

IMF STAFF DISCUSSION NOTE

**Fiscal Policy and Development:
Human, Social, and Physical
Investment for the
SDGs**

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**FISCAL POLICY AND DEVELOPMENT
SPENDING NEEDS FOR ACHIEVING
SELECTED SDGS**

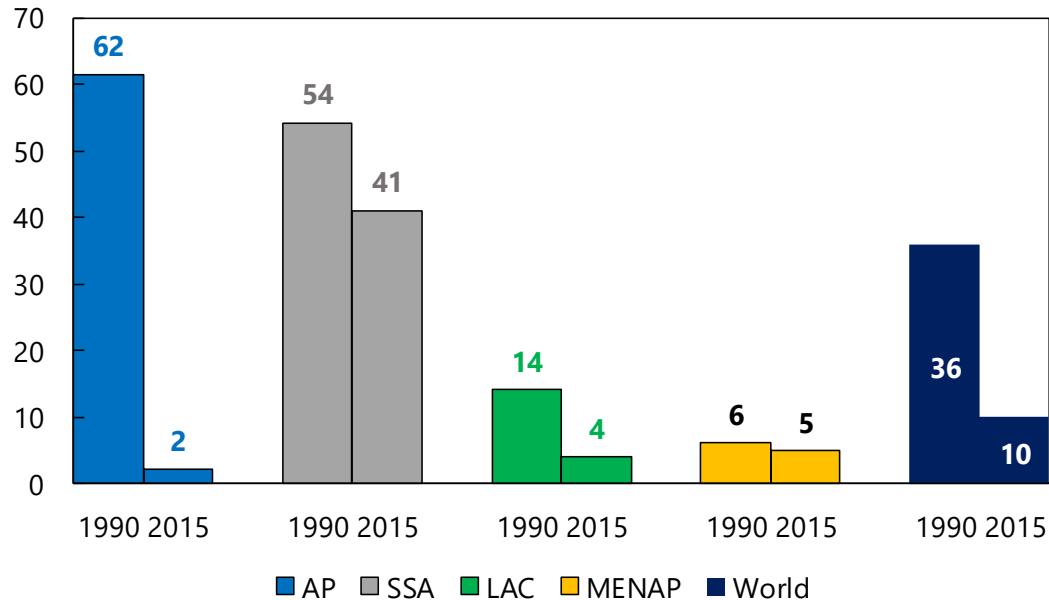
Fourth Annual Future of Innovation
Conference by the Centrale Bank van Aruba

Mercedes Garcia-Escribano (IMF)
November 1, 2019

Progress Has Been Achieved in Development, but Poverty Remains High in Some Regions



Extreme Poverty by Region, 1990-2015
(Percent of population living on less than US\$1.90 a day)



Source: IMF staff calculations using World Bank Poverty and Equity database.

Note: AP = Asia and Pacific; LAC = Latin America and the Caribbean; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; SSA = sub-Saharan Africa.

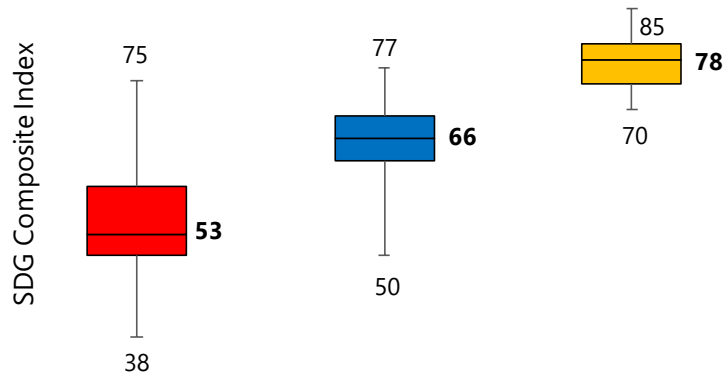
A Comprehensive Development Agenda



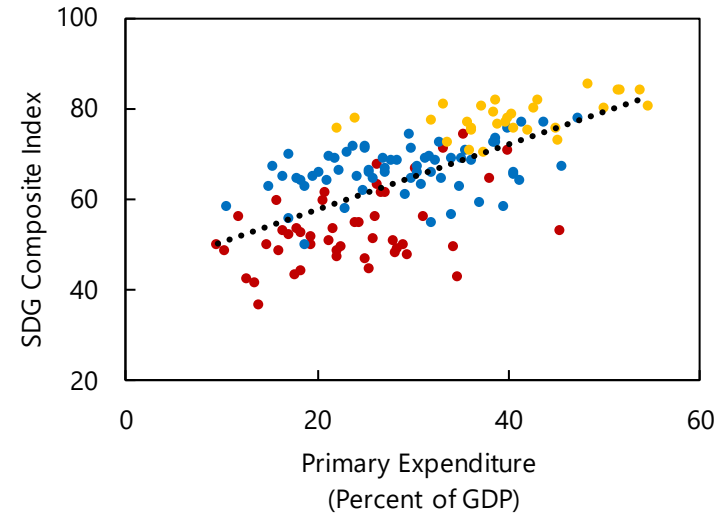
Fiscal Policy, Growth and Development



SDG Composite Index Score, By Income Group



SDG Composite Index Score, By Government Expenditure



● LICs

● EMEs

● AEs

Key Questions



- How much to spend on education, health, electricity, roads and water?
- What role for national governments? How can the private sector and the international community provide support?

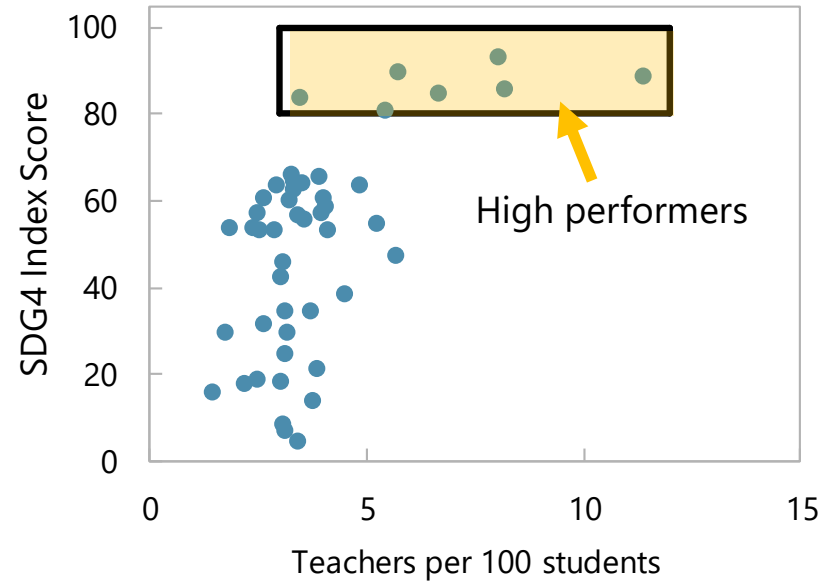
IMF Methodology For Estimating Spending Needs



➤ 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 (Countries 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.

IMF Methodology For Estimating Spending Needs



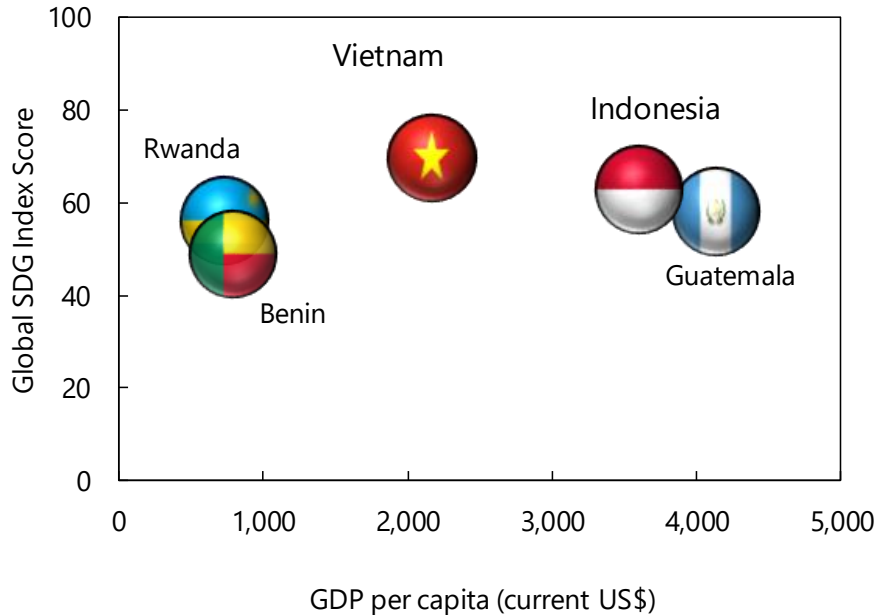
155 countries: 34 AEs, 49 LIDCs, and 72 EMEs

- **Presentation of the results: *Additional annual spending in 2030***
 - Additional refers to the difference between **current level** and estimated level in **2030**
 - Total (i.e. public and private)
- **Efficiency**
 - Estimates are consistent with increasing spending efficiency
- **Selected SDGs**
- **Uncertainties surrounding the estimates**
 - Assumptions and growth projections

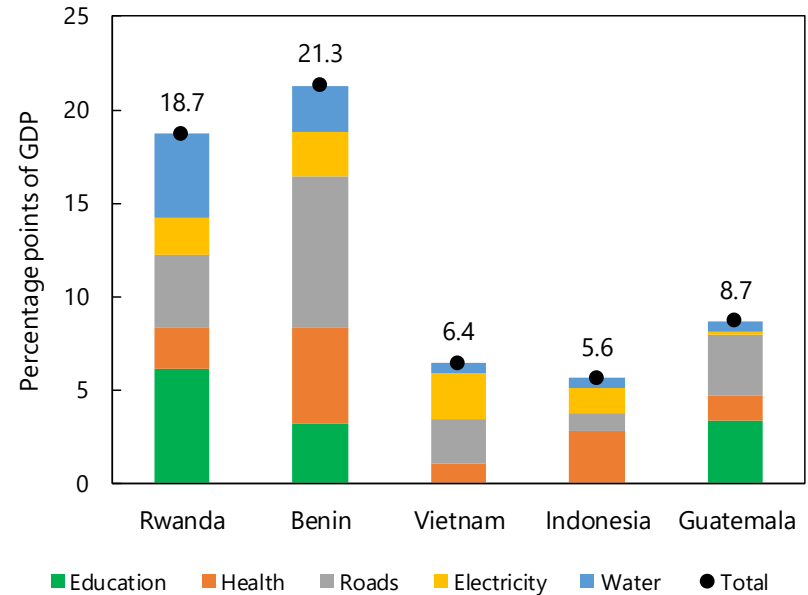
Five Country Cases



Country Cases Representative of Most Countries' Challenges



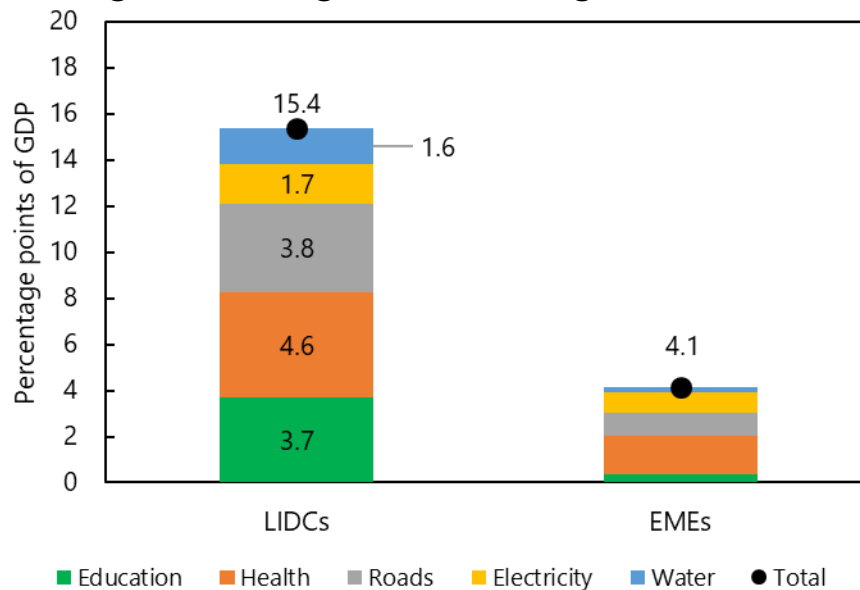
Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors (Percentage Points of GDP)



LIDCs Face Enormous Spending Pressures



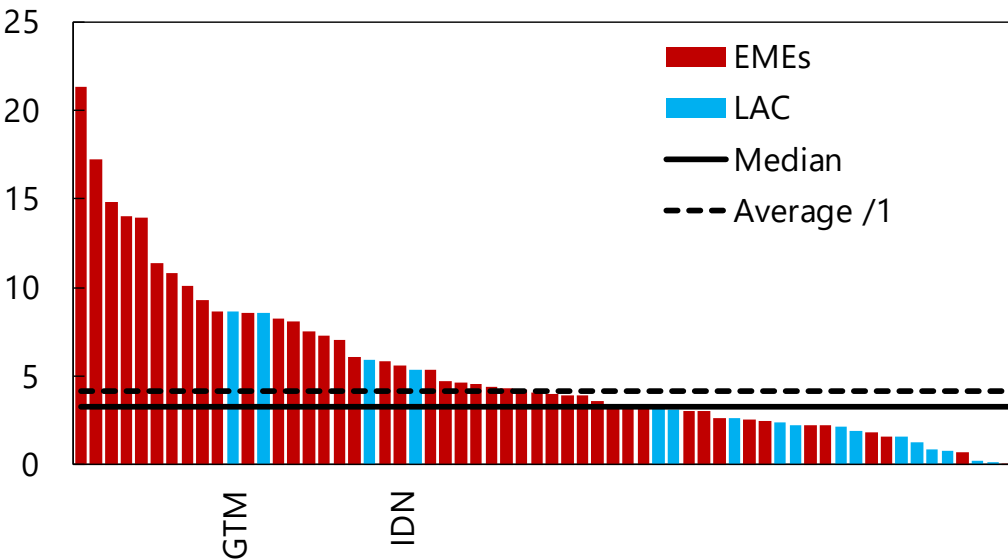
Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors
(Average, GDP Weighted, Percentage Points of GDP)



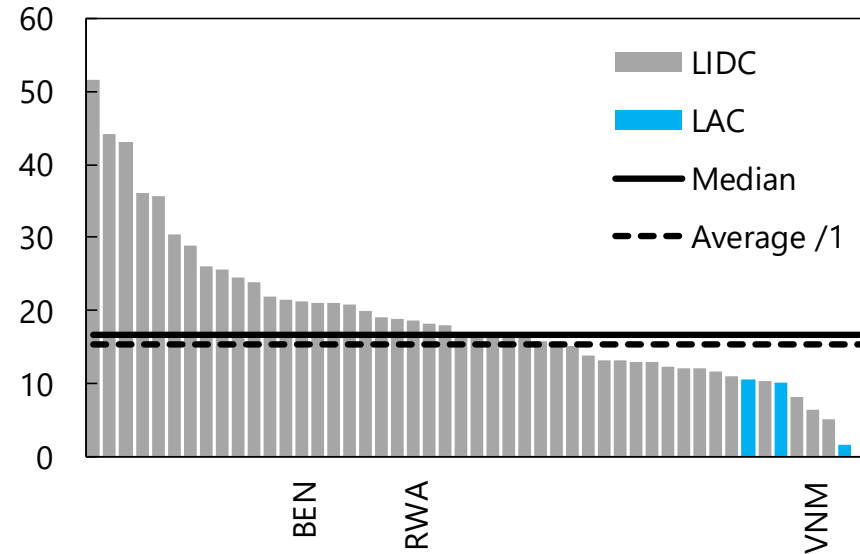
Source: IMF staff calculations.

Variation within Income Group

Variation in Additional Spending Estimates in 2030 for 72 Emerging Market Economies
(Percentage points of GDP)



Variation in Additional Spending Estimates in 2030 for 49 Low-Income Developing Countries
(Percentage points of GDP)



Source: IMF staff calculations.
1/ GDP-weighted average.

Global GDP: A Different Perspective



- **Spending needs across EMs and LIDCs combined:**

US\$2.6 trillion

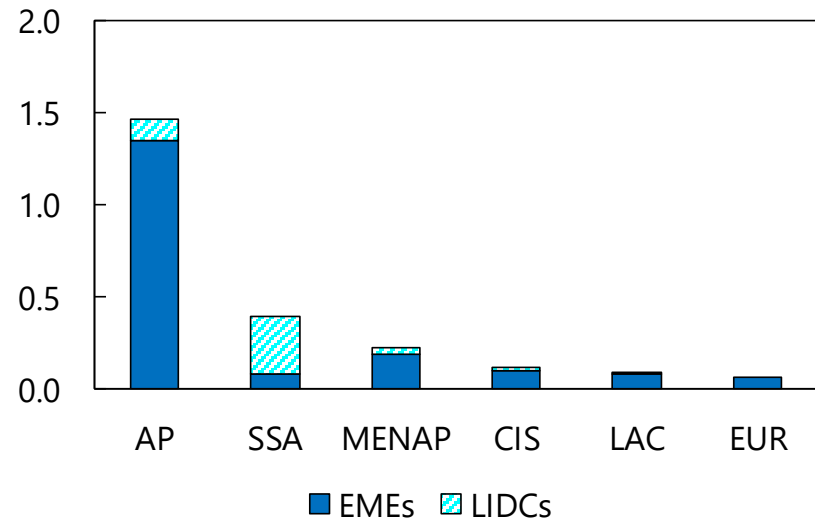
(2.5 percent of the 2030 world GDP)

- **For LIDCs:**

US\$528 billion

(0.5 percent of 2030 world GDP)

Additional Spending in 2030 by Region and Income Group
(Percent of 2030 world GDP)

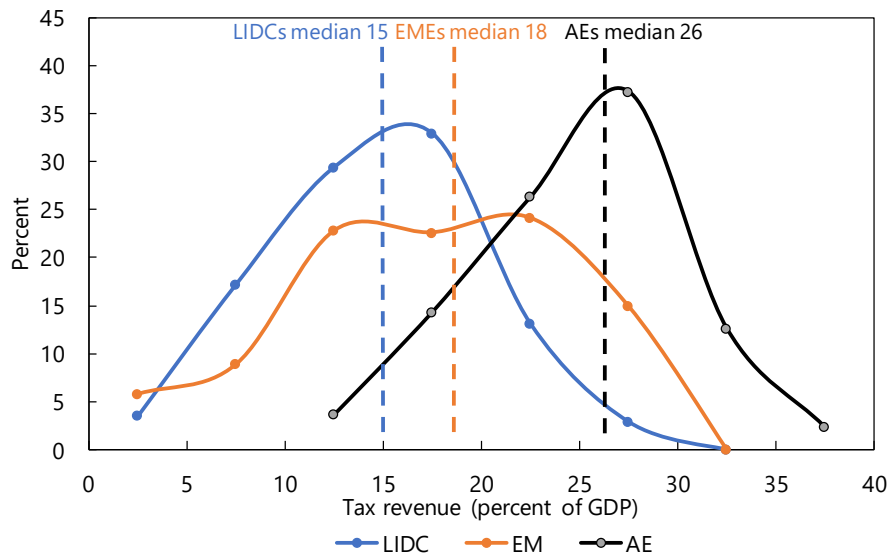


Ownership and Responsibility for Achieving the SDGs



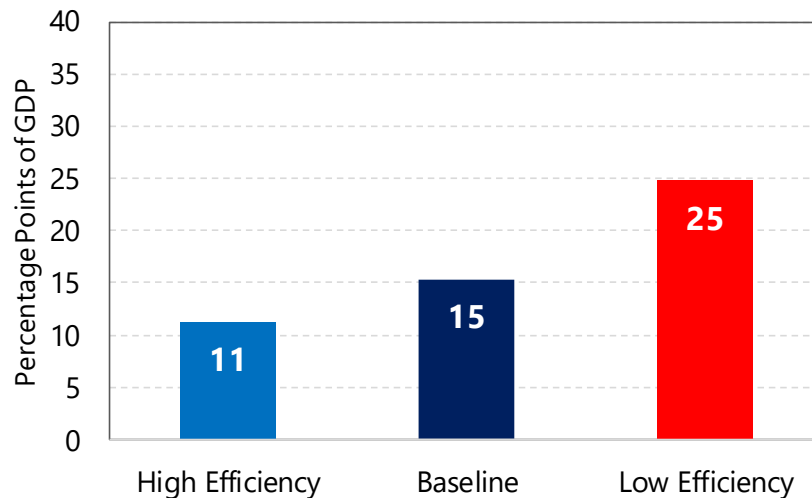
Enabling State Capacity: Collecting More and Spending Better

**Distribution of Tax-to-GDP Ratios across
Income Groups in 2016**
(Percent of GDP)



Source: Gaspar, V., D. Amaglobeli, M. Garcia-Escribano, D. Prady and M. Soto (2019).

**LIDCs: Additional Spending Needs in 2030,
by Efficiency Scenarios**
(Percentage points of GDP)



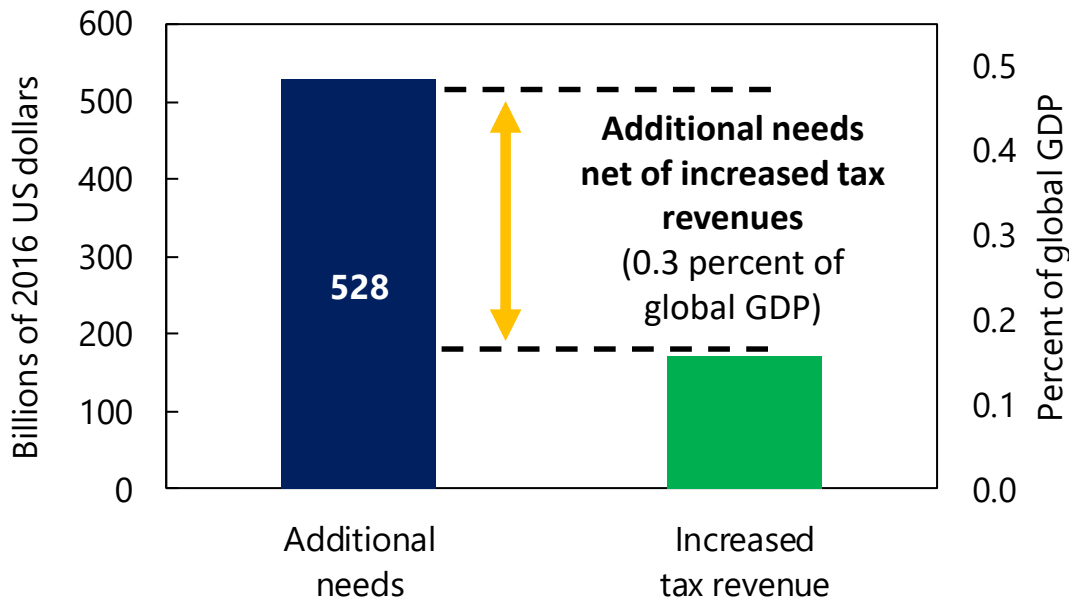
Source: Gaspar, V., D. Amaglobeli, M. Garcia-Escribano, D. Prady and M. Soto (2019).

In Search For Financing Solutions: EMEs vs LIDCs



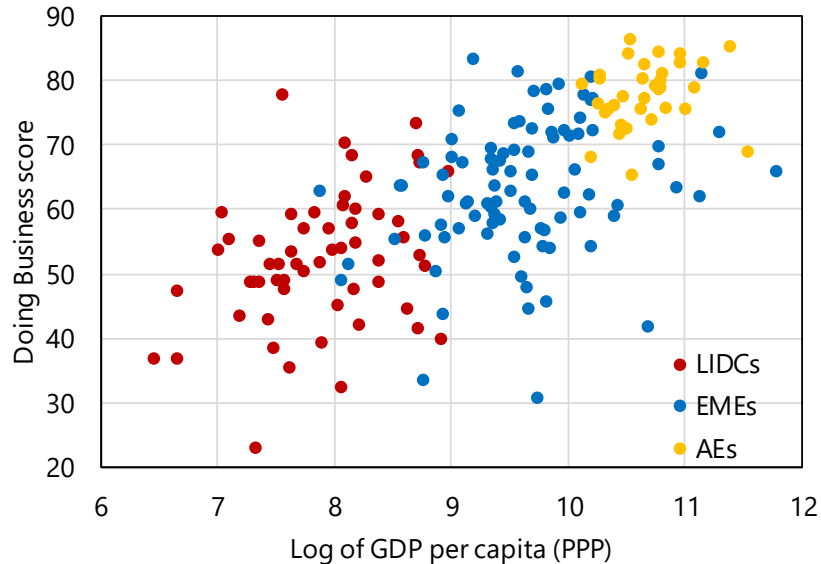
LIDCs: Additional Spending Needs and Increased Tax Revenues in 2030

(Billions of 2016 U.S. dollars)



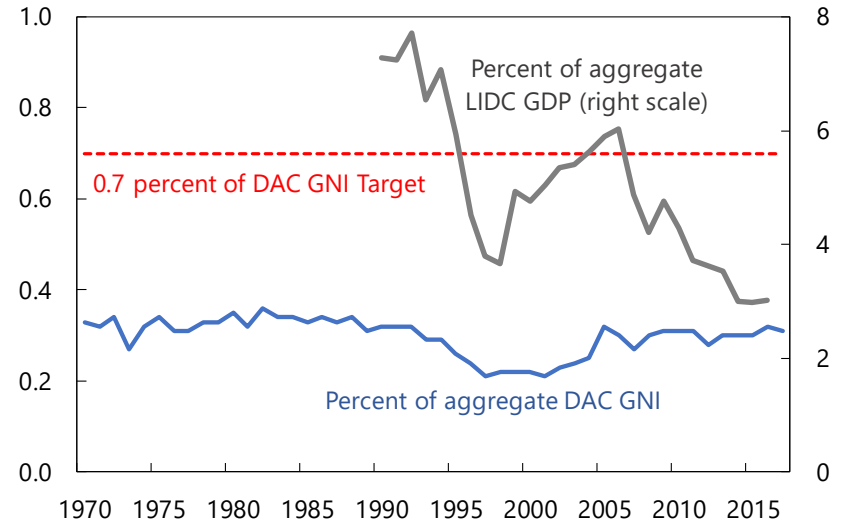
Partnerships: Private Sector and the International Community

Doing Business Scores and GDP per Capita



Sources: Sources: World Bank; and IMF World Economic Outlook Database.

Estimated ODA Net Disbursements from DAC Countries, 1970-2017



Source: Gaspar, V., D. Amaglobeli, M. Garcia-Escribano, D. Prady and M. Soto (2019).

Summary of Findings



- Large efforts needed by both LIDCs and EMEs to fulfill the SDGs in education, health, roads, electricity and water by 2030
- Additional spending needs in LIDCs about 15 percentage points of GDP, on average
- National ownership is key to success. Enabling governments is fundamental
- Increasing tax capacity can help, but not enough for most LIDCs
- Coordinated action by all stakeholders (governments, private sector, donors, and international organizations)



Thank you