

Recovery with a Human Face



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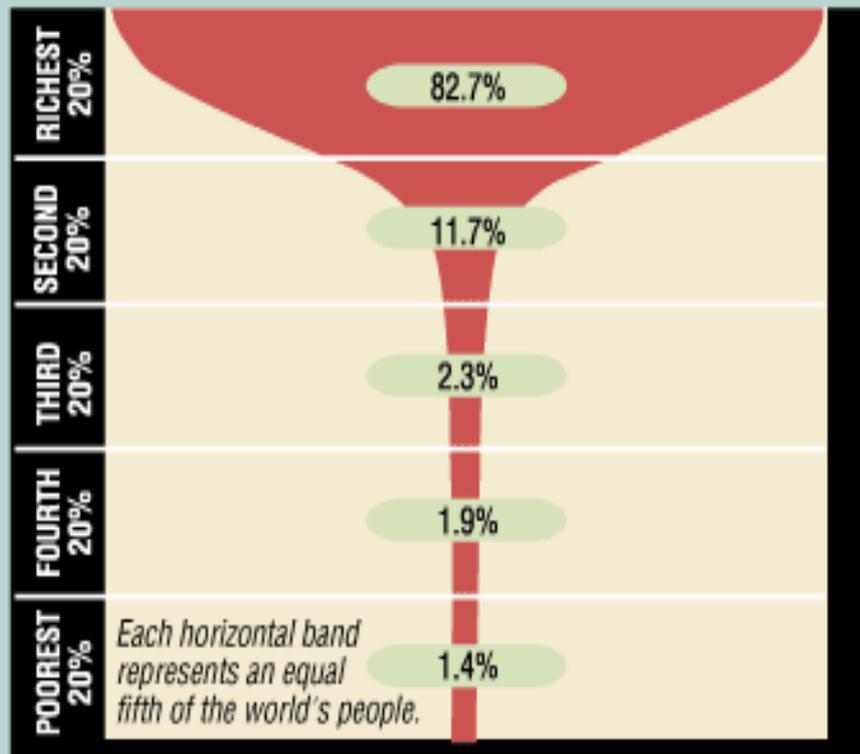
New York, 18 February 2010

Fordham University-UNICEF Forum on Child Friendly Budgets for 2010 and Beyond: Toward Global Economic Recovery with a Human Face

Distribution of World Income: The financial crisis comes on top of an existing social crisis

Distribution of world GDP, 1989

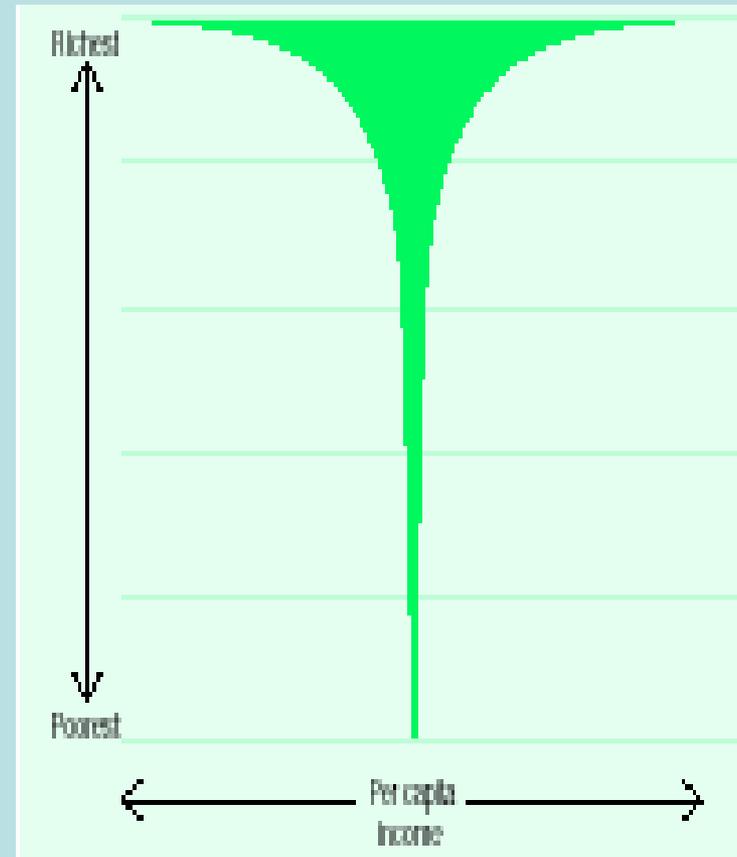
(percent of total, with quintiles of population ranked by income)



Source: United Nations Development Program, 1992, Human Development Report 1992 (New York: Oxford University Press for the United Nations Development Program).

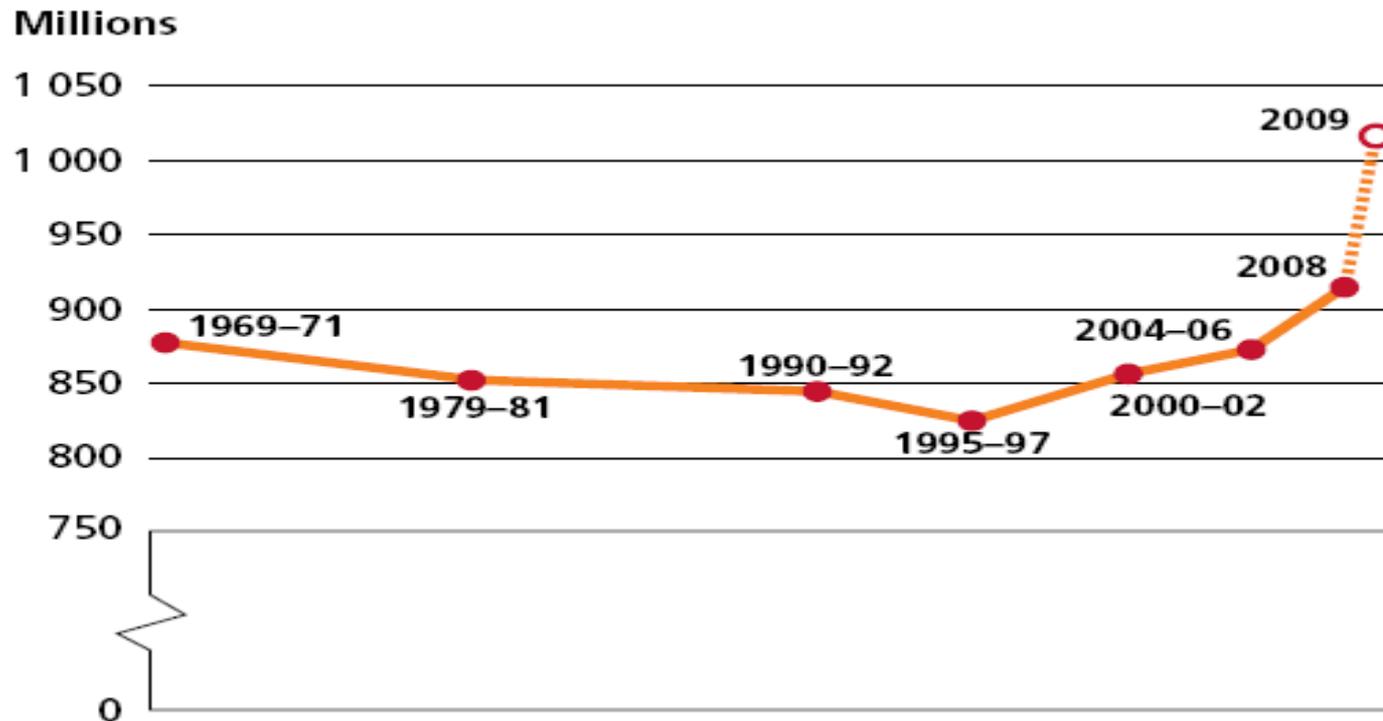
Distribution of world GDP, 2000

(by quintiles, richest 20% top, poorest 20% bottom)



Source: UNDP Development Report 2005

Number of Undernourished in the World, 1969 to 2009



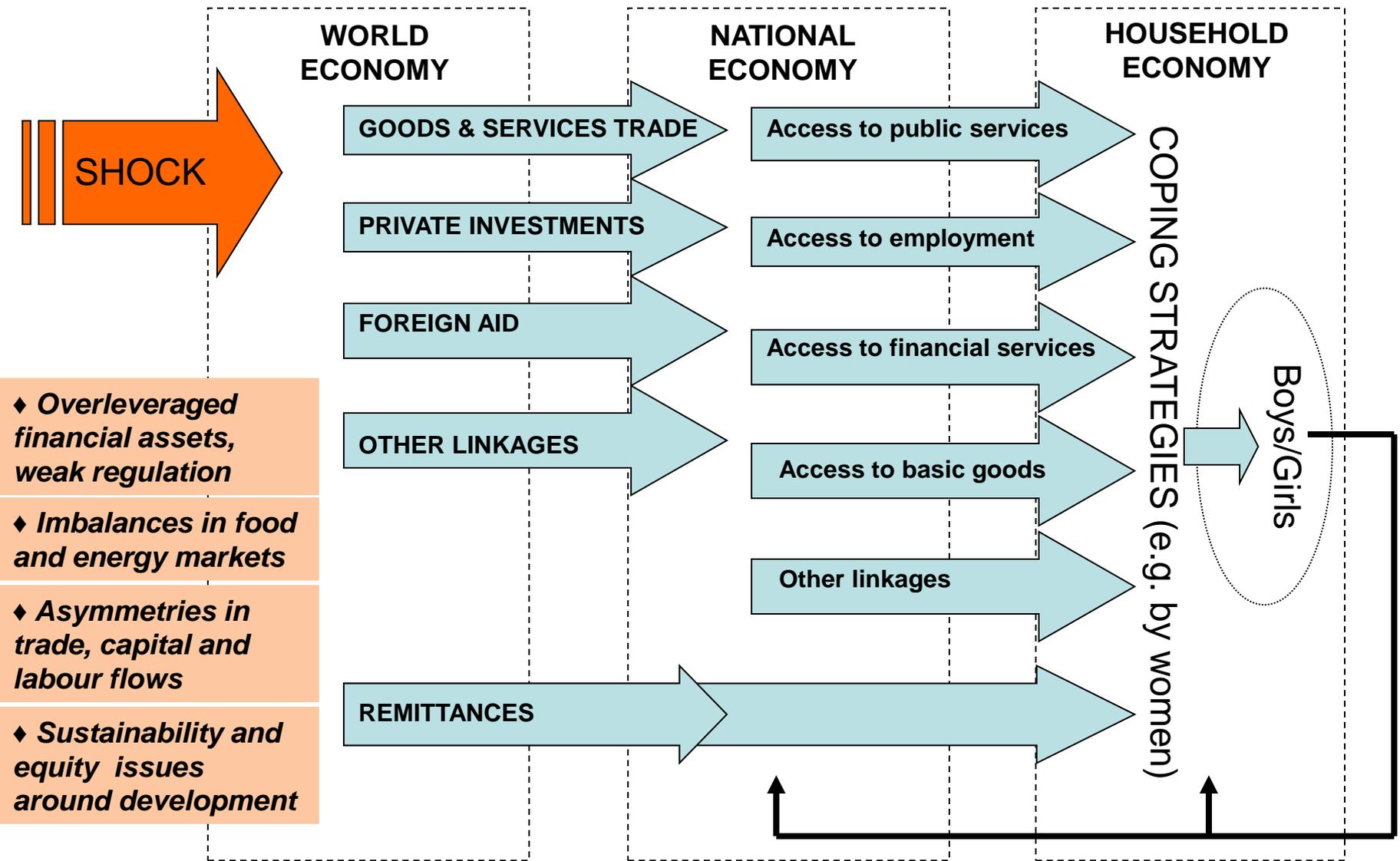
Source: FAO (2009).

2009: Sad milestone in the history of humanity: 1 billion people starving

Human and Economic Cost of the Crisis

- **As many as 90 million people pushed into poverty in 2009 due to lingering effects of the crisis, over 64 million more in 2010 (World Bank, 2010).**
- **Unemployment to increase from 190 million in 2007 to 210 million in 2009 (ILO, 2009).**
- **Over 1 billion people hungry in 2009; a 100 million person increase since 2008 (FAO, 2009).**
- **Tens of thousands of infants and children at risk of dying, notably in Sub-Saharan Africa, many of them girls**

Global economic crisis: transmission channels



Transmission Channels (II)

Employment and Income

- Wage cuts, reduction in benefits
- Decreased demand for migrant workers
- Lower Remittances
- Returns from pension funds

Prices

- Basic food
- Agricultural inputs
- Essential drugs
- Fuel

Assets and Credit

- Loss of savings due to bank failures
- Loss of savings as a coping mechanism
- Home foreclosures
- Lack of access to credit

Government Spending and Utilization of Social Services

- Education
- Health
- Social protection
- Employment programmes

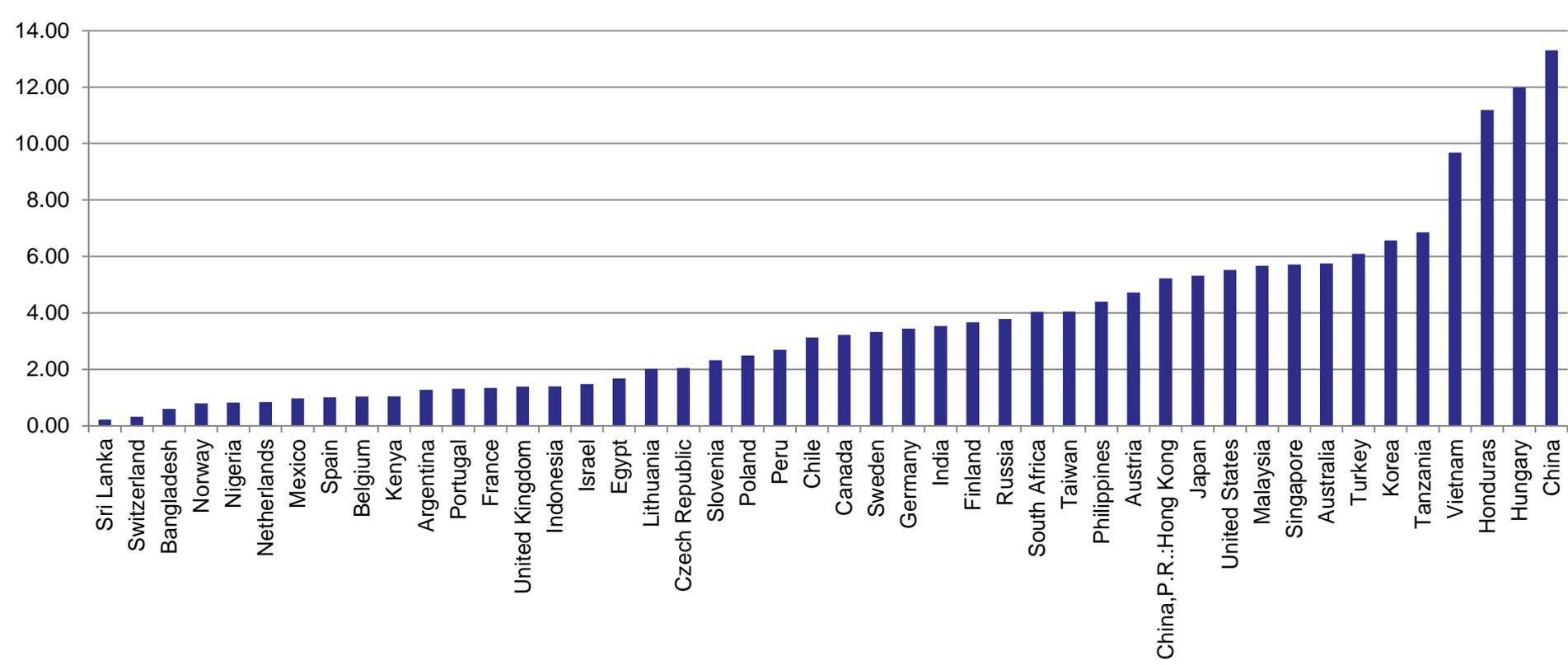
Aid Levels - ODA decreasing

- But a crisis is not a time to decrease social expenditures
- Need countercyclical policies

2010:

MDGs at Risk

Fiscal Stimulus Plans Q4 2008-Q3 2009, %GDP



- **As an average, 25% of stimulus plans spent on social support (UNDP, 2009)**
- **Mostly in high and middle income economies - what happens with lower income countries?**

G-20, UN CEB

G-20 London Meeting – April 2009

- \$1.1 trillion, mostly to IMF (\$750 billion)
- Multilateral Development Banks - \$100 billion
- UN no funds, but to work on monitoring (Global Impact and Vulnerability Alert System, GIVAS, under SG Office)

G192 – the UN Summit on the Financial Crisis – June 2009

- G192 concerns - G20 not legitimate neither democratic
- IMF unreformed; limited funds for development (banks, UN)
- Need for an internationally coordinated response

UN Chief Executives Board (CEB) – 9 Joint Crisis Initiatives

- Additional financing for the most vulnerable
- Food Security
- Trade
- A Green Economy Initiative
- A Global Jobs Pact
- A Social Protection Floor
- Humanitarian, Security and Social Stability
- Technology and Innovation
- Monitoring and Analysis

IMF, Donors

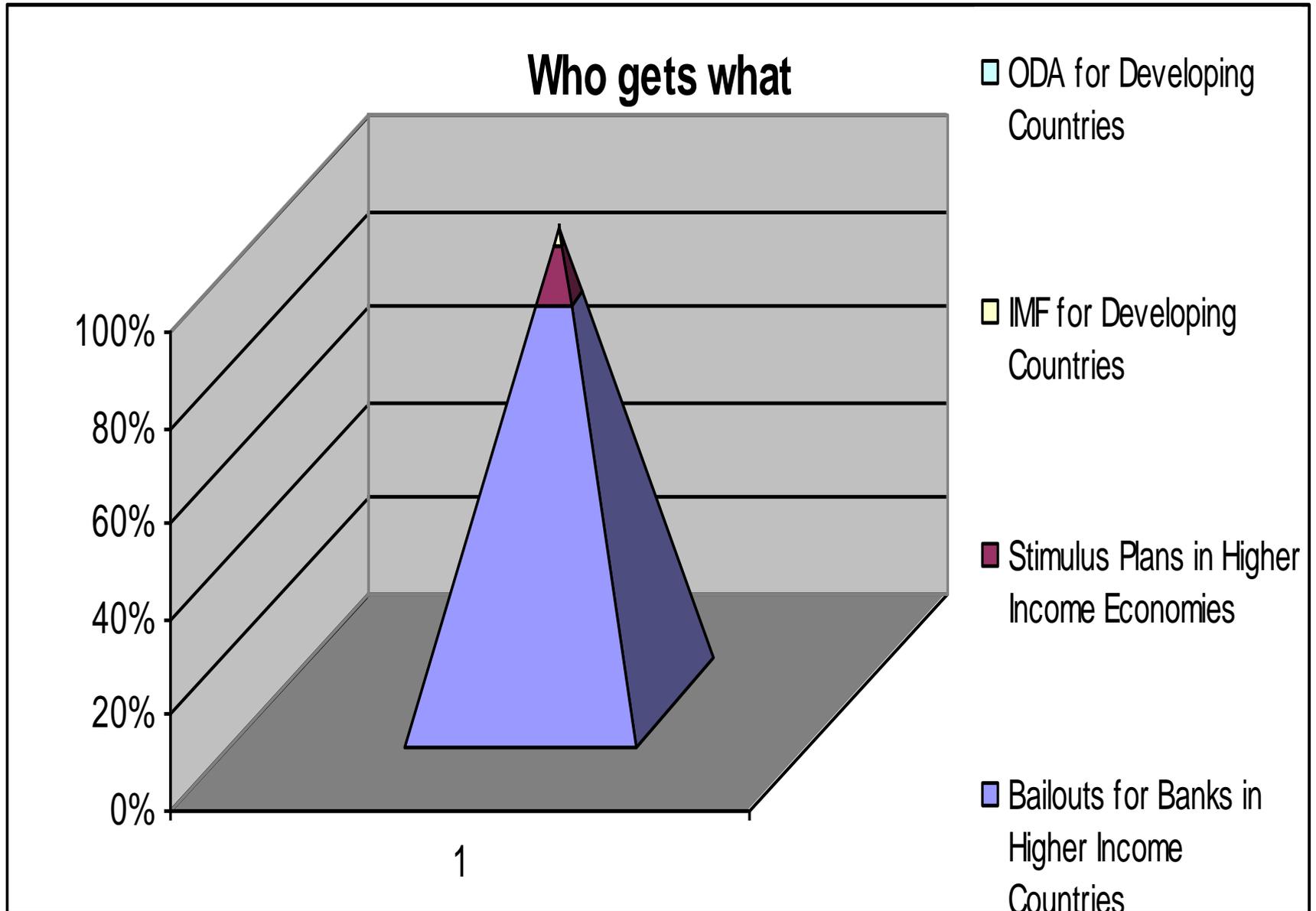
IMF

- **Re-emerging IMF – from irrelevance to crisis saviour empowered by the G-20**
- **Strauss-Kahn new discourse:**
 - **fiscal stimulus plans**
 - **easing macroeconomic policies**
 - **counter-cyclical interventions**
 - **streamlined conditionality**
 - **concessional lending and new lending facilities**
 - **measures to ensure social safeguards, including protection of “priority social expending”**
- **To watch out: Disconnect at country level.**

Other Donors, notably European Commission

- **Will donors maintain ODA commitments?**
- **EC: Significant General Budget Support to developing countries - on grant basis**
- **Donors keen to see positive social outcomes**

Recovery for All?



Recovery with a Human Face



- **1980s: *Adjustment with a Human Face***
The same argument remains valid 20 years later: Recovery with a human face is an urgent imperative.
- **Need for protecting early human capital from continued crisis impacts**
- **Need for countercyclical social spending as a crisis response - boosting social sector spending during downturns**
- **Need for Policy Dialogue and Leveraging External Assistance to Developing Countries**

Recovery with a Human Face

Four Actions at Country Level (I):

1. Analyze budgets for social and economic recovery, to provide immediate support to most vulnerable children and women:
 - a. Scaling up social protection
 - b. Maintaining (if not increasing) core social expenditures such as on education and health services;
 - c. Protecting pro-poor expenditures aimed at economic recovery and at raising household living standards, such as increased investments in agriculture/food security and employment-generating activities

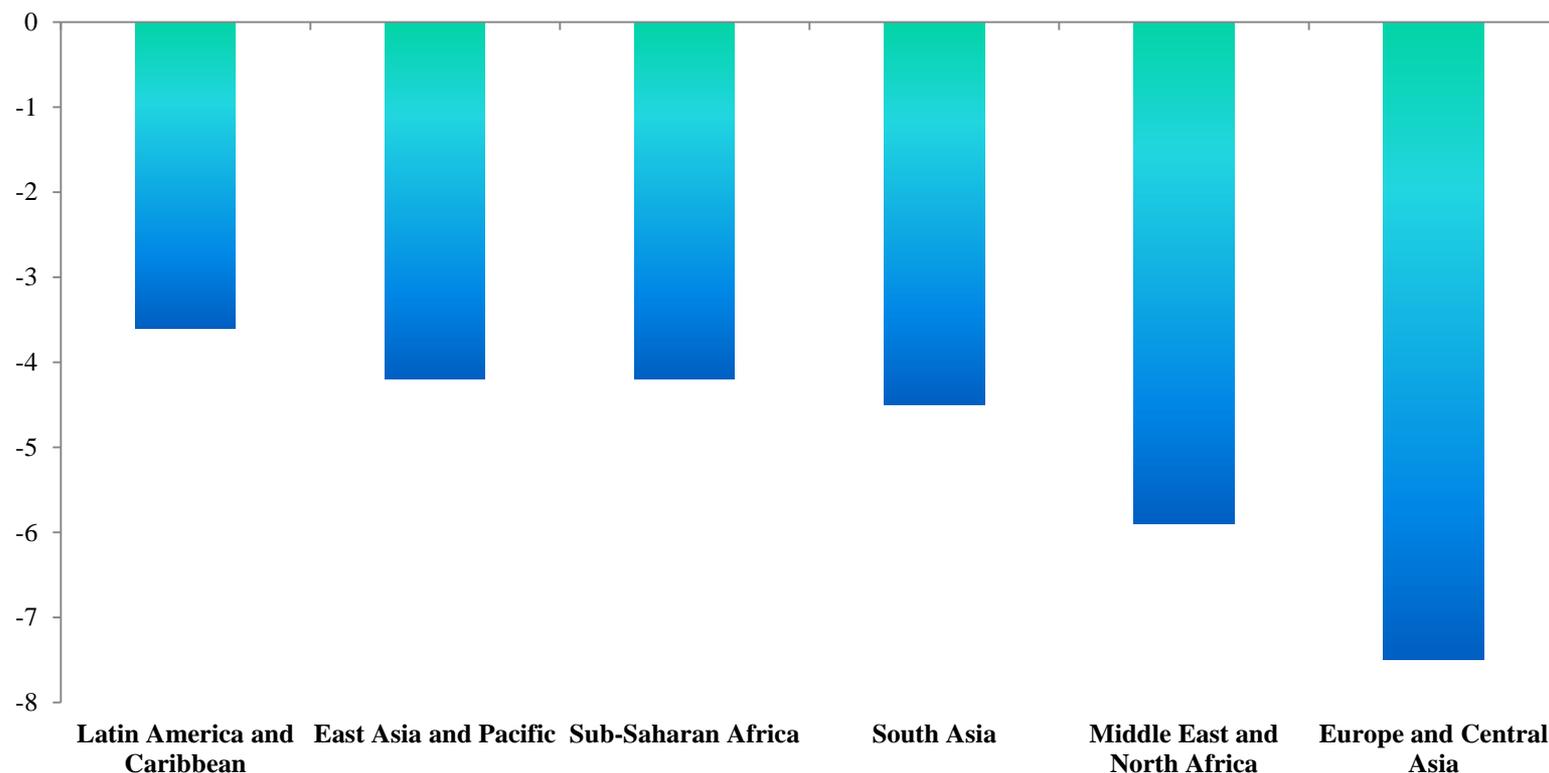
Recovery with a Human Face

Four Actions at Country Level (II):

- 2. Identify options for fiscal space**
- 3. Conduct a rapid assessment of the social impacts of different options; show how the crisis/post-crisis adjustment may be disrupting progress towards children rights**
- 4. Present a set of alternative policy options for social and economic recovery that can be used in a national dialogue on crisis responses.**

Analyzing budgets for social and economic recovery and...

Projected Deterioration in Fiscal Balance, 2007-09



Source: Prospects for the Global Economy database (June 2009), World Bank.

Scaling up Social Protection

+ Promoting Pro-poor Expenditures

Main agencies such as IMF mention “protecting *priority* social expenditures” but this is a vague statement (so what are *non-priority* social expenditures?). It is critically important to defend in parallel:

1. Scaling-up social protection programs, examples: food security programmes, cash transfers, etc

- Not temporary safety nets: the crisis as an opportunity to expand social protection

2. Maintaining (if not increasing) core social spending

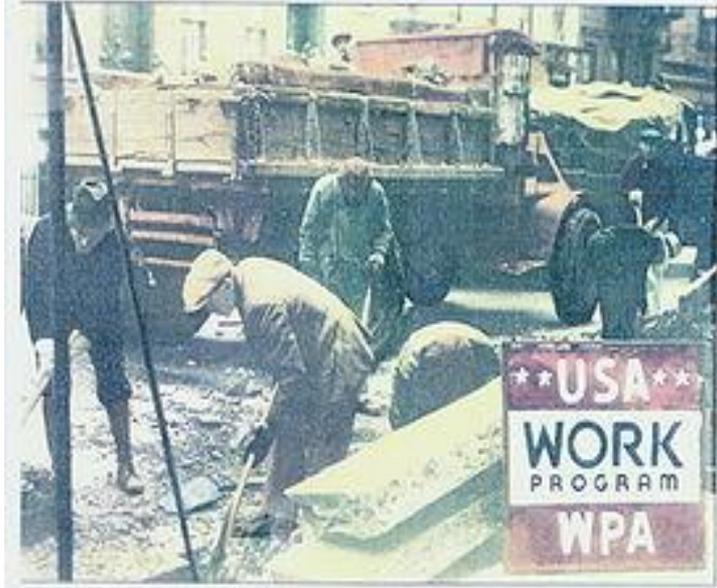
- Employment and salaries of teachers, medical staff, etc
- Operations and maintenance of main programs in education, health and other key development programs.

3. Promoting other pro-poor expenditures for economic recovery

and for raising household living standards, e.g. agriculture

=> IF A COUNTRY SUPPORTS ONLY TEMPORARY SAFETY NETS IT WOULD BE A NET SOCIAL LOSS.

1929 Crisis led to the New Deal



- Bank reforms
- Social Security Act (1935)
 - Universal old-age pensions
 - Unemployment insurance
 - Social assistance for poor families
- Employment programs (public works), collective bargaining, minimum wages
- Farm/rural programs

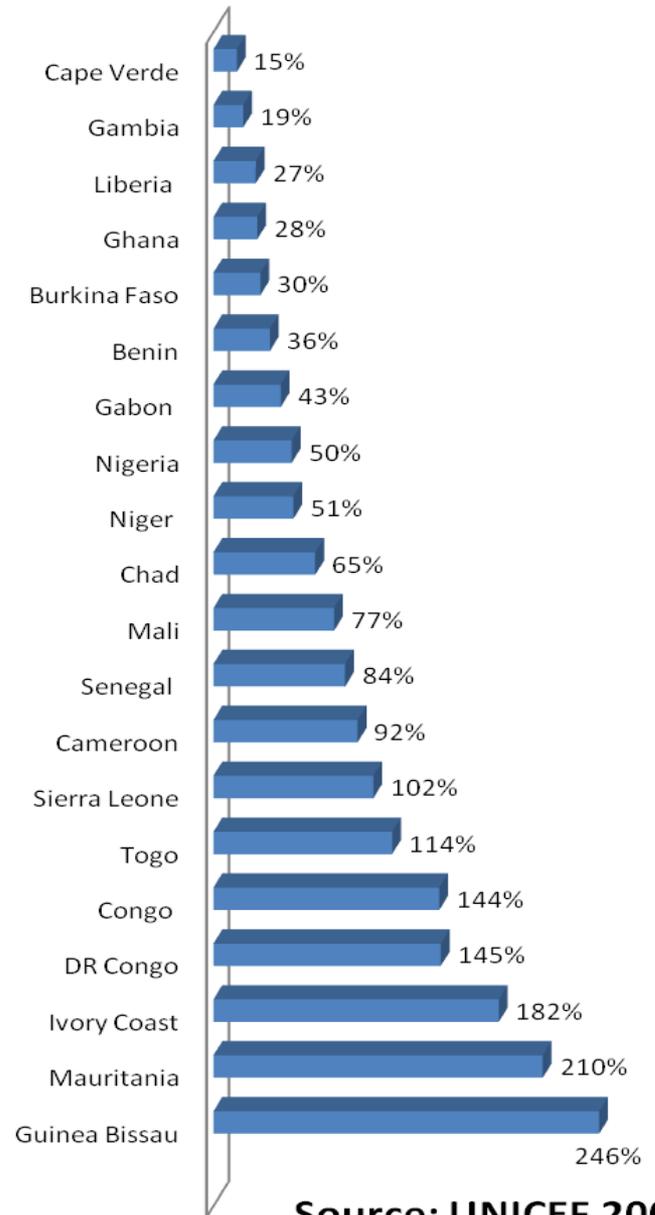
2009-10: The Crisis as an Opportunity: Scaling up Social Protection

- Social protection counter-cyclical
 - Increasing incomes through employment and transfers
 - Raising domestic demand/expanding internal markets
 - Social Protection reduces poverty FASTER

Identifying Fiscal Space

- **Re-prioritization of public sector spending:** For example, prioritizing social sectors over military spending, as shown by UNICEF in African countries.
- **External financing** without jeopardizing macroeconomic stability, such as through grants, concessional borrowing, or debt relief
- **Domestic borrowing and resource mobilization**

Military expenditure as % health expenditure, 2005



More accommodating macroeconomic framework



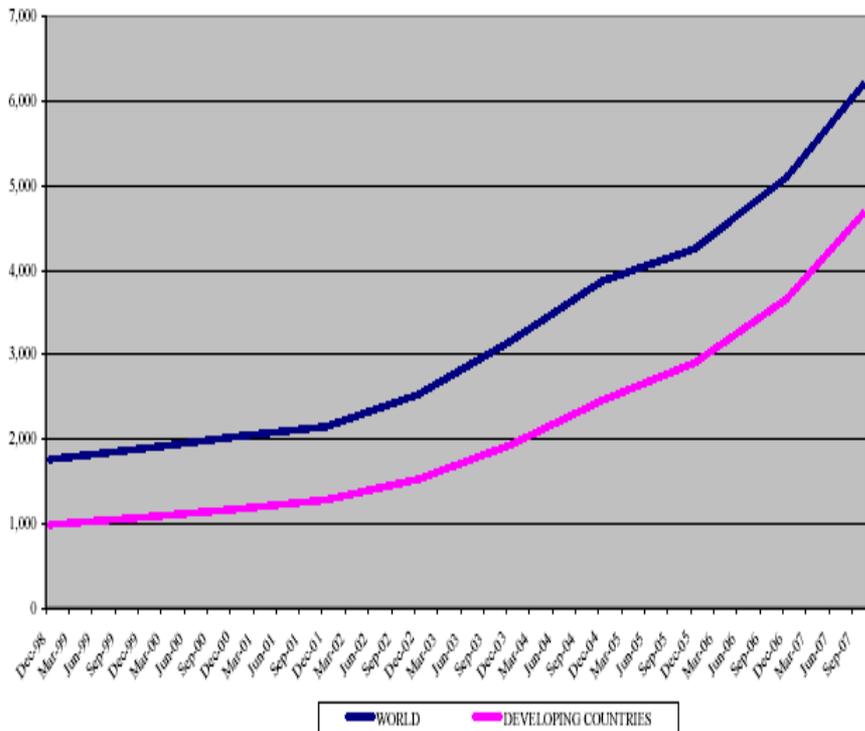
Country	Fiscal Deficit Targets over 3-year IMF Program	Reduction % GDP	What this could buy for one year
Cameroon	-0.7 to 0.7	-1.4	Could have doubled health expenditure
Ghana	-9.7 to -5.7	-4.0	Could have doubled primary healthcare expenditure each year of the 3-year program
Rwanda	-9.9 to -8.0	-1.9	Could double the health and education budget in each of three program years

Identifying Fiscal Space (II)

- **Potential use of reserves** - low income countries are becoming an important driver of global reserve accumulation, implying a high social and economic opportunity cost.

Global Reserve Holdings (as a percentage of GDP)



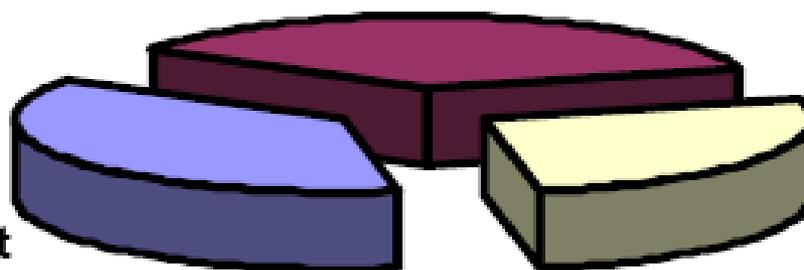


Increasing Global Reserve Accumulation, 1998-2008

Little left to governments to spend on social and economic development

How Official Development Aid is Used in Sub-Saharan Africa

Reserve Accumulation 36%



Debt Reduction 37%

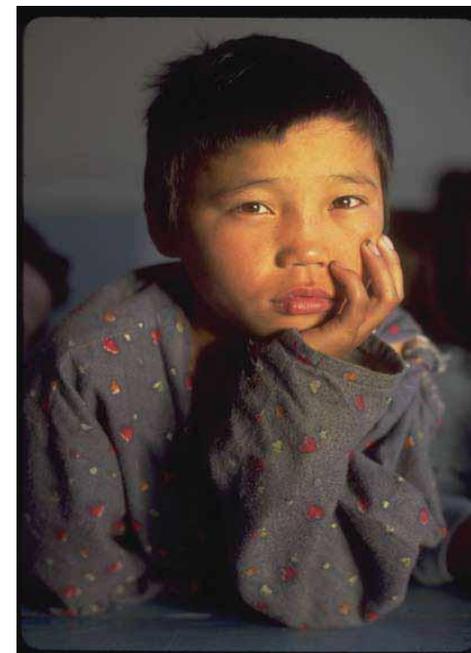
Net Fiscal Expansion (Government Spending) 27%

Increased Reserve Accumulation in the South =

Importance of South-South Cooperation

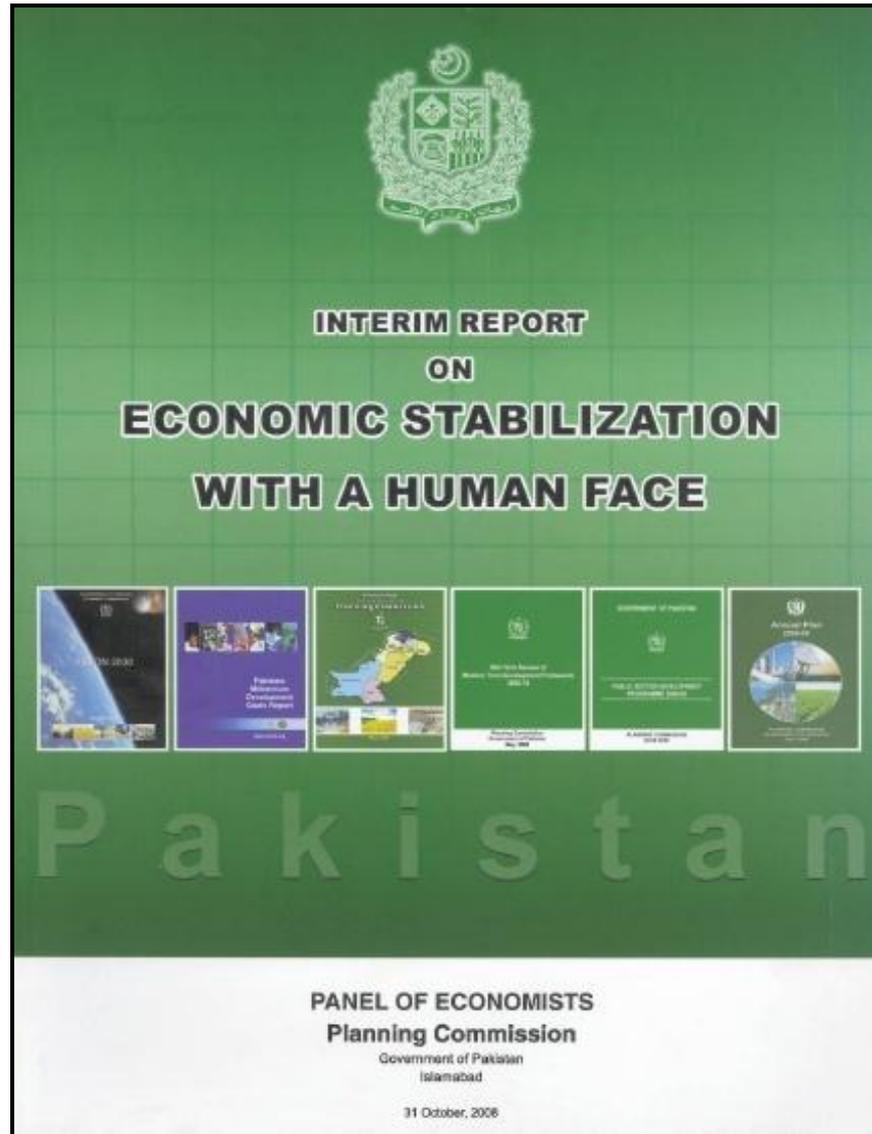
Identifying Fiscal Space (III)

- **Debt relief:** Examples -HIPC Initiative, Ecuador's external debt audit.
- **Increasing domestic revenues:**
Examples
 - Bolivia: royalties on hydrocarbons fund development plan
 - Mongolia Development Fund from copper exports financing universal child benefit
 - US, UK: Consideration of a Bank Tax.
- **Eliminating, where immediately possible, inefficiencies** that could lead to cost-savings in public programs; however, care should be taken as sector reforms are feasible in the medium term, and will not generate sufficient fiscal space in the short term.



Tax Justice Network estimates that capital flight is \$11 trillion, if taxed would significantly increase fiscal space for economic and social recovery

Providing Options to Assist Governments in a Country Dialogue on Social and Economic Recovery



A Framework for Action at Country, Regional and Global Level

- **Umbrella framework proposal with a division of labor between Country Offices, Regional Offices and HQ**
- **Country Offices:**
 - **Influence the 2010 national budgets at key points**
 - **Inform policy dialogue, including with the IMF, and stimulate national debate on alternative policy options for social and economic recovery, with their likely social impacts**
- **Regional offices will offer regional-level coordination and technical backstopping**
- **HQ will play a catalytic and over-all leading role in this initiative by:**
 - **Supporting COs and ROs**
 - **Creating innovative tools, operational guidance notes and policy products;**
 - **Carrying-out high profile global advocacy and knowledge management**
 - **Maintaining high level dialogue with IMF, World Bank and UN agencies.**

Thank you

