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Financing for Development

February 2014

This is an internal knowledge briefing prepared by the staff of the Policy Advocacy and Coordination Unit, Division of Policy and Strategy, UNICEF Headquarters. Its purpose is to facilitate the exchange of knowledge and to stimulate discussion on the future of children and of UNICEF. The findings, interpretations and conclusions expressed in this paper are those of the authors and do not necessarily reflect the policies or views of UNICEF or of the United Nations.

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KEY MESSAGES

The global development agenda is becoming broader and deeper. There are new actors, bringing new perspectives and expertise, as well as emerging processes to enhance transparency, ownership, participation and collaboration. The international development community is also facing new challenges, including threats of climate change, an increasingly urban population, a fragmented and uncertain economic recovery, and demographic shifts, among others. But there are also new opportunities, afforded by greater collaboration and mobility, technological innovation, and the sharing of ideas. Global interconnectivity is allowing more people to become agents of change than ever before.

The Millennium Development Goals have achieved a lot in pushing forward human development since 2000. However, much of the success was reliant on a few key factors – including the rapid economic growth in emerging economies, the low cost of capital, and the increase in Overseas Development Assistance (ODA). Several of these conditions have largely changed in recent years. The impacts of the global financial crisis of 2009 are still having repercussions: ODA has largely stagnated in real terms; and government budgets are under stress in many high- and middle- income countries.

The way development is financed must adapt to reflect the wider ambitions of the emerging post-2015 agenda and the more uncertain outlook for ODA. UNICEF considers that funding for child survival and development, which we believe must continue to lie at the heart of the post-2015 agenda, can lead the way into the new world of development finance. Development finance must reflect a more integrated approach to development, addressing the totality of rights of children and the variety of deprivations they face. It must foster participation and national ownership, and prioritize accountability and sustainability. It must tackle structural and demand-side issues, as well as short-term funding for emergencies and supply-side measures, be fit for purpose, and maximise the use of available resources.

In summary, UNICEF considers that there are several principles on which financing for development (FFD) for the Post 2015 agenda should be based. FFD should:

- **Promote equity and the progressive realization of the rights of most disadvantaged and marginalized in every society, particularly children.** Although significant progress has been made in the past decade and a half, addressing the needs of the most deprived children will be crucial to success in the new development agenda. ODA should support the

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poorest countries, first. This includes Least Developed Countries (LDCs) and countries affected by emergencies to ensure the survival and basic needs of their disadvantaged children as a top priority.

- **Emphasize the importance of domestic resource mobilization.** Many more countries are now in a position to utilize domestic resources as a primary source of FFD than ever before. Greater reliance on internal resources increases a country's ownership of public policies, ties accountability to citizens instead of external investors and aid donors, and improves reliability, predictability and stability of funding. Domestic resource mobilization, however, should not place any increasing or undue (and counterproductive) burdens on poor families.

- **Embrace private financing of development, but not be over-reliant on it**. The private sector, foundations and non-profits are bringing new opportunities, and providing innovative solutions to complex problems. But there is a risk that countries might become overly reliant private-sector financing. Rapid mobility of capital can hinder the development of long term and sustainable development systems. The challenge will be to select the right combination of sources, under the judicious guidelines and regulations, to minimize risks, instability and volatility, and provide long-term financing for investing in children.

- **Be complemented with good policy and implementation capacity.** No amount of financing is sufficient to achieve ambitious development goals without a supporting country-level policy framework, credible institutions, and a commitment to build domestic capacity and combat poverty. Financing should focus on intermediate as well as final results, be geared to building the necessary systems and institutions, and address proximate and underlying determinants that will deliver sustainable and long-term results for children.

- **Consider impact on current and future generations.** Experience has shown that excessive debt can affect the ability of governments to provide essential health and education services for their children; it can also affect future economic growth and development, as well as increase susceptibility to economic shocks. Debt should not be excessive to the point that it compromises the needs of the next generation. Debt taken out today should be catalytic, and have positive economic and social returns in the future.

- **Consider the whole life-cycle of the child.** This includes addressing their changing needs from early childhood into adulthood. Mothers who are well educated and provided adequate support and maternity care are more likely to provide their children with a healthy start to life, helping to break inter-generational cycles of poverty and inequity

- **Be reliable, stable, and predictable.** Uncertainty with regards to financing prevents the adequate planning and design of policies and programmes for children. Predictability in financing is critical to the success of development. We urge that OECD member countries move to progressively meet and/or maintain the commitment of at least 0.7% of GNP devoted to ODA. Member countries should renew this commitment in the context of the Post-2015 Development Agenda.

- **Be transparent, sustainable and accountable**. Transparency helps to make sure finance is spent correctly and in the most effective ways. It also helps generate accountability, and that duty-bearers are responding to their obligations and commitments.

- **Have a clear, articulated impact**. A results-based focus to financing is crucial to ensure aid is as efficient as possible. This involves a clear identification of the theory of change, and the likely outcomes and impacts of the interventions on children. It includes the need for a supportive policy environment and implementation capacity. ■

CONTEXT AND CONSIDERATIONS

The global development agenda is changing, becoming broader and deeper. The way it is financed must adapt to reflect these new realities. Child survival and development can lead the way into the brave new world of development finance.

Over the past year or so, governments, civil society and other interested parties have contributed a wide range of diverse demands for the emerging post-2015 agenda. If these sometimes disparate requests can be seen to have a common focus, it is to generate a broader global development agenda with a universal mandate and a shared responsibility in which an array of actors – governments, foundations, business, civil society, religious organizations and individuals each have a clear contribution to make. This is the inverse of the Millennium Development Goals, on which the onus to deliver and finance was (mostly) placed squarely at the door of donors - bilateral and multilateral - and recipient governments.

It should be remembered that much has been achieved under this MDG framework. For instance, far fewer children are dying than in 2000 when the MDGs were devised; far fewer people are living in extreme poverty; and far fewer die from AIDS, measles or malaria. More children are educated, and safe water and decent sanitation are more widely available than ever.

While there are many reasons for these successes, including advances in technology and sustained economic growth in many low and middle income countries, much of it has also to do with the groundwork laid by traditional development financing, led by official development assistance (ODA) provided mostly by high-income nations. In many cases, ODA has been catalytic, unleashing bottlenecks and facilitating resource mobilization from other sectors. In other instances, it has been the backbone and directly responsible for the historic gains achieved in many areas of the MDG agenda.

In the post-2015 era, ODA will continue to be important to financing development, particularly in low-income countries and fragile states, where alternative sources of funding are limited. But it may no longer have primacy in development financing in other country-contexts for four key reasons.
First, the economic crisis has hit many of the top ODA donors hard. This, in turn, has contributed to faltering contributions. In 2012 ODA was 4% lower in real terms compared with 2011; the year before, ODA was 2% lower in real terms compared with 2010. With growth in high-income countries – which are the main financiers of ODA – set to remain limited in the coming years as their economies are weighed down by structural inefficiencies, it is reasonable to assume that ODA will not see the sharp growth that it experienced before the 2008 crash.

This has important implications. Given its limited projected growth and diminishing share in overall financial flows to developing nations – particularly middle-income nations – ODA is likely to become more targeted and focus on the poorest countries and the most urgent needs, in particular complex emergencies and fragile situations. Less will therefore be available to finance countries' transition from poverty to prosperity.

A second reason is that many countries are no longer reliant on ODA, and are looking to foster other forms of financing for their economic and social development. For these, mostly middle-income nations, taxation, domestic and external capital markets and net financial inflows from trade and investment have become, or are becoming important sources of development finance. In emerging markets, the expansion of domestic capital markets is providing an important source of public financing for everything from education to infrastructure.

The third reason is the broadened mandate of the post-2015. The 12 main development goals of the High-Level Panel report released last year, and influential thought pieces on potential indicators for the forthcoming Sustainable Development Goals illustrates a set of ambitions that go well beyond those of the MDGs, embracing new areas such as governance, inequality and resilience. The established and new priorities in the post-2015 agenda will demand massive and unprecedented funding needs that are well beyond any single instrument such as ODA to provide. If the ambitious objectives are to be met, new forms of financing and financiers will be needed to supplement the established major donors and vehicles.

The final argument for a wider array of financing instruments and financiers relates to the emerging concept of 'shared responsibility' for the human development. Among the most encouraging facets of the post-2015 discussions has been its plurality of inputs and views. No longer is the global agenda for development being shaped by a narrow range of institutional actors, but it is being fashioned from all quarters of society. But with greater participation comes wider responsibility, and the goals, targets and indicators that eventual emerge as the next global development priorities will require the support, including financial, of a far broader range of actors.

A new landscape of development financing is emerging

These realizations are not entirely new, and in recent years have shaped a nascent but solid market of development finance, with a broad set of emerging and innovative instruments. These range from tax adjustment such as levies on financial transactions and airline tickets to pull mechanisms such as vaccines bonds and impact investing, resources-for-infrastructure financing models, in which oil or mineral extraction rights are exchanged for turn-key infrastructure; diaspora resources (via diaspora bonds and remittance-backed bonds); and linking climate finance and development finance. There are also new approaches to incentivize greener economic production processes that are complemented with financing initiatives, such as carbon pricing policies, removal of fuel subsidy reform to support social protection systems, and cap-and-trade schemes.

But the new landscape of development finance is not without risks. Innovative mechanisms have so far raised only a modest amount of resources, and can in many cases be too volatile, particularly where they are linked to stock markets and speculative pressures. New potential private financiers will often need to be convinced of the economic returns of investing in development. Emerging donors such as the BRIC nations may place a greater emphasis on transfers of knowledge and know-how, rather than financial transfers, conscious in part of the still heavy burden of poverty and deprivation within their own borders.

Long term and predictable financing for development, which is critical for building robust systems and addressing structural bottlenecks and barriers in everything from health to child protection, may therefore remain in short supply, even for areas such as infrastructure that have proven returns. And it may be difficult to acquire financing for some of the proposed goals of the post-2015 agenda, such as governance and justice, from all donors, given the difficulties of transforming these areas.

For child survival and development, the new development financing landscape presents challenges and opportunities. The past decade has already seen a growing market in innovative financing for this area, from global funds, private foundations, public-private partnerships, bridging facilities and vaccine bonds, among others. Health and education have benefit enormously from these funding sources. New private and public donors are also emerging from middle-income countries to fund child survival and development.

At the same time, key areas of child survival and development remain heavily underfunded, among them child nutrition, child protection and issues related to social inclusion. And despite the progress made by the conferences in Monterrey, Paris, Accra and Busan, development financing for children, particularly the most disadvantaged, remains often uncertain, limited and unpredictable. The key for success will be to improve not just the quantity, but also the quality and the way development finance is managed, processed and expended.

Principles for financing development for children in the post-2015 agenda

UNICEF welcomes the opportunity to contribute to the post-2015 debate on the future of development financing. We believe that children must lie at the heart of the post-2015 agenda, and be a key consideration in its established and new financing modalities. There are several principles that can help improve the quantity and quality of financing for development. FFD should:

Promote equity and the progressive realization of the rights of most disadvantaged and marginalized in every society, particularly children. Evidence from the country level shows that, while on aggregate substantial gains have been made in achieving the MDGs, many regions, districts and communities within countries are being left behind. For example, over 80 per cent of the population that lack access to improved drinking water sources live in rural areas. Progress is also making greater gains amongst the rich compared to the poor – a child born in West and Central Africa faces an under-five mortality rate that over six times higher than in Latin America and the Caribbean and CEE/CIS. Financing for the post -2015 agenda should prioritize the most marginalized and deprived children and communities. This includes children living in Least Developed Countries (LDCs), as well as children in conflict areas, or in situations affected by emergencies. With an increasing risk of global shocks in many parts of the world due to climate and other unforeseen disasters, building resilience in the poorest communities should be a priority. Furthermore, financing in the post-2015 agenda should also seek to align the international financial and economic architecture with broader sustainability and human rights goals.

Emphasize the importance of domestic resource mobilization. The growth of middle income countries over the past twenty years means that more countries are able to finance their own development than ever before. Domestic resource mobilization increases a country's ownership of public policies, ties accountability to citizens instead of external investors and aid donors, and improves reliability, predictability and stability of funding. UN recommendations on improving domestic resource mobilization include strengthening tax administration, better harnessing natural resource revenue, and curbing illicit capital flows. On average, tax to GDP ratios are 13 per cent in low income countries compared to 35.4 per cent in OECD countries. Domestic resource mobilization was a Leading Action in the Monterrey Consensus in 2002 (Section II A), and reinforced at the Doha conference on Financing for Development in 2008.

However, domestic resource mobilization processes can come in many forms, including taxes on incomes, consumption or assets, levies on exports, imports and foreign inflows and outflows, and transfers from public corporations, among others. Fiscal space can also be expanded by more judicious expenditure, particularly discretionary spending, and reducing waste, inefficiencies and evasion. Depending on specific country contexts, different policy tools can be used. One consideration that is universal, however, is that care needs to be taken to ensure the poorest families don't face increasing or undue burdens, which affects their ability to care and provide for their children, as a result.

Embrace private financing of development, but not be over-reliant on it. The private sector, foundations and non-profits are playing an increasingly important role in financing for development. There are new, hybrid sources, which blend public, private and civil society contributions, processes and systems of accountability. Examples include crowd-sourced development options, and direct initiatives that link communities through virtual spaces.

However, there remain some risks. Government contributions to ODA are diminishing in real terms; and the private sector will not on its own invest in areas of global concern that are unattractive on a risk-reward basis. Furthermore, the source and leveraging challenges from the private sector will differ depending on low income states, fragile, and middle income with and without market access. New sources of financing can bring either stability or volatility – depending on how they are managed and procured – and rapid mobility of capital can hinder the development of long term and sustainable development structures. The challenge will be to select the right combination of sources, under judicious guidelines and regulations, to minimize risks, instability and volatility, and provide long-term financing.

Be complemented with good policy and implementation capacity. No amount of financing is sufficient to achieve ambitious development goals without a supporting country-level policy framework, credible institutions, and a commitment to build domestic capacity and combat poverty. In addition to being a cornerstone of Monterrey Consensus (Section II, F), a decade of Global Monitoring Reports by the IMF and World Bank illustrates this case. Deprivation in one area can stifle progress in other areas. For example, poor access to healthcare can prevent children from going to school. Sometimes, deprivations in multiple areas can be overlapping, and worse than their sum.

A supportive policy framework can not only improve the effectiveness of spending, it can also catalyse additional resources from other sectors. For UNICEF, this means a systematic and integrated approach to programming and policy. Specifically, this implies addressing the variety of inter-related factors that cause deprivation; it means a 'whole child' approach to development, and consideration for the fact that deprivation can be overlapping, and exacerbated by a poor enabling environment, social conditions and inequity.

Consider impact on current and future generations. Debt burdens affect children. Where inadequate provision of essential health services come at the expense of debt service payments, it can cause increased vulnerability to disease, stunting, malnutrition – or even kill them. Where it comes at the expense of education services, it can limit the supply of books and teachers, thus limiting their future potential and perpetuating the inter-generational cycles of poverty. Where it causes increased susceptibility to economic shocks, it affects all of society, in particular the poorest families who have limited capacity to buffer a sudden loss of employment or income.

FFD should be non-liability creating for future generations. Throughout the past few decades, we have witnessed the impact of excessive debt in developing countries. Financing taken on today must not severely compromise the needs of future generations. Where the 'debt overhang' is too large, it can severely affect future economic growth and development, as well as increase susceptibility to economic shocks. More pointedly, it can also affect the degree to which a country is able to provide the essential health and education services for its children. Through the past 30 years, we have witnessed heavily indebted poor countries struggle to make debt service payments at the cost of important public programmes. Around the year 2000, the rising debt in poor countries prompted a massive call for debt-relief, led by the Jubilee Campaign, for heavily-indebted poor countries. The call for debt relief was echoed and supported by international organizations, donor governments and creditors. A 2002 IMF study of 93 developing countries between 1969 and 1998 ("External Debt and Growth," by Catherine Pattillo, Helene Poirson, and Luca Ricci. IMF Working Paper No. 02/69), found strong support for the debt-overhang hypothesis. The authors found that external debt began to have a negative impact on growth when its net present value exceeded 160–170 percent of exports and 35–40 percent of GDP.

FFD should consider the whole life-cycle of the child, and their changing needs from early childhood into adulthood. Gaps in financing at different parts of a child's life can lead to irreparable damage; and gains previously made can be washed away. A lack of adequate care in early childhood can lead to stunting and decreased cognitive development that affect children through to adulthood. Furthermore, adolescence is a pivotal period of life, when opportunities are either seized or lost, and poverty and inequity can pass to the next generation. Consistent financing that addresses the variety of needs of children – from type of education, to health and emotional and social wellbeing – should be provided at all stages of life and in all contexts.

Be reliable, stable, long term and predictable. Uncertainty with regards to financing prevents the adequate planning and design of policies and programmes for children. Research has shown that the lack of predictable aid can have inherent destabilizing characteristics, and in some cases can serve the opposite effect than desired. For example, counter-cyclical aid that arrives at the end of an economic downturn may actually become pro-cyclical. Volatility, as a result of misaligned short term incentives in financial markets, can impede long term investment and increase systemic risks. Stability, reliability and predictability should be critical criteria in the adoption of new financing mechanisms; and once financing commitments are made, those commitments should be honoured within the established time frame. The importance of stable private financial flows is emphasized in Section II B. 25, Monterrey Consensus 2002; but also highlighted is the importance of receiving countries adopting a stable investment climate (Section II B:21).

The importance of ODA could not be over-emphasized in this context. New forms of private financing are important, and when placed under judicious guidelines and regulations, can serve to improve stability and predictable long term financing, especially in a more crowded development landscape – but this is by no means automatically the case. ODA remains one of the most important forms of stable financing, even if there is still room for improvement. UNICEF urges that OECD member countries move to progressively meet and/or maintain the commitment of at least 0.7% of GNP devoted to ODA. Member countries should renew this commitment in the context of the Post-2015 Development Agenda.

Be transparent, sustainable and accountable. Transparent financing processes provide a strong incentive for judicious and effective spending, as well as ensuring accountability. Citizens or receiving countries can have a better understanding of what they are receiving, and citizens of donor countries better knowledge of what their taxes are being used for. Transparency also facilitates greater coordination and collaboration, to maximize gains and results. Finally, it discourages illicit flows and corruption, which not only drain resources and tax revenues, but also have a negative impact on economic growth and sustainable development (through lower levels of investment) and undermine governance.

Have a clear, articulated impact. A results-focus for financing is crucial to enhancing efficiency. This involves a clear identification of the theory of change, and the likely outcomes and impacts of the interventions. It includes providing a supportive policy environment and implementation capacity, as well as the articulation of how children will be better off as a result. Measures that improve these linkages can maximize efficiency of spending on services for children.

The post-2015 agenda provides a unique opportunity to reshape the international development agenda. UNICEF believes that the broader ambitions will require a wider range of funding arrangements and financiers, sharing the responsibility of financing development. The organization is already working on many innovative approaches to development financing, and welcomes the opportunity to contribute to this important international debate. ■