

April 2000



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

E

**TWENTY-SIXTH FAO REGIONAL CONFERENCE
FOR LATIN AMERICA AND THE CARIBBEAN**

Merida, Mexico, 10 to 14 April 2000

**FAO ACTIVITIES (1998-1999)
TRENDS AND CHALLENGES IN AGRICULTURE
FORESTRY, FISHERIES AND FOOD SECURITY IN THE REGION,
AND ACTIONS TAKEN ON THE MAIN RECOMMENDATIONS
OF THE 25TH REGIONAL CONFERENCE
FOR LATIN AMERICA AND THE CARIBBEAN**

CONTENTS

	Paragraphs
I. INTRODUCTION	1-3
II. IMPLEMENTATION OF THE RECOMMENDATIONS OF THE 25 th REGIONAL CONFERENCE FOR LATIN AMERICA AND THE CARIBBEAN	4
Multilateral discussions on agricultural trade reform	5-11
Rural development strategy as the focus towards the reduction of the extreme poverty in the Region	
a. Food security	12-15
Implementation of SPFS in Latin America and the Caribbean	16-17
b. Dynamic insertion of foreign trade	18
c. Sustainable management of natural resources	19-21
d. Institutional reform	22-27

For reasons of economy, this document is produced in a limited number of copies. Delegates and observers are kindly requested to bring it to the meetings and to refrain from asking for additional copies, unless strictly indispensable.

Follow-up to the World Food Summit	28-29
Implementation of the Code of Conduct for Responsible Fisheries in the Latin American Region	30
III. TRENDS AND CHALLENGES FOR THE RURAL WORLD IN THE REGION	
Emerging from crisis with stability...	31-33
... but inequality and poverty persist	34-39
Constraints in the agricultural sector	40-42
Decreases in economically active population and in sector output	43-45
The problem lies in profitability...	46-48
... but the solution is not to be found only within the sector	49-50
IV. CHALLENGES AND OPPORTUNITIES FOR THE FUTURE	51-52
Decentralisation needs institutional strength	53-55
Institutions and Organisations	56-57
Social policies and rural development: a menu of options	58-65
Reconstructing institutions	66-75

I. INTRODUCTION

1. The current document summarises the implementation of the recommendations of the 25th FAO Regional Conference for Latin America and the Caribbean, held in Nassau, Bahamas, on 16-20 June 1998. It also describes current trends for the Region and sets out the challenges and opportunities for FAO action in the 2000-2001 biennium. The main activities undertaken by FAO in the Region in the 1998-99 biennium are related to agriculture production and support systems, food and agriculture policy and development, fisheries, forestry, contributions to sustainable development, policy assistance, field operations, publications support and agriculture information. The FAO field programme for Latin America and the Caribbean consisted of 164 projects with an annual delivery of US\$45 599 000 for 1999.

2. Activities as well as priority areas and actions for the future have been established within the framework of the Organisation's internal restructuring and decentralisation process. This process has resulted in a greater proximity to Member Nations and strengthened the technical capacities of the Regional Office in Santiago and of the Sub-Regional Office for the Caribbean.

3. Following the guidelines set by the Organisation's Governing Bodies, the contents of this report are restricted to what is necessary to present a summarised version of the main activities undertaken at the regional level and to advance a strategy for the transformation of the rural environment, as a framework for FAO's priority activities in Latin America and the Caribbean.

II. IMPLEMENTATION OF THE RECOMMENDATIONS OF THE 25th REGIONAL CONFERENCE FOR LATIN AMERICA AND THE CARIBBEAN

4. Following is a brief summary of actions taken on recommendations made by the Twenty-fifth FAO Regional Conference for Latin America and the Caribbean.

Multilateral discussions on agricultural trade reform

The Regional Conference requested FAO to organise technical meetings to support the countries to define their negotiating positions, before the next meeting of the Council of the World Trade Organisation.

5. FAO in partnership with the World Bank and the Inter-American Institute for Co-operation in Agriculture (IICA) organised a meeting entitled "Latin America and the Caribbean Facing the Multilateral Agriculture Reform Process" with participants from most Member Nations (23-24 November 1998, in Santiago, Chile). The goal of the meeting was to review the implementation process of the Agreement on Agriculture of the Uruguay Round as well as the experiences and perspectives of developed countries and Latin American and Caribbean countries and their position in relation to future multilateral negotiations on agriculture.

6. FAO and IICA supported the creation and share the Secretariat of the "Informal Consultative Group of Trade Negotiators of the Americas" in order to promote dialogue and exchange of information among trade negotiators interested in agriculture trade issues. In the

1998/99 period, five meetings have taken place simultaneously with the America's Free Trade Area (ALCA) meetings.

The Regional Conference requested FAO to establish a regional programme of technical assistance that would include the training of negotiators for preparation and monitoring of the next round of negotiations.

7. Three project proposals have been prepared to train national officers from Member Nations on issues related to the Uruguay Round Agreements and the next round of agricultural negotiations. A one-week training course was organised in Central America in June 1999, under TCP/RLA/8928(A), a similar training course is under preparation for South America under TCP/RLA/8934(T) and another one is scheduled for the Caribbean area.

8. Similar courses have been organised on the national level, based upon two technical co-operation projects. In Peru (TCP/PER/8821) on the follow-up and evaluation of the Uruguay Round Agreements and in Venezuela (TCP/VEN/8823) on the formulation, follow-up and assessment of agriculture policies and strategies of the Ministry of Agriculture.

The Regional Conference requested FAO to provide technical assistance on awareness and application of Codex Alimentarius standards.

9. FAO has implemented four technical co-operation projects in several countries, strengthening the national Codex committees on matters related to food standardisation and food safety as recommended by the Codex Alimentarius Commission. Furthermore, a project proposal for Uruguay and another one for Central America countries have been prepared during the last quarter of 1999.

10. FAO has also assisted countries from the region to develop food legislation and food control systems to meet the food safety and quality requirements for international food trade as stipulated by the World Trade Organisation. Regional seminars for Central America, Southern Common Market (MERCOSUR) and Andean Countries have been held to promote the harmonisation of food regulation and the establishment of equivalent food control programmes in the area.

11. A series of workshops on the scientific basis and management of Codex Alimentarius and application of risk analysis have been implemented at national and regional level in Latin America and the Caribbean. A regional workshop on the role of government in assessing industry food quality and safety programmes based on international standards and recommendations were also carried.

Rural development strategy as the focus towards the reduction of the extreme poverty in the Region

The Regional Conference proposed to FAO four priority areas, which should guide the work in the Region:

a. Food security

12. Forty six percent of the projects operational as at August 1999 were oriented towards the achievement of food security.

13. As part of the effort to enhance rural development and eliminate food insecurity, FAO and the International Fund for Agriculture Development (IFAD), in close collaboration with the World Food Programme (WFP), established the Administrative Co-ordination Committee (ACC) Network on Rural Development and Food Security that has now been operational for over a year and has established 9 thematic groups.

14. The ACC network has also promoted work on information and mapping systems on food insecurity and vulnerability. This has been the main objective of the "VIII Round Table of the SISVAN Network", that met in Mexico during November-December 1999.

15. With regards to food security and biotechnological matters the "Third Latin American Meeting on Plant Biotechnology" (REDBIO'98) dealing with food security and plant biotechnology in Latin America and the Caribbean, took place in Cuba, in June 1998.

Implementation of SPFS in Latin America and the Caribbean

16. In the struggle against rural poverty, the Regional Conference emphasised the priority of working to overcome problems related to food security, in close relationship with the commitments of the governments at the World Food Summit.

17. In this context, FAO launched the Special Programme for Food Security (SPFS) in 1994. The Programme seeks to increase food production and improve access to food on an economically and environmentally sustainable basis. Target populations for these efforts are rural families with limited resources. To date, the SPFS is operational in eight low-income food-deficit countries in the Latin America and Caribbean Region.

b. Dynamic insertion of foreign trade

18. In addition to the already mentioned activities related to multilateral discussions on agricultural trade reform, the following are worth stressing:

- In collaboration with the Pan-American Health Organisation (PAHO), a workshop was organised on the role of Governments in assessing "industry food quality and safety programmes" (Uruguay, December 1998). One hundred and ten representatives from 30 countries participated in the event.
- In November 1999, a meeting was held in Brazil with members of parliament of 13 countries of the region, aimed at improving their knowledge of trade issues.
- Furthermore, 4.3% of FAO projects in the Region place their emphasis on international trade.

c. Sustainable management of natural resources

19. Approximately 16.5 % of the projects operational as at August 1999, were centred on sustainable management of natural resources.

20. Several rural development projects related to the sustainable use of water and natural resources have been implemented in the Region (mostly in Brazil, Peru, Cuba and Ecuador). In addition, two projects are currently under formulation: one on "Investment for Sanitation and

Conservation of the Lerma-Chapala Basin”, formulated upon request from the Natural Resources and Environment Secretary of Mexico and the second, a technical co-operation project in Bolivia on “Water and soil management to support food security in Tarija”.

21. Forty participants from fifteen countries participated in a workshop organised by FAO, with the co-operation of the University of Tarapacá /Arica, and the Government of Peru, in September-October 1998 on management of water quality and contamination control in Latin America and the Caribbean. With regard to forestry resources, the Twentieth Session of the Latin American and Caribbean Forestry Commission (COFLAC) was held in Havana, Cuba on 10–14 September 1998, followed by two meetings of the Executive Committee in 1999 to analyse inter-session activities.

d. Institutional reform

22. In the field of institutional reforms, activities have been carried out to assist Member Nations to address issues of land ownership, titling and tenure security.

23. Also, several activities have concentrated mainly on rural development projects with an impact on rural institutions in the broader sense. An example was the development of eight case studies on national anti-rural poverty programmes, which led to a “Workshop of high-level policymakers on rural poverty programmes” held in Santiago, Chile in January 2000.

24. As an initial stage towards the definition of a policy framework in these matters, nine national case studies on institutional reforms in the rural sector were prepared in 1999.

25. Studies on synergies between farm and off-farm employment, income and activities for agriculture and rural development have been conducted in 1998 and 1999. Several studies about rural off-farm employment were presented at a Conference held at the headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC), in September 1999. Support activities in several countries were conducted to help existing rural producers' organisations to shift towards strengthening their capacities to compete in the globalised and market oriented economies.

26. In 1999, TCP/CHI/8823 project was implemented in Chile, directed at preparing rural development projects for small farmers and rural communities in the IX region of the country. Two other projects with the same perspective are being developed in Mexico and in Brazil.

27. This regional priority has been the central topic of 32.3% of the projects operating in the region (on the basis of data obtained as at August 1999).

Follow-up to the World Food Summit

The Regional Conference should take place prior to the sessions of the Committee on World Food Security so as to examine actions pursued at the national and regional levels.

28. The reporting format, analytical framework and indicators developed for the Committee on World Food Security (CFS) to monitor the implementation of the Plan of Action was adopted by the CFS at its 25th Session in June 1999.

29. Following the recommendation of the World Food Summit, the 26th session of the CFS will take place in Rome in September 2000.

Implementation of the Code of Conduct for Responsible Fisheries (CCRF) in the Latin American Region

The Regional Conference recommended to continue providing technical co-operation and support in identifying funding for implementation of the Code at country level.

30. In June 1999, a workshop on marketing of fishery products was held in Uruguay. Its main objective was the implementation of the CCRF in the field of fish marketing and utilisation. A workshop on the management of migratory catfish in the Amazon took place in Brazil in October 1999. A technical consultation on rural aquaculture, involving small-scale fishermen, was organised in Chile in November 1999.

III. TRENDS AND CHALLENGES FOR RURAL DEVELOPMENT IN THE REGION

Emerging from crisis with stability...

31. During recent years, the countries of Latin America and the Caribbean have continued making progress in structuring a new development style attuned to current international conditions, in a broad based effort towards productive modernisation and towards overcoming deep social hindrances to progress. International commitments and the interdependence of national economies have marked strategic development options, generating greater homogeneity in the macroeconomic framework. Sub-regional integration offers important stimuli to growth as well as solutions to improve the countries' international insertion, but in any event, the need to co-ordinate national policies becomes ever more evident.

32. In the last biennium, the economies of the Region have confronted particularly difficult international conditions. Following the 5.4% accelerated growth rate achieved during 1997, the two following years showed the effects of the Asian crisis and of the subsequent Russian moratorium which weakened international markets and caused great uncertainty in capital flows towards developing countries. In 1998, regional Gross Domestic Product (GDP) grew only 3.7%, while in 1999 the growth rate was almost a negligible 0.1%. That is to say, in this last year, income per inhabitant decreased in real terms. Nonetheless, signs of reactivation, initiated in the three final months of 1999, allow expectations of recovery of economic growth in the year 2000, with a likely 3.9% increment in regional GDP and a 2.3% increase in per capita income.

33. In spite of the negative context, the great majority of the countries have managed to retain economic stability, avoiding the spiralling imbalance and maintaining the possibilities of growth recovery. Progress made in price stability is taking effect. In 1998 inflation held close to the 10% achieved the previous year and, in 1999, for the first time in over half a century, regional inflation reached a one-digit figure (8.6%).

.. but inequality and poverty persist

34. The latest report of the Inter-American Development Bank (IDB) indicates that Latin America and the Caribbean is the region registering the greatest degree of inequality in the world.

The richer 5% of the population receive 25% of total income, representing the largest disproportion among the various regions and point to a concentration that is much higher than that shown by the countries of South-eastern Asia (16%) and in developed countries (13%). In contrast, the poorer 30% of the Latin American population receives only 7% of the total income, while in all other regions the participation in income of that segment of the population is over 10%. In Asian countries, the proportion is 12% and in developed countries 14%, almost double that of Latin America.

35. At present, over one hundred million persons in this Region - over a fifth of the total population - live in rural areas. Over half of this population (55%) live in poverty and a third is considered indigent. Although currently urban population triples rural population, the latter has a concentration of over half of the indigents. The fight against poverty is not achieving positive results. The alleviation of rural poverty has been more linked to high migration rates than to a reduction of the gap between living conditions in the rural world and the city. On the contrary, this gap continues to deepen at an accelerated pace. At the same time, a growing proportion of the urban poor has an immediate or recent rural origin.

36. Furthermore, in the rural world there is less social mobility and the opportunities for progress are scarce. In countries of the Region, for which information is available, the percentage of youth (between the ages of 15 and 19) who do not attend educational establishments and are in the workforce, ranges between 18 to 44% in the cities, while in the rural environment, the range rises to between 47 and 75%. The percentage of children between the ages of 20 to 24 who have gone beyond their parents' education levels ranges between 24 and 63% in the urban environment but drastically increases in the rural world, where, in the best of cases, it reaches 65% but can also reach 80%. **They are not only poorer, but they also progress less.**

37. The nuclei of persistent rural poverty become reinforced because the children of poor parents have lesser access to education, training and health opportunities and live in depressed economic environments, lacking in infrastructure and services. It is indispensable for the countries of the Region to strongly adopt rural development process as a national priority in order to reduce economic heterogeneity and **eliminate the intergenerational transmission of poverty.**

38. There is a trend towards the **"feminisation of agriculture"** as a result of the increasing presence of women in agricultural production. This reality goes hand in hand with the growing number of rural homes headed by women due, among other causes, to men's migration to seek more lucrative occupations in the cities or abroad. It has been estimated that women contribute 40% of the workforce in Latin American agriculture. According to recent studies, women would also contribute 40% of the internal agricultural supply and 36% of the family real income in the rural world of the region, even without considering their non-monetary contribution.

39. Demographic dynamics and their relation to poverty are also important. In general terms, effective fertility is higher than desired fertility, but the most significant fact is that the gap between them is greater in the rural sector than in the urban sector and increases as the education level of the mother decreases. There are, therefore, factors of vegetative reproduction of poverty that a population policy, which is respectful of individual beliefs and options, might contribute to reduce.

Constraints in the agricultural sector

40. The agricultural sector has faced particularly difficult conditions during the last years. International prices for agricultural products fell almost 9% in 1998 and another 12% in 1999.

The accumulated drop of almost 19% vis a vis 1997 and nearly 30% when compared with 1996 prices, has heightened the strong profitability problems experienced by the agricultural sector of the region during the last decade. Furthermore, although demand for agricultural products tends to be relatively inelastic, the strong drop in the economic growth rate of the Latin American and Caribbean countries also affected domestic demand and profitability. It is important to mention that, on the other hand, the drop in the prices of basic foodstuffs could contribute to alleviate the food security concerns of the vulnerable consuming households.

41. Natural catastrophes in numerous areas of the region during the past two years have made conditions worse. During this period, the force of disasters greatly exceeded the boundaries of normality and the high vulnerability of agriculture vis a vis natural phenomena, reached dramatic levels in several countries.

42. As a consequence of these problems, the rate of growth of the regional agricultural product dropped below the almost 3.5% achieved in the mid-nineties. In 1998, the growth rate was only 1.6%. In 1999, although production experienced relative improvements in the greater part of the countries, the sector's growth rate continued to be generally very low at 2.2% on the average. Latin American and Caribbean agriculture has already experienced three years of stagnation. The rate of growth of agricultural production has been lower than 2% per annum between 1996 and 1999.

Decreases in economically active population and in sector output

43. Sector output now represents only 7.3% of the regional GDP. However, in many countries of the region, an important part of commercial and industrial activities are based on agricultural production.

44. During the last two decades, the proportion of economically active population devoted to agriculture in the region has remained at the level of almost 44 million people. During the same period, total economically active population in the Region has gone from 130 million to 217 million people, indicating that agriculture employs a decreasing number of the active population. From a little over a third of the total workers in 1980, it decreased to 25% in 1999 and currently the sector employs only 20%.

45. This trend - and the fact that the sector's share in production has remained level - has resulted in closing the gap of unfavourable productivity for agricultural workers. Global productivity in the region, per active agricultural worker, has increased around 10% in the last decade, while in agriculture, growth has been faster, due above all to the null increase in active population. The global increment in productivity per active agricultural worker was 16% in the eighties. In the nineties, productivity in agriculture, per active agricultural worker, has increased another 25%. Productivity per person employed in agriculture was only 27% of the global average in 1980. In 1999, it increased to 31% and at present it has reached 36%. Economic growth and generation of productive employment opportunities outside agriculture also allow improvements in efficiency and per active productivity within the agricultural sector.

The problem lies in profitability ...

46. Improving profitability and competitiveness in agriculture is indispensable and is not restricted to the growth of productivity rates in agriculture. Agricultural progress will always be desirable and it is imperative to make good of the broad current margins with regard to the yields

that can be achieved through available technologies. **But elements that are beyond agricultural technologies and beyond the capabilities of agricultural workers also have a fundamental incidence in the weakness of agricultural growth.**

47. Even though natural resources, labour and technology development continue to be of great importance, global transformation and the new conditions of agricultural markets have also produced an increasing incidence of factors that are exogenous to the agricultural sector. For example, exchange rates, interest rates, the stability of the macroeconomic framework, the efficiency of financial systems and services, international positioning, economic regulation and organisation of production agents, the quality and honesty of public administration, education as well as the qualification of manual labour.

48. Profitability depends on the whole chain of production-transformation-consumption. For agriculture to become a profitable activity, efficient production at the farm level is not sufficient. It is necessary to reinforce the competitiveness of the system as a whole.

... but the solution is not to be found only within the sector

49. Just as many of the determinant factors for agricultural progress are outside agriculture, agriculture and rural development have a bearing that transcends sector output. Currently, employment participation in non-agricultural activities in the rural environment amounts to 29% of total rural employment. This type of employment tends to be more productive. Rural income derived from non-agricultural activities in Latin America and the Caribbean amounts to 47% of total rural income. The dynamics of these activities with the specifically agricultural development cannot be overlooked.

50. The sector of off-farm activities in the rural environment grows faster and more equitably where agriculture itself is more dynamic. This multiplying effect of the increase of agricultural income through production links, disbursement or investment is of the greatest import in the design of a rural development strategy and is essential in overcoming marginality at the national level.

IV. CHALLENGES AND OPPORTUNITIES FOR THE FUTURE

51. Successful rural development depends on jointly achieving successful macroeconomic adjustment and creating the right incentives for farmers. This process needs to be continuously adjusted and requires dialogue within the governments and with rural actors. This dialogue needs to explicitly consider different types of restrictions that arise as a result of globalisation, more accountability and more desire for participation. Restrictions must be taken into account in defining policies or considering institutional arrangements.

52. In seeking to define rural development policies, one cannot ignore that structural reforms have meant the emergence of new actors, the definition of new rights and responsibilities and the still inconclusive delimitation between the public and the private spheres. All of these imply one crucial and basic task: **the promotion and expansion of public interest based on shared responsibility.** In other words, rural development is not only a set of economic policies. It has to address as well the political and social conditions resulting from modernisation and democratisation of Latin American societies.

Decentralisation needs institutional strength

53. There is need to address, paying due attention to heterogeneity and to local needs, the issue of decentralisation. This implies devolving power both to municipalities and farmers' organisations.

54. Lessons learnt from many years of decentralisation - in some countries for more than two decades - lead to three areas of concern: a) the need to accompany the decentralisation processes with well designed and funded training programmes targeting local public officers. As with local organisations, local governments need specific know-how related with linkages at higher levels in the government and information sources; b) the need to differentiate amongst administrative decentralisation, fiscal decentralisation and political decentralisation. Although these are all supporting parts of an all embracing process, the choice of which of them is the starting point of decentralisation has not been indifferent in terms of the actual outcomes; c) the clear evidence that decentralisation will normally fail if federal or central government lacks institutional cohesion. This perspective underlines the fact that decentralisation processes - because they set in motion a reshuffling of a certain balance of power - need to accumulate strong support for their initial impulse and clear and relatively rapid outcomes at the local level to enable a continuous impulse at the grassroots. In other words, successful decentralisation requires strong States from an institutional point of view not weak ones. **Weak states generate dispersion and administrative fragmentation, not decentralisation.**

55. In this perspective, rural development needs a clear focus on the promotion of civil organisations. These organisations although neither predominant nor always sustainable in the countryside are a clear arena for institutional experimentation in relation with decentralisation and local institutions.

Institutions and Organisations

56. The creation of these local conditions is not enough. It is crucial to reorder the national arrangements in order to guarantee a strategic vision in the development of the countryside. A question that summarises the main endeavour in this respect is: **what is the new mission of the ministries of agriculture?** The question in itself arises as a consequence of economic and political reforms in the region.

57. A major challenge in this respect relates to **resource allocation** as a strategic space for consultation and agreements. One level of this debate is in terms of national budget, another relates to how much of the rural development budget is directed to the regions, towns and localities. The allocation of public funds to more developed regions of commercial agriculture or to the poorer regions of peasant agriculture has always been a matter of dispute. The easy argument - although not necessarily the best - is to differentiate between economic promotion and social assistance.

Social policies and rural development: a menu of options

58. In most Latin American societies, the crisis of the 80s resulted in vast and varying restructuring processes which did not only affect the political and economic system, but also cultural spheres, in terms of the formation and transmission of important values for social integration. The attempt to reformulate and gain consensus for a new view of social justice - that is a series of substantive principles to judge policies, institutions and social practices - has a very strong equity component. Its purpose is to guarantee equal opportunities, but it does not aim at

creating a false social symmetry seeking to eradicate differences and interests artificially. Maybe this is where the convergence between social policy and democracy lies.

59. The reform of the social policy requires a profound revision of the links with the macroeconomic policy, particularly the fiscal policy. If macroeconomic stability is presented in social terms as a promise for fair distribution of the potential benefits from growth in the future, the fiscal policy has then an important role to play in the short run to bridge the different transitions between state-led and market-led developments.

60. A lot has been written recently to address some of the fundamental concerns of the present situation in Latin America and the Caribbean: What measures can improve income distribution? Which mix of available policies can help solve problems of regional imbalance, disintegrated social policies and limited democratic participation? An attempt is made below to present a series of responses that do not necessarily stand as alternative options.

61. **Fiscal transfers** with healthy financial support are seen as precondition for the renewal of the social policy in two of its most important spheres: a) the fight against extreme poverty, particularly with regards to the food security of families with limited resources; and b) the consolidation of an efficient and just system of basic services for the population in order to guarantee improved access.

62. **Public expenditure in infrastructure** is another redistribution instrument, particularly in rural areas. First, it is necessary to reduce transaction costs associated with the transportation of merchandise in rural areas. Secondly, it can lead to an improvement of incomes, the creation of employment and permanent marketing opportunities.

63. In general, any **tax reform** needs to address the problems of equality - by expanding the tax base and reducing evasion and loopholes - and of accountability from the taxpayers. The introduction of fiscal pacts - or citizenship contracts¹ - through which a clear definition of the priorities and distribution criteria to which tax contributions are channelled can be an instrument of fiscal accountability.

64. **Massive support to the so-called “third sector”** is a strategic and important element for a new social policy. These initiatives may arise in the informal or formal sector of the economy focused on the promotion of micro-enterprises, co-operatives and associated enterprises in marketing and service networks. The purpose is to generate an **enabling environment of opportunities** both to create small and medium scale enterprises, as well as to obtain access to managerial, marketing and technological skills.

65. **Strong focus on developing and increasing competitiveness of the less endowed segments of society.** In this respect, one must underline the importance for renewing and expanding training programmes in the informal sector and providing better marketing opportunities as well as disseminating managerial knowledge to the micro enterprises of the formal economic sector.

¹ Commitments from governments to channel fiscal resources to specific activities such as education or rural infrastructure.

Reconstructing institutions

66. Three basic components are required to achieve these objectives: a) organisation to reduce transaction costs and improve access to public services and productive resources; b) training to adapt to the new requirements of economic and social development; and c) institutional schemes, for capital formation, technical assistance and marketing adapted to micro-enterprise conditions.

67. What is really important is **the structure of incentives and opportunities**. The trend to increase productivity by “investing in persons” has acquired a determinant role in development strategies. But increases in productivity are the combined output of technological development and changes in rules and norms.

68. **Social capital** such as trust, norms and networks, can improve the efficiency of society by facilitating co-ordinated action. Some of the benefits associated with the concept of mutual trust is that by reducing transaction costs, relations of mutual trust can increase market efficiency and thus increase the formation of human made capital. The existence of networks of social sanctions can enhance both the level of human capital formation and perhaps more importantly the social uses to which that human capital is put.

69. The above requires a common matrix and a concentrated effort towards what we have labelled “**reconstruction of institutions**”. The concept attempts to define a deliberate effort to be set forth from the State and from civil society as an answer to a critical situation. This situation, product of a combination of **social fragmentation and institutional weakness**, requires the establishment of a set of mutual commitments on rights and obligations. These commitments define a **pact of guarantees** with a single purpose: to contribute to build a basic floor on which to base negotiations and resolve inevitable differences and discrepancies in pluralist societies. It is not a question of mystifying the role to be played by consensus-building processes but to assert their unquestionable role in modulating the **pace of change**. As a pact of guarantees cannot be achieved in a vacuum, the role of social actors, their mobilisations and demands must be articulated into this institutional structure.

70. This institutional reconstruction process can feed on impulses from social mobilisation, specific policy designs and a good structure of incentives and sanctions that warrant compliance with rules (enforcement institutions). We are talking about rules that assign as well as limit authority in a given area. In lieu of detailed instructions that can be open to various interpretations and face, in practice, various practical constraints, the role of incentives to mould actions and results is emphasised.

71. Over a decade of institutional reforms provide the lesson that the weak development of certain markets or the existence of incomplete markets demands public interventions albeit **not necessarily from governmental organisations**. In this sense, the term “**public non-governmental organisations**” (PNGO), could be appropriate to express the provision of certain type of public goods, basically intangible, such as policies, norms and regulations, through private actors.

72. PNGO’s main defining feature is that they are not linked to a given political regime or subject to the various selection and composition rules that affect governmental organisations, which depend on universal election. Examples of these organisations are human rights commissions or autonomous electoral organisms. Central banks, when they are autonomous and

subject to social fiscal issues and accountability, could also be an example of the type of organisation labelled as PNGO.

73. In the case of PNGO, the central problem to dissuade opportunistic behaviour would be to guarantee the broadest participation of the various social actors in the decision-making process. Obviously, this is a costly alternative in terms of design and start-up. The second problematic aspect is that ill use in the application of a certain rule, in its prescription or in the establishment of sanctions damages trust in the rule and also affects the credibility of the PNGO itself.

74. There are two other additional aspects as regards PNGO as their existence needs not assume a given environment. On the one hand, one could envisage examples in a local environment as well as in the global environment, while on the other hand, this process of institutional reconstruction needs a solid structure of incentives and sanctions that can guarantee compliance of rules and regulations. In general, social actors are well disposed to comply with rules of a varying nature when they are convinced that the common objective pursued is being achieved and that there are ways of ensuring that the other actors will also comply. This attitude is the so-called quasi-voluntary compliance.

75. In synthesis, there is no sense in promoting flexibility, transparency and participation without equally recognising economic diversity and pluralism. What is important is to incorporate the numerous differentiated strategies as well as the social actors who incarnate them in organisations, institutional arrangements and policies. However, this dialogue requires precise rules and incentives structure to **guarantee participation with civil responsibility**. These public non-governmental organisations could help in that direction. In facing long-term problems, through the provision of certain public goods where probably there are neither immediate gains nor a sustained attention from governmental institutions, a space is created for the deployment of better negotiating capabilities among social actors and for the definition of long-term government policies. This, in turn, can be crucial in channelling social energies in a direction that would strengthen social cohesion. In fact, institutional reconstruction aimed at addressing social cohesion problems would seem to be the central objective of government policy.