Fiscal Policy and Development
Spending Needs for Achieving Selected SDGs

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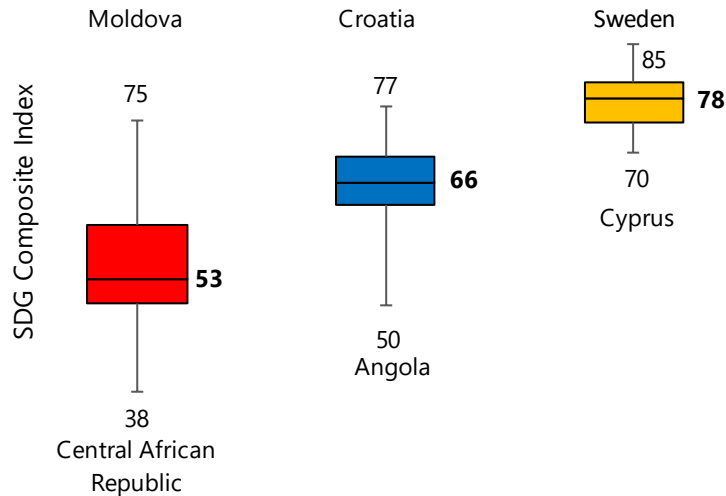**International Monetary Fund**

September 24, 2018

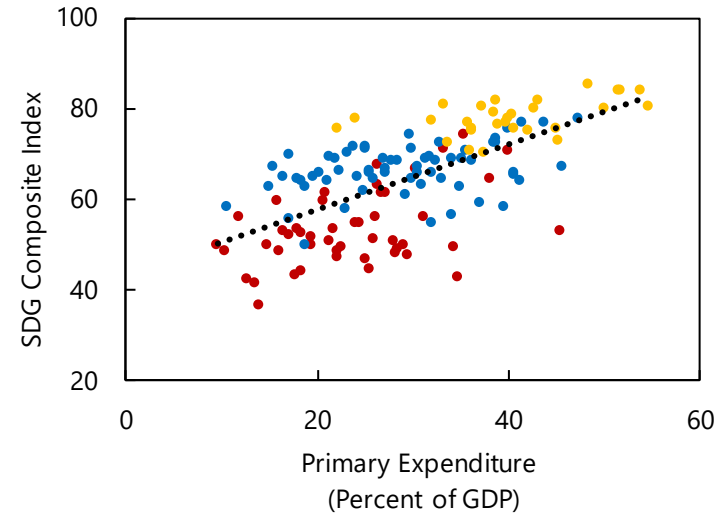# A Comprehensive Agenda Across Crucial Development Areas

Fiscal Policy, Growth and Development

SDG Composite Index Score, By Income Group

SDG Composite Index Score, By Government Expenditure

- ● LIDCs
- ● EMEs
- ● AEs

Source: IMF staff calculations, using data from 2018 SDG Index and Dashboards Report.

Key Questions

❑ How much to spend on education, health, electricity, roads and water?

❑ What role for national governments? How can the private sector, civil society, and the international community provide support?
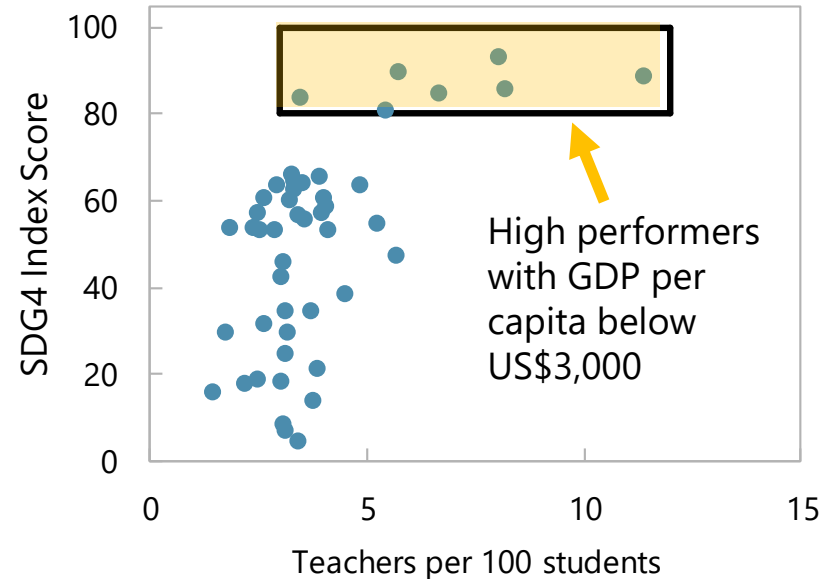
Spending Needs for Achieving Selected SDGs

- **155 countries** (34 AEs, 49 LIDCs, 72 EMEs)

- **Three-step approach**:

  1. Identify main **cost drivers**

  2. Derive **reference values** for cost drivers **consistent with high SDG sector performance**

  3. Estimate **2030 spending** levels given reference values

Example: Education Sector

High performers with GDP per capita below US$3,000

Source: IMF staff calculations.

Note: The three-step methodology was applied to education and health sectors. A different approach was used for roads and electricity. A World Bank's model was used for costing water and sanitation needs.
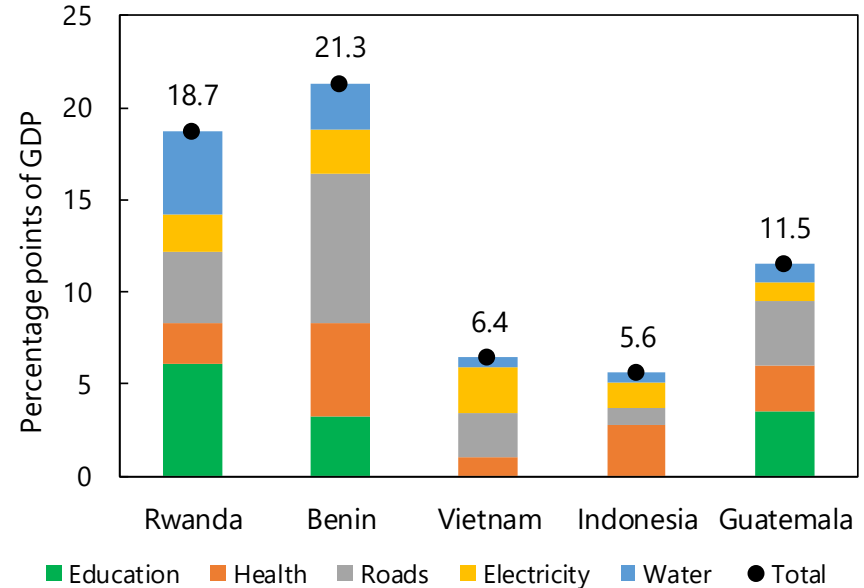
Five Country Cases

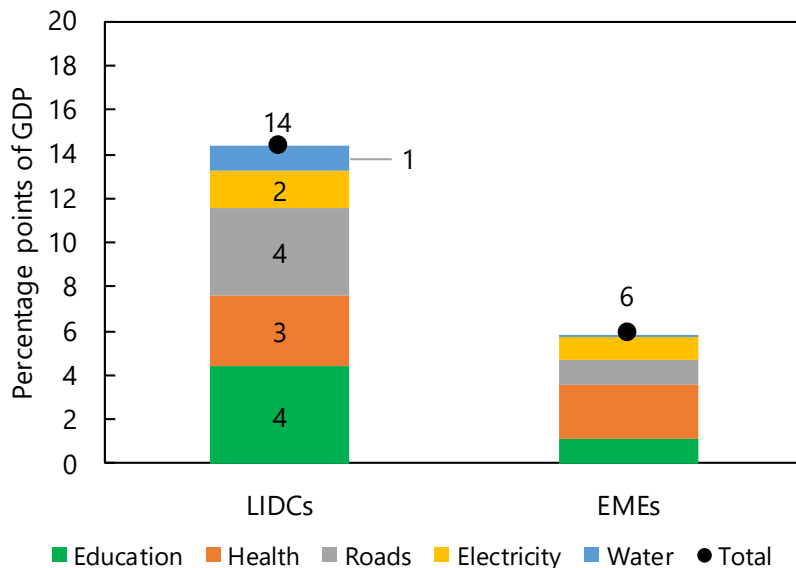## Country Cases Representative of Most Countries' Challenges
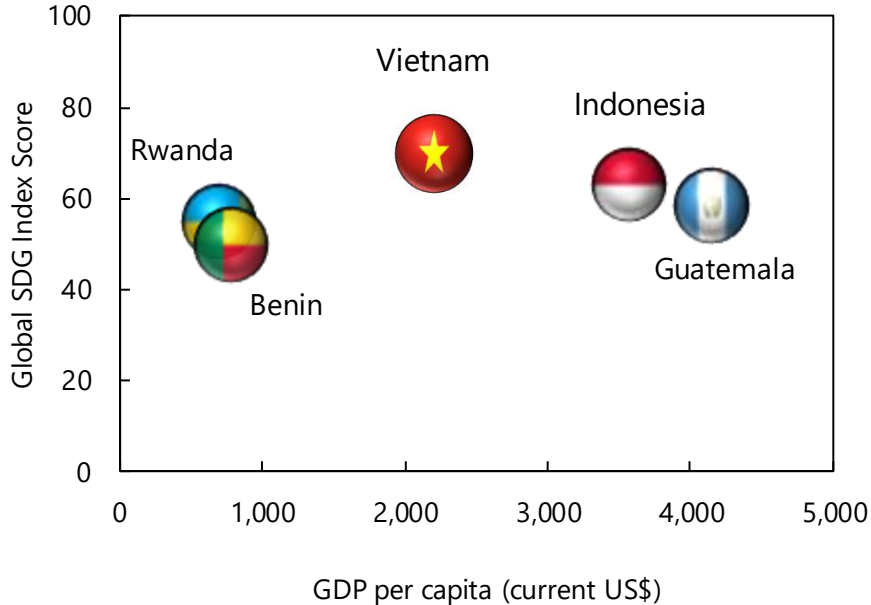
Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors
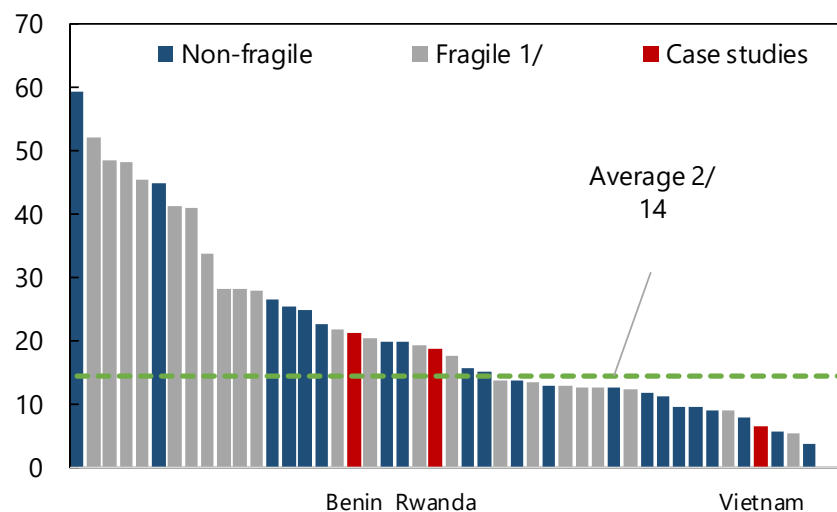(Percentage Points of GDP)

Source: IMF staff calculations.

LIDCs Face Enormous Spending Pressures

Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors
(Average, GDP Weighted, Percentage Points of GDP)

Variation in Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors
(Percentage Points of GDP)

Legend (left chart): ● Education ● Health ● Roads ● Electricity ● Water ● Total

Legend (right chart): ■ Non-fragile ■ Fragile 1/ ■ Case studies
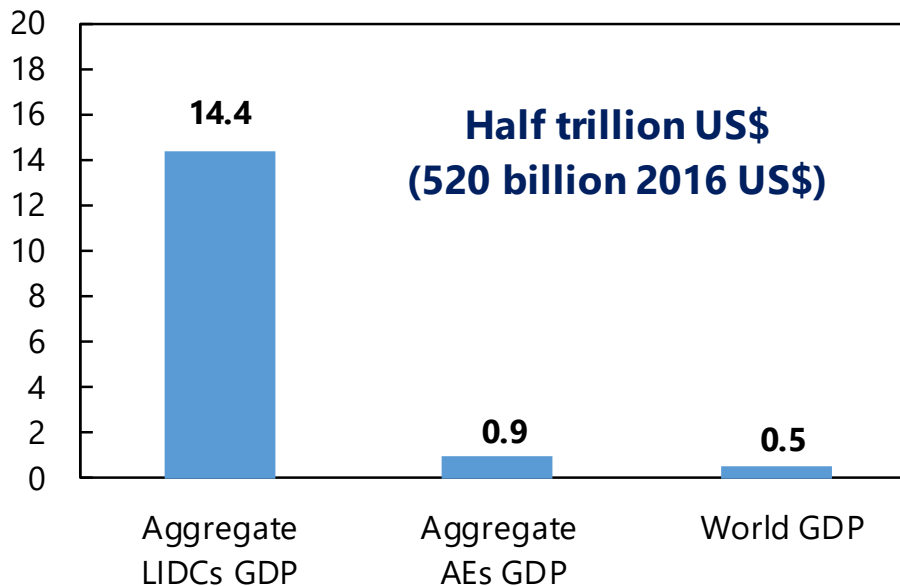
Source: IMF staff calculations.
1/ The IMF defines fragile states as having either weak institutional capacity measured by the World Bank Country Policy and Institutional Assessment (CPIA) score (average of 3.2 or lower) and/or experience of conflict (signaled by presence of a peace-keeping or peace-building operation in the most recent three-year period).
2/ GDP-weighted average of low-income developing countries.
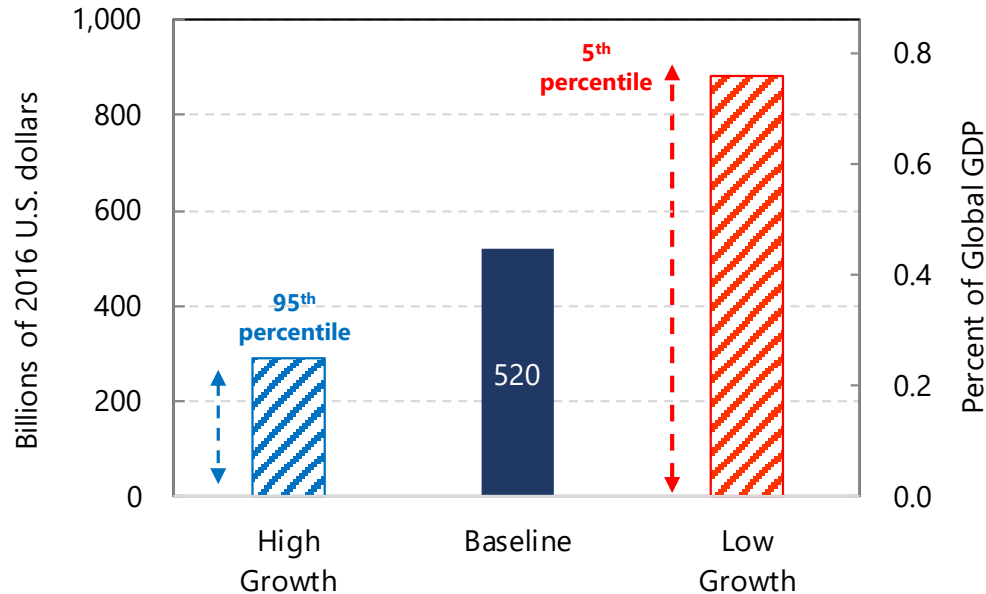
Alternative Perspectives on Spending Needs

LIDCs: Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors
(Percent of Different GDP Aggregates)

**Half trillion US$
(520 billion 2016 US$)**

- 14.4 — Aggregate LIDCs GDP
- 0.9 — Aggregate AEs GDP
- 0.5 — World GDP

Growth Matters!

LIDCs: Additional Spending Needs in 2030, by Growth Scenarios

Source: IMF staff calculations.
Note: Baseline growth is equal to IMF-WEO growth projections 2018-2023, assuming 2023 growth is potential growth for 2024-2030. The high and low growth scenarios are done adding to the baseline growth the difference between the median and the 5th and 95th percentiles of historic GDP growth from Penn World Tables.
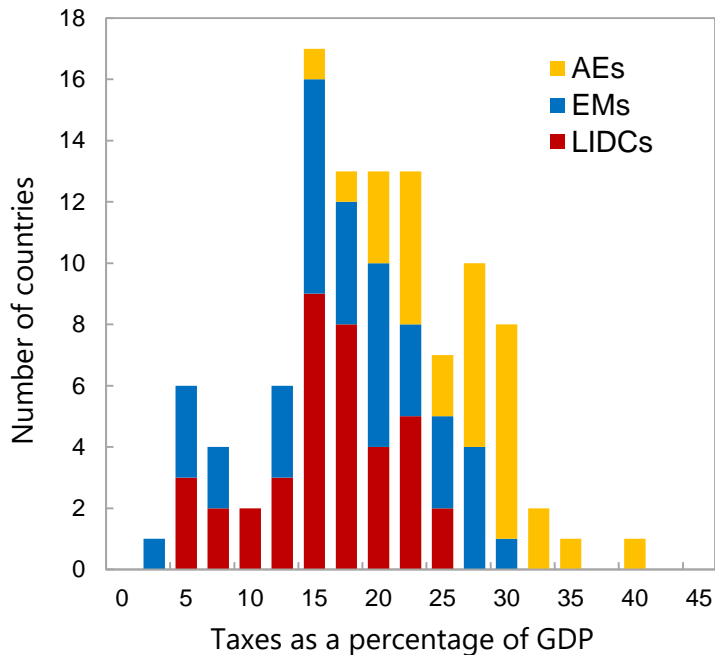
What Financing Options?

Tax Revenues? Scope To Increase Substantially

**World Distribution of Tax-to-GDP Ratio, 2017**

> ➢ In the medium term, countries could raise up to **5 percent of GDP** in tax revenues implementing **revenue strategies**

> ➢ **Further gains are possible** through continuing **economic development**

Source: IMF staff estimates.

Spending Efficiency? Room for savings

LIDCs: Additional Spending Needs in 2030, by Efficiency Scenarios
(Percentage points of GDP)
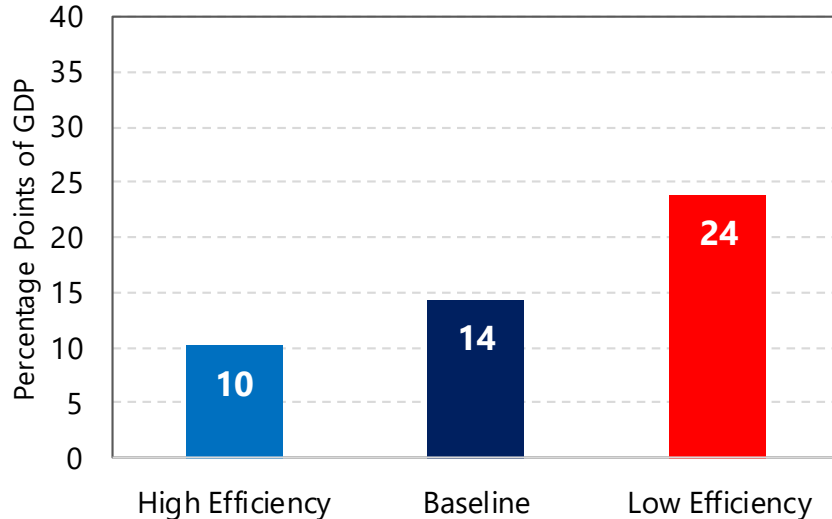
EMEs: Additional Spending Needs in 2030, by Efficiency Scenarios
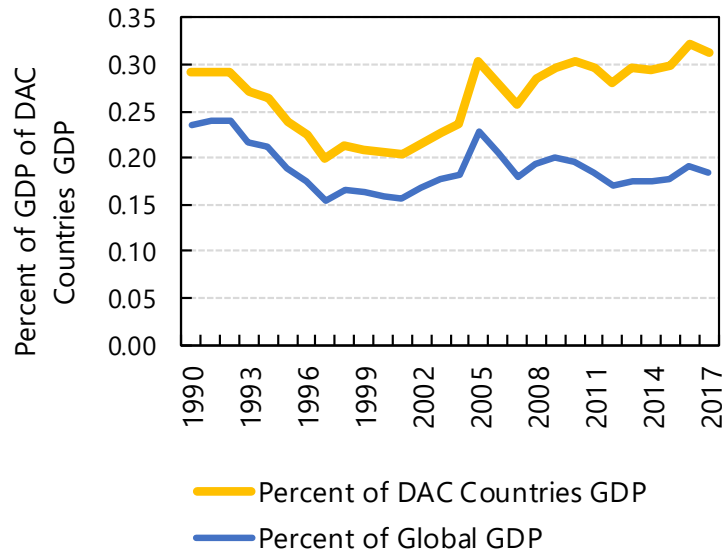(Percentage points of GDP)
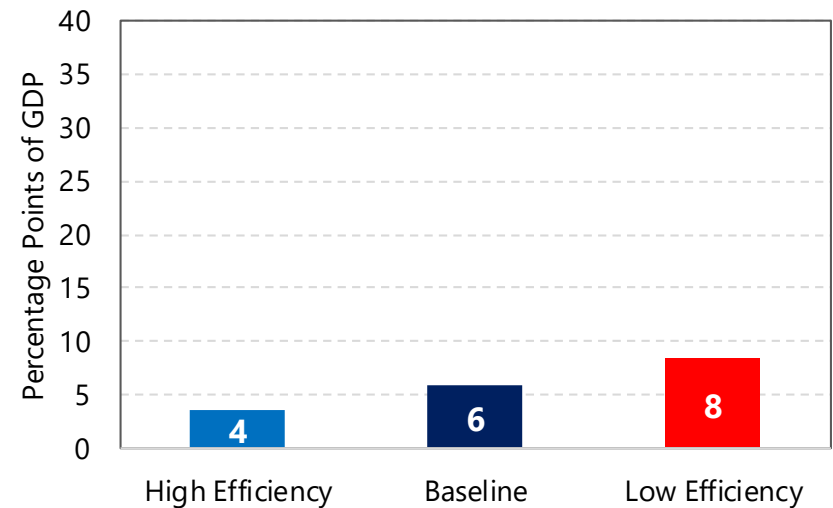
Source: IMF staff calculations.
Note: The baseline scenario benchmarks to countries with good performance, which are on average more efficient than other countries in the same income group. The high efficiency scenario benchmarks to good performance countries, assuming all efficiency gaps are closed. The low efficiency scenario benchmarks to good performance countries, assuming they become as efficient as the average country by income group.

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Foreign Aid? Limited Resources So Far

Estimated ODA Net Disbursements from DAC Countries, 1990-2017

Legend:
- Percent of DAC Countries GDP
- Percent of Global GDP

Y-axis: Percent of GDP of DAC Countries GDP

- ➢ **0.7 percent of GNI target** has been agreed and re-endorsed frequently since the 1970s by Development Assistance Committee members

- ➢ **List of eligible countries is broad**, including low- and middle-income economies

- ➢ Only **4 of the 29 DAC** countries are above the target

- ➢ Meeting **the GNI target would add** 228 billions of 2016 U.S. dollars (0.2 percent of global 2030 GDP)

Source: IMF staff estimates, using OECD data.

In Search For Financing Solutions

**LIDCs: Additional Spending Needs and
Increased Tax Revenues in 2030**
(Billions of 2016 U.S. dollars)

Source: IMF staff calculations.
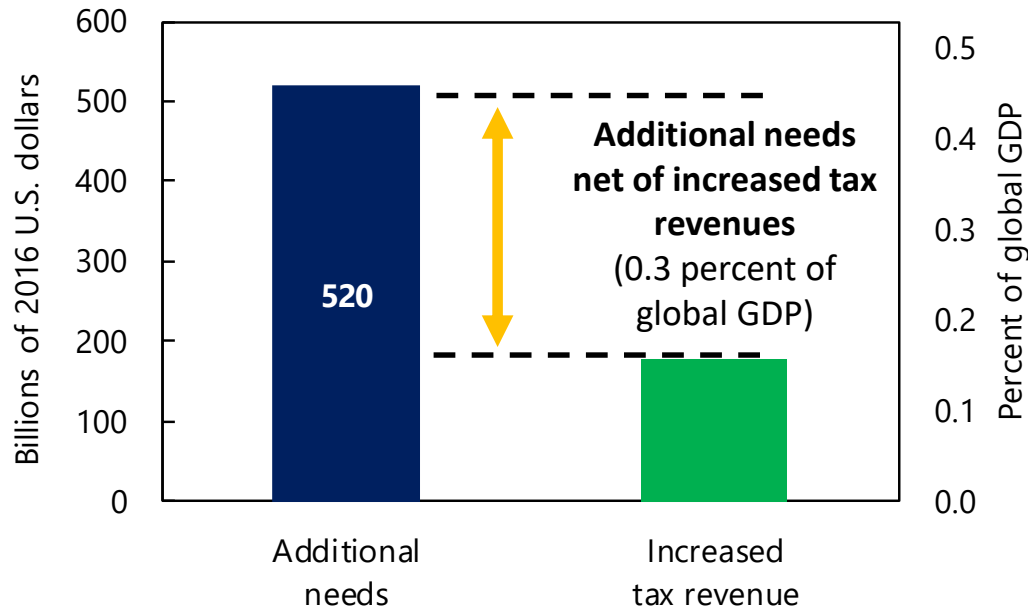
Conclusion

- Large efforts needed by both LIDCs and EMEs to fulfill the SDGs in education, health, roads, electricity and water by 2030

- Additional spending needs for representative LIDC amount to 14 percentage points of GDP

- Increasing tax capacity can help, but not enough for most LIDCs

- Important role for private sector, official development assistance, and civil society

Conclusion

- National ownership is key to the SDGs success and puts a strong emphasis on governance

- Strong governance and focus needs to apply also to the global community; donors; the private sector and civil society

- Enabling national governments is fundamental for sustainable and inclusive development