United Nations Research Institute for Social Development

The PDRM Project in the Context of the 2015 Finance for Development Debate

Nathalie Both

A background paper prepared for the UNRISD project on
Politics of Domestic Resource Mobilization for Social Development

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UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: +41 (0)22 9173020
Fax: +41 (0)22 9170650
info@unrisd.org
www.unrisd.org

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Acronyms

CSO	Civil society organization
DAC	Development Assistance Committee
DRM	Domestic resource mobilization
ECLAC	Economic Commission for Latin America and the Caribbean
EI	Extractive industries
FDI	Foreign direct investment
FfD	Finance for Development
G20	Group of Twenty
GBS-SBS	General or sectoral budget support
GNI	Gross national income
ICESDF	Intergovernmental Committee of Experts on Sustainable Development Financing
IFF	Illicit financial flows
IMF	International Monetary Fund
LDC	Least developed country
LIC	Low-income countries
MDB	Multilateral development bank
MDG	Millennium Development Goal
MIC	Middle-income country
MNC	Multinational company
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDRM	Politics of Domestic Resource Mobilization
SDG	Sustainable Development Goal
TNC	Transnational Corporation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
VAT	Value-added tax

Summary
This literature review serves as a background paper to the UNRISD project Politics of Domestic Resource Mobilization for Social Development (PDRM). It defines key points made by actors participating in Finance for Development debates, including the World Bank, the United Nations, and developing countries themselves. It aims to better understand how their positions on the post-2015 Financing for Development debate, and in particular, on domestic resource mobilization, relate to the aims and findings of the UNRISD PDRM project. This literature review is based on official reports by UN, multilateral development banks (MDBs) and civil society organizations (CSO) institutions, as well as the statements of various country delegates at the Substantive Informal Sessions held in the UN in October 2014 in preparation for the Addis Ababa negotiations. It covers the debates and literature published up to 29 January 2015.

Author
Nathalie Both is currently a research intern at the International Social Security Association (ISSA). This literature review was conducted as part of her internship with the "Politics of Domestic Resource Mobilization" research team at UNRISD between October 2014 and January 2015.

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Introduction

In July 2015, the UN will be holding the Third International Conference on Financing for Development (FfD) in Addis Ababa. Here, heads of state, finance ministers, and relevant international and non-governmental organizations will negotiate the modalities for financing the Sustainable Development Goals (SDGs), to be launched in September 2015. The scope of the conference is defined in General Assembly Resolutions 68/204 and 68/279, and includes an evaluation of the successes made since the Monterrey Consensus—the first such meeting held 2002—the need to address new issues and to reinvigorate the follow-up mechanism for the Finance for Development process. The Monterrey Consensus set out the following six chapters (or leading actions):

1. Mobilizing domestic financial resources
2. Foreign direct investment and other international private flows
3. International trade
4. Official Development Assistance (ODA)
5. External debt
6. Systemic issues: effective, inclusive global governance and monetary system reform

The FfD conference in Doha (2008) added a new chapter relating to new challenges and emerging issues, focusing especially on the financial crisis.

Many steps have already been taken in preparation for the conference in 2015, including Substantive Meetings to discuss the content of the agenda, and consultations with civil society and businesses to include their input into the process. These have led to a number of publications and reports defining the new framework and the expected outcomes of the conference.

While it has been highlighted that recommendations for financing cannot be made before the SDGs themselves have been set, the global context and the needs of developing countries with regards to financing have already been estimated. Although some of the Millennium Development Goals (MDGs) have been achieved ahead of time (including Goal 1 of halving global poverty), there remains much "unfinished business" (ICESDF 2014: 3). Most countries that are unlikely to reach the MDGs are those that are resource dependent, making resource management a central issue in the upcoming negotiations (Okonjo-Iweala 2014). In turn, inequality has risen both within and between countries, while many who have left poverty remain in very precarious positions (ICESDF 2014).

Within the context of financing development, it has been estimated that a global social safety net to eradicate extreme poverty would require USD 66 billion annually (Chandy and Gertz 2011), and USD 5 trillion to USD 7 trillion will be needed to meet all infrastructure investment needs (ICESDF 2014). Despite the pledges made in Monterrey, only three Development Assistance Committee (DAC) members have achieved their target of providing 0.7 per cent of their gross national income (GNI) to development, while on average only 0.31 per cent of GNI has been earmarked for development assistance. The global financial crisis of 2008 has further undermined the ability of developed countries to achieve this goal. In turn, the geography of the recipients of this aid has evolved, with middle-income countries (MICs) receiving the largest share of ODA, and least developed countries (LDCs) only 40 per cent of ODA (ICESDF 2014). While ODA has stagnated in recent years, private finance—and especially global savings—has increased, and it is estimated that existing savings rise to USD 22 trillion a year, and could be channelled towards development assistance and contribute to development financing needs (IMF 2014). Foreign direct investment (FDI), commonly understood as a central tool for development, hardly reaches LDCs, which receive only 2 per cent of global foreign direct investment flows. In turn, most FDI in these countries is directed towards the extractive industries and has limited spill-over effects on the rest of the economy. Domestic resource mobilization (DRM) has increased significantly in many developing countries, from USD 838 billion in 2002 to USD 1.86 trillion by 2011, yet international aid remains crucial for many LDCs (ICESDF 2014). Indeed, here, domestic resources remain insufficient in achieving development goals (Uneze 2014). It is also important to note the significant losses made by developing countries in the form of illicit financial flows (IFF) (that is revenue funnelled away from its source by corruption, tax evasion or tax avoidance). It is estimated that revenue thus lost is higher than overall ODA (ICESDF 2014). Finally, new innovative means of financing development have been developed, spearheaded to a large extent by the Leading Group on Innovative Financing for Development.[1]

The importance of the challenges ahead means that the FfD negotiations will have many issues to address. In this context, this background paper aims to define key points made by participating actors, including the World Bank, the UN, and developing countries themselves, to better understand how their positions on the post-2015 FfD debate, and in particular, on domestic resource mobilization, relates to the aims and findings of the UNRISD PDRM project.

Box 1. The UNRISD project on Politics of Domestic Resource Mobilization for Social Development

The project seeks to inform global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor-recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. For details and updates, see Project Brief 01/July 2012 on "The Politics of Domestic Resource Mobilization" (UNRISD 2012b), the project proposal (UNRISD 2011), and consult the resources available at www.unrisd.org/pdrm.