

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
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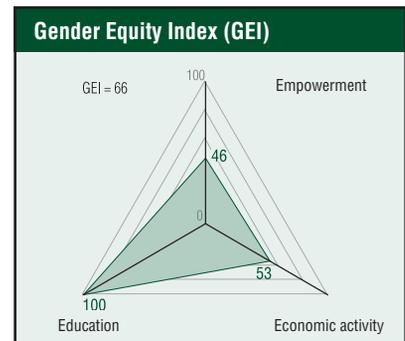
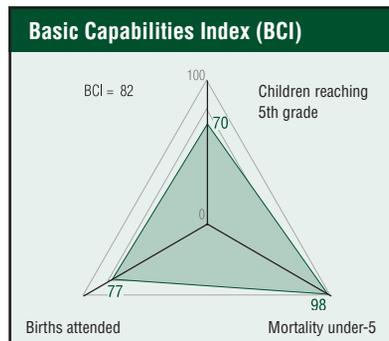
With nearly 5,899,000 inhabitants, a per capita gross domestic product (GDP) of USD 1,301, an aggregate annual rate of production which has grown only 1.15% in the last decade and annual population growth of 2.6%, it is highly improbable that Paraguay will be able to generate the means necessary to improve 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.



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
Guarani 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 Action² 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 achiev-

ing 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.

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1 The 2005 average exchange rate of 6,178 Paraguayan Guarani (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/>.

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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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- 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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