

Finance for development in times of crisis



It has not yet been possible to evaluate the impact of the world economic crisis on progress in education and employment in Bulgaria or on how much progress has been made towards the Millennium Development Goals (MDGs). However, it is clear that now that the country is in the process of establishing full membership of the European Union, some development objectives are still a long way off. In the past it was a recipient of aid and now it is a donor, but it has fallen far short of the target set for Official Development Aid (ODA) in 2010. There are no clear mechanisms or procedures for awarding aid to other countries. Cooperation and communication among the actors involved has to be strengthened, the gender dimension has to be included in the aid programs and people's awareness must be raised.

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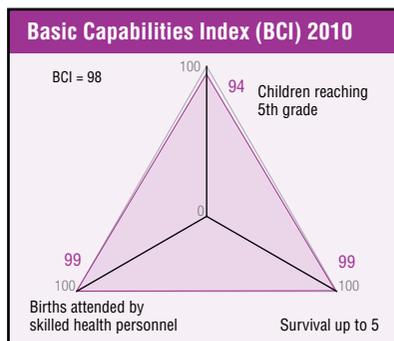
Prior to the world economic and financial crisis, in 2008, large amounts of capital flowed into Bulgaria, which generated high levels of internal demand. As a consequence, the country's Gross Domestic Product (GDP) increased considerably and employment expanded, but the country also saw an increase in its current account deficit and the economy overheated, with big pay rises and double-digit inflation. When the boom came to an end in the last quarter of 2008, the flow of foreign capital slowed down, causing a reduction in internal demand. At the same time, the onset of recession among the country's trade partners led to a fall in exports. As a result, GDP contracted by 5.1% in 2009, its first fall since the financial crisis of 1996-1997.

A long period of adjustment

In March, the International Monetary Fund (IMF) forecast that the country's economy would start to recover in 2010 and that GDP would grow by 0.2%, although internal demand is expected to fall still further.¹ As a result of the slowdown in investment, a tighter credit situation and weak economic activity, investment may well continue to decrease, and to make matters worse, domestic consumption will decrease as employment shrinks. This would make for an even greater deficit in the current account, which has gone from 8.5% of GDP in 2009 to 5.5% in 2010. According to the IMF report, inflation will probably remain moderate at around 2.2%, but unemployment should increase from an estimated average of 7.8% in 2009 to 9.2% in 2010.²

However, the unions and workers' organizations are more pessimistic, foreseeing double-digit unemployment that could go as high as 20%. Average unemployment as of January 2010 was 9.9%, but in some parts of the country it was over 15%.

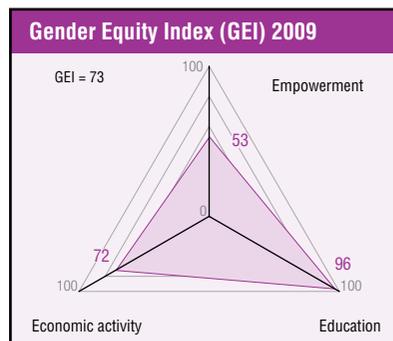
Following the IMF recommendations, the Government expects that the private sector and also public action will adjust to the new situation, and it has begun to formulate its policies based on this supposition. For example, the IMF view is that the private sector should reallocate resources from



non-export areas to sectors that export as a way to underpin GDP growth. But according to the IMF, this measure will be successful only if pay rises are brought quite severely under control. These fell dramatically from their peak of 25% in the second quarter of 2008 to 10.6% in the last quarter of 2009 (in both cases compared to the same period in the previous year).

The Government maintains that the changes in its public policies will prepare the country for eventual entry into the euro group, which it sees as the only viable strategy to escape from the crisis. It also argues that maintaining fiscal discipline and intensifying structural policies will strengthen the economic foundations and viability of the economy. Thus it has set a goal of reducing the deficit to 0.7% of GDP in 2010, and has taken a series of measures to do this, including reducing the budget. This has meant a freeze on public sector pay and pensions, a reduction in the public administration and stricter control of expenditure on health services. The IMF stance is that although reducing social security contributions could in principle initially help to reduce the cost of labour and increase competitiveness, it risks widening the financing gap in the social security system and would thus require greater transfers. This in turn risks missing the medium-term budget objectives and might not be sustainable, particularly as regards the pensions system.

To avoid this possibility, the IMF has called for urgent reform in the pensions system. Its recommendations include freezing pensions in 2010, smaller increases in pensions in the years ahead, and adjustments to the pensions system, including raising the retirement age or raising the minimum number of years of contributions required to qualify for a pension.



After the recent elections, in the first few months of its administration, the Government tried to initiate discussion about increasing the retirement age and the time periods required to qualify for a pension, but it decided to postpone this reform because unemployment was on the rise. At the same time, it stopped transfer payments that according to the Constitution the State is required to make to people under 18 years old, pensioners and people receiving social assistance or unemployment benefits. In an attempt to contain the budget deficit, transfers amounting to a third of the health insurance budget were not paid. The health system now lacks sufficient funds to pay its medical and administrative staff, with the result that hospitals were closed in small towns far from the big regional hospitals. However, this led to massive protests and beginning in March, repeated health system strikes.

There is still lively debate about the effectiveness of Government policies to cope with the crisis. All of the measures taken up to now are pro-cyclical in that they involve cutting expenditure and slowing down the economy, resulting in increased unemployment and a drift to the informal economy. This makes it hard to believe the Government will focus its efforts on attaining the goal of 0.17% of GDP.

Persisting backwardness

In official circles there is a degree of optimism with regard to progress towards the Millennium Development Goals (MDGs),³ but it is clear that Bulgaria is facing serious obstacles to development, and these have

1 International Monetary Fund, 1 March 2010. <www.imf.org/external/np/ms/2010/030110.htm>.

2 *Ibid.*

3 UNDP, "Bulgaria Has Grounds for Optimism in Push for MDGs," Bulgaria, 24 October 2008. Available from: <[www.undp.bg/uploads/File/mdg/mdgs_in_bulgaria/MDGs_Progress_ENG_Oct08.pdf](http://undp.bg/uploads/File/mdg/mdgs_in_bulgaria/MDGs_Progress_ENG_Oct08.pdf)>.

been aggravated by the world crisis. In October 2008, the country's second report on the MDGs⁴ showed that it was on the way to attaining some of these objectives and in some cases results were exceeding expectations. For example, progress towards the goal of an infant mortality rate of 7 per 1,000 in 2015 was promising given that from the 2001 figure of 14.4 it had been brought down to 11.8 in 2006. The situation as regards the long term unemployment target of 7% in 2015 is also encouraging as the rate fell from 9.5% on 2001 to 6% in 2005 and then 3.9% in June 2007.⁵

In any case, progress towards the MDGs has to be seen in the context of the transition towards full membership in the European Union (EU). In this framework, Bulgaria's first report on the MDGs, published in 2003, contained goals for 2015 that were adapted to the process of integration into the EU.⁶ But while some indicators such as education and unemployment were on a par with European averages, others – like monthly income, minimum income, infant mortality and various environmental indicators – lagged far behind.⁷ The minimum wage is below the 2015 target of 170 euros, which means Bulgaria is still a “medium low income” country in the EU context.

Another factor is that progress towards the MDGs has been accompanied by greater inequality and exclusion: some 10% of the population account for 40% of the country's income and expenditure. This proportion, which is exacerbated by deteriorating quality and rising costs in the basic education and health areas, means greater inequality of opportunities. In particular, low incomes, low educational levels and limited access to health services have brought about serious social divisions very much to the disadvantage of some regions and ethnic groups, such as the gypsy minority.

Aid: the change from recipient to donor

For more than 15 years Bulgaria enjoyed the benefits of numerous aid programs financed by Germany, France and the United Kingdom, to help it develop within the European Union, and it also received assistance from countries such as Japan, Switzerland and the United States.

Bulgaria's second MDG report contained a review of the progress that had been made, but this time from the perspective of a full EU member country – a status it officially acquired on 1 January 2007. With this report the country changed from being a recipient of aid to being an emerging donor, in line with Goal 8, to promote a world partnership for development.

This commitment to actively participate in EU development policies obliged Bulgaria to contribute specific amounts of official development aid (ODA) set for the new EU members, including 0.17% of Gross National Income (GNI) by 2010 and 0.33% of GNI by 2015. But Bulgaria is a very long way from these targets: in 2008 its ODA decreased from 16 million euros to 13 million, which amounted to only 0.04% of the country's GNI. According to a 2007 Government report, Bulgarian development assistance “will mainly be used for poverty eradication and tackling economic under development in countries that are members (of the EU),” especially parts of south-east Europe and regions on the Black Sea.⁸

Challenges and opportunities

Most Bulgarian ODA is channelled to international organizations like the United Nations agencies, the World Trade Organization (WTO) and international bodies such as the Red Cross. Since 2008, Bulgaria has also been contributing to the European Development Fund (EDF), the main instrument whereby the Union administers assistance for development. According to a 2009 report,⁹ the level of contributions from private donors and humanitarian aid organizations has been underestimated by the government officials in charge of implementing Bulgarian ODA, and this is one of the greatest weaknesses in the development aid strategy as it stands at the moment.

There is a clearly-defined framework for how ODA should be administered, but Bulgaria does not have concrete mechanisms or procedures to provide technical or financial assistance to other countries. This, along with a lack of clarity in the institutional infrastructure for aid provision, administration and evaluation, seriously impedes effective implementation of aid programs.

Before 2008 there were no annual reports or evaluations about how aid was being managed. This was partly because the country was new to the role of aid donor, and it seems that monitoring and evaluation processes were underestimated. There is almost no

information about what happened before or whether any progress was in fact made, and this applies in particular to the area of financial resources. There is no evidence that the Government even had a plan, since there are no public reports about projects or sectors to which funds were allocated in the years before 2008.

The need for transparency

We have seen that one of the weakest points in Bulgaria's aid management system is that it lacks transparency. Information about aid decision-making is not available to the general public, and it is extremely difficult to find out anything about aid flows. In Government information channels such as its Internet sites there is almost no information, or if there is it is hardly relevant.

The reality is that decisions about development aid are usually taken unilaterally. Some NGOs have begun to play a more important role in the development aid process, but there is still a long way to go. Some NGOs were consulted when the 2009 to 2011 medium-term assistance strategy was being formulated, but if aid mechanisms are to be really democratic these consultations must be extended to include discussion of more specific issues and must involve actors from partner countries.

Civil society recommendations

NGOs have submitted a number of recommendations, including:

- Government should finalize its aid strategy, making national strategy reports for countries that it views as a priority.
- The Bulgarian Platform for International Development (BPID) should establish stronger contacts with suitable experts in other state institutions.
- Funds should be allocated for training for government officials and civil society representatives in order to strengthen dialogue and transparency.
- Evaluations of aid management (including the gender aspect) in the priority countries should be made so as to determine the real needs and ensure that Bulgaria's ODA strategy is tailored to meet those needs.
- Government should work to include gender aspects as a specific thematic program, and intensify cooperation between gender-focused civil society organizations and State institutions.
- Government should set up a forum for regular meetings among stakeholders, including civil society organizations, to discuss ODA priorities.
- Government should mount a public information campaign to make clear exactly what Bulgaria's ODA obligations are. ■

4 UNDP, *Millennium Development Goals Report for Bulgaria 2008*, Bulgaria, October 2008. Available from: <www.undp.bg/publications.php?id=2691>.

5 Bulgaria's average monthly income target for 2015 is 280 euros. In 2001 this stood at only 91 euros but by 2009 average monthly income had risen to 300 euros.

6 UNDP, *Millennium Development Goals Report for Bulgaria 2003*, Bulgaria, March 2003. Available from: <www.undp.bg/publications.php?id=1161&lang=en>.

7 According to the 2008 MDG report, the infant mortality rate per 1,000 live births was 10.4, as against the European average of 4.7. In another field, energy from renewable sources, the rate varied from 4% to 7% while in contrast the average in the European Union was over 20%.

8 Ministry of Foreign Affairs, “Bulgaria's policy on participation in international development cooperation,” concept paper, 18 June 2007.

9 Vessela Gertcheva, “Bulgarian Official Development Assistance and Peacebuilding,” Initiative for Peacebuilding, Partners for Democratic Change International, November 2008. Available from: <www.initiativeforpeacebuilding.eu/pdf/Bulgarian_Official_Development_Assistance_and_Peacebuilding.pdf>.