0	5,930,362.0	6,576,023.0
Annual budget	1,023,000.0	999,000.0	1,163,500.0

Sources: Fiscal Risk Management Group, Fiscal Policy Office, Ministry of Finance; Budget Bureau; National Economic and Social Development Office; calculations by the research team of Aphichart Sathitniramai.

A range of populist programmes have been implemented as a means of increasing the governing party's popularity. However, they have typically not involved adequate cost-effectiveness evaluations or included appropriate means to reach their stated target groups. Their main goal has been to gain votes and financial power for the TRT and its allies, not to achieve any overall economic benefit for the country. Such populist policy implementation could lead to an inefficient and socially unfair use of national resources. It could also overshadow other programmes with greater socio-economic impact, such as educational reform, which could be a key factor for increasing the productivity of Thailand's labour force and is still a weak point of the Thai economy. Better educated workers would help increase the country's competitiveness in the long term. But a reform of the educational system was difficult and would take too long a time to achieve. To quickly gain electoral votes, populist programmes and quasi-fiscal activities, which fundamentally waived fiscal discipline, were an easier option.

The Village Fund, through which BHT 1 million was given to each village to be borrowed by the community members, has now become a tool for local politicians. Community members have become divided and forced to compete with each other for these funds. In the area of health, civil society had initially advocated the government's 30-baht-per-visit health scheme before the TRT adopted it as a policy platform during its election campaign in 2000. Once elected, the TRT immediately put this scheme into practice to obtain popular support. But because the government did not provide the required budget to support it, hospitals have had to shift their other non-budgetary income to cover its costs.

A community approach to financial management

Many communities have adopted the concept of "community capital" and organized a variety of "community financing" organizations, such as savings groups for production, integrity savings groups, credit union co-operatives, and village banks. The main objective of such community financing groups is for people to "help each other" within their communities. Their ultimate aim is to promote disciplined and regular savings and make use of the money involved so that it benefits the groups' members in times of trouble and saves them from having to take out informal loans.

In addition to serving as a grassroots-based source of credit for community residents, programmes like these also help to promote greater discipline in spending, develop community financial management skills, and generate employment. In addition, any profits made can be directed towards welfare benefits for the groups' members.

This first fund of this kind was started up 20 years ago by teacher Chob Yodkaew in the southern province of Songkhla.[9] The first step was the organization of a Contractual One Baht Per Day Savings Group, to which the group's members were committed to contribute regularly. Subsequently, 50% of the interest earned on the savings deposited were used to create a welfare fund. The concept behind the Savings Group was to encourage people to reduce their expenses while using the money thus saved to provide for community welfare. These funds could be used to improve the quality of life of community residents and promote a sense of sharing. Efforts are now being made to promote the implementation of this bottom-up initiative throughout the province of Songkhla and its adoption as an official public policy within the provincial strategic development plan.[10]

Conclusion

The Thaksin administration has been criticized for its corruption, rapid self-expansion, and crafty self-protection. It has been accused of passing laws favourable to certain business groups, such as the Special Economic Zone Act. The TRT administration has also signed numerous corrupt business deals with private companies, which could be entitled to sue the State and receive compensation or to demand arbitration that would rule on the side of the companies if their operations did not succeed.

The Thaksin administration's financial management has been so cunning and complicated that the country's principal accountability mechanism, the Parliament, has been powerless to intercede, while the public has had no way of participating in the budget allocation process.

(Continued on page 261)

6 Quasi-fiscal measures are activities that may be operated by the government or agencies not directly controlled by the government such as state enterprises and the country's central bank. Even non-budgetary funds can be administered in quasi-fiscal activities. The implementation of quasi-fiscal activities varies and includes implicit uncollected taxes, subsidies, or public enterprise expenditure through either financial or non-financial institutions. Such institutions will serve as government representatives to provide particular support for those economic sectors that the government wants to help.

7 Boonmee, Thirayuth (2004). *Analyzing the Thai Rak Thai's Politics.* Midnight University.

8 <www.iseas.edu.sg/viewpoint/sm24aug05.pdf>.

9 Yodkaew, Chob (2005). *Project the Public Policy Practices for a Good Quality of Life: the Case of the Contractual One-baht Per Day Savings Fund for Public Welfare. First Phase Progress Report* (16 September 2005). Under the Plan on Development of Public Policy for Good Quality of Life.

10 Songkhla province's directive No. 223/2548.

Social protection: a guaranteed right in theory, but not in practice

Although social protection is a right guaranteed to all Ugandans on paper, only a limited portion of the population is actually covered by existing social protection schemes. Those who are not covered include the poor, and given that almost four out of every ten Ugandans live below the poverty line, extending this right to all of the country's citizens is a challenge that urgently needs to be met.

Uganda Social Watch Coalition

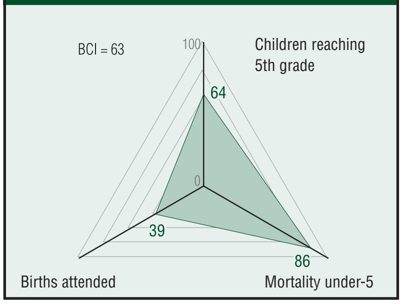
The 1995 Ugandan constitution provides for the protection and promotion of fundamental human rights, including the right to social protection. However, guaranteeing this right to the entire population remains a major challenge. Existing social protection policies cover only a part of the population: workers employed in the civil service, and those employed by the limited number of private enterprises that offer social security and pension schemes. The majority of poor people have no social protection coverage whatsoever, and even for those who are covered, problems persist with regard to timely access to and adequacy of services. In order to extend social protection to all Ugandans, it will be necessary to identify the poor (UBOS *et al*, 2003), design a variety of schemes for different categories of the poor, establish an effective strategy for social protection management, and allocate and utilize substantial resources in order to respond to social protection needs adequately and sustainably.

Political, economic and social situation

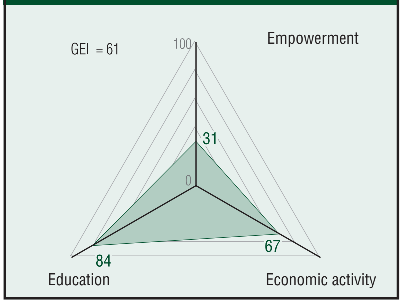
The elections of February and March 2006 in Uganda marked a return to multiparty politics. Previously, a one-party system had been in effect since 1985. There are now 319 members of parliament, and 69 cabinet ministers, of whom 56 (81%) are men and 13 (19%) are women. The ruling party is the National Resistance Movement Organization, and the opposition parties are the Forum for Democratic Change, the Uganda People's Congress, and the Democratic Party. A few members of parliament are independent candidates. This development is considered useful for enhancing democracy and governance in Uganda.[1]

In terms of the economy, performance at the macro level has been good. The country's gross domestic product (GDP) is projected to total around UGX 15 billion (USD 8.2 billion) for the 2005-2006 fiscal year, up from UGX 13 billion (USD 7.1 billion) in 2004-2005, representing a nominal increase of about 11%. Meanwhile, inflation has been stable at around 5% annually for close to five years, reflecting sound economic management.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



For Uganda, like most developing countries, cooperation aid is a crucial source of financing for social development, which in turn is essential for enhancing social protection. The gap between the rich and poor countries is widening: today, roughly 80% of global GDP benefits one billion people, while 20% is shared in varying proportions by five billion people (UN, 2005). Nevertheless, the response from the wealthy nations of the Organization for Economic Cooperation and Development (OECD) has been extraordinarily slow. The share of combined gross national income (GNI) provided as aid by the 22 members of the OECD Development Assistance Committee (DAC) decreased from 0.36% in 1987 to 0.22% in 2001, then gradually rose to 0.25% in 2004 (DAC, 2006). This is far below the 0.7% of GDP that the OECD donor countries have pledged to allocate to development assistance. Consequently, the developing countries, including Uganda, continue to receive less aid to improve their capacity for providing social protection to their citizens, among other needs.

Despite the cooperation assistance that it does receive, and the debt cancellation carried out under the Highly Indebted Poor Countries (HIPC) programme, Uganda's external debts appear increasingly unsustainable. The Government's explanation is that the anticipated growth in exports has been slower than projected (Ministry of Finance, Planning and Economic Development, 2006). Table 1 presents key indicators of Uganda's external debt.

Social conditions are significantly influenced by population growth, poverty, armed conflict, corruption and poor delivery of service. Uganda's population is roughly 26.7 million and the population growth rate is 3% annually, while the proportion of the population living below the poverty line is around 38% (UBOS, 2003), of which 20% face chronic poverty (CPRC, 2005, p. 9). The ongoing armed conflict sparked by the rebel group known as the Lord's Resistance Army has forced over two million people to flee their homes, and many have been living in internally displaced persons (IDP) camps in northern Uganda for nearly 20 years. In more recent years, western Uganda has been hit by civil strife at the hands of another rebel group, the Allied Democratic Forces, although this conflict appears to have been largely defused. In addition, the ranks of the poor in Uganda are further swelled by refugees from other African nations, whose numbers were estimated at 206,924 in late 2005 (OCHA, 2005, p. 5).

In Transparency International's Corruption Perceptions Index for 2005, Uganda scored just 2.5 on a scale ranging from 10 (highly clean) to 0 (highly corrupt).[2] Corruption has led to a substantial loss of resources through practices like influence peddling, diversion, and favouritism in the awarding of contracts. Perpetrators of corruption include the political and administrative leadership, private sector, police and judiciary (Centre for Basic Research, 2005). The resulting losses contribute to the non-existent or inadequate delivery of services necessary for social protection. The government has begun efforts to combat corruption through the Inspector General's office.

The effect of poverty on the population is significant. A study by the Uganda Bureau of Statistics (UBOS) showed that the proportion of people living

1 *The New Vision*, 2 June 2006.

2 Transparency International (2005). Available at: <www1.transparency.org/cpi/2005/cpi2005.sources.en.html>.

below the poverty line grew from 34% in 2000 to 38% in 2003. There has also been a marked increase in inequality. The Gini coefficient, which measures inequality, rose from 0.35 in 1997 to 0.43 in 2003. The reasons identified by UBOS included a slowdown in agricultural growth, declines in agricultural commodities prices, insecurity, and HIV/AIDS. Nevertheless, it is clear that more effective governance is needed to improve the delivery of services, reduce corruption, and adopt more effective mechanisms for the distribution of benefits arising from Uganda's good macro economic performance to ensure the social protection of the entire population, including the poor.

TABLE 1

Key indicators of Uganda's external debt

YEARS	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Debt stock / GDP	63.2%	64.8%	68.5%	63.2%	56.2%
Debt service / Export of goods & services	24.3%	19.1%	22.4%	18.3%	17.9%
Debt service / Domestic revenue	26.8%	18.7%	22.6%	20.8%	17.5%
Debt service after HIPC / Export of goods & services	13.3%	7.6%	10.3%	9.9%	9.0%
Debt service after HIPC / Domestic revenue	14.7%	7.4%	10.4%	11.2%	8.8%
Memorandum items: (in USD millions)					
Total Debt Service	164.7	133.6	172.0	179.7	192.1
Total Debt Service Excluding IMF	95.9	91.7	127.2	103.7	137.3
Total Debt Service after HIPC	90.3	53.2	78.8	97.0	96.6
Debt stock	3,574.8	3,785.8	4,284.2	4,510.0	4,874.9
Export of Goods & Services	677.3	699.0	766.3	979.7	1,071.0
HIPC Relief	74.4	80.4	93.2	82.7	95.5

Source: Uganda Ministry of Finance, Planning & Economic Development. May 2005.

Current social protection policy framework and financing arrangements

According to the International Labour Organization, social security is the protection which society provides for its members through a series of public measures to offset the absence or substantial reduction of income. This definition encompasses benefits provided under three different forms of social security, namely social insurance, social assistance and social allowance.

In Uganda, social insurance is managed under the state social security fund. A new Social Health Insurance Scheme has been approved by cabinet, and is scheduled to enter into effect in July 2007.[3] In the meantime, a Social Development Sector Strategic Plan drafted by the Ministry of Gender, Labour and Social Development was approved by Cabinet in October 2004, and joined the Poverty Eradication Action Plan that has been underway since the 2004-2005 fiscal year and will run until 2007-2008. Both plans are aimed at raising production competitiveness and incomes, and promoting security, conflict resolution, disaster management, good governance, and human development (MFPED, 2004). Significant resources allocation and effective management of these resources for social development and poverty reduction would contribute to enhancing social protection.

The primary social protection scheme in force, the social security fund, is backed by the National Social Security Fund (NSSF) Act. Its mandate is to provide social security to employees by protecting them against "uncertainties of social and economic life" (NSSF, 2003, p. 3). The NSSF is a contributory scheme and benefits are paid when a contributor reaches the age of 55, or upon invalidity or death. The poor and the unemployed are fully excluded from this scheme.

The pension scheme is another social protection arrangement, which serves those employed in the army, police, prisons, civil service, and public education system. It is financed by the Government, and also excludes the poor. Basically, the only universal social protection which poor Ugandans could also benefit from is social assistance, which is currently non-existent. Social assistance would help those who do not contribute to, and therefore do not benefit from, the existing schemes, including the large proportion of Ugandans who live below the poverty line, as seen above.

Another category of the poor in urgent need of social protection are the socially excluded living in the communities and in IDP and refugee camps. These sectors of the population receive practically no social protection. Programmes to help families meet obligations such as raising children or assistance during unemployment are not available.

The quest for universal social protection

In the quest to promote social protection, Uganda has made some advances, although it still lags behind in other areas. With regard to health care, reports from the Ugandan Ministry of Health, UNICEF, the Joint United Nations Programme on HIV/AIDS (UNAIDS) and World Health Organization (WHO) concur that the HIV/AIDS infection rate has dropped to 4.1% from 6.1%. Immunization coverage has also improved significantly for Ugandan children; in 2004, 87% had been vaccinated against DPT by the age of one, 86% against polio, and 91% against measles (UNICEF, 2006). At the same time, however, access to sanitation and improved water sources remains poor, at 41% and 56%, respectively (UNICEF & WHO, 2005).

The elderly in Uganda have no social protection. They wholly depend on the extended family system, which, as Schwarz (2003) observes, "is not a perfect safety net, especially when the children are also poor." In addition, the elderly are increasingly burdened because they are becoming caregivers to orphans who have lost their parents to HIV/AIDS and other diseases.

Gender equity in terms of economic activity and earned income appears promising, as the earned income ratio (women/men) is at 0.67 (1991-2003). In the political sphere, women's empowerment is taking shape, now that women are challenging men in direct elections to parliament and currently hold seats in both sides of the house.

Uganda has also made some progress in education. There are plans to implement a Universal Secondary Education programme, to follow up the successful Universal Primary Education initiative. Primary school enrolment was 98.4% in 2004 (UNESCO, 2006). Advances have also been made in closing the literacy gender gap: the gender ratio (women/men) was 0.76 in 1990 and 0.86 in 2004. However, gender equity in the school system is still an unmet goal, particularly at the higher educational levels. In 2004, the net enrolment gender ratio gap was 1.02 at the primary level, but 0.87 at the secondary level. Gender disparity was even more marked at the tertiary level, with a gross enrolment ratio gap of 0.62, although this reflected significant improvement over 1991, when it was 0.38. Rural schools still offer poor quality education, which entrenches the widening of the social, economic and political gaps.

As regards to food security and nutrition, there has been slight improvement, save for the internally displaced population. The proportion of the population suffering from undernourishment fell from 24% in 1990-1992 to 19% in 2000-2002. Nevertheless, the prevalence of underweight children under five years of age remained constant at 23% between 1990 and 2004 (FAO, 2005).

Proposals for improvement of social protection

The existing Uganda Decentralization Policy (GRU, 1997) is well placed to play a critical role with regard to budgeting and managing resources for social protection of the poor. The budgeting framework empowers districts to consult with the private sector and civil society from all levels – including the grassroots, where the poor form the majority – to make proposals for the national budget. However, coordination with the frameworks and social protection resources in other ministries is weak, hence the poor are not well defined, targeted and catered for.

(Continued on page 262)

3 *The New Vision*, 8 June 2006, p. 4.

Narrow agenda undermines domestic and global development

The US sends the lowest amount of aid as a proportion of government spending among the countries on the OECD Assistance Committee, and much of this "foreign aid" actually serves its own economic and political interests. At home, social policies and programs are severely and increasingly underfunded, leading to growing poverty and inequality.

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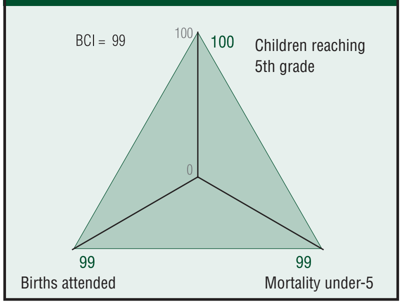
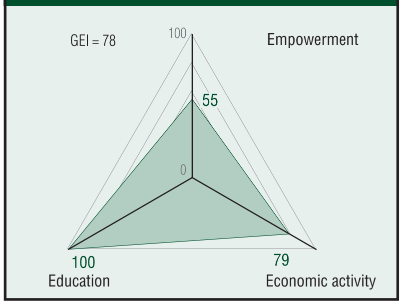
Action Aid International USA
Karen Hansen Kuhn

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Reviewing Financing for Development (FFD) from a US perspective is as much about how the United States of America operates as the world's superpower as it is about how the Government carries out a development agenda. Some of the failures associated with the United Nations FFD process are due to US obstruction, as the Bush Administration has sought to reduce its commitment to addressing the systemic causes of poverty. The Bush Administration has also shown itself consistently hostile to attempts to reinvigorate global governance, instead indulging in posturing and actions that undermine the UN's credibility and authority. The authors join the many critics with Social Watch who recognize that the United States defines development too narrowly by over-emphasizing the market's ability to reduce poverty in isolation from other social and economic tools. This narrow agenda has led to the United States making too small a contribution to development globally and to neglect the poor at home.

Undermining FFD

The FFD process was considered by governments, institutions and non-governmental groups to be one of the most important opportunities for the global community to engage in a new multilateral consensus around global economic structures since the launching of the Bretton Woods institutions in 1944. However, Financing for Development hopes have turned to disappointment. Sadly, while the United States could have provided leadership for systemic change, it chose to undermine the FFD process, and to block the emergence of new governance structures proposed for the international trade and finance system.

The United States has consistently questioned the authority of FFD to propose reforms to the public institutions that drive the international economic system, especially the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO). The US has instead argued that the international financial institutions and the private sector should be given more influence in the FFD process. The United States claims that policies such as increased trade liberalization, rather than foreign aid, will lead to growth and development for countries, and has sought to place the burden on developing countries to reform their domestic policies to support a neo-liberal development model. The United States also pushes this development agenda through its bilateral relationships.

US foreign policy

Much of US funding for foreign economic development is conditioned on new or planned free-trade agreements with the United States. The Bush Administration is clear that it will strive to encourage free markets and free trade bilaterally, regionally and multilaterally in order to secure "freedom and security."[1] The United States is advocating "aid for trade" initiatives, also referred to as "trade-capacity building assistance". Critics are concerned that while aid for sustainable development is desperately needed across the globe, "tied aid" for increased liberalization undermines national development strategies and efforts to make governments more accountable to their citizens. Current liberalization trends encourage corporate control of public resources and services, including water, infrastructure, energy, and health care. Poverty eradication depends on paying attention to the distributive effects of economic change and ensuring that employment increases.

Development packages increasingly reflect national economic and security concerns. For example, while the aid budget has been increasing gradually over the last few years to a projected USD 23.7 billion for 2007, the increases have been directed mainly to the high-profile Global AIDS Program, the Millennium Challenge Account and the rebuilding in Iraq and Afghanistan. Funding for international narcotics control and the Andean counter-drug initiative (USD 1.5 billion) and foreign military financing and training (USD 4.6 billion) is also included within the aid budget.[2] In contrast, funding for lower-profile development programs, including Child Survival, Development Assistance, International Disasters and Famine Assistance, have continued to decrease over the last few years.

In Latin America, military funding has surged to levels nearly matching development aid, in large part because of US support for Plan Colombia. As has been true for decades, the top five recipients of foreign assistance dollars under the Bush Administration's 2007 budget reflect countries influential in US security concerns: Israel, the top recipient, is followed by Egypt, Afghanistan, Iraq and Pakistan, in that order.

While many Americans are proud that their country ranks as the largest aid donor, unfortunately, they do not realize that the United States, equal with Japan, sends the lowest amount of aid as a proportion of government spending among the 22 countries on the Organization for Economic Co-operation and Development (OECD) Assistance Committee (UNDP, 2005, p. 58). Foreign assistance is less

1 "U.S. National Security Strategy," Section Four: "Ignite a New Era of Global Economic Growth through Free Markets and Free Trade." <www.state.gov/r/pa/ei/wh/c7889.htm>.

2 Data from InterAction - Global Partnership for Effective Assistance, FY07 Budget Request Cuts Core Programs to Fund Initiatives, 2006 and US State Department Budget Tables.

than 1% of the total government budget. Out of a total budget of USD 2.5 trillion in 2006, just 0.84% was directed to foreign aid.[3] Worse, some 86% of this spending is what ActionAid International (2005) calls "phantom aid." Phantom aid includes aid that is not targeted to poverty reduction, aid double counted as debt relief, aid for overpriced and ineffective technical assistance, aid tied to purchases of US goods and services, and aid that is poorly coordinated, leading to high transaction and administrative costs. This practice is not limited to the United States – ActionAid estimates that at least 61% of donor assistance from the G-7 countries is phantom aid – but the problem is particularly pronounced in the United States.

Private financial transfers, led by remittances from immigrants working in the United States, far exceed official aid flows. A study by the Hudson Institute reports that USD 71 billion in private flows went to developing countries in 2004. While the Hudson report, and a press release from the US State Department, cited these figures as evidence of US private-sector generosity, nearly two-thirds of that money, USD 47 billion, was actually remittances sent by individual immigrants to their home countries.[4] An increasing number of immigrants are sending a portion of their wages back to their country of origin to support their families living in precarious positions. According to the United Nations, in 2005, there were about 191 million migrants worldwide, with one in five migrating to the United States (Deen, 2006).

Trade liberalization is a major factor that has contributed to this trend. For example, whereas in 1978, agricultural exports accounted for 81% of El Salvadoran foreign exchange, after 26 years of trade liberalization, they accounted for only 5%, while remittances accounted for 70%. Better known is the example of Mexico, where more than ten years after the North American Free Trade Agreement (NAFTA), inflation-adjusted wages are lower than before NAFTA. There are 19 million more Mexicans living below the official poverty line than before NAFTA (Sirota, 2006). Post-NAFTA, over 1.3 million Mexicans have lost their jobs in the rural sector, with many migrating to the US to find work and sending remittances back home to support their families (Audley *et al*, 2003). In 2005, remittances from the United States to Mexico amounted to USD 20 billion, the second largest source of foreign exchange after oil revenues (De la Torre, 2006).

Financing for development in the US

People living in the United States are also experiencing the negative impacts of the current Administration policies. Support for the 'war on terror' and regressive taxation policies have had a negative impact on domestic budgetary spending and government finances. Levels of personal debt have increased, taxation on corporations and the very wealthy have decreased, and the cost of the war in Iraq, estimated by Nobel prize-winning economist Joseph Stiglitz at about USD 1.3 trillion, has damaged long-term US financial stability (Bilmes and Stiglitz, 2006). Although on a different scale, it is clear that there are similarities in the struggles confronting people in the Global South and in the United States. Unfair economic, political and social policies are worsening income inequality, draining public funds and leaving social priorities under-funded.

Under-financing for development: a hurricane exposes reality

In 2005, people around the world were shocked by what they saw on television after Hurricane Katrina devastated New Orleans and the surrounding area. Viewers could not believe they were seeing images from the United States. Those stranded by the floods were mostly African American, old or undernourished. Survivors were left without electricity, running water or food for days, surrounded by sewage and dead bodies.

None of what occurred should have come as a surprise – exactly what happened and who was affected had been predicted a year earlier. Despite studies showing the sinking of the levees and the Army Corps of Engineers pleas for additional funds for crucial flood-control projects, federal dollars for infrastructure support had been continually cut since 2003. Numerous newspaper articles specifically cite the cost of Iraq as a reason New Orleans was deprived of federal dollars for hurricane and flood protection (Bunch, 2005). Of the 354,000 people who lived in New Orleans neighborhoods where the hurricane damage was moderate to severe, 75% were African American, 29% lived below the US poverty line, more than 10% were unemployed, at least half rented their homes, and approximately 60% did not own cars (Dao, 2006; Wellner, 2005).

In the aftermath of Katrina, President Bush promised USD 200 billion in aid for storm and flood-damaged areas in the region. To date, far less than this has been spent, has been spent unwisely or has not been spent on rebuilding New Orleans so the lower income habitants can return. Further, what has been spent is being taken from other federal discretionary spending budgets (such as food stamps and child care). Recommendations to suspend the new stringent personal bankruptcy law and expand Medicaid for hurricane victims were also rejected. What happened in Louisiana and other Gulf Coast states was a tragedy, but it reflected a larger policy of indifference to the needs of the lower income populations in the country. The government response to the crisis was and remains insufficient and slow, underlining the years of neglect of the infrastructure that led to the destruction of the city in the first place.

Social indicators

The United States scores quite high on the Social Watch Indicators, especially when it comes to access to clean water, immunizations, doctors attending births and the percentage of girls enrolled in school. However, when looking at indicators broken down by race, the picture is quite different. The Fordham Institute for Innovation in Social Policy has tracked 16 social well-being indicators[5] since 1970. By 2003, their indicators showed that "social health" (a measure based on the 16 indicators) was down 20% while economic health, measured by the Gross Domestic Product (GDP), had grown 174%.[6]

The United States continues to be the only rich country in the world with no public provision for universal health care. As a result, over a third of families who live below the US poverty line lack health insurance and therefore have no or limited access to health care. Hispanic Americans are more than twice as likely as White Americans to be uninsured and 21% of African Americans have no health insurance (UNDP, 2005).

In the area of education, according to a report by the Harvard Civil Rights Project and the Urban Institute, only 50% of African American students, 51% of Native American students, and 53% of Hispanic students graduated from high school in 2001 (Children's Defense Fund, 2004). These numbers are particularly alarming because studies show that youth who drop out of school are more likely to be jobless, join a gang, use illegal drugs and spend time in prison. For example, in 2004, 72% of African American men who had dropped out of school were jobless, while six in 10 African American male school dropouts had spent time in prison (Eckholm, 2006).

The US Department of Commerce's Bureau of the Census 2005 shows poverty has grown substantially. Between 2000 and 2004, more than five million people joined the ranks of the poor (US Census Bureau, 2004). According to the Institute for Women's Policy and Research, over 40% of those who are poor are living in dire poverty, earning 50% or less of the federal poverty threshold, set at USD 20,000 annually for a family of four with two children. From a gender perspective, low health insurance rates, inadequate childcare programs, and a persistent wage gap are among the factors that make it especially hard for women to move out of poverty (IWPR, 2005). Over 20% of US children are considered to live in poverty (UNDP, 2005).

(Continued on page 262)

3 *Ibid*.

4 US Department of State, Press Release, 10 April 2006.

5 Infant mortality, child abuse, child poverty, teenage suicide, teenage drug abuse, high school dropouts, unemployment, average weekly wages, health insurance coverage, poverty among those aged 65 and over, out-of-pocket health costs among those aged 65 and over, homicides, alcohol-related traffic fatalities, food stamp coverage, access to affordable housing, and income inequality.

6 Data provided by the Fordham Institute for Innovation in Social Policy.

2006 budget: some gains, but not enough for the poor to benefit

After years of cuts in public spending to meet its debt relief obligations to the IMF and World Bank, the Zambian government's 2006 budget has allocated considerably higher funding for the social sectors. Nevertheless, these expenditures will still fall far short of what is needed to truly address the dire situation of the large majority of Zambians who live under the poverty line.

Women for Change
Lucy Muyoyeta

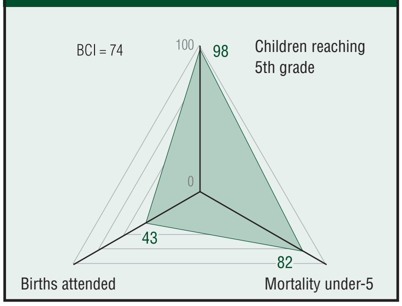
The budget of any country is an important tool in the implementation of public policy and an indicator of priorities. An analysis of the 2006 budget will therefore reflect the Zambian government's commitment to financing social services for the poor and other redistribution mechanisms, as well the extent to which gender issues are taken into consideration.

Gender sensitivity is important in budgeting. It entails fairness to the needs of both women and men. It recognizes the fact women and men are different in their physiological make-up, that they play different roles in society and have a structural relationship of inequality. Women generally face more disadvantages than men. Therefore, gender-sensitive budgeting should include affirmative action for women and girls, and a gender-sensitive budget should establish how much in real terms has been allocated for the education of boys and girls.

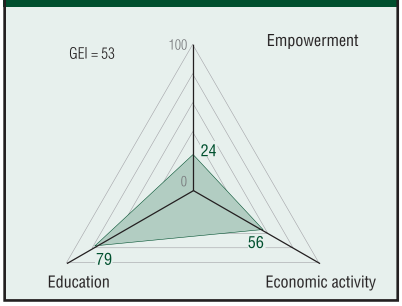
Poverty remains the greatest challenge facing Zambia. An estimated 68% of the total population lives below the poverty line, with the majority living in extreme poverty. The situation is worsened by the impact of HIV and AIDS. Although the HIV prevalence rate declined from 20% in 1999 to 16% in 2002, the number of households experiencing chronic illness and death has continued to rise. Women have a higher prevalence rate than men, and young women between the ages of 15 and 19 are five times more likely to be infected as compared to males in the same age group. The impact of HIV/AIDS is leading more and more households to fall into destitution. Yet the social protection measures in existence are fragmented, under-funded and largely dependent on the good will of volunteers in the community, most of whom are women.

Social service provision for the poor also remains a major challenge. Poor progress and high levels of school dropout, especially among girls, characterize education at all levels. The provision of health services has been adversely affected by the budget cuts of previous years. As a result, few health indicators have improved in Zambia over the last decades, and some have worsened significantly. Average life expectancy dropped from 52 years in the 1990s to 37 years in 2002. The maternal mortality rate (MMR) increased from 649 deaths per 100,000 live births in 1999 to 729 per 100,000 live births in 2002. Malaria is endemic and is the leading cause of illness and the second highest cause of death among pregnant women and children under the age of five.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Analysis of the 2006 budget

Job creation

For the last six years, Zambia's economy has consistently registered positive growth, averaging 4.6%. In the meantime, inflation has decreased, dipping from 15.9% at the end of 2005 to below 9% in May 2006. Nevertheless, as the figures in Table 1 and elsewhere show, positive Gross Domestic Product growth rates and stable inflation are in themselves insufficient for the eradication of poverty. There is clearly an urgent need for a substantial redistribution of expenditures in favour of poverty-reduction programmes and activities.

Formal sector employment has markedly declined as the main source of jobs. While the formal sector accounted for 75% of the total labour force in 1975, that share had dropped to 10.3% in 1999. Today, 90% of the labour force is employed in the informal sector, which is typified by poor quality low-paying jobs and underemployment. Women have been the most affected by the erosion of formal sector employment opportunities. The male labour force participation rate is 67% while that of females is 45%. In this situation, job creation is essential.

To what extent does the 2006 national budget place priority on employment? The strategy for employment creation is not well developed in the budget. Employment creation needs to be included as one of the key macroeconomic objectives in national budgets. To curb unemployment and ensure that new entrants are absorbed into the labour force, Zambia must generate more than 600,000 new jobs annually. Yet the crucial issue of employment has been relegated to the margins of economic policy.

The government should adopt a more direct and integrated approach to employment creation in order for more people to share in the benefits of economic growth. This could include special employment programmes through paid community involvement in rural road building programmes, transforming home-based care for people living with HIV/AIDS from voluntary to paid work, supporting micro and small enterprises, providing greater support to agriculture and rural development, and promoting decent work, among other initiatives. Employment creation activities should pay particular attention to the needs of women, who currently predominate in the low-paying, low-productivity informal sector jobs in urban areas and in small-scale farming in rural areas.

Health

The health sector received 10.7% of the total 2006 budget, which nonetheless falls short of the levels needed to deal with the current and accumulated problems in the sector. It is also below internationally accepted norms. For instance, the Abuja Declaration, to which the government is a signatory, stipulates an allocation of not less than 15% of the total budget to the health sector.

Much more needs to be done to confront the huge human resource deficit of over 20,000 people in the health sector. The 2006 budget provides for the recruitment of only 800 medical personnel. Drug shortages in health centres remain an endemic problem. According to official government policy, the provision of anti-retroviral therapy (ART) is free for all those infected with HIV/AIDS, yet access to ART is still a major concern, particularly in rural areas, since very few hospitals around the country can conduct CD4 tests which are essential for the provision of ART. It is also extremely worrying that the provincial budget allocations for most programmes related to HIV/AIDS, sexually transmitted infections (STIs), malaria and tuberculosis have dropped in real terms. Health facilities are still inadequate, with many people having to walk long distances (over five kilometres) to the nearest health centre. Particular attention should also be paid to activities to reduce the unacceptably high maternal mortality ratio.

Education

The national budget allocation for the education sector rose from 24% in 2005 to 26.9% in 2006. A number of commendable proposals were also made, such as increasing the funds earmarked for free primary education and the secondary education programme. However, unlike 2005, no provision was made for rural housing for teachers, even though schools in rural areas face a major shortage of teachers, largely due to insufficient or poor housing.

It is essential to ensure that the allocations reaching schools are adequate, as most schools still receive insufficient funds to meet their needs and resort to asking parents and guardians to meet the shortfall. This has worked against the free primary education policy, as those not able to pay are still forced to drop out of school. In the meantime, girls are dropping out of school at a higher rate than boys, which means that special measures need to be implemented to arrest this situation.

The government's priorities should include expanding free education up to grade 12 and improving the quality of education. This would entail dealing urgently with the massive loss of professionals in the sector and bringing down student-teacher ratios to under 40. The national student-teacher ratio at the primary education level has deteriorated significantly, from 52.2 students per teacher to the current ratio of 60.7.

Social protection

Given Zambia's extremely high rates of poverty and extreme poverty, social protection is of the utmost importance. The allocation of less than 1% of the total budget to social protection is therefore inadequate, and needs to be raised to at least 2% to provide vulnerable groups such as the elderly, orphans and the disabled with access to social services.

Agriculture

Over 50% of Zambia's population earns its basic income from agriculture, while 67% of the labour force is employed in the agriculture sector. Non-traditional exports (defined largely as agricultural rather than mining-related) increased their share of total exports from 21% to 41% in 2004. Agriculture could therefore be a key tool for poverty eradication, but the agriculture sector received only 5.7% of the total budget. This falls far short of the Maputo Commitment to allocate not less than 10% of the total budget to the agriculture sector. The Fertiliser Support Programme takes up around 30% of the entire agriculture budgetary allocation, yet there is little to show in terms of its impact on reducing food shortages, increasing household income and reducing poverty.

Zambia often suffers from long dry spells leading to drought and adversely affecting its agricultural production. At the same, however, Zambia has vast freshwater resources that are not utilized for farming purposes. There has been a great deal of talk and promises regarding the need to invest in irrigation, but there was no provision for it in the 2006 budget. Irrigation requires a massive injection of capital and cannot be left to the farmers alone.

Most people depend on agriculture for their food but hunger remains pervasive. An estimated 80% of the population suffers from hunger, while 47% of children suffer from stunting, 5% percent from wasting, and more than 28% of children below the age of five are underweight. More needs to be done to orient agriculture towards meeting the needs of small-scale farmers, so that they can produce enough to eat while earning an adequate income.

TABLE 1

Selected development indicators 1980-2004

	1980-1985	1990-1995	2003	2004
Poverty incidence (%)	*	68	73	67
Per capita income (in 2002 USD)	630	370	320	320
Adult illiteracy rate (%)	37	32	21	21
Infant mortality rate (per 1,000 live births)	103	109	115	115

Source: World Bank (2004).[1] *Official statistics unavailable.

The tax regime

Two important tax measures in the budget are of concern with respect to poverty reduction.

- **The income tax exemption threshold.** The budget proposes to increase the current income tax-exempt threshold from the equivalent of roughly USD 80 per month to USD 92, representing a 15% increase. But the proposed increase is insufficient to provide meaningful relief. First of all, it does not account for the erosion of earnings due to inflation, which stood at 15.9% at the end of 2005. Secondly, the new threshold does not correspond to the income required to afford even a minimum food basket and falls below the government's own poverty line as defined by the Central Statistics Office. The exemption threshold should genuinely relate to the poverty situation and therefore effectively exempt income levels below the poverty line.
- **Pay As You Earn (PAYE).** The new tax structure for 2006 does not offer significant tax relief, particularly for those who earn lower incomes. It is a regressive rather than progressive tax structure, since those in the highest tax bracket (earning more than USD 1630 per month) will have their taxes cut by USD 126 per annum, while those earning USD 914 per month will see a reduction of only USD 41 per annum. It is also troubling that PAYE continues to comprise the largest portion of tax revenues, accounting for 70% of direct taxes and 30% of total revenues from all taxes.

Conclusion

The theme for the 2006 budget was "From Sacrifice to Equitable Wealth Creation", in recognition of the sacrifices made by Zambians, especially the poor, to reach the "completion point" of the Heavily Indebted Poor Countries (HIPC) Initiative. In order to qualify for the debt relief offered under this IMF/World Bank initiative, poor countries like Zambia were obliged to implement neoliberal economic reforms, including austerity measures and cuts in government spending that took a heavy toll on social services and poverty reduction efforts.

Some gains have been made by the poor through this new budget, but given that 68% of the population is currently living below the poverty line, a great deal more is needed if the country is to make any progress towards the Millennium Development Goals. And even more needs to be done to achieve a gender-sensitive budget. Expenditures on the priority areas of health, education, water and sanitation, social protection and agriculture should be protected, and the funds allocated to these sectors must be disbursed in a timely fashion. ■

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(Continued on page 262)

1 Cited in: Civil Society for Poverty Reduction (2006). *CSPR Statement on the 2006 National Budget*. p. 2.

BULGARIA

(continued from page 189)

Promoting women's participation

Women's equal participation in the labour market and in education and training is a key element for meeting the goals of the Lisbon Agenda. There is a persistent trend of women representing an oversized share of the unemployed in Bulgaria. The ratio between unemployed women and unemployed men in the third quarter of 2004 was 54.7:45.3. A study of the first gender budgeting initiative in Bulgaria in 2005 showed that the programmes and measures included under the "Gender Equality" guideline represent a fraction of all programmes and measures to promote employment (0.61%), and the corresponding funding is 0.63% of the total amount. All of the funding comes from the state budget, and most of it is allocated to projects and jobs related to women's traditional gender roles, such as "Family Centres for Children" and "Stimulating Women's Independent Economic Activity for Child Care Services".

Women are very active in training and retraining programmes. The highest rate of female participation was seen in a national programme called "Computer Training for Young People": over 80% of the funds allocated for this programme for 2005 were used for the training of young women. There is also a relatively high percentage of women participating in the National Programme for Literacy, Qualifications and Employment (over 60% for the third quarter of 2004). Nevertheless, it is estimated that overall, the percentage of funds used by women is less than 20% of all programme budgets. This amount is far too low, given the fact that 60% of all long-term unemployed persons are women (Gender Project 2006 report). One promising sign for the future is the inclusion of the gender budgeting approach in the Draft Law on Equal Opportunities for Women and Men. ■

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CANADA

(continued from page 191)

Women's lives are disproportionately affected by cuts to public policies that support housing, education and training, care for children or the elderly, or access to the justice system.

Cuts occurred precisely in these areas a decade ago. The federal government slashed budgets for social housing, long-term care, home care, rehabilitation and mental illness, children's aid, legal aid, training and upgrading, immigrant settlement services, ports (air and marine) and terminals, maintenance and infrastructure budgets for publicly supplied services, as well as roads and bridges, public laboratories, safety inspections, colleges and universities. Unemployment insurance benefits and welfare benefits (provincially provided, contingent on federal support) were also slashed across the country.

These are the state-funded supports that can make or break lives, build or deplete communities.

Our top military officials in Afghanistan, Brigadier-General David Fraser and General Rick Hillier, concur with this view, making the case that the central issues to be permanently resolved in that theatre of war are things like access to clean water, schools, and the assured safety of women. They have said this process is about securing the future of the next generation, and may take a long time to achieve.[8]

What is happening within Canada runs counter to these goals. The cuts made a decade ago have still not been reversed.

Instead, our two senior levels of government have delivered over CAD 250 billion in tax cuts over the past decade. To put this in perspective, health care – Canadians' first political priority – saw only CAD 108 billion in renewed funding in this same time period (Yalnizyan, 2004, p. 8-9).

Now Canada seems to be on the verge of a new mindset that says it's time for spending again. But the latest federal budget makes it clear that the money won't be there for vital areas of social security. Rapid growth in spending is only good when it goes to the military.

Conclusion

Canadians should be concerned. The surplus is being squandered with no long-term benefits accruing to Canadian society. The military is being expanded without explanation or debate around this significant redirection of collective purpose. Millions of Canadians (and vulnerable populations around the world) have been abandoned by a Government that – despite huge fiscal capacity to intervene – views policies that target poverty reduction and gender equality as immaterial to the betterment of society and the economy.

A federal government seeking Canadian support to wage war will find it most readily if it is a war on poverty and underdevelopment, at home and abroad. ■

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GHANA

(continued from page 205)

In the case of Ghana, various studies have shown that the poor tend to bear a greater portion of the tax burden, both directly and indirectly. With respect to direct income taxes, most of the self-employed poor, especially women and petty traders in general, are often assessed flat taxes by the tax authorities at rates that do not always bear a proportionate relationship to their earnings. Thus, while salaried workers would only pay taxes on what they earn, most poor people pay taxes on incomes that they have yet to earn or may not earn at all. For example, a poor woman who is assessed GHC 10,000 (USD 4) daily tax by the Government – at a tax rate of 10% and based on the assumption that she will earn GHC 100,000 (USD 39) daily – may actually earn, say, GHC 90,000 (USD 35) instead. This would raise the effective tax rate to about 11% (GHC 10,000 divided by GHC 90,000, instead of the GHC 100,000 assumed by the tax authorities).

Indirectly, the poor incur a greater tax burden through the Value Added Tax (VAT) because they are forced to pay the same rates as consumers in higher income brackets. Recent figures from a district assembly in the Greater Accra Region, which is typical of the situation across the country, illustrates the inequity of the poor paying more taxes and not receiving a corresponding provision of social services by the Government.[8] The largest share of the district's tax revenue, 47.5%, comes from a combination of petty trading and tolls at the open-air market, both of which are dominated by women. Despite contributing the largest share, traders, both itinerant and fixed-location ones, are seldom the beneficiaries of essential services. Garbage collection and disposal, for example, is undertaken by the traders themselves, not the district assembly. The lack of sanitary facilities like public toilets and a potable water supply also means that the incidence of sanitation-related diseases at the market may be higher than would otherwise be the case. With women dominating market activities, they would be the disproportionate victims of such diseases. In turn, this means that they spend a disproportionate share of their earnings on health services. Indeed, it is interesting to note that pharmacies account for less than one percent of the district's revenue, despite the fact that there are many pharmacies in and around the market that cater to the widespread practice of self-medication among the traders at the market.

While there is no disaggregated data on the gender of taxpayers, given the disproportionately high percentage of women involved in economic activities, especially in the informal sector, and the high incidence of poverty in this sector due to the generally low earnings, it is important that policy makers take appropriate action in the course of revenue mobilization to insulate poor women in particular against the adverse effects of unfair tax incidence. ■

8 Under Ghana's decentralization system, district assemblies constitute the structures through which policies and programmes are formulated and implemented at the local level. Women represent less than 10% of elected members and are therefore largely absent from critical decision-making processes.

MALTA

(continued from page 223)

The Maltese Government has paid too much attention to the need for consumption-led economic growth and too little attention to issues of equity and the fulfilment of basic human rights. A clear example is the consumption of beauty products. In 2003, the Maltese people spent MTL 5,379,541 (USD 12,427,160) on perfumes and beauty products (NSO, 2005a) while Malta's ODA was MTL 2,167,853 (USD 5,007,740), as reported by the government (Malta Foreign Office, 2006). A key role of government is not simply to reflect public preferences, but to offer leadership in shaping public priorities on important issues such as development aid to poor countries. Malta and Cyprus are now the only EU countries that do not have a development policy, despite the commitment to do so entailed by becoming members of the bloc. The Maltese Government must live up to the promises it made by signing the *acquis communautaire* and the UN Millennium Declaration. ■

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MEXICO

(continued from page 225)

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NEPAL

(continued from page 231)

The trend to increasingly allocate the country's scarce resources to security and debt services has stalled the progress made in achieving the Millennium Development Goals by 2015 and made the goals seem practically impossible to attain. It seems ironic that the rationale for acquiring debt is to address development needs in order to alleviate poverty. On the contrary, however, as millions of dollars are being spent to pay off the foreign debt, the fight against poverty has made little headway. Over the years, "the poor in whose name foreign aid has been provided became poorer and those who ruled became richer." (GCAP Nepal, 2005, p. ix)

In essence, foreign aid has failed to alleviate the country's poverty. This is largely due to the following factors: the lack of good governance and political will of the governments; the pursuance of donors' own strategic interests rather than bringing about meaningful social and economic development; political interference in bureaucratic functioning causing frequent changes in project management; and ineffective monitoring and feedback systems (SAAPE, 2003, p. 128). The non-sustainability of foreign aid projects has also been a problem. In order to ensure effectiveness, sustainability and prioritization of key areas for foreign assistance, it is recommended that foreign aid development programmes be initiated, formulated and implemented with local participation (Acharya *et al*, 2003).

Solutions proposed by civil society

According to the Asian Human Rights Charter, development means the realization of the full potential of the human person and rights of people, including the right to participate in the affairs of the State and the community (Taiwan Association for Human Rights, 2006). The State has an obligation to ensure that its development aid approaches are reflective of these rights. In fact, the Nepali Constitution states that the government will "pursue a policy which will help promote the interests of the economically and socially excluded groups and communities by making special provisions with regard to their education, health and employment." (Article 26, HMG/N Ministry of Law, Justice and Parliamentary Affairs, 2004) The current intra- and inter-state policies do not yet strive to meet this goal.

Civil society organization (CSO) coalitions have been outspoken over such violations of the rights of the marginalized and poor. Civil society is actively engaged in campaigns that advocate total unconditional cancellation of Southern debts.

Many CSOs have also taken up the fight over the disproportionate expenditures allocated to the military and police, and the collapse of state interventions in the education, health and infrastructure sectors. Their specific solutions reinforce the political line advocated by the political parties and the Maoists, to realign spending and policy priorities to meet the peoples' needs. A more decentralized and pro-poor framework – one that effectively addresses the problems of exclusion, discrimination and disempowerment – is envisioned to replace the current centralized, elite-driven state apparatus.

Civil society should increase lobbying efforts to ensure that such a debate does not get pushed off the table. Lobbying efforts would advocate to ensure that the voices and presence of the country's women, disadvantaged and poor be allowed to prevail in national policy formulation debates. Furthermore, such efforts could call for a more pro-poor framework to be integrated into the market system, with more built-in incentives helping to expand small and medium enterprises.

The championing of good governance through administrative reforms, reduction in discretionary authority and a sound economic system based on competition and rule of law, could also help the country's trade and economic growth. Policy-making processes must undergo capacity building enhancement in order to be more responsive to the people's needs and include an institutional structure facilitating power-sharing for women and the marginalised and poor sectors, as well as a better feedback system from the grassroots level. Glaring corruption must be checked alongside the progressive opening of the economy to international capital (Acharya *et al*, 2003).

With the return to multi-party rule in April 2006, and the start of peace talks between the Government and Maoists, there is hope that there will be a renewed focus on pro-poor and participatory development processes. Civil society can be instrumental in this effort by being pro-active in engaging in national debate and focusing discussions on the needs and rights of the marginalized, women and poor sectors of society. ■

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PARAGUAY

(continued from page 237)

- Development of human capacity and the reduction of poverty are not achieved by merely raising the level of resources available. Efforts must be oriented toward eliminating inequalities.
- Poverty requires structural actions, economic and social reform and actions focused on inclusion and capacity development in the most vulnerable sectors.
- The development of information systems and mechanisms that assure transparency in public administration is fundamental.
- Social investment impacts growth. Poverty limits national possibilities of growth and development. Reducing inequalities is as necessary as economic growth.
- The problem is not merely coverage but equity. Access to government and public services is one of the principal causes of social exclusion. ■

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PERU

(continued from page 239)

But the road ahead is still long and difficult. There has been some progress and there is a climate of rejection for the economic and political system, but the movements for concerted action that have sprung up are lightweight compared to the whole framework of economic, coercive and symbolic power that perpetuates a system that is unjust and intolerable for the majority of Peruvians. ■

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PHILIPPINES

(continued from page 241)

Additional sources of financing

Social Watch Philippines does not limit itself to exposing problems in financing for social development. It has analyzed the budget rigorously and has identified specific expenditure items which can be utilized for social development, such as the special purpose funds of the President, the unprogrammed funds in the budget, and the pork barrel allocations to legislators. It has also proposed revenue sources other than regressive taxes, as well as measures to improve revenue administration. At present, it is working closely with selected legislators towards a more people-oriented budget. It continues to monitor the country's debt and works with the UNDP on feasible solutions.

The Philippines' financial problems are formidable. Social Watch Philippines continues to campaign for the interests of poor Filipinos through mass actions, information campaigns, rigorous research and the formulation of viable alternatives. ■

ROMANIA

(continued from page 243)

Since 2005, NGOs have been involved in the process of developing a Romanian platform of non-governmental development organizations (NGDOs), within the framework of TRIALOG, a project of the European NGDO platform CONCORD (the European NGO Confederation for Relief and Development). Throughout 2005 and 2006, NGOs were involved in the elaboration of the National Strategy for Development Cooperation drafted by the Ministry of Foreign Affairs (MFA).

The priorities for NGOs in this respect are to ensure that the Government meets its commitments with regard to ODA expenditure levels, and that ODA spending is based on genuine partnership with communities in the beneficiary countries, addressing their specific needs and respecting their concerns. Another focus is on building capacity for civil society to become more aware and to engage more actively in the field of international development and humanitarian aid. Due to the lack of previous interest in this area, a considerable amount of effort has to be dedicated to increasing public awareness through development education campaigns. ■

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SPAIN

(continued from page 245)

It is clear that Spanish trade policy is still operating exclusively to promote the interests of Spanish enterprises and strategic sectors, and this leaves little room for manoeuvre when it comes to adopting policies to support the Southern countries in line with agreed plans for international cooperation. Probably the biggest challenge facing the Spanish government in this sphere is how to change this trade policy, but it has to be changed because this is the only way Spain can progress from cooperating in development to actively fostering development.

Conclusions

The Spanish government has made an economic contribution to international cooperation for development, and it is increasingly showing signs that it will back up its declared political intention to help the countries of the South. This is certainly an improvement on the policies of previous governments and it is a good sign, but not enough is being done.

What is needed is a courageous and far-reaching reform in foreign policy so that the extremely urgent needs of developing countries will no longer be subordinated to Spanish economic interests, and this involves a lot more than mere political posturing or a percentage increase in the development co-operation budget.

The present government has raised high hopes not only among civil organizations in Spain but also on the international stage. Now it is time to move on from gestures and take real effective action. If development is to be fostered, there is still a lot to be done in spheres like agricultural, investment, trade and development policies. And this applies not only inside the country but also in the international ambit, where Spain has the opportunity to follow through on her commitments and pull her European partners in the same direction. This is the least we might expect from one of the members of the Quintet Against Hunger and Poverty.[2] ■

2 A joint initiative on the part of Brazil, Chile, Spain, France and the United Nations aimed at cutting poverty indicators by half before 2015.

THAILAND

(continued from page 251)

Civil society's proposals

There should be public participation in the budget process at all levels. People must be provided with more information and increasingly take part in national financial management. At the same time, horizontal networks of financial management for public welfare must be expanded in earnest.

Every effort should be made to promote a widespread and effective social welfare system, as well as the passage of the National Health Security Act to ensure that all Thai people will be equally entitled to health services. ■

UGANDA

(continued from page 253)

This highlights the need for improved data management for all categories of the poor, which would facilitate extension and monitoring of assistance based on needs. Adequate allocation of resources should begin with their inclusion into local and district budgets, and a strategy should be established for effective management of all these resources. As is frequently the case in developing countries, the various existing policies and resource allocations are often improperly managed, especially for the poorest of the poor. In addition, in order to ensure adequate legal protection, existing laws need to be amended and strengthened.

Finally, there is an urgent need for further work by all stakeholders at all levels on the issue of social protection. For its part, civil society in particular should be more vigilant in engaging the various stakeholders about these issues. It should also study the experiences of other countries and the prospects for their adaptability to Uganda. ■

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UNITED STATES OF AMERICA

(continued from page 255)

The growing federal deficit

According to the Center on Budget and Policy Priorities, the federal government ran a deficit of USD 318 billion in 2005. From 2002 to 2011, the government is projected to amass a deficit of USD 3.4 trillion. Much of the projected deficit can be attributed to tax cuts, increases in defense spending, particularly for the illegitimate war on Iraq, and spending on "homeland security" to fight the "war on terror." The long-term outlook for deficit reduction is bleak. Making the Bush tax cuts permanent would add another USD 9.6 trillion (in 2005 dollars) to the deficit over the next 20 years, including the added interest payments on the national debt, which would be substantial. In an attempt to reduce the deficit, Congress has begun to cut USD 39 billion from the budget over the next five years – including cuts in Medicaid, various children's programs, and student loans. The cuts are expected to weaken health care for many low-income families, cutting billions of dollars for low-income programs from the federal budget and placing increased responsibility on state budgets. Many states will not be able to make up the costs and further reductions in these programs are the likely result (CBPP, 2006).

The end of the American Dream

The Government shows little commitment to any kind of government-funded safety nets. However, there was a time when significant investments were made in programs to help make the American Dream possible. For example, public education, primary through tertiary, was of good quality and inexpensive. Progressive taxation ensured that the extremely wealthy would provide their fair share to support the public good, in line with most European governments in the 1970s and 1980s. With high levels of employment, health care that depended on employer-paid insurance schemes covered much of the population. Today, these cornerstones of social policy have been reduced to rubble. Many working Americans do not have access to health insurance (and consequently to health care), because the gap between stagnant wages and sky rocketing insurance rates prohibit the purchase of health insurance. Public schools have been allowed to deteriorate, and fee-based schools are being funded in their place with public tax dollars. Congress has approved a federal budget that allows power politics to define its foreign assistance while at the same time cutting crucial social programs at home. These overall trends reflect an indifference to emerging crises, and bode ill for domestic efforts to eradicate poverty and reduce social exclusion. ■

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(continued from page 257)

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