Financing for Development (FFD3): Reducing inequities for children

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Samantha Cocco-Klein

Finance has been the hot topic at the UN this summer. And for good reason; agreements on how to fund the Sustainable Development Goals (SDGs) will have profound implications for achieving the new agenda. Negotiations have been difficult, with often a sharp divide between traditional donor countries and the G77. Failure to find agreement before and at the FFD3 meeting in Addis Ababa could create "a harmful domino effect" [i] for the SDGs. In this post, Equity for Children looks at the most controversial issues and considers the critical agreements needed to reach all children by 2030.

In short, Equity for Children (EFC) recommends participants at FFD3 to:

1. Address inequities and macroeconomic structures by focusing on progressive taxation, anticorruption measures, illicit financial transfers and tax evasion.
2. Hold to the principle that reducing inequities for children within a country is the primary responsibility of each government, but reducing inequities between countries is a global and collective responsibility.
3. Recognize the sheer cost of fully implementing the SDGs is beyond the capacity of many countries on their own, and target Official Development Assistance (ODA) to Lesser Developed Countries (LDCs).
4. Prioritize the commitment to funding a social floor for all children and all families.
5. Improve analysis of how much of public budgets are spent on children, disaggregated by age, gender and ethnicity or location as needed, together with the capacity building and participation of local communities in budget processes.
6. Open the door to wide participation on Financing for Development, and keep a seat at the table for child rights advocates.

1. Taxation

Taxation is one of the major areas of controversy - and the primary way governments fund equitable services for children. In Approaches to Equity, EFC recommends that countries, "**address inequities and macroeconomic structures by focusing on progressive taxation, anticorruption measures, illicit financial transfers and tax evasion**."[ii] Many countries and civil society organizations agree, and #MakeTaxFair and #TaxJustice are the current rallying cry outside the FFD3 negotiations.

Progressive taxation is a tried and true approach to funding social programmes. Recent research from Oxford University adds fresh evidence for its efficiency, showing that each US$100 per capita of additional tax revenue correlated to US$10 of government health spending. Positive effects on health were seen with progressive taxation on capital gains, profits and income. Regressive taxation on consumption, by contrast, was associated with increased maternal and child mortality.[iii]

So where is the controversy? Tax dodging by multinational companies and illicit financial transfers are in the crosshairs. According to Winnie Byanyima, Executive Director of Oxfam International, "Developing countries as a whole lose around US$100 billion in tax revenues each year as a result of corporate tax avoidance schemes that route investments through tax havens. Additionally, an estimated US$138 billion per year is lost to developing countries because they give away generous tax incentives to multinational companies."[iv]

FFD3 drafts include language to improve transnational corporations reporting to developing countries' tax administrations and civil society, but this may not be enough. The G77 and other countries want to see an UN-led 'Global Tax Body'. Currently, international tax policy is set by the OECD, whose membership excludes 100 countries. Without representation, no fair tax policy can be expected.[v] As one civil society group noted at a recent side-event, "if you are not at the table, you are on the menu."

2. Who is responsible for financing development?

Fault lines have emerged between the developed countries and the G77, China and LDCs on the principle of "common but differentiated responsibilities" (CBDR). Developing and middle-income countries see CBDR as essential to all aspects of implementing the SDGs. Developed countries want to see individual states take primary responsibility for their own development. In the eyes of the US, EU and Japan, CBDR applies only to the environment and climate change.[vi]

From our perspective, **reducing inequities for children within a country is the primary responsibility of each government, but reducing inequities between countries is a global and collective responsibility**. A similar argument was put forward by an unusual voice on finance, the Office of High Commissioner on Human Rights. While other UN programmes and agencies have kept to the sidelines of the political debate, OHCHR has charged into the fray, calling for "national governments to bear primary responsibility for development in their own countries. National financing strategies, fiscal policies, tax systems, subsidies, development plans should benefit the poorest."[vii]

At the same time, OHCHR calls on all states to own up to their commitments to international cooperation and creating an enabling environment for development. Here, moral and legal obligations are shadowed by economic arguments. **The sheer cost of fully implementing the SDGs is beyond the capacity of many countries on their own.** The Overseas Development Institute (ODI) has calculated what it would cost for the poorest countries to provide universal health coverage, basic education and social protection. Even with enhanced revenue, the poorest countries would have a funding gap of US$ 84 billion.[viii]

It is not just the amount of ODA that is critical to reducing inequities, but also the portion going to the poorest countries. ODI's Executive Director, Kevin Watkins, argues, "Bluntly stated, too little aid is going to the countries that need it most. Beyond reaffirming the 0.7 percent of GNI aid target, the summit should deliver a clear commitment to provide half of all aid to the Least Developed Countries."[ix] Currently, the draft text (as of May) has set a target of just 0.1 to 0.2 percent of GNI to LDCs, too little to close global gaps. At the same time, attention needs to be paid to what has been termed the 'missing middle' or countries where tax revenue has not grown fast enough to cover for reductions in international aid.[x]

3. The role of innovation and the private sector in funding the gap

The UN estimates put the cost of achieving all the SDGs in developing countries at $3.9 trillion a year. Current levels of both public and private funding cover only $1.4 trillion, leaving an annual shortfall of an estimated $2.5 trillion.[xi] In response, developed countries and other voices are calling for more emphasis on alternative streams of funding, harnessing innovations and the private sector.

Innovative financing for children has success stories, however, there are widely different understandings about what constitutes innovative financing[xii] – and limitations to the amount of funding that has come through them. The Rockefeller Foundation (a champion of innovative financing) has pointed out that "approximately US$10 billion dollars in public and private capital is channeled through innovative finance mechanisms annually. Collectively, this

represents less than 0.4 percent of the estimated US$2.5 trillion annual financing gap."[xiii] There is still a long road until innovative financing will substantially close the gaps for children left behind.

And public-private partnerships, where public funds are used to mobilize private resources, are viewed with suspicion by the G77+ countries and some civil society groups, who see an inherent conflict between the pursuit of public goods versus profits, along with a tendency for funds to end up with companies from donor countries.[xiv] Even the UK's Independent Commission for Aid Impact (ICAI) cautioned that "working with businesses is likely to have limitations in the impact that can be achieved for the poorest. Businesses will still tend to prioritize more profitable activities and areas."[xv]

Given these constraints**, better mobilization and use of domestic financial resources remains the primary way to fund services for children,** with more efficient and equitable taxes the surest way to expand the resources available. **Recognizing the fiscal challenge that many LDCs will face in mobilizing adequate resources, increased ODA, targeted to the countries and children with the greatest needs, is the other financial pillar for reducing inequities.** UNICEF and the child-focused organizations continue to make the case that investments in education, health, protection and social floors are "crucial investments in a nation's future human capital"[xvi] and represent the most cost-effective investments, with the greatest returns for every dollar spent.[xvii]

4. A financial commitment to every child and every family

The draft FFD3 text provides at least one big win for children, calling for a commitment to minimum of US$300 per person in purchasing power parity or 10 per cent of GDP to ensure that "every child and every family has access to a minimum package of essential services." And fortunately, there has been no political controversy over this portion of the text. This is good news for children, but how will we know it is being met, and will it reach the most vulnerable and marginalized?

Currently, most developing countries do not know how much of their public budgets are spent on children. Without this information, it is difficult to determine adequacy of investments and impact on children's wellbeing. In Latin America, UNICEF and pioneering governments have already begun to measure public investments in children, including quality of investments.[xviii] But is it enough to know only what has been spent on children? **Disaggregation by age, gender and ethnicity or location are needed, together with the capacity building and participation of local communities in budget processes.** EFC with Como Vamos in Colombia have modeled this type of deep grassroots analysis and understanding of

inequities in urban areas, providing a model for monitoring inequities and contributing to inclusive policy and budgets.[xix]

5. A seat at the table

When Heads of States and Ministers of Finance meet in Addis Ababa in July, they will still have big political decisions to make regarding the reform of an uneven playing field in international macroeconomic governance. A strong push has been made to strengthen the United Nations leadership role in this area, and for a reform of International Financial Institutions (IFIs). Reformers point to the lack of representation of developing countries; donor countries (and the IFIs) question the UN's capacity to lead in these areas.[xx]

Whatever agreement emerges at Addis Ababa, it is clear that finance is not just for the IFIs anymore. Whereas the Monterrey Consensus (2002) mentioned children only once[xxi], the outcomes of Addis Ababa will have a much greater reflection of the specific financial obligations that states and donors have towards children. **The table is getting bigger, and advocates for children will need to be prepared to take a seat and participate in reviews of SDG progress that include finance.** To do this we need to have the capacity to engage, to contribute technical expertise, and to provide analysis of public spending for children and its impact on children's wellbeing. Are we ready?

In conclusion, Equity for Children recommends participants at FFD3 to:

1. **Address inequities and macroeconomic structures by focusing on progressive taxation, anticorruption measures, illicit financial transfers and tax evasion.**
2. **Hold to the principle that reducing inequities for children within a country is the primary responsibility of each government, but reducing inequities between countries is a global and collective responsibility.**
3. **Recognize the sheer cost of fully implementing the SDGs is beyond the capacity of many countries on their own, and target ODA to LDCs.**
4. **Prioritize the commitment to funding a social floor for all children and all families.**
5. **Improve analysis of how much of public budgets are spent on children, disaggregated by age, gender and ethnicity or location as needed, together with the capacity building and participation of local communities in budget processes.**
6. **Open the door to wide participation on Finance for Development, and keep a seat at the table for child rights advocates.**

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