

**Input to Minister Ploumen's policy letter on how to promote inclusiveness
Tom van der Lee, advocacy & campaigns director Oxfam Novib, 24 February 2015**

Aspire to be the leading advocate for accountability, transparency & fiscal justice

The 85 richest people in the world own the same wealth as the poorest 3,5 billion people (the bottom half of the planet)ⁱ. Unless things change, by 2016 the wealth of the top 1% will exceed that of the rest of the world; the other 99%ⁱⁱ. So it's no surprise that seven out of ten people in the world live in a country where the gap between rich and poor is worse than thirty years ago. It's positive that IMF, World Bank and OECD have shifted their position and agree with Oxfam that extreme inequality is a break on growth.

Of course it's encouraging to see that six of the ten fastest growing economies are African countries, but Sub Sahara Africa is also the region with the second highest income inequality in the World. Especially the most populated countries, South Africa and Nigeria, harbour extreme inequality. The combination of high and growing inequality with an enormous youth bulb creates human suffering and social friction, but also undermines further economic growth.

There are a lot of policies that can effectively reduce extreme inequality. I also think there is quite a lot of consensus on solutions the World Bank proposes under the "Ending Poverty, Sharing Prosperity" agenda, but the big question is: why are governments in general not succeeding in making growth more inclusive? You could fill a library with potential answers to this question; but a lot boils down to two factors: lack of money and abuse of power.

Governments, especially of developing countries, need sufficient income to ensure that all citizens get equal opportunities and are protected from living in extreme poverty. Currently, many governments do not have the fiscal capacity to acquire enough funding. Each year 1 trillion dollars of illicit money is flowing out of the developing world. Illicit financial flows from Africa are between \$50 and \$148 billion annuallyⁱⁱⁱ, and growing with almost 10% each year (much higher than the economic growth). Addressing tax base erosion, by curbing tax fraud, profit shifting and tax avoidance should be part and partial to any initiative aimed at inclusive growth.

However, ensuring more government income does not automatically lead to responsible government expenditures. Oxfam's decades of experience in the world's poorest communities have taught us that poverty and inequality are not inevitable, but the result of deliberate policy choices of elites or the ways in which they abuse their power. Good governance is a prerequisite for inclusive development. Political capture or corruption - in the North and the South - are far too often insurmountable obstacles in eradicating extreme poverty and ensuring equal opportunity. One of the most effective ways to counter this is to invest in the capacity of a civil society to hold political and economic elites to account. In order to enable this more transparency is needed. The world does not need more fact free ideological fights, but evidence based discussions in a political structure with sufficient checks and balances. Recent cutbacks in DGIS funding for Good Governance and the end of MFS however undermine efforts to increase the capacity of Southern civil society to engage power holders. Hopefully this can be partially compensated through new strategic partnerships in which information exchange on power analysis and smart collaboration on complementary influencing activities go hand in hand.

In short, the Ministry of Foreign affairs in its ambition to promote inclusiveness, should invest in becoming a leading advocate for accountability, transparency and fiscal justice. We should convince, stimulate or seduce governments & economic power holders to do the right thing. But this would also mean: 'practice what you preach'.

This brings me to the following ten policy recommendations:

1. Clamp down on tax dodging by corporations and rich individuals and curtail illicit financial flows. Via The Netherlands alone, developing countries miss out at least €460 million in revenues annually^{iv}. The Netherlands should stop its tax haven practices and support Oxfam's call for a World Tax Summit^v to give developing countries an equal say in global tax policy, address illicit flows and fix the global tax system. The corporate tax race to the bottom is a serious threat to the world's ability to finance the Sustainable Development Goals, and should be recognized as such and dealt with.
2. Convince governments to share the tax burden fairly through progressive tax systems, shifting taxation from labor and consumption towards capital, fossil fuels and wealth. When President Mujica in Uruguay started reforming the Uruguay's regressive tax system in 2005, within one decade inequality measured in after-tax income starkly declined^{vi}.
3. Agree on a specific goal to tackle inequality as part of the Post 2015 agenda, and translate this into targets for each individual country. Ensure enough ODA, at least 0.7% GNI for EU member states, and make the development of domestic resource mobilization a bigger priority within ODA. It is estimated that for every \$1 of aid money spent on strengthening tax regimes in developing countries, \$350 can be generated in tax revenues, yet only 0.1% of aid globally targets tax systems^{vii}.
4. Create jobs. Increase investment^{viii} in the productive and labour intensive sectors of the economy, especially agriculture. Acknowledge that the extractive sector is generating a lot of illicit financial flows, while mining and drilling does not create many jobs^{ix}. According to the FAO, Economic growth through agriculture is four times more effective at reducing poverty than other sectors^x. Protect infant agro-industries to spur growth, instead of liberalizing these through trade agreements or tax exemptions to attract FDI. If we look at Uganda, we only see 3,9% of the 2014/15 government budget allocated to agriculture, while a minimum of 10% minimum is agreed by the African Union.
5. Introduce minimum wages and move towards a living wage for all workers. Move towards a highest-to-medium pay ratio of 20:1 and transparency on pay ratios. The informal sector deserves far more attention, research and analysis. As economic growth continues in Africa, a growing middle class earns taxable wages in the informal sector. In Uganda for example, out of 36 million people, only 87.000 pay income taxes.
6. Introduce equal pay legislation and promote economic policies to give women a fair deal. We all know that women are more responsible in contributing to inclusive development. But if we don't speed up in addressing gender inequality it will take at least another 75 years before women will be paid just as much as men.^{xi}
7. Invest in universal, free public services, such as health and education. This can help close the gap between haves and have nots^{xii}, but huge funding gaps, privatization – often resulting in a financial drain as well as a brain drain from public to private services which are unaffordable (!) to the poor - and user fees (also highly prevalent in public services) must be tackled. Education is the magic bullet to improve upward mobility. Therefore, education, especially secondary education should be revisited as a Dutch development priority. The IOB report on a decade of high quality work on education should have warranted this.
8. Ensure adequate safety-nets for the poorest^{xiii}, including a minimum income guarantee. Such safety nets must be universal and permanent. Dutch development policy should commit to universal child and elderly care services to reduce the burden of unpaid care work for women; unemployment benefits and pensions. Providing additional means of control over household spending through gender-sensitive social protection schemes seems crucial. Translate the Brazilian Bolsa familia^{xiv} into Dutch development policy.
9. It goes without saying. Inclusive growth means sustainable growth. The world and its climate desperately need a fair, ambitious and binding climate treaty. The Dutch should also take a fair share in the funding of necessary mitigation and adaptation efforts. On top of that the Netherlands should also support IMF chief Lagarde's plea to cut \$2 trillion worth of energy subsidies across the world and invest it equally in job creation and education, with a special focus on women.^{xv}
10. Finally, collaborate with champions in the private sector, especially those that have incorporated CSR in their core business and strive for bottom of the pyramid solutions that contribute to inclusive and sustainable growth. But also acknowledge that there are a lot of free riders out there. More specifically we know from

another IOB evaluation that not every investment through private sector development instruments contributes to inclusive growth. On the contrary, 'there is only rarely [information] about the impact on the ultimate targets group'^{xvi}. The IOB was also surprised to learn that more loans (instead of grants) were provided to the poorest countries as part of these instruments. If you combine this with the fact that only a third of the total DGIS budget goes to the poorest countries we know that the Ministry has to seek a better balance between the ambition to promote inclusive growth and the current aid & trade agenda.

ENDS



ⁱ **World Tax summit** Oxf.am/Z5oJ #EventItUp

ⁱⁱ <http://oxf.am/Zi4L> **Wealthiest 1%** will soon own more than the rest of the world's population combined, @Oxfam says <http://econ.st/1J1T9tG>

ⁱⁱⁱ African Union, Final report on the high level panel on **illicit Financial flows (IFF)**, EC, 26th ordinary session, 23-27 January 2015, Addis Ababa.

^{iv} <http://www.oxfamnovib.nl/Redactie/Downloads/Rapporten/DeNederlandseRouteBP21052013.pdf>

^v Oxf.am/Z5oJ #EventItUp

^{vi} **Tax reform Uruguay**. Consumption taxes were reduced, coverage of personal income taxes was broadened, corporate income taxes were consolidated, and some taxes were discontinued. <http://www.oxfam.org/en/research/time-end-extreme-inequality>

^{vii} http://www.theguardian.com/global-development/2013/mar/25/tax-crucial-issue-in-post-2015-talks?CMP=tw_t_gu

^{viii} Promoting employment and the employability of workers does not necessarily translate into more investments through the private sector development instrument. On the contrary, last year's IOB evaluation concluded; '*there is only rarely [information] about the impact on the ultimate target groups*'. The IOB was surprised to learn that loans were provided to the *poorest* countries as part of this instrument.

^{ix} <http://www.undp.org/extractiveindustries>

^x @GerdaVerburg <http://ow.ly/HpVj3>

^{xi} <http://www.oxfam.org/en/pressroom/pressreleases/2014-07-14/75-years-too-long-wait-equal-pay-oxfam-urges-g20-act-gender-gap>

^{xii} Every year, 100 million people are pushed into poverty because they have to pay for health care. A healthy workforce enhances productive capacities.

^{xiii} **Safety Net Support to Vulnerable Households in Somalia**. This project aims to reach 7,000 (3,920 female headed and 3080 male headed) pastoral and agro-pastoral vulnerable households in the selected districts based on their social economic profile. Identification of beneficiaries, targeting and registration is conducted in partnership with the community, community elected village recovery committees and the local partner with experience in '**all-inclusive**' community based targeting.

^{xiv} **Bolsa Família Brazil** is a **social welfare** program of the Brazilian government. It provides financial aid to poor Brazilian families; if they have children, families must ensure that the children attend school and are vaccinated. The program attempts to both reduce short-term **poverty** by direct **cash transfers** and fight long-term poverty by increasing **human capital** among the **poor** through **conditional cash transfers**. It also works to give free education to children who cannot afford to go to school to show the importance of education

^{xv} Christine Lagarde at 2015 WES summit in Davos: http://www.moneycontrol.com/news/world-news/low-oil-prices-can-help-cut-energy-subsidies-worth-362-trn_1282944.html

^{xvi} IOB evaluation private sector development 'in search of focus and effectiveness, p. 13, January 2014.