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GROWTH, INNOVATION, INCLUSION: **THE G20 AT TEN**

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Meeting the challenge of social inclusion

Collective responsibility must be the way forward in challenging long-term social exclusion. Economic booms alone will not suffice

By Diéry Seck, director, African Institute for Economic Development and Planning

In their efforts to reach the Millennium Development Goals (MDGs) and other social development targets, most developing countries face the following dilemma: given the need for sustainable long-term growth and the cyclicality of export earnings, which type of uncertainty should be imposed on the future level of social spending, bearing in mind the political and developmental cost of protracted social under-spending? On the one hand, predetermined levels of socially oriented budgetary expenditures – not linked to actual levels of export revenues – may force painful trade-offs within the social budget and competition with priorities in other sectors if revenues turn out to be significantly lower than anticipated. On the other hand, pro-cyclical social spending may, in years of export bust, expose vulnerable groups to unacceptable cut-backs in the provision of health services, sanitation or clean water with irremediably dire consequences for their very survival.

A young man walks along oil pipelines belonging to Italian oil company Agip in Obrikom, Nigeria

It is often argued that this dilemma can be tackled to a degree if developing countries, most of which are primary commodity exporters, use periods of export boom to fund unusually high social spending programmes that will tide them over through the lean years until the next boom. To this end, most social infrastructure would be built during the boom years and governments would purchase goods and services targeted at the social sector in advance for delivery over several years. An alternative method is to set up a social fund financed by part of the windfall revenues of the export boom. But in practice, using commodity booms to fund the social sector is difficult. Given that the intensity and duration of future export commodity booms are impossible to predict, it is unsustainable to base the social dimension of a country's long-term development strategy on them. At best, one can debate the proper allocation of proceeds from ongoing booms, at the risk of overestimating their duration – as is evidenced by countless unfinished infrastructural projects for which the money ran out before they were completed.

If export commodity booms are to help achieve social inclusion and pursue long-term development, the challenge of social inclusion must, if possible, be met

> “Grass-roots organisations are in tune with the seasonal, cultural and demographic peculiarities of social spending”

by several means. One such means, on the expenditure side, is the devolution of part of the management of the social sector to the private sector through fiscal and other incentives, to make use of its higher efficiency wherever this exists. In addition to efficiency, selectivity can also help reduce the cost of social inclusion through better targeting of needy groups by local governments and grass-roots organisations that are often more in tune with the seasonal, cultural and demographic peculiarities of social spending, and more adept at establishing acceptable location-specific, burden-sharing formulas. With respect to revenues, developing countries could take advantage of the new spirit instilled by the Paris Declaration on Aid Effectiveness to design new mechanisms aimed at making aid more counter-cyclical than it is currently, without prejudice to the volume and predictability of aid.

In the context of sustainable long-term development, proceeds from commodity booms, being irregular and fairly volatile in most developing economies,

UK Prime Minister Gordon Brown, Queen Rania of Jordan, Bill Gates and Bono at the World Economic Forum in Davos, January 2008

should not fund social programmes directly because such programmes require continuity and consistent levels over time to be effective. Since social inclusion policies require significant and regular funding to be successful, they must, to a large extent, be shielded from competition with other budgetary appropriations and the vagaries of the performance of the external sector. In this respect, reforming measures in the international financial architecture could play a vital role, along with developing countries' own efforts at home. In the spirit of the MDGs, which are supported globally, the following two measures could be considered steps toward globalised responsibility for social inclusion. They are particularly relevant to Africa.

Indebted developing countries face the challenge of fixed external debt service obligations over very long maturities, while their export earnings are characterised by uncertainty that increases exponentially over time. As a result, they face debt service difficulties and often sacrifice spending on priority sectors, including the social sector, to avoid default. As a measure of relief, all or part of their fixed external debt service payments could be replaced by debt service payments that are contingent on their export performance. Under this arrangement, they would be allowed to pay less than the contractual debt service amount during lean export years but commit to fund the social sector fully. The unpaid portion of the contractual debt service could be capitalised, subsidised from a global fund or postponed without interest. During export boom years, they could pay off their accumulated arrears or even buy back their own debt, thus reducing future competition between debt service and social spending. The potential for moral hazard that could arise from this risk-shifting mechanism could be controlled by limiting the maximum level of external indebtedness of participating countries.

The second solution is a United Nations (UN) development aid pool. For the international community to assume its global responsibility for social inclusion, the unpredictability, excessive conditionality, disorganisation and insufficiency of official development assistance must be remedied by entrusting management of aid to the governance of the UN and funding it through pools that support

> "Reforming measures in the international financial architecture could play a vital role"

development priorities. This collective responsibility would promote new thinking and expand finance for development from traditional donors to private sector, civil society and 'South-South' solidarity. In addition to voluntary contributions, donor-backed bonds and a number of international levies could fund the pools, which would be managed by an aid council with broad representation. The pools would seek to supplement the development efforts of developing countries. In keeping with the UN's mandate to pursue the MDGs, these pools would place special emphasis on financing social inclusion in the form of grants. ♦