COMMISSION FOR SOCIAL DEVELOPMENT
Fiftieth session, 1-10 February 2012
United Nations

Special Event: Financing of Social Development

3 Feb. 2012, 3:00-6:00 pm

Concept Note

A. Why financing of social development is important

As highlighted by the *2010 Human Development Report*, the past 20 to 30 years have seen significant progress in many aspects of human or social development. There has been significant progress towards universal primary education and gender equality. Many people are now living longer and are healthier. Many more have unparalleled access to public goods and services, including information technologies. Incomes have also risen, resulting in a significant decline in the proportion of people living on less than $1.25 a day.

However, despite the encouraging progress in various aspects of social development, the number of people living in poverty remains unacceptably high in several countries. Vertical and horizontal inequalities are increasing in several countries while millions of children continue to drop out of school, without acquiring basic education, knowledge and skills. Large numbers of women also continue to needlessly die while giving birth.

While there are several reasons behind the lack of progress on some of these social indicators, the single biggest reason for slow progress is probably the lack of sufficient financial resources devoted to social development.

Financing of social development is an investment in human capital and economic growth. It is also evident that adequate finance improves the efficiency and effectiveness of social services. The importance of mobilizing financial resources for social development is further underscored by the recent global crises and their impacts on rich and poor countries alike.

Hence, it has become much more imperative for countries and their development partners to chart a sustainable path to the future that includes ensuring the adequate allocation of public and private resources to social development. Without adequate resources, it is difficult to implement any social policies that reduce inequalities, improve lives and realize the potential of women and children, youth, persons with disabilities, the elderly, indigenous groups, and the poor. Investing in and empowering of these groups is a practical and smart strategy for equitable and sustained economic growth and development.

B. The impact of global crises on social development

Since 2007, the global financial and economic crisis, coupled with the food and energy crises and the ongoing effects of climate change, have widened and deepened levels of unemployment, poverty and hunger, and social exclusion. During the recent global financial crisis, government revenue in emerging economies and developing countries dropped from an average of about 29 per cent in 2007/08 to 27 per cent of GDP in 2010.[1] Many advanced economies have also shifted to monetary and fiscal tightening, a development that is impacting social expenditures that are critical to social development.

Hence, these crises have undermined, by slowing down or reversing progress, the development gains of developing countries, including those towards the Millennium Development Goals. Their impacts are going to be felt for years to come.

Besides having directly impacted people's lives through job losses and food price shocks, the global crises have also limited the ability of poor countries to gain access to the financing necessary for their development objectives, in particular those related to education, public health, and other basic services. Furthermore, because of suppressed demand in advanced economies, the financial and economic crisis has constrained the ability of developing countries to raise domestic resources through exports.

Despite coordinated policy responses during the early stages of the crisis to stabilize the financial sector, sovereign debt distress in developed economies continues to cause uncertainty and volatility in global financial markets. Likewise, efforts to jump start a sustained and robust recovery have faded. With many advanced economies pursuing fiscal austerity measures, the recovery of the world economy has been at best anaemic and uneven over the last two years. There are real concerns of a double-dip recession in major developed economies while growth in emerging economies is moderating.[2] These trends help explain persistent high unemployment levels in most countries. Furthermore, fiscal space of many countries continues to be undermined by diminished tax revenues while the Euro-zone debt crisis is also clouding the prospect of a global economic recovery. Moreover, given the fragile recovery in developed countries and the possibility of a double-dip recession in Europe, most donors plan to slow down their aid delivery over the coming three years.

As a result, financing for social development faces downward pressure precisely at a moment when the needs are greater. Hence, there is an urgent need to embark on a new era of sustainable development that pays greater attention to the social pillar of sustainable development, supported by increased financing for social development.

C. Domestic resource mobilization for social development

It is now widely agreed that efforts to eradicate poverty, create jobs, promote sustained and inclusive growth are nationally owned endeavours. As a result, efforts to mobilize domestic resources for social development have become paramount. Greater domestic resource

[1] A/66/329

[2] The United Nations estimates that global economic growth started to decelerate on a broad front in mid-2011 and this slow growth is expected to continue into 2012 and 2013. See, UNDESA. WESP 2012

mobilization efforts give countries the fiscal space that is necessary to scale up public spending on social sectors. It also strengthens their ability to build more resilient economies. Furthermore, a greater reliance on domestic resources protects countries from sudden shocks and uncertainties posed by fluctuations in export revenues, official development assistance flows and foreign direct investment.

Many countries have stepped up their efforts to boost domestic resources for social development through governance reforms and prudent macroeconomic management, in particular improved management of revenues emanating from the recent commodity boom as well as more effective and fairer tax policies.[3]

The impact of domestic resources on social development is greatest when these resources are invested in areas that strengthen human capital formation (education and health), create jobs, enhance food security and protect the environment as well as effectively deliver public goods and services to those disadvantaged as a result of social exclusion, gender, age, geographic location, or conflict.

In order to effectively mobilize domestic resources, countries need to continue addressing a number of structural deficiencies and bottlenecks. Given the need for public investments in the development process, the generation of public revenues is a critical component of domestic resource mobilization. Yet, increasing government revenues remains a major challenge in a number of developing countries. Growth-promoting policies are therefore central to raising public revenues.

Tax collection efforts can be supported by appropriate tax policies, modernized, transparent and equitable tax systems, effective tax administrations, broadening of the tax base and combating tax evasion. Addressing tax evasion among small and large companies as well as ensuring that small and medium enterprises pay their fair share of taxes will further enlarge the fiscal space of most countries. High levels of tax evasion undermine productivity growth by preventing governments from investing in education, health, and infrastructure. Therefore, developing countries should step up fiscal and tax reform efforts. International tax cooperation should be further strengthened.

In some countries, there is scope for increasing revenue generation from natural resources and related industries. Resource mobilization efforts in many resource rich countries have benefited tremendously from high global demand for hydrocarbons, minerals, timber and other commodities. While the global economic crisis dampened the demand for these products, many countries were able to significantly boost their revenues, allowing them to scale up investments in areas such as clinics and hospitals, schools, and roads. However, for revenues from natural resources to have greater impact on the ability of governments to address the myriad needs of their populations, these resources need to be further enhanced and better managed.

In addition, countries need to prioritize social protection financing for building up and improving basic social protection floors. The report of the High Level Advisory Group to the UNCEB Social Protection Floor Initiative states that national social protection floors are a social

[3] A/66/329, AfDB, OECD, UNECA, and ACP. 2010. African Economic Outlook 2010. Public Resource Mobilisation and Aid.

and economic necessity and their progressive implementation in most countries is affordable and feasible. There is also a growing body of evidence from the developing world on the successful implementation of basic social security packages.

Moreover, strengthening financial inclusion and the role of cooperatives can help channel domestic financial resources into social development. Financial inclusion, understood as universal access to a wide range of financial services, is seen as a means to help reduce poverty and meet other social development objectives. It represents a broader concept than microcredit in that it includes a range of financial services, such as savings, payments, insurance, as well as credit. Inclusive finance strives to enhance access to financial services for both individuals and SMEs. Financial and agricultural cooperatives facilitate access to finance in different contexts around the world, often in conjunction with social objectives.

D. International resource mobilization for social development

While many developing countries have increased public spending on social sectors, these resources are insufficient to meet the needs of their growing populations. Hence, additional international resources are required to help countries adapt to and mitigate the ongoing effects of climate change, empower women and young people, build a safer and more secure world, and support countries in transition as well those affected by natural disasters.

For many low-income and non-resource rich countries, a growing share of current public spending in support of these challenges is augmented by aid. Aid inflows have contributed to employment creation, reducing levels of extreme poverty and hunger, broadening access to education and primary healthcare, and improving access to clean water, sanitation and other basic services. Hence, financial support and capacity building in social policy expertise within the sustainable development framework is required if countries are to make significant progress towards several social development goals.

To date, ODA has increased to a record $129 billion, but continues to fall short of commitments.[4] Moreover, aid delivery has been pro-cyclical and volatile. At the same time, the world financial and economic crisis has negatively affected future aid prospects. According to a recent OECD survey, country programmable aid will grow at 2 per cent per year between 2011 and 2013, compared to the average of 8 per cent per year over the past three years[5]. Greater efforts are therefore required to ensure that developed countries fulfil their commitment of allocating 0.7 per cent of their GNP to overall ODA, including 0.15-0.2 per cent to least developed countries. It is also important to ensure that developing countries attain food security and are better equipped to fight extreme poverty, hunger and malnutrition, through implementing aid pledges, such as those contained in the 2009 "L'Aquila" Joint Statement of the G8 on Global Food Security.

Many countries are also exploring innovative ways of raising additional resources for social development. This includes aid-for-trade, carbon tax, solidarity levies on air tickets and some form of international finance facility for programmes such as immunization and drug

[4] A/66/126
[5] WESP 2012

purchases and climate change adaptation.[6] Innovative mechanisms may be extended to other areas that are relevant for achieving the MDGs, such as education, food security and poverty eradication.

Foreign direct investment remains a major component of private capital flows to developing countries and is estimated to have amounted to over $300 billion in 2010.[7] However, FDI remains concentrated in a few regions and countries. FDI might spur social development in various ways, including through investing in social sectors such as education, health, water and energy, supporting linkages to local industries and markets, enhancing local enterprise development, and bringing in corporate social responsibility.

Migrant workers' rremittances have grown considerably during the past decade, reflecting an increase in international migration and better measurement of remittances. Officially recorded remittances to developing countries are estimated to have totalled $325 billion in 2010, representing a year-on-year increase of 6 per cent.[8] This highlights the increasingly important role of diaspora communities as providers of external finance. Much of the funding received through remittances is spent by households on social purposes, including food, housing, health and education. Greater efforts need to be made by both host and home countries to tap the economic potential of diasporas, including through providing an enabling legal, regulatory and institutional environment and reducing remittance costs.

International trade can serve as an engine for social development, mainly through job creation in formal sectors, enhancing domestic productive capacities in global value chains, and skills upgrading. Short-term adjustment measures (support of in-job learning and skills upgrading) and long-term policies (e.g. unemployment benefits and support of science, technology and languages in formal and informal education) can help minimize potentially adverse effects of a transition towards a more liberalized trade regime and cushion against reduced trade revenues in times of global crises.

International debt relief efforts, such as the Heavily Indebted Poor Countries (HIPC) Initiative, have reduced the debt burden of poor countries. Despite remaining challenges, this has enhanced fiscal space for pursuing poverty-reducing and social policies in the countries concerned. However, the absence of an efficient and fair debt restructuring mechanism makes resolving debt problems an arduous, prolonged and costly process often with serious social implications. Practical options to enhance the financial architecture for debt restructuring could be discussed at the United Nations, with the participation of all relevant stakeholders from the official and private sectors.

E. Objectives and format

The General Assembly recognizes that the mobilization of domestic and international resources for social development is essential for achieving the commitments of the World Summit for Social Development and the challenges countries face in this regard. In its resolution

[6] A/66/334
[7] A/66/329
[8] A/66/329

66/191 of 22 December 2011 entitled “Follow-up to the International Conference on Financing for Development”, the GA requested the Secretary-General, in cooperation with the Chair of the fiftieth session of the Commission for Social Development, to organize a special event in 2012 on the financing of social development.

The key objective of the special event is to assess the impact of the global financial and economic crisis on social development, and explore ways of how countries can respond to these challenges and how financial resources can be mobilized in support of social development priorities. It is expected that the event will stimulate substantive discussion and exchange of experiences among key stakeholders (Governments, the wider United Nations system, including international financial and trade institutions, civil society and the private sector) to arrive at policy conclusions on this important topic.

This event will follow a format in which invited policy makers and experts give lead presentations on themes related to financing for social development (10 minutes each), followed by an open interactive discussion led by a moderator.

F. Questions for consideration

1. Despite broad agreement on the importance of financing social development, countries of all income levels fail to allocate sufficient resources for social development. What are the major challenges facing countries in mobilizing resources to finance social development and how are they responding to these challenges?
2. How can national policies and international partnerships help overcome the ongoing global economic crisis which has constrained the ability of some countries to raise resources at the domestic and international level to finance social development?
3. What are the more long-term structural measures needed to promote domestic and international resource mobilization for social development?
4. What lessons can be drawn from good practices and experiences? How can the United Nations system more effectively support national efforts in resource mobilization for social development?
5. What ways of domestic resource mobilization should be strengthened, and how can this be achieved?
6. How can donors, recipient governments and other relevant stakeholders leverage ODA to increase its impact on social development? Should more ODA be allocated to social sector expenditures (in relative and/or absolute terms)?
7. What is the potential of innovative mechanisms of financing social development, and how can this potential be realized?
8. What type of FDI benefits social development the most? How can such FDI be encouraged?
9. How can multilateral trade agreements ensure that trade liberalization does not come at the expense of social development? What complementary government policies can maximize the impact of a liberalized trade regime?