



**NGO Committee for  
Social Development**



**COMMISSION FOR SOCIAL DEVELOPMENT  
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**Special Event: Financing of Social Development, 3 Feb. 2012, 3:00-6:00 pm**

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For decades, governments have been following a development paradigm according to which developing countries focused on economic growth rather than redistribute income and enhance social development. The result when there was growth has been increasing inequality and especially a growing vulnerability at the bottom of the income pyramid as opportunities for employment and advancement were very unequally shared.

The present economic and financial situation, however, exacerbates the situation. It is also not sustainable and the people's movements in developed and developing countries remind us that when something is not sustainable, it will not be indefinitely sustained. The global financial architecture has proven inadequate to meet the needs of the majority of the world's population. It is producing more inequality than prosperity, more insecurity than progress.

We are deeply concerned to see that the G-20 continues to lead the main global financial and trade institutions in the wrong direction, leaving the people of the world highly vulnerable to financial and trade crises, cutting back social protections and facilitating increasing inequality through massive unemployment, downward pressure on workers' wages and working conditions and rights, reduced access to key public services and a threat of hunger. What is seen on the ground is a decrease in resources for necessary social programs at the same time that there is a marked increase in the demand for these services (see CSO survey of 2010<sup>2</sup>). There is the danger that the financial crises will have further negative consequences for social development in many countries of the world, precisely at a moment when social needs are greater. Further, we know that the worst effects are yet to occur since these effects often lag behind the crises themselves.

Both the NGO Committees on Social Development as well as on Financing for Development have always put the focus of their work on poverty eradication, social development and how to finance these. We think that today it is high time to find the right balance between social and economic investments. The development paradigm we need today has to aim at stabilizing societies as well as stabilizing economies. We must focus on addressing inequality. Our governments must not be afraid of redistribution.

On 31<sup>st</sup> January the key theme of the NGO Forum was "The Social Protection Floor Initiative – Bridging the Gap to Poverty Eradication. We learned from the ILO that an allocation of an average of 4% of Gross Domestic Product (GDP) would be sufficient to finance a universal social protection floor. So, it is possible in most countries. The NGO Committee for Social Development started a global campaign for the establishment of the social protection floor initiative and collected already more than 15.000 signatures. More than 10.000 handwritten or thumb print signatures were sent to us from the regions. The committee will continue and broaden this campaign, which is now also getting attention in Europe. We continue our campaign and hope to reach 1 million soon.

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<sup>2</sup> The executive summary and the full study "Impact of global crises on CSOs" are available on line at the website of the NGO Committee for Social Development <http://ngosocdev.wordpress.com/> or at [www.socdevjustice.org](http://www.socdevjustice.org). The study was also co-sponsored by the Friedrich Ebert Stiftung New York Office, the Sisters of Charity Federation and Marianists International

## **Inequality**

At last week's World Economic Forum in Davos, income inequality emerged as one of the key themes. In recent years, income gaps have widened in the United States and many other Western countries as well as in some emerging countries, one of them now as many billionaires as the US.

According to the ILO study released last week, there is a global backlog of 200 million unemployed workers in the world, an increase of 27 million since the crisis began in 2007. But as the world labor force continues to grow, the world needs to generate 600 million jobs over the next decade to absorb the currently unemployed and the new entrants. Even if that is achieved, it will still leave 900 million workers and their families living on less than \$2 a day. However, the prospect for creating those jobs is not encouraging. ILO forecasts no reduction in the global unemployment rate (6%) up to 2016.<sup>3</sup> Global wages are either stagnating or shrinking. A new research paper by Oxfam/UK<sup>4</sup> shows, unless action is taken fast, inequality is going to get worse in many places. The good news is that some emerging countries, such as Brazil, have managed to foster economic growth and reduce poverty at the same time. It has lifted nearly 12 million people out of poverty in the last 10 years. It has achieved this with strong government action and policies that redistribute wealth and support the poorest. However, it is difficult to ensure long-term financial sustainability of social programs in the context of volatile revenues dependent on fluctuating commodity prices.

In 2008, as the world was plunging into financial crisis and serious recession, more than 250 civil society organizations met in Doha at the review conference on Financing for Development and urged governments to take immediate action to counter financial crisis and foster social development.<sup>5</sup> Those conclusions, which I summarize here, remain as pertinent today as they were then. The exact policy mix should be tailored to each national context, but policies in successful developing countries suggest the following starting points.

### **I. Enhance domestic resource mobilization**

The most sustainable financing route for developing countries over the long term is for them to have the policy space and the necessary support to raise domestic revenue

- through strengthened tax and financial administration,
- through transparent income reporting and effective taxation of transnational corporations, and
- through progressive tax regimes that adequately tax capital gains and corporate profits. Redistributive transfers could then finance social pensions, unemployment compensation and education, as well as youth employment programs.
- An allocation of an average of 4% of Gross Domestic Product (GDP) would be sufficient to finance a universal social protection floor.
- We are glad to read that the US is planning to reduce its military spending. Other governments should follow suit and should redirect a minimum of 2% of their military budget to social development.
- Undesirables, "Global Public Bads", such as greenhouse gas emissions, should be taxed in order to direct resources and economic activity towards more sustainable alternatives, such as the agricultural sector.

Since years, civil society organizations criticize the net resource outflow from the poor to the rich countries through commercial capital flight and other instruments including debt servicing. Conservative estimates

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<sup>3</sup> ILO, *Global Employment Trends, 2012*.

<sup>4</sup> <http://policy-practice.oxfam.org.uk/publications/left-behind-by-the-g20-how-inequality-and-environmental-degradation-threaten-to-203569>

<sup>5</sup> Key recommendations based on the Civil Society Declaration in Doha 2008 by the Doha NGO Group on Financing for Development see : [www.ffdngo.org/sites/default/files/Final%20Draft.pdf](http://www.ffdngo.org/sites/default/files/Final%20Draft.pdf) and [www.ffdngo.org/sites/default/files/Web\\_CSPandR\\_Key\\_Recommendations\\_Sep24\\_0.pdf](http://www.ffdngo.org/sites/default/files/Web_CSPandR_Key_Recommendations_Sep24_0.pdf)

indicate that \$500 – 800 billion leave Southern countries every year through capital outflows. Some capital outflows are legal, but others entail tax evasion by multinational corporations operating in Southern countries and rich individuals. Tax avoidance schemes are legal but unwarranted and equally deny poor countries much needed financial resources for development.

- Therefore, some developed and developing countries could substantially raise their domestic resource levels by supporting the repatriation of stolen public assets such as those caused by theft by corrupt public officials and by closing tax havens.
- Capacity needs to be strengthened for greater cooperation and sharing of information between all countries to prevent and overcome tax avoidance and tax evasion; A more representative space for international cooperation on tax matters could be provided by replacing the UN Committee of Experts on International Cooperation in Tax Matters by an adequately resourced and representative intergovernmental body.
- Many civil society groups also call for enhanced corporate disclosure of revenue, ownership of assets and taxes paid, and for the full implementation of the UN Convention against Corruption. There should be an effective monitoring mechanism on the implementation of the Convention.

## **II. Regulate foreign direct investment**

Foreign direct investment (FDI) is an essential part of private capital flows to developing countries. However, investors will not maximize social and sustainable development aspects on their own. They require the guidance of an appropriate regulatory environment. Investments in extraction of natural resources should respect national sovereignty, protect the environment and guarantee the right to consent by affected communities including indigenous peoples. FDI should follow environmentally and socially sustainable production systems, and align its operations with national and local priorities.

- Appropriate regulatory frameworks should be put in place to ensure corporate accountability, including through endorsement of the ILO Declaration on Multinational Enterprises and Social Policy.
- Standards and control should be introduced to assure that business activities are in line with human rights, including worker`s rights (*UN Guiding Principles on Business and Human Rights/ “Ruggie Principles”*). Particular important are areas concerning the state duty to protect and promote human rights, the corporate responsibility to respect human rights, and the need for access to effective remedies for victims, including through judicial mechanisms.
- Bilateral investment and free trade agreements should be discussed with all relevant stakeholders, notably national parliaments, social partners and civil society, ensuring democratic ownership when agreements are adopted. Such agreements that do not promote social development and decent work should be revised or repudiated. The drive to improve productivity and competitiveness, particularly through outsourcing and subcontracting should not be pursued at the cost of workers’ rights, working conditions and wages, but should be based on the social and environmental imperatives of sustainable development.

## **III. Establish fair rules for world trade**

“International trade can serve as an engine for social development”. However, the implementation of an export-led model that placed much emphasis on the liberalization of trade, did not ensure that trade would become an instrument for the stable and sustained growth of employment and incomes, preconditions for raising public revenues for the adequate provision of social development finance in developing countries.

- Member States therefore should reshape the World Trade Organization (WTO) negotiations towards a genuine development round.
- Northern countries should drop their demands for premature developing country tariff reductions in all WTO negotiations and end their own agricultural subsidies.
- Existing Free Trade Agreements that pressure developing countries to lower their agricultural tariffs and to liberalize their financial sector and other services should be revised or repudiated. WTO rules should be reviewed to enable developing countries to have sufficient flexibility, special and differential treatment.

- Unregulated financial market activities and the spread of excessive speculation in commodity derivatives have increased economic instability. Recent studies are showing that this speculation is a major factor in the spikes in food and energy prices that are daily driving more people to experience food insecurity and hunger. Therefore more efforts are necessary to regulate such commodity derivatives trading.
- Aid for Trade should not be conceived as a substitute for a reformed trading system that refocuses its objectives on achieving full employment and social and sustainable development. Aid for trade can only succeed if it is unconditional, non-debt creating, additional to existing commitments and oriented to build the productive capacities of recipient countries, rather than the mere implementation of trade rules. Aid for Trade should instead address the trade, financial and monetary pre-conditions for southern countries to utilize trade as a tool for social development and full employment.
- Developing countries should be allowed to protect their agriculture using a flexible and effective Special Safeguard Mechanism. Developing countries must be accorded the policy space to determine whether, how and when they want to liberalize sectors and markets. Trade liberalization should not worsen employment, but must be coherent with the aims of decent work, social development and environmental protection.

#### **IV. Initiate new international financing instruments for development**

In some low-income countries, domestic resources are insufficient to finance social development. Here, additional international development assistance is required. More reliable, stable and predictable funds are required to help low-income countries to finance social development and build up a social protection floor for its whole population. The financial crisis however negatively affects future aid prospects. The OECD predicts that programmable development assistance will only grow at 2 per cent per year between 2011 and 2013, compared to about 8 per cent per year in the past three years.<sup>6</sup> This is a matter of concern.

- Developed countries should therefore advance the implementation of their aid commitments. All countries should accelerate progress towards realizing the 0.7% ODA/GNI target and the 0.15 to 0.2 % target for the least developed countries (LDC Conferences in Brussels 2001 and Istanbul 2011).
- Donor organizations and rich countries should go beyond previous agreements and fully untie aid as well as de-link aid from economic policy conditions, instead more ODA should be allocated to social sector expenditures.
- Military spending must be reduced and at least 2% of the funds released should be used instead to finance social protection programs.
- **Innovative sources of finance**, such as the solidarity levy on air tickets should be expanded to finance social development programs.
- Even a very small financial transaction tax, could provide a more steady and predictable source of financing for social development, including a social protection floor.
- Member states should therefore not hesitate any further to commit themselves to implementing such a financial transaction tax, including a levy on all foreign exchange transactions. Numerous studies demonstrate that a currency transaction tax would be technically feasible and mobilize far more funds than all innovative financing instruments so far put together. Innovative resources should be additional to ODA.
- Financial assistance should take on a cost-sharing approach, in case a recipient country shows high levels of corruption and excessive military spending.

#### **V. Implement lasting and sustainable solutions to the debt problems**

Despite debts cancelled in recent years, the majority of countries throughout the South are still vulnerable to new debt crises. The current financial crises only increased that vulnerability, adding a number of European countries to the list of States in difficulty. The traditional solution of multilateral crisis lending, which adds to the debt burden of borrowing countries, is not the right approach. Particularly in these times of severe crisis, governments should have a lasting solution and fair mechanism to prevent badly-needed resources from being diverted to debt servicing and away from fundamental human and environmental needs.

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<sup>6</sup> UN, *MDG Gap Task Force Report, 2011.*

- In some cases debt cancellation has to be expanded, including haircuts by creditors, especially banks.
- A basic social protection package is demonstrably affordable on condition that the package is implemented through the joint efforts of the low-income countries and of the international donor community. Debt for social protection' exchange could play a role in inaugurating or capitalizing a new scheme. By increasing financial resources for a government at one point a 'debt for social protection' exchange (debt swaps) could contribute to overcoming initial financial constraints. Another possible means of playing a role would be for debt swaps to be phased over a period of years.<sup>7</sup>
- We expect that the actual IMF review of its debt sustainability framework – to be done during this month – should include social development and environmental criteria. In addition, socially harmful conditionality should be eliminated.
- The UNCTAD project on developing a charter of principles for responsible lending and borrowing will hopefully include these aspects. We look forward to a broad endorsement and adoption of the Charter.
- The sovereign debt crises in European countries demonstrate again that there is a need for a comprehensive framework for sovereign debt restructuring. The United Nations should play a key role in its establishment, involving all relevant stakeholders including civil society and make sure that the new mechanism is subject to international human rights norms and treaties. This framework should be independent and binding.

## **VI. Systemic issues: Reform the international financial and governance system**

As said before, the global financial architecture has proven inadequate to meet the needs of the majority of the world's population. It is producing more inequality than prosperity, more insecurity than progress. Therefore, it is high time

- to substantially reform the governance of the Bretton Woods Institutions,
- to establish global cross-border cooperation on supervision and regulation,
- to establish a "Financing for Development Committee" to monitor the implementation of the commitments made in the Monterrey Consensus and the Doha Declaration,
- to create an UN expert panel on economic and financial issues as discussed at the ECOSOC in 2011,
- to adopt a rights-based approach to eradicating poverty and ensure the dignity of the individual, and
- to create a Global Economic Security Council or Sustainable Development Council for policy-making and dialogue on social, economic, financial and environmental issues with balanced regional representation within the United Nations (see UN PGA's Expert Commission on reform of the international financial system (2009) and UN SG's High-level Panel on Global Sustainability/ GSP Report 2012).

There is no shortage of proposals for potential effective measures and policies. Instead, we see a shortage of political will. With austerity programs comes a widespread global attack on public sector workers who provide those social services. Whereas the numbers of employees in the social sector are shrinking in some places, the workload of the remaining social workers is growing. Instead of state support, we see an effort to weaken public-sector unions. Working people, particularly, women are being forced to pay the bill for a system that has increasingly concentrated wealth and economic control in the hands of a few and that continues to deepen the vulnerability and impoverishment of the majority.

The swift and massive response of governments of the richest countries to bail out banks and other private financial institutions with several trillion US dollars stands in stark contrast to their failure to respond decisively to the financial crises that has afflicted many countries, including in the so-called developed world. The idea that "we" cannot afford nurses in hospitals nor teachers in schools nor fire fighters is not the right policy. Our thinking needs to change and policies have to be adopted that protect and enhance essential social expenditures.

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<sup>7</sup> More information, see John Langmore/ A. Clunies-Ross at: [www.socdevjustice.org/social-development.html](http://www.socdevjustice.org/social-development.html)

In summary, a combination of financing efforts and structural reforms is needed to promote social development. Poverty can be eradicated. All actions require a framework of good governance domestically and a reformed international governance structure which is **re-distributive** and **pro-poor**.