BREAKING THE MOULD

Transforming the economic development paradigm

Save the Children

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We save children's lives. We fight for their rights.
We help them fulfil their potential.

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Since the Millennium Development Goals (MDGs) were agreed more than a decade ago, the world has made dramatic progress in its fight against poverty. To finish the job the MDGs started, Save the Children believes the post-2015 framework should continue to focus on human development goals such as poverty, hunger, access to basic education, and child and maternal mortality.

However, we need to address some key new and emerging challenges. International development is facing a historic crossroads. While human development should remain at the heart of the world we want in 2030, the international community and in particular developing countries are becoming increasingly aware that economic transformation and environmental sustainability are preconditions for the realisation of children's rights to survival, protection, development and participation and for ending poverty in our generation.

The global discussion of the post-2015 development goal framework offers an opportunity not only to review the specific human development goals, but also to reflect on how economic transformation and environmental sustainability should inform a new development paradigm. The challenges faced are complex, and the potential policy responses manifold. One size will not fit all, and all countries must have the flexibility and freedom to determine their own development pathways. This briefing provides some examples of policy choices that countries could make in their attempt to shape sustained and sustainable growth pathways that deliver for people and for the planet.

DEVELOPMENT AT A CROSSROADS

In many regards, the world is today a much better place than it was two decades ago. Concerted efforts by the international community – including focusing the development agenda on fighting key dimensions of extreme poverty, such as income poverty, hunger, access to basic education, and child and maternal mortality – have been instrumental in driving this progress. Some 600 million people have been lifted out of extreme poverty, 56 million more children now go to school, and every day an extra 14,000 children escape death. Far less progress has been made, however, in reducing environmental degradation, greenhouse gas emissions and unsustainable natural resource use.[1]

The MDGs were born in a context where development thinking and practice were heavily influenced by the 1990s experience of implementing the economic policies advocated by the Washington Consensus, focusing on liberalisation of trade and investment, fiscal discipline and avoidance of fiscal deficits, moderate marginal tax rates, and privatisation of state-owned enterprises. This experience led to the so-called lost decade for development, when most developing countries suffered from endemically low growth rates and saw their human development indicators plummet. For instance, in sub-Saharan Africa, income per capita decreased by 9%, and the number of people living on less than $1.25 a day nearly doubled during the 1980s and 1990s.[2] Against this backdrop, at the beginning of the 21st century the development community made a successful push to shift the international focus towards human development outcomes, such as reducing extreme poverty, hunger and child mortality, and increasing access to education and to safe drinking water.

Despite the progress made on these issues, many of the challenges remain and new ones have emerged. We need to push hard now to achieve the current MDGs, but those goals only go part of the way. In Save the Children's view, human development challenges should continue to be the focus of the post-2015 framework. But the debate about the new framework must also respond to the changed economic and environmental context in which we pursue these goals.

There are three key changes. First, despite the fact that vast differences in wealth and human development indicators remain between developing and industrialised economies, recent economic developments suggest that this gap could in some instances be narrowing. This is certainly the case for emerging economies, but it also applies to all regions of the developing world which have also experienced high growth rates and macroeconomic stability.[3] Some of the most striking success has been achieved in those Asian countries that pursued economic strategies to boost their industrialisation processes by creating jobs in the manufacturing sector, lifting millions out of poverty in the process. Needless to say, this economic success has come at a price. Problems such as poor working conditions, illicit financial outflows and rising greenhouse gas emissions, for example, remain to be resolved.

Second, while the gaps between some countries might be narrowing, growing inequality within countries has become one of the greatest development challenges. Many states are seeing their aggregated wealth rise, but this wealth is not shared equitably; rather, it is increasingly concentrated at the top, while millions suffer from extreme poverty. Seventy per cent of the world's poor live in middle-income countries, and the extremely poor are increasingly located in fragile states.[4]

Third, growth has come at great environmental cost, particularly in terms of the climatic changes observed in recent decades. It is becoming increasingly clear that if not addressed, environmental risks will seriously threaten both economic growth and human development.

International development now faces a historic crossroads. Human development should remain at the heart of the world we want in 2030 – a world where no child dies from preventable causes, and where everybody, no matter where they are born, has access to good nutrition, health and education, water, sanitation and energy services. To achieve this, the world will need to take a holistic approach to development that strengthens synergies and systems to improve human development outcomes, that establishes strong transparency and accountability mechanisms, and that pays attention to the quality of the outcomes. Moreover, the international community and in particular developing countries are becoming increasingly aware that if we want to end poverty in our generation our economic growth pathways must be transformed so that they are socially inclusive and environmentally sustainable.

The post-2015 process offers two ways in which to progress these debates. The first is to integrate the principles of economic transformation and environmental sustainability into the new set of goals, both by ensuring some specific goals are included (eg, sustainable energy for all) and by mainstreaming these considerations throughout the framework (eg, ensuring the human development goals are underpinned by considerations of environmental sustainability). However, not all of the required shifts are best realised in goal form via the post-2015 process. The second is to begin a debate that will help shift development thinking over time, even if it isn't fully formed in the post-2015 framework. A contribution to a normative shift in how all stakeholders, north and south, address development so that it is sustainable over the long term could be as valuable as the framework itself.

SHARED PROSPERITY: WHAT WILL IT TAKE?

Economic growth has undoubtedly been a key driver in the reduction of extreme poverty in the last two decades. Recent World Bank figures show that the world has already achieved – ahead of the 2015 deadline – the objective of halving the number of people living in extreme poverty (below the poverty line of $1.25 a day).[5]

Nevertheless, 1.3 billion people still live in conditions of extreme poverty and deprivation, and an additional

1.2 billion are just above this threshold, surviving on less than $2 a day.[6] Meanwhile, while the bottom 5% of the world's population has less than 0.2% of global income, the top 1.75% match the income of the poorest 77%.[7]

Save the Children's recent research[8] identified *inequality* as one of the key development challenges undermining progress towards poverty reduction. It showed that inequality is today at a historically high level. It also showed that in some countries children in households in the richest quintile can have as much as 35 times the income available to the poorest, and that inequality has a magnified effect on children. This is because the gap between the richest and poorest children is twice as big as that found in the general population, and because children are at a crucial life-stage where deprivations can have a lifelong effect that hinders their opportunities to survive and thrive. The report also showed that improvements achieved in nutrition or access to health and education have not been equal for all: the poorest and most marginalised groups have not benefited from progress as much as the most advantaged groups, and in some instances they have not benefited at all.

Moreover, rising inequality is not only an obstacle for poverty reduction; it is also bad for sustained economic growth, as confirmed by researchers at the International Monetary Fund.[9] This is why Save the Children is proposing that the new development framework should contain goals or targets explicitly aimed at reducing inequality and ensuring equitable progress towards eradicating poverty, hunger and preventable child deaths.

The marked variation in inequality levels and trends between countries and regions indicates that poverty and inequality are not 'natural' or inevitable. The different trajectories and rates of progress suggest that the effects of inequality can be managed. National policy decisions can make all the difference. For instance, if growth were broadly shared through a small GDP redistribution (of just 0.2% of GDP within upper-middle-income countries and 1.3% within lower-middle-income countries), extreme poverty could be eradicated in middle-income countries.[10]

But inequality is not the only challenge threatening economic growth and human development. *Environmental degradation, growing resource scarcity and climate change* have undermined progress towards human development goals at both the macroeconomic and household levels, with more than $1 trillion lost during the last 50 years as a result of climate change[11] and 48 million people pushed below the poverty line in 2011 alone because of food price hikes, caused in part by climate change.[12] Climate change is the biggest global health threat to children in the 21st century[13] and poses severe threats to their rights to survival, protection, development and participation.[14]

Delivering growth that is both socially inclusive and environmentally sustainable will require decoupling economic growth from primary resource use and the environmental impacts associated with production and consumption.[15] This is not an objective that can be achieved overnight. Much greater recognition is needed in economic models of the value of natural capital to human health and well-being, and of the implementation of mechanisms such as national wealth accounting in economic frameworks. In our vision for the next framework we suggest goals or targets aimed at achieving resource-efficient and environmentally sustainable growth, which if applied in key sectors (ie, energy and agriculture) could make a major contribution to enabling this transition.

To help with decoupling resource use from economic growth, the World Bank and others recommend that countries move away from measuring progress in purely economic terms (ie, through GDP) to measuring their 'wealth', and this requires that they define and account for human and natural capital (such as forests, fisheries) as national assets alongside economic capital. This wealth accounting, if combined with GDP, provides a better indication of whether growth is long-term and sustainable.[16]

These challenges are complex, and the potential policy responses manifold. Policy is always most effective when designed for and decided by every country, with strong participation by all stakeholders built into the process. The following are just some examples of policy choices that countries could make in their attempt to shape sustained and sustainable growth pathways which deliver for people and for the planet.

FIVE THINGS COUNTRIES COULD DO TO TRANSFORM GROWTH IN SUPPORT OF SUSTAINABLE HUMAN DEVELOPMENT

1 MORE AND BETTER JOBS

The main way that people increase their income is through work, as Save the Children highlights in its recent report *Ending Poverty in Our Generation: Save the Children's vision for a post-2015 framework*. Access to decent jobs for parents is thus one of the most powerful tools to combat child poverty. Ensuring that jobs are safe for children is another.[17] If the benefits of growth are to be broadly shared and not concentrated in the wealthiest groups, growth needs to create productive, safe, adequately paid jobs, across a range of skill levels.

However, recent trends show that the share of national income paid in wages has decreased, supporting the global trends of rising inequality.[18] With the shadow of the global crisis still looming large in the world economy, the UN Conference on Trade and Development (UNCTAD) suggests that channelling a greater share of the national income to wages could help to catalyse economic recovery.[19] Save the Children research also shows that in some countries labour market policies aimed at increasing the share of national income for labour have been a powerful tool to reduce vast inequalities.[20]

The research found, for example, that in countries such as India and China *steps to ensure minimum wages, humane working conditions and basic entitlements such as employment benefits were effective ways to reduce inequalities*. China, for example, has a policy priority to enforce regulations on equal pay for people working in the same post, particularly in relation to gender equality, and to improve equality between migrant and local workers. In Brazil, rising minimum wages and employment creation have played an important role in reducing inequality.

Job creation, then, if planned with the needs of the poorest and most vulnerable in mind, through the creation of jobs in a range of skill levels, has the potential to reduce poverty and inequality. The creation of, among other things, higher-paid jobs contributes to increasing the share of national income for labour, which can be a powerful tool to reduce income inequalities. If directed towards economic sectors such as renewable energy, or building climate-resilient infrastructure, it may also contribute to improving environmental sustainability.

2 INDUSTRIAL POLICIES FOR SOCIALLY INCLUSIVE AND ENVIRONMENTALLY SUSTAINABLE GROWTH

In order to support the creation of high-productivity jobs and sustainable increases in wages as a way to combat child poverty and inequality, developing countries will need to invest in diversifying and upgrading their economies. Africa, for example, has seen its most rapid growth ever in the first decade of the new century.[21] However, growth has been mostly driven by the commodity boom, which has increased African reliance on commodities rather than fostering the development of industrial and higher-productivity sectors that can provide highly skilled and better-paid jobs.

In Africa, the share of the manufacturing sector in the continent's GDP fell from almost 13% in 2000 to 10.5% in 2008. Meanwhile, in developing Asia it rose from 22% to 35% in the same period.[22] Asian countries that have succeeded in boosting and sustaining their growth rates have pursued proactive industrial policies to upgrade their economies and create higher-skilled and higher-paying jobs. Needless to say, Asian economies are still facing major challenges in terms of providing decent working conditions and wages, as well as an industrial model which is environmentally sustainable. But it is no surprise that African leaders are increasingly aware that economic transformation – such as that experienced in some developing Asian countries – must be a crucial building block of their own development.[23]

While industrialisation can help developing countries to transform their economies and create more and higher-paid jobs, as we look to the next framework the world also needs to respond to the global challenges of growing resource scarcity and climate change. Making the shift towards more resource-efficient and less environmentally damaging industries will be a challenge, but it also presents an opportunity. The time taken to make the required changes, and the range of actions needed, will obviously depend on national circumstances. Given that half of the global workforce is based in natural resource-intensive sectors, there are risks associated with decoupling resource use from economic growth,[24] and care will be needed to ensure that the needs of all citizens are protected during the transition period.

But in developing countries, where markets tend to be more adaptable to change[25] and where infrastructure is yet to be built, there are important opportunities to be seized. Investment in climate-resilient infrastructure or renewable energy, by exploiting current market gaps,[26] could contribute to reducing vulnerability to environmental constraints and climate change and decrease pressure on natural resources, while diversifying economies to create greater added value. Decoupling can, if carefully managed, drive increased demand for, and investment in, green products and services, as well as the equipment and infrastructure to produce them, and lead to the expansion of certain industries and enterprises, translating into higher labour demand and job creation.[27]

While every country needs to find its own development pathway, there are lessons that can be learned from other countries' recent and historical experiences. In order to implement their chosen set of policies, developing countries will need the necessary policy space to take decisions that are best suited to their national context. The international community and advanced economies also have an important responsibility to ensure that international agreements on trade, investment, intellectual property, climate change and the environment take into account global needs while recognising the need for common but differentiated responsibilities.

3 INVESTMENT IN LOW-CARBON AND CLIMATE-RESILIENT INFRASTRUCTURE

Save the Children is deeply concerned about climate change. Children are particularly vulnerable to the impacts because of their life-stage and due to their dependence on others for protection and access to resources. Children and young people have the right to a safe future, but this will only be possible if action is taken to counter climate change through emissions reductions and if development is climate-resilient.[28]

Investment in infrastructure to deliver improved access to services is a critical support for the broader development and economic growth agendas of developing countries.[29] In many countries the infrastructure required to meet development goals, for example, in water and sanitation and in energy, is yet to be built,[30] and the decisions taken will determine the degree to which countries are locked into carbon-intensive and environmentally destructive technologies, as well as influencing their vulnerability and resilience to future climatic change. There are therefore opportunities to put in place low-carbon and climate-resilient infrastructure, particularly in the energy, transport, water and building sectors.[31] With the right kind of planning and investment to ensure that the needs of the poorest and most vulnerable people are met, infrastructure investment could deliver human development objectives as well as environmentally sustainable growth.

The energy sector is a good example of an industry that is critical for delivering reductions in poverty across many of its dimensions and is also critical to addressing climate change. Energy poverty significantly constrains economic development in many parts of the developing world[32] and this is why Save the Children identifies the delivery of sustainable energy for all as a key objective for the next development framework. With electricity, people can study after dark; water can be pumped; food and medicines can be refrigerated. But access to energy needs to be achieved in ways which are equitable and environmentally sustainable. The energy sector is the largest and fastest growing contributor to global greenhouse gas emissions and in 2010 was responsible for 35% of all greenhouse gas emissions. Transforming today's fossil fuel-intensive global energy sector into one that is based on renewable energy could therefore have multiple benefits, including a net increase in employment within the sector; safer, less hazardous jobs; and lower carbon intensity.[33]

Climate change impacts are already causing an increase in the number and severity of weather related disasters and are starting to undermine efforts to fulfil the human rights of vulnerable groups, such as children and young people. The scaling up of investment by both the private and public sectors in climate change mitigation and adaptation is therefore more urgent than ever.

However, the OECD estimates a global financing gap of $50 trillion in low-carbon and climate-resilient infrastructure to 2030.[34] Closing that gap means that in many countries the public sector must take a leading role in driving the delivery of infrastructure that is socially inclusive and environmentally sustainable, by addressing key market failures and ensuring the needs of socially vulnerable people are catered for. However, the private sector also has an important role to play in supporting investment and in driving some of the required technological and financial innovations.

To facilitate adaptation, developing countries need access to predictable flows of finance at levels sufficient to close their existing adaptation deficit and to help them maintain their development trajectories in the face of a harsher climate. Vulnerable communities need direct access to support and finance to ensure that their specific adaptation needs are met and that national-level bottlenecks do not prevent support getting to those most in need. Civil society has a strong role to play in this process, including by ensuring that advanced economies and global agreements provide the necessary stream of finance to make the investments that are needed.

4 RESPONSIBLE PRIVATE-SECTOR INVESTMENT

The private sector plays a crucial role in this process, from creating decent jobs to providing access to goods and services and by paying fair taxes to finance development. Save the Children believes that the private sector will have an important role to play in the realisation of any post-2015 development framework. The framework will need to include a nuanced definition of the private sector and more clarity about the difference between 'private-sector development' (ie, promoting the business climate) and working with 'private-sector entities as actors in development'. It will also need to emphasise the importance of local jobs, local content and local value, and recognise the importance of investing in the geographic areas, industry sectors and types of organisations that are most likely to create decent jobs and enterprise opportunities for poor people.

Foreign direct investment (FDI) has the potential to be a key driver of development where it succeeds in stimulating local economic growth, job creation and infrastructure development by running responsible businesses which respect human rights. Save the Children welcomes the fact that some global companies are already engaging in post-2015 debates, pushing the boundaries of the private sector's traditional role in development towards holistic business strategies and responsible investments that support human development goals.

Although questions remain over the nature and extent of the particular benefits of FDI, particularly in low-income countries, businesses can ensure a positive development impact by:

- shaping core business strategies to contribute to development goals
- advocating for public policies at national and global levels in support of development
- applying a 'do no harm' approach to their core business (through evaluating, disclosing and addressing social impacts of their products and suppliers), to their practices (such as labour standards or tax strategies), and to indirect impacts (such as their environmental footprint).

Mandating corporate reporting for non-financial performance through the post-2015 framework would greatly support this.

Unleashing the potential of responsible private-sector investment will require a renewed relationship between governments and companies, in which they work together to upgrade the productive structure of the developing economies by supporting domestic production and employment. Dani Rodrik suggests that a "corporatist vision in which the state and private business are allies and cooperate in pursuit of common objectives"[35] has the potential to create a win-win situation for the public and private sectors in developing countries. Indeed, business leaders often share this view: respondents in a survey of global stock exchanges identified increasing sustainability reporting for listed businesses as a joint responsibility of the exchange and government.[36] Similarly, the *Financial Times* recently reported that many of the chairmen of 25 large FTSE 100 companies felt that policy-makers should be responsible for closing permissive tax loopholes.[37]

It will also be necessary to support the creation of small and medium enterprises in developing countries, which can balance the current polarisation towards either microenterprises or large firms. The so-called 'missing middle' in developing countries is responsible for only 17% of the GDP and 30% of the employment, whereas in advanced economies it is responsible for half the GDP and 60% of the employment.[38]

5 TAX AND DOMESTIC RESOURCE MOBILISATION

Transforming society and the economy towards a sustainable development pathway will require not only changing strategies and approaches to economic and human development, but also important financial investments.

A more dynamic and diversified economy has the potential to create more and better jobs and to increase the tax base of developing country governments. While international aid has provided much-needed finance, particularly in low-income countries that were working with an income of less than about $1,000 per person per year, the bedrock of finance for development in every country is taxation. From a poverty reduction perspective, this is increasingly important as a majority of the world's poor people now live in middle-income countries which have a more substantial tax base which can be used for equitable and sustainable development initiatives.

In 2009, domestic resources provided about two-thirds of public spending in low-income countries, compared with a little less than half in 2000. Increasing domestic revenue has many benefits. Revenues enable governments to make bigger investments in social sectors such as health, education and social protection, in ways which are more equitable and which ensure universal coverage. These are crucial investments which, if managed correctly, directly benefit children and increase opportunities for every child to have a fair chance in life. Here accountability is crucial. A functional tax system also makes governments more accountable to citizens and helps generate a sense of ownership. To put it simply, when governments are dependent on their citizens for revenue they are more responsive to their citizens. Governments have a responsibility to be transparent about their revenue and expenditure, enabling civil society to monitor the integrity of spending and make the case for investment in the areas which matter to citizens.

In particular, natural resources have the potential, if managed sustainably, to deliver transformative change. Equally, if managed poorly, they can be a curse, increasing inflation and resulting in poor governance and accountability. National governments must take steps to ensure that tax incentives are designed in a transparent and accountable manner and deliver a fair deal to citizens, and that agreements and revenues are disclosed to citizens in a way that they can interpret and understand.

If tax is raised progressively, it tackles inequality directly. And if there is a clampdown on tax evasion and avoidance, it helps foster a sense of fair play. One estimate puts the potential benefit of challenging international tax abuse at a reduction in under-five mortality of 1,000 per day.[39] Tax policies can also be used to price negative environmental effects of certain economic activities and raise resources to fund the transition of economies towards more sustainable development pathways.

Greater domestic resource mobilisation requires both domestic and global efforts. In many countries, a large informal sector makes revenue mobilisation a major challenge. Revenue authorities value support in designing and implementing strong legislation, and in putting in place adequate mechanisms to collect taxes.

In order to mobilise revenues and improve tax morale – the willingness of citizens to pay tax – it is crucial that those evading and avoiding taxes are challenged. This is not only a domestic issue. While aid may seem to people in rich countries to be the most obvious element of finance for development, those same countries bear a large responsibility for the weaknesses of the international system that enable tax dodging and grand corruption to continue. An international transparency commitment – whereby countries notify each other about their citizens' bank accounts, companies or other vehicles – would shed significant light on illicit financial flows and help to curb the tax losses that are estimated to exceed aid receipts.[40]

Tax has a significant potential to provide developing-country governments with much-needed finance for development, but deepening of domestic financial systems in developing countries, if well done, can also play a crucial role in providing the finance required to deliver shared and sustainable prosperity. Countries such as Brazil have successfully expanded access to credit by leveraging the lending capacity of their national development bank.

THE WAY FORWARD

Our experience with the MDGs has shown us that integrating the different aspects of human development has the potential to unleash and accelerate progress. Maternal education is crucial for improving child health; nutrition plays a vital role in reducing maternal mortality, and safe water and sanitation are fundamental to achieving better health outcomes.

The world has also learned that integrating economic transformation, environmental sustainability and inequality reduction into human development will be essential if we are to end poverty by 2030. The post-2015 process can contribute to these debates in two ways: by integrating as much of this as possible into the new set of goals (both by ensuring some specific goals relating to this shift are covered and by mainstreaming these considerations throughout the framework), and by beginning a debate that will help shift development thinking over time, even if it isn't fully formed in the post-2015 framework. The new development paradigm that the world develops at this historic crossroads must be inspiring and ambitious, and it must address in a much more integrated fashion the human, economic and environmental challenges facing the world. Taking the path less travelled will make all the difference.

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Yet we also face some major challenges, particularly growing inequality within countries and climate change.

Save the Children believes that a new approach is needed to international development post-2015. Whilst development should continue to focus on human development goals, such as poverty, hunger, access to basic education, and child and maternal mortality, it will also need to address economic transformation and environmental sustainability.

This briefing provides some examples of policy choices that countries could make in their attempt to shape sustained and sustainable growth to deliver for people and for the planet.

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