



INTERNATIONAL BUDGET PARTNERSHIP  
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## e-Newsletter

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This bumper edition of the IBP newsletter focuses on the results of a research project to measure the impact of budget work. For the past year, researchers associated with the International Budget Partnership and the Institute for Development Studies in the U.K. have been working with six established budget groups to measure the impact of budget work on governance and poverty. The studies cover the work of Ibase (Brazil), Institute for Public Finance (Croatia), DISHA (India), Fundar (Mexico), Idasa (South Africa), and Uganda Debt Network (Uganda). The results provide concrete evidence of the significant impact of budget work on both budget processes and budget policies.

This newsletter also provides fascinating updates from the activities of budget groups in Africa, Asia and Latin America. Over the past two weeks, governments in several central and east African countries have tabled their budgets in parliament. This newsletter tracks civil society efforts to analyze and participate in these processes in Kenya, Malawi, Tanzania and Uganda. We also introduce you to a new budget group in Ecuador and exciting work on Children's Budgets in Jamaica, as well as review the Bangladeshi and Rajasthan budgets.

Looking toward new opportunities for budget work, an article by ActionAid points to the importance of challenging macroeconomic policy assumptions as a means to garner additional resources for pro-poor budgeting. In our publication of the month, Fundar tells the story of a successful broad civil society effort to expose fraud and waste in HIV/AIDS expenditures in Mexico.

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## **What is the Impact of Civil Society Budget Work? A New Set of Case Studies Provides Hard Evidence on Impact from Brazil, Croatia, India, Mexico, South Africa, and Uganda**

### ***Introduction***

Over the past year, the IBP and the Institute for Development Studies (IDS) at the University of Sussex have been working together to produce in-depth case studies of six established budget groups. The objective of the exercise was to learn specifically about the impact of sustained budget work on good governance and poverty reduction. While budget work has expanded dramatically in Africa, Asia and Latin America over the past ten years, no material has been systematically gathered on the social impact of the work. The set of case studies we refer to in this newsletter is the first attempt to close this gap in our knowledge.

The research draws on case studies of independent budget organizations in Brazil, Croatia, India, Mexico, South Africa and Uganda who have been engaged in budget analysis and budget advocacy for a period of 5-10 years. The range of organizations is purposefully broad and includes development NGOs, networks and social movements, and research organizations. Despite differences in perspective and organizational type, all the organizations share a commitment to social justice and the rights of the poor, and the most effective and efficient use of public resources. Each organization's approach to budget work is shaped by these normative principles. For most of the organizations under review, budget work forms only a part of their overall set of activities, and in some cases they have created special units for this purpose.

Located in the Indian state of Gujarat, DISHA is a social movement based on unions of tribals and laborers which developed budget work as a means of supporting claims for land and labor entitlements. At the other end of the spectrum, the Institute of Public Finance in Croatia is a publicly-funded research organization that analyses a range of public policy issues. IDASA in South Africa is a leading NGO that established a Budget Information Service in 1995 to coordinate its work on budget analysis with a focus on women, children and HIV/AIDS. Similarly, Fundar in Mexico and IBASE in Brazil are NGOs engaged in the broader project of democratization in their respective countries. The Uganda Debt Network is an NGO that emerged out of a coalition working on debt and poverty reduction.

The six organizations all work on different aspects of public budgeting. The principal activities on the budget process include work to promote the availability of budget information, budget transparency, and broadening societal participation. All undertake capacity-building to promote awareness and understanding of public budgets among legislators, NGOs and citizen groups. Several organizations work to improve budget allocations and outcomes through advocacy work designed to influence budget priorities (allocations between and within major items of expenditure), the quality of implementation (the targeting of expenditures and the proportion of the allocation actually expended) and the utilization of expenditures (how far budget allocations translate into physical outcomes, and the efficiency and effectiveness of expenditures).

The research drew on a combination of methods and data sources to establish evidence of impact. For investigating impact on budget priorities the research drew on official budget data assembled and synthesized by budget groups with a view to establishing trends in government spending on social welfare, education and health as areas of expenditure that matter most to the poor. Data on budget outturns provide evidence of implementation, while physical verification of investments carried out by budget groups was the main source of information to ascertain expenditure outcomes. The main challenge was to establish attribution of any observed changes in budget allocations, quality of implementation and outcomes to the activities of the budget groups independent of other factors such as interventions of other actors and broader economic trends.

For evidence on the impact of the groups on the budget process the research drew primarily on qualitative data gathered from key informant interviews with politicians, government officials and representatives of civil society organizations. Qualitative interviews and focus group discussions were the principal method used to determine the impact of capacity-building and efforts to broaden participation, especially where insights gathered from different actors served to corroborate the findings. Further evidence was available from laws and procedures governing budget transparency, especially where changes could be traced with some certainty to the activities of these groups. Secondary documentation and media reports were used to supplement interview data.

Field visits of 10-15 days duration were undertaken by pairs of researchers, in each case one member of IBP/IDS team, together with a civil society budget practitioner from another budget group. The case studies set out to document the full range of activities undertaken by budget groups, with a focus on interventions centered on data analysis and dissemination, capacity-building, advocacy efforts designed to influence budget policies and the transparency of the budget process, and expenditure tracking. The intention of the research was to establish what impacts had been achieved in these areas of activity and to develop explanations for the observed impacts, as a means of generating broader lessons from groups operating in different institutional and political contexts.

The emerging findings from the case study research lead to a number of conclusions on the impact of applied budget work. The impacts fall into two principal categories: changes in budget policy and changes in the budget process. The research finds that the most significant impacts achieved by independent budget groups lie in improving budget transparency, awareness and civil society engagement on the one hand, and enhancing budgetary resources for existing programs and improvements in their utilization on the other.

All of the case study organizations have played a significant role in improving the quantity and quality of timely and accessible public information available on the budget. These efforts are often the only dependable source of information on the impact of the budget on poor people and therefore contribute to enhancing government and effective oversight in the budget process. The case study groups' media and dissemination work, together with training and capacity building, have considerably expanded budget literacy and the engagement of parts of civil society, the media and the legislature in the budget process. An important message from this work is that civil society can participate effectively in the budget process, and enhance the participation of the legislature and other actors in strengthening budget oversight.

The case study findings also provide evidence that the analysis carried out by independent budget groups can directly lead to positive improvements in budget policies. The

documented impacts take the form of increased allocations of budget resources for reproductive health in Mexico, child support grants in South Africa, and tribal development expenditure in Gujarat, India. These important precedents demonstrate that budget advocacy has the potential to influence decisions to introduce new programs and to leverage additional financial resources for programs that have already received legislative sanction.

The case study findings will be further explored in three further documents to be published over the next few months: A synthesis paper will be written for budget work practitioners; a separate paper will be written for an academic audience; and a short briefing paper will be prepared for donors. Each of these papers will be published in this newsletter and on the IBP website ([www.internationalbudget.org](http://www.internationalbudget.org)) where full cases studies are already available.

### ***Budget Work and Democracy Building: The Case of IBASE in Brazil***

IBASE is a Brazilian NGO that works to promote human rights and government accountability. The mission of the organization is to contribute to a democratic society where freedom, participation, and diversity flourish. IBASE therefore views its work on budget issues as an instrument of democracy building, working to equip broader civil society with budget information and analysis to strengthen social justice advocacy. IBASE does not include specific analytic efforts or targeted attempts to itself influence government policy, IBASE's efforts are entirely focused on providing skills and information to enable broader civil society budget advocacy.

Budget work is a relatively small component of IBASE's activities. Five full-time members of IBASE's total staff of 50 people work on budget issues. Of the organization's eight areas of focus in 2005, two were directly linked to its budget work: examining civil society participation during the current administration of President Luiz Inacio Lula da Silva and monitoring public policies through budget education and information.

Congruent with its mission, IBASE's budget work focuses on raising the importance of certain issues on the public agenda, enhancing the capacity of other civil society actors to participate in public finance debates, and promoting public access to information. As the authors of the case study conclude: "IBASE's approach to budget work is about putting basic budget information into citizen's hands on the assumption that eventually power will follow." Many testify that IBASE's long-term educational and participatory work on budgets has expanded awareness, catalyzed civil society advocacy efforts, and linked groups into a single network—beginning in Rio de Janeiro state and later throughout Brazil.

IBASE's research and bulletins have helped to directly expand the level of budget transparency in Brazil. But, their primary impact is on building the capacity of other oversight actors to intervene. Through a program that educates journalists, IBASE has clearly enhanced and boosted media coverage of budget and finance issues. The organization has also increased awareness and participation of citizen's and legislators at the local and national level through dissemination of its bulletins, newsletters, and resources in popular languages. Its capacity-building efforts include training on budget monitoring geared toward the general public and preparing "social leaders" for advocacy work. Both programs were developed initially in the state of Rio de Janeiro, but have later substantially expanded their reach through an innovative internet-based distance-learning program.

As IBASE's commitment to budget work further deepens, they will confront several challenges including finding ways to integrate budget analysis into the project and advocacy work of the rest of the organization, sharpening its expanding citizen capacity-

building efforts into effective campaign leadership on budget issues; orienting the organization's targets to executive levels of government; and developing its investigative work to include taxes, revenues, and the effectiveness of public spending.

### ***Croatia and the Institute for Public Finance: Budget Work in a Transitional Democracy***

The Institute for Public Finance, a non-governmental organization based in Zagreb, Croatia, undertakes public finance research and analysis to improve national policymaking and the effectiveness and efficiency of public budgeting. Founded at the University of Zagreb in 1970, the IPF is one of a group of 24 state-funded research institutes established by the state. The IPF describes itself as a "public non-profit" institution. The organization of the IPF is based on a small core of about 16 permanent staff members—nine researchers and seven administrators—who support and manage a large network of associated academics. IPF works with around 50 collaborators, mostly from academia, who contribute to its analytical work.

The IPF's main purpose is the production and dissemination of high-quality research on public finance issues, which forms part of a long-term strategy to improve public education on public finance and the quality of public finance decision-making in Croatia. A number of dissemination outlets help to distribute its research, including a newsletter for the general public, an academic journal, and an extensive Web site. Through its education efforts, the IPF raises awareness of citizen's, civil society and parliamentarians through roundtables, lectures, a large network of informal advice, and the support of journalists—efforts which are enhanced by materials written in an accessible language and the IPF's assertive efforts to secure press coverage. In addition to its important relationship with the media, the IPF also plays an advisory role to MPs and members of the executive. On issues such as the proposed "flat tax" in Croatia, it develops and advocates a position through the press, seminars, books, and formal and informal "advice" to a number of policy-makers.

The high intellectual standing of the IPF in Croatia as an independent research organization has been a critical element in its ability to reach and inform policy-makers and politicians. The IPF's work has had a demonstrative impact on the thinking of the intellectual elite that handles public finance issues in Croatia, and they view the IPF as a key information source, both formally and informally. Due to the budget formulation and governmental system in Croatia, the IPF may more directly shape long-term thinking about critical finance issues rather than significantly influence the current budget and public policy agenda. The IPF therefore focuses its research on a series of themes—for example, tax reform, decentralization, availability and transparency of data—that set the longer-term framework for national public finance policy.

IPF's strategic challenges in the future include developing second layers of leadership and staff sustainability over the long term; finding methods of furthering its advocacy efforts on certain issues; and creating openings for citizen advocacy on budget issues that rise to the level of civil society's analytic capacity.

### ***Budget Analysis and Social Activism: The Case of DISHA in Gujarat, India***

Located in the western Indian state of Gujarat, DISHA is a social movement based on unions of tribals and laborers which developed budget work as a means of supporting claims for land and labor entitlements. Having evolved into a leading NGO, DISHA is engaged in budget analysis and advocacy work primarily in the eastern tribal belt of India. The

organization employs 140 staff members, most of whom are based in the field working directly with various unions and people's organizations. Measuring the effectiveness of DISHA's work on budgets requires taking into account the very difficult political and bureaucratic context in which it operates.

DISHA provides the only source of budget information in the state, and it is recognized for ensuring accuracy and timeliness in preparing budget data for use by legislators and the media—in an environment where a lack of legislation permitting access to information and the government's refusal to publicize budget data limit transparency. DISHA's provision of budget figures to the media is widely recognized as a key contribution in this context. DISHA seeks to guide legislative debate by highlighting the needs of priority, pro-poor areas—particularly agricultural development, social sectors, and tribal affairs—and to secure budget allocations for these concerns. In addition to improving transparency and accountability, DISHA works to monitor the efficiency of budget implementation in priority areas of tribal issues, health, and education, tracking local government expenditures and acting as a bridge between local and state authorities.

Aside from its significant impact on building budget awareness and budget transparency, DISHA's main impact is its role in tracking budget commitments for programs geared toward the poor and local-level investments, and underscoring shortfalls in government expenditures. Its efforts helped contribute to a steep increase in the level of implementation of a state budget line designated for the socioeconomic advancement of the tribals—from a 20 percent under-spend of the 1993 budget to an over-spend of 20 percent in 1996, settling down to level implementation thereafter.

As it moves forward, DISHA faces a central challenge: how to promote budget work among a far broader group of stakeholders and how to use this coalition to encourage the executive to provide far better access to budget information. To do this effectively, DISHA is working to employ the latest technology in its analysis and dissemination efforts, and to build relationships directly with government bureaucrats responsible for the budget.

### ***The Fundar Story in Mexico***

Fundar—Center for Research and Analysis—an NGO based in Mexico City, focuses on monitoring public funds through the lens of democratization. The organization was founded in 1999, one year before the election of an opposition government to the Mexican presidency for the first time in 71 years. Fundar has developed a unique role in a burgeoning civil society as a professional, research-based organization with a mandate to participate in social justice debates from the perspective of applied budget work. It works on transparency, human rights and governance, and citizen capacity building in coordination with alliances of other CSOs. Fundar has refined its budget work to center around two broad areas—budgets and public policy and human rights and governance, with cross-cutting programs examining legislative issues, transparency, and local-level power. Fundar's 31 staff members are relatively young, and they often develop the capacity for budget research on the job; although the organization also hires specialist skills when necessary.

Fundar's significant contribution to the budget process in Mexico includes simplifying and disseminating budget information, fostering budget transparency, and building the capacity and awareness of budget issues among other civil society organizations. The organization's capacity-building initiatives in Mexico and throughout Latin America, in the form of workshops and training for the media, NGOs, journalists, and legislators, have contributed to wider understanding of budget issues in order to enhance advocacy campaigns. Fundar's

efforts to improve transparency have persuaded the Mexican government to publish official budget data on the Internet. The strongest impact of Fundar's budget monitoring work lies in improving the quality of the public debate and access of legislators and CSOs to budget information.

Fundar's work has also directly led to increases in budgetary allocations through its analysis and advocacy work. Through its analysis and coalition-building efforts, Fundar has influenced government programs to combat maternal mortality and pressured for additional funds for maternal mortality and HIV/AIDS prevention. In 2003, Fundar's work led to a ten-fold increase in the budgetary allocation for a national program designed to reduce maternal mortality through emergency health care provision. This represented an additional increase in the order of US\$50 million for a program that would directly benefit pregnant women, especially those from poorer, indigenous communities.

Fundar's successes in occupying a respected space in the national political context and providing useful information and tested analysis to policymakers serve as examples to other organizations. The key challenges the organization faces over the next few years include whether to increase its work at state and local government levels in Mexico. Fundar will also require an adaptive approach to a changing political environment; with both candidates in the current election promising significant changes in priorities and governance.

### ***Sustained Work and Dedicated Capacity: IDASA's Experience with Applied Budget Work in South Africa***

The Institute for Democracy in South Africa (IDASA) is an NGO working to support the consolidation of democracy in South Africa by building civil society and governance institutions. The Budget Information Service (BIS)—a major program within IDASA founded on the basis of ensuring "budgets for the poor"—was founded in 1995 in order to provide timely and accessible public policy information on the impact of the budget on poor South Africans. BIS' 2005-07 mission commits it to advocate "for sustainable democracy, poverty alleviation, equity and human rights realization through its research and capacity building activities..." BIS is divided into the following units: the Children's Budget Unit, the Women's Budget Unit, the AIDS Budget Unit, the Sector Budget Unit (covering health, welfare, and education budgets), and the Africa Budget Unit. At the time of the case study, BIS employed approximately 22 staff members.

BIS' efforts to eradicate poverty and bring public awareness to the budget have become well-established projects and advocacy templates in South Africa and around the world. Through the "quiet diplomacy" of building technical knowledge and producing reliable research, BIS has made advances in holding the government accountable for the use of public budgets. To do so, each unit of BIS has formed strategic partnerships with social movements in order to expand its effectiveness, and many units have used these networks to build the capacity for budget work in other CSOs. BIS has also built strong relationships with government officials who depend on its reliable, independent analysis.

BIS has had a significant impact on increasing the quantity and quality of budget information available to all stakeholders in South Africa, but particularly to civil society, the legislature and the media. It has also played a major role in raising awareness and skills for budget work in Sub-Saharan Africa.

BIS' impact also extends to its ability to help effect changes to budget allocations and expenditures in various sectors and localities. The AIDS Budget Unit has helped to boost

national and provincial-level spending on antiretroviral drugs and increase grants to handle treatment of the HIV/AIDS epidemic. The Children's Budget Unit has contributed to the campaign to ensure children's access to social security benefits, spearheaded by the Alliance for Children's Entitlement to Social Security. The effort drew on budget information provided by the CBU and successfully led to an increase in the budgetary resources originally committed for the Child Support Grant when it was first introduced and to a lowered eligibility age of fourteen years. The level of the grant has since kept pace with inflation, partly as a result of ongoing monitoring and advocacy work by BIS and its allies.

The challenges that BIS currently faces will resonate in many established budget groups. The relationship between BIS and the broader IDASA is one of the most important of these challenges, particularly the issue of redefining budget groups over time so that they remain relevant to the changing mission of the parent organization and the local context. A second challenge relates to the relationship between individual project units within a budget organization. BIS has faced the common challenge between the need to specialize increasingly in particular sector budget work, and simultaneously finding ways to manage and maintain its coherence and overall mission.

### ***Budget Monitoring as an Advocacy Tool: Uganda Debt Network Case Study***

The Uganda Debt Network is an NGO that uses a combination of research and advocacy to undertake campaigns aimed at improving governance and reducing poverty in Uganda. The organization's mission reflects this commitment: "To advocate for reduced and sustainable debt levels, accountability, and effective use of national resources for the benefit of all the people of Uganda." UDN originated in 1996 as a coalition of advocacy and lobbying organizations to coordinate the Uganda campaign for debt relief of extremely poor countries. Using the community networks and growing membership it established during the debt campaign, UDN has subsequently built a strong reputation for linking local budget monitoring activities with national-level policy processes. UDN membership now tops 100 organizations and the organization employs approximately 16 research staffers.

UDN's budget work is focused on monitoring budget implementation at local levels of government (35 sub-counties in 7 districts) sub-district levels in Uganda and building general awareness of budget issues throughout the country. The organization produces a number of publications that are widely disseminated to policy-makers and citizens, such as an accessible insert in a national newspaper that goes to 40,000 households. UDN strives to provide national-level visibility to the results of the work of the community monitoring committees it initiated in 2002—groups of citizens trained to track problems in the implementation of development projects at local levels. The community monitors report problematic cases to the local authorities to ensure appropriate action and resource allocations in line with budget provisions. Using this methodology, UDN has successfully brought the monitors' findings to national authorities for redress.

UDN's impact emerges in the coordinating role it plays in providing civil society inputs to the government in a number of policy areas. The organization's wide web of relationships across all stakeholders has allowed it to utilize different channels to lobby and exercise pressure on certain issues, particularly corruption and health and education spending. Observers have commended the quality and timeliness of UDN's policy analysis and socioeconomic research; and the credible nature of UDN's policy claims stemming from its collection and publication of solid, reliable evidence and information.

Through the monitors' findings, UDN has helped to improve the quality of government expenditure and service delivery spending. UDN's campaigns have, for example, eliminated shortages in medicines from some rural hospitals, led to improvements in the quality of school building materials, and lowered teacher absenteeism. In many cases, UDN's monitoring has also identified and reduced corruption.

UDN's experiences have many lessons for budget groups. In particular, the organization's ability to create a niche for itself using local-level checks to gain access to influence national policy is an important lesson for other organizations working in corruption-prone countries attempting to improve service delivery and decentralization simultaneously. The major challenges facing UDN currently are both internal and external. Internally, UDN is working through options for training and replacing the pioneering leadership that founded the organization; while externally the organization is threatened by a bill currently before parliament to restrict the rights of NGOs in Uganda.

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## **Africa Update: Civil Society Responds to Recent Budgets in Kenya, Malawi, Tanzania, and Uganda**

### ***Kenya's 2006/07 Budget, Institute of Economic Affairs***

On June 15, 2006 the Minister of Finance released the 2006-07 Kenyan budget "Frameworks for the Future, Laying the Building Blocks." Almost 46 percent of the budget, or Kshs. 253 billion, is allocated to key sectors such as education (18 percent), finance (9 percent), roads and public works (8 percent), health (6 percent) and defense (5 percent). Nearly 19 percent will go to the national debt. The rest of the budget is allocated to paying pensions and gratuities, and pending bills and salaries. (See: <http://www.treasury.go.ke/speeches/Budget-Speech-2006.pdf>)

While GDP growth last year in Kenya was high at 5.8 percent, it is important to understand the policies that led to this growth, given the fact that personal or individual incomes only grew by 2.6 percent. It is difficult to know if poverty levels have risen or fallen since the latest figures available are based on a poverty line established in 1997, and marks the poverty rate as 53 percent (Geographic Dimensions of Well-Being, Central Bureau of Statistics, 2000). Civil society has expressed concerns that growth might only be taking place in sectors and areas that are not directly linked to the poor.

The Institute of Economic Affairs (IEA), a civic forum that conducts pre-budget hearings each year, provides Kenyan citizens with a medium to submit their proposals for the budget. (See: <http://www.ieakenya.or.ke>) This year, IEA received several presentations and submissions made by sector representatives and the public in Nairobi, and through partners in five districts. Based on the issues raised at the hearings and consultation with sector stakeholders, IEA compiled an Alternative Citizen's Budget for 2006/07 that offers alternative proposals for many of the problems that Kenya faces. See: <http://www.internationalbudget.org/KenyaAltBudget2006-07.pdf>.

Kenya's Minister said he expects inflation to decline to 5 percent by the end of the current fiscal year. Bringing inflation down from 13 percent to 5 percent is probably ambitious given the unpredictability of weather conditions and likely inflationary pressures from the new levy on fuels. This might be exacerbated by domestic borrowing and the 10 percent increase in

money supply anticipated by the Minister. According to the Alternative Citizen's Budget for 2006/07, any tax increase on petroleum products will be passed on to businesses and, ultimately, consumers.

Given Kenya's heavy reliance on tax revenues, IEA proposed that the government carry out random tax audits on companies and individuals to enhance tax compliance, develop more coherent tax policies that will generate revenue, and enable careful assessments of policies to promote growth, and recognize the relationship between pronounced tax measures and gender, welfare, and development. IEA also proposed developing innovative ways to raise monies through user fees.

As for lower level administration expenditures, evidence shows that there is an overlap in the use of various funds that has resulted in conflict of interest, duplication of efforts, and misuse of resources. In this regard, the government should establish a clear policy on which administrative level it will officially use for decentralization, enforce decentralized fund policies to ensure citizen participation at all levels, and ensure that the use of funds is linked to the macroeconomic policy framework and local and national priorities.

Kenya is globally classified as a water scarce country. About half of Kenya's population does not have access to safe water; about one-quarter of the population does not have access to adequate sanitation and less than 5 percent of all urban centers have a sewer. Yet water resource management and water supply, services, and sanitation receive less than 1 percent of the national budget. The water resources management authority has been allocated Kshs. 10 million and the water services trust will receive Kshs. 6 million. The Kenyan network for water and sanitation estimates, however, that about Kshs. 24 billion is needed for the development of water infrastructure and Kshs. 20 billion for water supply, services, and sanitation in order to meet the Millennium Development Goals.

Central government spending expanded due to the increase in ministries and districts following the constitutional referendum. Furthermore, senior officials enjoy high salaries and generous benefits that could be reduced and reallocated to priority areas. Moreover, the country has experienced a multitude of corruption scandals regarding procurement and security contracts and involving senior government officials. IEA observes that the Treasury therefore needs to tighten control over procurement and financing of security contracts. The government should amend the law to allow greater scrutiny of such contracts by Parliament and the National Audit Office, compel minimum reporting standards on security contracts, enact the proposed fiscal management bill 2006, and review government contract law to clearly define the roles of various public offices involved in the formulation of government contracts.

IEA also believes that public servants need to play a greater role in the development agenda, a result that would be encouraged by reducing the wage differences between the various levels of public offices, and rewarding good performance through promotions and better benefits. In an interview with the *East African Standard*, Albert Mwenda, executive director of IEA, commented on the impact of rising wages for civil servants and teachers while the revenues collected by the Kenya Revenue Authority (KRA) are near-stagnation. See: <http://allafrica.com/stories/200606150269.html>.

***Malawi's 2006/07 Budget, Civil Society Coalition for Quality Basic Education (CSCQBE) and Malawi Economic Justice Network (MEJN)***

President Mutharika opened Malawi's budget session with a speech to Parliament on June 6. The government has earmarked roughly 55 percent of its budget to infrastructure, 33 percent to social development, 9 percent to sustainable economic growth, 2 percent to good governance, and 2 percent to social security. (See: <http://www.mejn.mw/docs/BudgetStatement2006.pdf>)

The priority given to infrastructure — especially the construction of the Shire-Zambezi Waterway (see "Budget-busting canal," <http://www.nationmalawi.com/articles.asp?articleID=17057>) — at the expense of social sectors and private sector development has disappointed civil society, NGOs, and the financial sector. The Malawi Health Equity Network (MHEN) and Malawi Economic Justice Network have advocated that the health and education sectors receive their full allocations so that Malawi can achieve its Millennium Development Goals in both areas and also fulfill the Abuja Declaration on Health Care, which stipulates that 15 percent of national budgets be earmarked to health. (Malawi invests only 7 percent of its budget in health.) MHEN argues that underfunding health programs undermines the provision of drugs and the appointment of doctors, especially as needed to administer anti-retroviral treatment in the fight against HIV/AIDS.

On June 5, the Civil Society Coalition for Quality Basic Education (CSCQBE) submitted a proposal to the government concerning the 2006/07 education budget. CSCQBE recommended making education a priority and "increasing access and improving the quality of education, which has gone down over the past 11 years." According to CSCQBE, ultimately 26 percent of the government budget should go to education; the group called on the government to allocate at least 18 percent of its new budget to education as a step toward the 26 percent goal. (Currently, Malawi allocates 11 percent of its budget to education.) In addition, CSCQBE recommended a series of improvements concerning teachers, schools, and educational materials, as well as improvements in the budget process.

### ***Tanzania's 2006/07 Budget, HakiELimu***

On Thursday June 15<sup>th</sup>, 2006, the Tanzanian Minister for Finance, The Honourable Zakia Meghji, presented her budget for the forthcoming fiscal year. (See: <http://www.mof.go.tz/budget/BudgetEng0607.pdf>). The budget shows increased allocations toward growth and governance, such as 'Economic Growth and Income Poverty Reduction' increased from 48 percent to 49 percent; and 'Governance and Accountability' increased from 8 percent to 20 percent; and reductions to social services categories such as 'Improvement of Life and Social Well Being' reduced from 44 percent to 31 percent.

The overall performance of the economy during the first nine months (July 2005 to March 2006) of 2006 was satisfactory: The economy grew at 6.8 percent in 2005 compared to 6.7 percent in 2004; revenue collection was targeted at Tshs 2,066 million and the target will be attained with a comfortable margin thanks to the implementation of measures aimed at enhancing the management of domestic taxes, widening the tax base and reforming the tax structure itself to make it more easy and efficient to collect taxes.

Despite these satisfactory results, the country suffered from prolonged drought, which caused food shortages as well as scarcity of water for electricity generation. The steady increase in oil prices on the world market has also continued to have an adverse impact on the cost of production and service delivery in the country. As a result, inflation rates significantly increased from 4.3 percent in July 2005 to 6.9 percent at the end of April 2006.

In addition, the government was forced to make internal budget reallocations to cater to the distribution of food in severely affected areas. It also waived taxes on food imports to insure the availability of food at reasonable prices to consumers. Both measures reduced the severity of food shortage and dampened inflationary pressure.

The government expects to spend a significantly lower portion of the budget on debt servicing, which has decreased from 13 percent of the budget in 2006 to 6 percent in 2007. Allocations to local regions increase from 14 percent in 2006 to 18 percent in 2007 due to a planned increase in salaries to local government staff. The portion of the budget that goes to salaries is set to increase from 17 percent to 25 percent. Some members of the Budget Working Group of the Policy Forum (PF) reacted to the significant increases in civil service salaries and commented that this explains the increased allocations projected for some sectors that employ a large number of local government workers, such as education and health; and the flow of funds to ministries instead of local governments.

HakiElimu's ([www.hakielimu.org](http://www.hakielimu.org)) engagement with the budget this year has been primarily in collaboration with PF. PF is a network of over 50 non-governmental organizations throughout Tanzania that seek to influence policy decision-making by empowering citizens particularly at the local level. PF has smaller working groups that focus on more specific issues. For instance, there is a Health Equity Working Group, a Local Government Reform Working Group, an HIV/AIDS Working Group, and now a Budget Working Group (BWG). The BWG held its first meeting on May 23, 2006 and has 12 members at present including Tanzanian and international NGOs such as HakiElimu, Research on Poverty Alleviation (REPOA) (<http://www.repoa.or.tz/>), Tanzania Gender Networking Programme (TGNP), Youth Action Volunteers, SNV (Netherlands Development Organization), Oxfam, ActionAid, WaterAid, and CARE International.

The BWG's primary output to date has been issuing three pre-budget briefs (in English and Kiswahili), which took publicly available information about the 2005/06 budget and the 2006/07 budget from the budget guidelines (issued in March) to make it more accessible to the media, Parliament, and other CSOs and ask questions about this year's budget. The briefs focused on revenue and expenditure aggregates, allocations to central government ministries, and key sector allocations. The briefs were shared at a meeting with high-level media editors and at a pre-budget discussion held at TGNP and were officially launched on June 12<sup>th</sup>.

Since the presentation of the budget, several BWG members have released their individual responses. TGNP for instance, issued a rapid response to the budget, which was published in the local newspaper, *The Citizen*. One concern for (TGNP) (<http://www.tgnp.org/>) is that the budget speech does not mention a coherent livelihood and employment strategy to ensure that every adult woman and man has the means to support themselves and their families in a dignified way. Instead, there are separate strategies such as micro-credit and formalization. Although there is an effort to set up a committee with bank executives to examine how to promote more credit and other services to the people, and to address the bias towards "large-scale expatriate customers" – this effort is likely to benefit the growth of middle-class entrepreneurship, and not eradicate poverty nor reduce gender, class and geographical inequality. As observed by TGNP, the focus throughout the budget speech is on small and medium enterprises and not on low income 'micro' enterprises on which the majority of Tanzanians rely for their income.

In general CSOs reacted to the government's limited financial capacity and the lack of public participation in the budget process. In order to involve citizens in the budget process and

encourage their participation to address poverty reduction, budget information needs to become more accessible. This is a difficult task in a country where only a few organizations understand the budget and these organizations have limited capacity. TGNP has done significant gender budget work and REPOA and HakiElimu have great analytical capacity, but neither group focuses solely on budget issues. PF does not currently have the staff to do budget research in-house, although there are plans to hire some additional analytical support and explore the idea of publishing a citizen's guide to the budget.

### ***Uganda's 2006/07 Budget, Uganda Debt Network and Center for Development Initiatives***

The 2006/07 Ugandan national budget was read on June 15, 2006 by the Minister of Finance, Planning & Economic Development, Dr. Ezra Suruma. The minister described measures to curb Uganda's economic slowdown, including the introduction of tax waivers to boost export industries, while raising consumption taxes in the hope of increasing revenues overall. Uganda's current ratio of tax to GDP is at 12 percent, a level considered low by regional standards (See: "Uganda: Govt. to Tighten Tax Collection in 2006/2007": <http://allafrica.com/stories/200606060202.html>).

This year's budget expenditure is geared toward addressing the current energy crisis. The economy has experienced low productivity and an increase in unemployment, with power supply shortages worsened by rising fuel prices. (See: "1<sup>st</sup> Kisanja Budget: <http://www.monitor.co.ug/news/news06151.php>) The energy and minerals sector, where most of the increase in expenditure is directed, will receive Ushs 70 billion (US\$ 38.3 million) to increase thermal power generation capacity to provide an additional 100 megawatts of electricity. Donors have also increased their contribution to this sector by Ushs 36.63 billion (US\$ 18.4 million) under the donor financing project.

In the health sector, the focus has been placed on health education for primary health care, including increased attention to malaria control. Provision of such services is likely to benefit the poor once the effectiveness of service delivery is improved. However, the health sector overall will receive a decrease in funding from Ushs 508.66 billion (US\$ 278.34 million) in 2005/06 to Ushs 375.38 billion (US\$ 205.4 million) in 2006/07, representing a decline of US\$ 72.94 million. This is because some key health projects financed by donors like USAID, the Centers for Disease Control (CDC) and World Bank have come to an end.

In the social sector, the 2006/07 budget will focus on improving the welfare of primary school teachers with a monthly salary increase of 33.3 percent beginning in July 2006. The President's promise to provide universal post-primary education and training will begin implementation in 2007. Even with these efforts aimed at improving the quality of primary education, "they do not solve the most important problems in the sector like drop-out rates, book/pupil ratio, and the declining enrollment rates," says Davis Ddamulira of the Center for Development Initiatives. CDI will further analyze the budget to evaluate how it meets government's obligations to realize children's rights.

According to CDI, although government recognizes that northern Uganda continues to have the highest incidence of poverty, the specific budget focus for that region in 2006/07 is only Ushs 18 billion (US\$ 9.85 million), for resettlement of internally displaced people, post conflict recovery, and development. This in itself does not positively reflect on government's commitment to poverty eradication.

Members of the Civil Society Budget Advocacy Group (CSBAG) — such as the Uganda Debt Network (UDN), Uganda Coalition for Sustainable Development, Forum for Women in Democracy (FOWODE) and Apac Anti Corruption Coalition — have challenged the government on several shortcomings in its efforts towards a pro-poor budget. CSBAG comments at both the 1st National Budget Consultative (December 2005) and at the Public Expenditure Review (PER) meeting (May 2006) were taken into consideration, but a number of concerns remain to be addressed, including: the increasing cost of public administration; the duplication of duties by various government agencies; the increasing misuse of public resources; and the failure to adequately invest in productive sectors such as energy and agriculture.

In order to enhance their campaign and budget advocacy work, UDN began a review of this year's budget to evaluate how it addresses poverty in Uganda, as well as some critical issues regarding budget discipline. According to UDN, social spending this year (for education, health, water, agriculture, roads and public works) is around 46 percent of the budget. However, CSOs are worried that the share of social spending in the national budget has been declining in recent years from around 55 percent in 2000/01 to around 47 percent in 2005/06. Other spending areas (such as public administration, interest payments, security, etc.) have increased from 44 percent to 52 percent during the same period. "After a quick glance at the budget, one can say the budget is pro-poor since, in nominal terms, a lot of money is spent on social sectors especially to meet the PRSP targets. However, a more detailed review would show the opposite given the fact that the share of social spending in the national budget continues to decline," said Daniel Lukwago from UDN.

UDN, on behalf of CSBAG, delivered a statement on the economic and budget strategy for fiscal year 2006/07 at the Public Expenditure Review Workshop in May, 2006. UDN called upon the government to:

- Review the impact of any new tax proposals on the poor.
- Focus on pro-poor spending, because over 37 percent live below the poverty line while corruption, mismanagement of funds and anti-poor policies are prevalent.
- Provide more planning and support for productive sectors, especially power generation and agriculture, which are key to national growth and development.
- Allocate more funds to the energy sector to meet the current demand for energy - even if it means cutting funding in other areas; and provide subsidies for generator fuel to large scale producers and small scale manufacturers.
- Support agricultural development, which is the backbone of the economy and employs over 68 percent of the population, by earmarking more funds to the sector.
- Reduce allocations to public sector management.

Other concerns raised by civil society include the deviations between approved budget figures and actual expenditure in some government agencies. This is due to supplementary expenditures which can counteract the original objectives of the budget by skewing actual spending to sectors that may not have much direct impact on poverty, such as public administration. Another concern for civil society is the NGO Registration (Amendment) Act, 2006 which was passed by Parliament on April 7. If enforced, it may undermine the positive partnership currently enjoyed between government and NGOs and make it harder for NGOs to continue having an active voice as advocates for a pro-poor budget. (Source: Civil Society Statement on the Economic and Budget Strategy for FY 2006/07- Delivered by Uganda Debt Network at the Public Expenditure Review Workshop, 05/09/06).

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## **Latin America and Caribbean Update: Meet Grupo FARO in Ecuador and Learn About Children's Budgets in Jamaica**

### ***Budget Watchdog in Ecuador: Meet Grupo FARO***

The Foundation for the Advancement of Reforms and Opportunities (Grupo FARO) was created in 2004 to support civil society initiatives and promote ideas and actions for the common good. It conducts work in four areas: education, government reform, public finances, and economic development.

One project in the area of government reform works to oppose corrupt practices by which public funds originally intended for social programs are used instead for political goals. As one example of such practices, before the fall of President Lucio Gutiérrez in 2005, the program *Aliméntate Ecuador* was used to promote public demonstrations in his favor. There is also evidence that public funds intended for children's programs were used to buy political support.

While many government programs include protections designed to prevent corruption, a number of these protections have not been implemented at the local level. Hence, Grupo FARO has identified the programs that are most vulnerable to corruption and trained beneficiaries in topics related to rights, social programs, and corruption.

Grupo FARO also conducted a pilot project to strengthen the participation of citizens and local governments in the programs *Free Maternity Law* and *Feed Ecuador*. Together with the Association of Municipalities of Ecuador and the Municipality of Pelileo, Grupo FARO helped the women of Pelileo mobilize and demand the right to receive free medical services related to pregnancy. In addition, officials from nine social programs will sign an agreement in July against the corrupt use of funds. To support this initiative, the mass media will disseminate messages related to corruption and a telephone line will be set up to process complaints.

Grupo FARO also leads a civil society effort to monitor Ecuadorian public finances, with technical support from the Center for the Implementation of Public Policies for Equity and Growth (CIPPEC). The initiative works to strengthen civil society's capacity to monitor the budget process and promote fiscal responsibility by improving the quality, efficiency, and equity of public spending, as well as strengthening civil society participation in national and local financial issues.

This "budget watchdog" initiative was launched after the May 2005 signing of an agreement between the Ministry of Economy and Finances and 15 civil society organizations in which the ministry agreed to disseminate budget information. It recently started a second phase of work, consisting of analysis of social investments at local and national levels. As a result, extensive information is being compiled on education, health, and social programs that will enable researchers to determine how many resources actually reach the population and what additional funds are needed to ensure the fulfillment of economic, social, and cultural (ESC) rights.

For more information, visit Grupo FARO at [www.grupofaro.org](http://www.grupofaro.org), or contact Orazio Bellettini at [obellettini@grupofaro.org](mailto:obellettini@grupofaro.org).

### ***Children's Initiative in Jamaica, UNICEF***

Jamaica, faced with economic stagnation for much of the last decade, has reduced budget expenditures to most social sectors. Real expenditures on children declined by almost 7 percent between 2003/4 and 2004/5 and another 20 percent between 2004/5 and 2005/6, and education expenditures have declined from 14 percent of the budget to approximately 9 percent over the past seven years.

Substantial investments in the social sector will be needed to maintain recent social gains and meet government goals relating to social and economic development and children's welfare. Past experiences and lessons from other countries suggest that in order to maximize investments towards fulfillment of children's rights; stakeholders must be more vigilant in monitoring social investments and advocating for improved allocations to the social sector.

Unfortunately, Jamaica's budget process allows very limited participation for stakeholders, and its rules remain obscure even to the most informed citizens. While the budget is publicly debated after the minister of finance's presentation each year, civil society and the private sector have no opportunity to make a real contribution to the process, and even members of parliament play only a limited role. Stakeholders' capacity to participate in the budget process is further weakened by their poor knowledge of budget issues. Ongoing public education is needed, on the budget process in general and on issues such as linking budgets and rights, developing participatory budgeting processes, and advocacy to influence budget allocations.

To improve budget allocations for children — as well as transparency in the Jamaican budget — a coalition of government and non-governmental organizations established the Social Investment for Children Initiative (SICI) in 2005. SICI developed a plan to reform the budget process; use resources allocated to children more efficiently, and build social investments for children. With funding and technical support from UNICEF and UNDP, SICI aims to conduct activities such as capacity building, participatory budgeting, and advocacy and communication initiatives. SICI also will conduct budget monitoring through the University of the West Indies in order to track trends in investments for children and other social expenditures, identify areas in need, and compare expenditures with targets set in national policies.

Strengthening the capacities of stakeholders (NGO, government, and academia) is critical to SICI's success. To date, workshops have been held to sensitize over 100 stakeholders on social investment issues, participatory budgeting, and the links between budgets and rights. In addition, a cadre of 18 professionals has received the first phase of the training needed to train others in activities related to participatory budgeting.

Children will be involved in all aspects of SICI. A group of 30 children have been selected to participate in discussions on budget allocation, help build the capacity of their peers, and assist in researching issues affecting children.

Demystifying the budget process is easier to achieve if citizens are engaged and can influence budget decisions. Recognizing this fact, SICI has made it a priority to influence social investments for children. The government has publicly stated its intention to facilitate civil society participation in the budget process, and government agencies are generally open to the idea. Work is currently underway to develop a framework for participatory budgeting for Jamaica, which the Child Development Agency (a semi-autonomous government agency responsible for promoting children's rights) will pilot beginning with the

2007/08 budget. This will form the basis of an approach that will be recommended for use by all government agencies.

For more information, contact Kenneth Russell at [krussell@unicef.org](mailto:krussell@unicef.org).

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## **South Asia Update: Civil Society Responds to the Bangladesh and Rajasthan Budgets**

### ***Bangladesh's 2006/07 Budget, Unnayan Onneshan***

The national budget 2006/2007 for Bangladesh was presented by the Finance and Planning Minister M Saifur Rahman on June 8, 2006. The budget is showing a deficit that the government intends to finance by setting an ambitious target for tax revenue collections and by borrowing from domestic sources. (See: [http://www.sdnpsd.org/sdi/events/budget/2006-2007/budget\\_english\\_2006-07.pdf](http://www.sdnpsd.org/sdi/events/budget/2006-2007/budget_english_2006-07.pdf)).

In response to the budget the think tank Unnayan Onneshan (<http://www.unnayan.org/>) that works towards poverty alleviation, gender equality, and social justice examines the fiscal measures and budget allocations and how they fit the national strategy for development. In particular Unnayan Onneshan examines whether the budget is on the right track to meet the Millennium Development Goals (MDGs).

The organization observes that the budget assumes a 17.1 percent growth in revenues compared to 2005/2006. Revenue collections are expected to be monitored more efficiently and transparently with the appointment of a tax ombudsman.

The proposed budget increases education spending by 2 percent and health spending by almost 6 percent over the prior year. As a result, education spending will rise from 8.8 percent of the budget to 8.9 percent, while health spending will rise from 6.6 percent of the budget to 6.9 percent. Safety net spending, in contrast, declines by 16 percent under the new budget, and will shrink from 0.5 percent of the budget to 0.4 percent.

The share of the budget going to agriculture will decline significantly under the budget, from 22.3 percent to 21.8 percent. This decline threatens to worsen poverty, since about 70 percent of the population is directly or indirectly dependent on agriculture. In addition, despite the strong demand by households and businesses for power, the budget cuts energy spending by 7 percent, more than any other area.

While a 2002 MDG progress report found that 82 percent of urban areas and 72 percent of rural areas had access to safe drinking water, the budget claims that Bangladesh has already achieved the MDG target in this area by ensuring that 100 percent of the urban population and 96.5 percent of the rural population have such access. However, the absolute number of people without water and sanitation coverage across the country has increased despite relative improvements in coverage. Almost 40 percent of low income populations in four large cities is largely unserved in terms of access to drinking water. Squatters and people in slums have limited access to piped water supply. And the urban unserved pay high prices for water of minimal amounts and also dubious quality.

The government also claims remarkable success in reducing child mortality and maternal mortality. It assesses current child mortality rate at 65 per thousand, down from 66.3 per thousand in 2000. The rate of decline has however slowed considerably. Maternal mortality is said to have declined from 320 to 310 per 100,000 live births from 2000 to 2002, though other official documents show the rate was 391 per 100,000 live births in 2002. Success cannot be effectively measured as various official sources report different data for the same variable.

To read the full report, go to: <http://www.unnayan.org/Other/budget.pdf>.

### ***Rajasthan's Local Budget 2006/07, Budget Analysis Rajasthan Centre (BARC)***

Located in Northwestern India, Rajasthan is below India's urban and rural national averages for Monthly Per Capita Consumer Expenditure. The rural economy is expected to experience further adverse effect since the allocation to agriculture has declined by about Rs. 100 crore from 2005/06 (revised estimate) to 2006/07 (budget estimate). In order to improve the low productivity as a result of poor health and low levels of education, the government should increase the social sector spending too, but Rajasthan spends less than four per cent of its Gross Domestic Product (GDP) on education and less than one per cent on health, observes the Budget Analysis Rajasthan Centre (BARC) (<http://www.barcjaipur.org/>) that analyzes the Rajasthan budget and assesses the impacts of the expenditures on the socioeconomic development of the poor and marginalized people

BARC indicates that in order to raise the purchasing power of the poor, public investment needs to increase, but the government is currently reducing allocations in the economic sector. The drastic reductions in allocations have been taking place since last year due to the tight Fiscal Responsibility and Budget Management (FRBM) measures enacted in 2005. Under the FRBM Act the government is bound to reduce its revenue deficit to zero by 2008/09. In addition, fiscal deficit either needs to be reduced or remain constant. These goals can be met by generating revenues and keeping expenditures at a constant level. However, the government has been trying to maintain good fiscal responsibility by curtailing allocations.

The present government has significantly increased the capital outlay, which is of great importance for the development of infrastructure. Given that so far there is no surplus on the revenue account all the capital outlay needs to be borrowed, which in turn needs to be repaid with interest by the people of the state. The government should be cautious and not impose the debt burden on its people through increasing allocations in the capital account and work on a plan to repay the borrowed amount. Moreover, there should be a balance between imposed debt burden and increased capital outlay. Otherwise, the FRBM Act may be violated after a certain period of time, or the government might have to roll back its increased capital outlay.

For more information, contact [subratacalcutta@hotmail.com](mailto:subratacalcutta@hotmail.com) at the Budget Analysis Rajasthan Centre (BARC).

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## **Beyond Budget Tracking: The Need to Track Fiscal and Monetary Policies, ActionAid**

Budget-tracking groups such as South Africa-based IDASA are paying increasing attention to the macroeconomic policies that shape both national and sector budgets. Recent work by ActionAid International USA, the United Nations Development Program (UNDP), and other groups suggests that advocates of the Millennium Development Goals (MDGs) and of efforts to fight HIV/AIDS should consider the ways in which certain macroeconomic policies unnecessarily constrain government spending in these areas.

While many budget-tracking groups do excellent work tracking the disbursements of sector budgets (the "slices" of the budget pie), few have examined the broader macroeconomic policies that often influence the overall size of the pie. ActionAid suggests that MDG advocates and budget-trackers undertake basic economic literacy training to better understand how these macroeconomic policies work. Such training would also help these groups learn more about viable alternative policies that would enable low-income countries to spend the increasing amount of donor aid that is becoming available while also generating more of their own resources over the long run.

Often the macroeconomic policies that low-income countries adopt, including fiscal and monetary policies, are forged in discussions between their finance ministries and the International Monetary Fund (IMF). Since many countries are unable to spend the increasing amounts of donor aid — or to hire the many doctors, nurses, and teachers projected to be needed to achieve the MDGs and fight HIV/AIDS — advocates have grown increasingly alarmed by the restrictions on public spending that flow from the tight fiscal and monetary policies upon which IMF loan programs are conditioned.

The IMF routinely works with impoverished countries to set specific targets as part of the agreed macroeconomic framework, including targets for reducing the budget deficit and the inflation rate.

These targets, in turn, impose de facto or explicit limits on the national budget as a whole, as well as on the funding available for health, education, water, sanitation, agricultural infrastructure, and other basic needs. Often, these targets unnecessarily constrain the amount of public expenditures available for initiatives to help meet the MDGs or fight HIV/AIDS.

A 2001 report by the U.S. General Accounting Office on IMF loans explained that there is a "substantial gray area" between policies that may be considered too "loose" (and thus lead to macroeconomic instability) and policies that may be too "tight." "Policies that are overly concerned with macroeconomic stability may turn out to be too austere, lowering economic growth from its optimal level and impeding progress on poverty reduction," the report cautioned.

For example, many IMF loan programs have called on poor countries to reduce their fiscal deficits significantly, and in some cases to build surpluses. When this happens, money that could be used to hire more doctors and teachers is instead used to pay down the deficit to levels that are often unnecessary, according to peer-reviewed academic studies.

The IMF claims that it has become more flexible in its deficit-reduction targets since replacing its Enhanced Structural Adjustment Facility loan program with the Poverty

Reduction and Growth Facility (PRGF) program in 1999. While this is true to some degree, the new flexibility remains limited, and the deficit-reduction targets in many IMF loan programs are still unjustifiably tight. Whereas most countries have historically been able to manage moderate levels of fiscal deficits, the IMF remains opposed to deficits, particularly because of the high interest payments associated with them.

Moreover, the IMF often ignores the fact that deficit spending can be used to strengthen a country. The UNDP and other researchers have concluded that while deficit spending on short-term consumption can cause more harm than good, deficit spending on key public investments can more than pay for itself over time by improving productivity and economic growth.

Regarding inflation-reduction targets, many IMF loan programs have called on poor countries to reduce inflation to very low levels — 5 percent or lower. Some 45 of 63 recent PRGF arrangements examined by ActionAid included inflation targets of 5 percent or less.

Everyone agrees that very high inflation can weaken long-term economic growth, make planning difficult for private businesses, and raise prices out of reach of the poor. However, while the peer-reviewed economics literature has consistently shown that inflation rates above 20-40 percent are harmful, there is considerable disagreement among economists about inflation rates in the more moderate range of 5-20 percent. The IMF insists that inflation in this range constitutes "macroeconomic instability," but no academic research justifies this claim. Some IMF economists recently conceded that if countries are expected to absorb and spend higher inflows of donor aid, inflation may increase somewhat as a consequence, yet this important reconsideration has not been translated into policy changes in many IMF loan programs.

This issue is important for MDG advocates because when an IMF loan program requires a reduction in inflation from this moderate range of 5-20 percent to below 5 percent, it can weaken a country's economic growth and cost it revenues that could have been used to hire more doctors and nurses in the fight against HIV/AIDS. (Economists refer to this as the "sacrifice ratio," meaning that for every point by which inflation is reduced in this moderate range, a certain level of GDP growth is lost.) Many economists believe that the IMF's excessively tight inflation-reduction targets are partly responsible for the significant drop in low-income countries' economic growth between 1960-1980 and 1980-2005. Although the IMF has long claimed its policies are "pro-growth," those policies often pursue macroeconomic stability (as defined by the IMF) over other goals such as higher growth rates and improved public spending.

The UNDP and many other economists project that much higher growth rates will be needed to enable countries to generate more of their own resources domestically for achieving the MDGs — and that generating these higher growth rates will require more expansionary fiscal and monetary policies. Yet the IMF remains opposed to this approach.

A related issue is "donor aid volatility." Many donors do not support a given project consistently from year to year; many donors also fail to disburse the amount of aid they promised. Whether a country adopts the IMF's preferred tight fiscal and monetary policies or more expansionary ones, donor aid volatility will remain a major problem for finance and planning ministries, making it impossible for them to predict how much aid will be available in any given year.

The IMF claims that donor aid volatility is one reason it hesitates to encourage low-income countries to hire more health- or education-related personnel. According to this argument, if finance ministries use donor aid to hire more nurses but donors do not send the pledged amount of aid the following year; the country would likely opt not to fire the nurses but instead to continue paying them by running up its fiscal deficit. ActionAid argues that MDG advocates should join the IMF in calling on donor countries to develop clear disbursement mechanisms that will allow for much greater certainty of aid flows over much longer periods, such as ten years. Reducing donor volatility will enable low-income countries to do more long-term planning. It also will ease concerns over macroeconomic instability associated with the on-again/off-again spending on human resources.

In 2006-2007, ActionAid International USA will develop an economic literacy training and advocacy project to address many of these issues. The project will encourage budget-trackers and civil society advocates to develop better working relationships with economists and to greatly upgrade their economic literacy so they are better prepared to discuss these issues with lawmakers and finance ministries.

For more information about this project in the United States and in ActionAid's country programs, contact Rick Rowden at [Rick.Rowden@actionaid.org](mailto:Rick.Rowden@actionaid.org) (after August 7) and Nisha Thapliyal at [Nisha.Thapliyal@actionaid.org](mailto:Nisha.Thapliyal@actionaid.org).

For a brief overview of this problem, see the Spring 2006 issue of "Policies and Priorities" by ActionAid International USA: [http://www.actionaidusa.org/pdf/IFI\\_Spring\\_2006-color6.pdf](http://www.actionaidusa.org/pdf/IFI_Spring_2006-color6.pdf).

For an example of new research by UNDP and others on alternative macroeconomic policies and the need for more expansionary fiscal and monetary policies to enable poor countries to absorb and spend higher inflows of foreign aid, go to: <http://www.undp-povertycentre.org/newsletters/WorkingPaper17.pdf>.

For more background on the discrepancy between IMF policies and the policies favored by many outside economists to enable countries to meet the MDGs, go to: [http://www.actionaidusa.org/pdf/Changing\\_percent20Course\\_percent20Report.pdf](http://www.actionaidusa.org/pdf/Changing_percent20Course_percent20Report.pdf).

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## **Budget Analysis and Economic, Social, and Cultural Rights Training, Thailand**

On 13-20 May in Chiang Mai, Thailand, the Beyond the Circle Network (India) and the Asian Institute for Human Rights offered a training course on economic, social, and cultural rights (ESCR) for development practitioners and human rights activists. Its objectives were to help participants understand and apply the ESCR framework in their programs, identify the conceptual and normative framework for implementing ESCR, and discuss some specific rights, such as the rights to food and housing. The training also examined budget analysis as a tool to monitor the implementation of ESC rights.

Participants came from 15 countries: Afghanistan, Bangladesh, Cambodia, India, Indonesia, Malaysia, Mongolia, Nepal, Pakistan, Palestine, Philippines, Sri Lanka, Thailand, Timor Leste, and Vietnam.

The budget analysis sessions provided an introduction to the budget and its components, the different stages of the budget process, and advocacy opportunities in each stage. Participants also learned about (and practiced using) some quantitative tools for applied budget analysis.

Most participants were new to budget analysis. Several noted afterwards that they now realize how budget analysis can strengthen their advocacy work. Several also commented that while many human rights activists think budgets can be understood only by experts, the training helped to debunk this notion.

This training also provided an opportunity to share India's experience, discuss the challenges of ESCR activism at a regional level, and learn about experiences from other countries in order to help form a broader network that can lend support to groups undertaking this work.

For more information, contact the Asian Institute for Human Rights at [hr.institute@gmail.com](mailto:hr.institute@gmail.com).

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## **New Publication: "The Provida Case" - Pending Accounts in Transparency and Justice, Mexico**

Six Mexican civil society organizations: Fundar, Equidad de Género: Ciudadanía, Trabajo y Familia, Consorcio para el Diálogo Parlamentario y la Equidad, Grupo de Información en Reproducción Elegida (GIRE), Letra S: Salud, Sexualidad, Sida and Salud Integral para la Mujer (Sipam) released the publication "The Provida Case: Pending Accounts in Transparency and Justice" (available in Spanish), which details their outstanding research and advocacy efforts to uncover the scandal involving a pro-life organization called Provida and the Mexican government

Provida came into the spotlight after receiving a government grant of 30 million pesos without following a request for proposals process. This money was originally allocated to assist women infected with HIV/AIDS and purchase anti-retroviral treatments. However, the president of the budget commission in Congress unilaterally assigned the funds to Provida, organization that accepted the money and spent a large amount of it on publicity and even on luxury items that had nothing to do with health. Furthermore Provida's conservative views contradict existing government efforts and legislation on sexual education and abortion.

The publication synthesizes the three year research to understand the limits of accountability in Mexico, the legal loopholes that need to be addressed to prevent discretionary use of public funds, and the inspiring advocacy campaign and use of the media to make the government take responsibility for its actions. This thorough publication aims to help other organizations, in particular budget groups, to see the impact and importance of combined research and advocacy. To read the report (in Spanish), go to: <http://www.fundar.org.mx/PDF/CasoProvida.pdf>.

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## New Materials in the IBP Library

### *Analyzing the UN Tsunami Relief Fund Expenditure Tracking Database: Can the UN be more Transparent?*

By Vivek Ramkumar/ *International Budget Partnership*

When it began its relief effort in response to the 2004 tsunami in South/Southeast Asia, the UN for the first time created a real-time database to track expenditures across countries, program sectors, and relief agencies. The database is intended to allow interested parties to learn where the donations to relief efforts by the UN and other agencies are being directed and the rate at which they are being spent. Using the information in the database, the International Budget Partnership (IBP) has conducted this analysis of the UN's relief expenditures. It finds that the database contains much useful information that raises important questions about UN relief expenditures, but that the database's form and content do not allow a thorough analysis of these issues.

### *Parliament Digest - Bridging the Gap between Parliament and People, Budget Session 2005*

By Amitabh Behar, Sunila Sihng, and Prakash Gardia (Editors)/*The National Center for Advocacy Studies (NCAS)*

This in-depth analysis of India's 2005 budget session argues that the opposition parties' boycott of much of the session jeopardized Parliament's ability to represent the interests of the people in budget debates. As a result, the 2005 budget was approved without adequate discussion. The report examines a number of questions that have been raised about the budget concerning issues of gender, scheduled castes/tribes and minorities, governance, food and security, social development indicators, agriculture, labor, and natural resources. The report aims to bridge the information gap between Parliament and the people by providing resources that will help people participate in government decisions.

### *Regional-Local Dimension of Russia's Fiscal Equalization*

By Jorge Martinez-Vazquez and Andrey Timofeev/*Andrew Young School of Policy Studies, George State University*

In light of the Russian government's stated commitment to provide citizens with equal access to public services regardless of where they live, this paper examines about 2,000 local governments to assess and explain the differences in government resources available between and within regions. Its aim is to evaluate the quality and accessibility of local services and explain whether policies adopted by regional governments offset or reinforce the central government's fiscal equalization efforts. The authors conclude that the wide variations in per capita revenue among Russia's local governments reflect disparities within regions rather than between them.

### *Is VAT the Best Way to Impose a General Consumption Tax in Developing Countries?*

By Richard M. Bird and Pierre-Pascal Gordon/*Andrew Young School of Policy Studies, George State University*

This paper examines the Value Added Tax (VAT) system in Ukraine and Jamaica in terms of revenue productivity, equity, and economic development. The authors examine such questions as: Is the VAT in most developing countries as well designed and implemented as possible? Do all "good" VATs follow the same approach? Can every country administer a VAT sufficiently well to make the tax worthwhile? Is a VAT always the best response to the revenue problems caused by trade liberalization in many developing countries? The authors conclude that a VAT is a wise choice for almost all developing countries, although this does not mean that existing VATs are necessarily the best ones given countries' particular circumstances.