Mobilizing Resources for Development

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Outline

- From Monterrey to Addis Ababa
- Domestic resource mobilization
- External financing
- Leveraging private finance
- Creating fiscal space

From Monterrey to Addis

Monterrey consensus – 6 ‘leading actions’

1. Mobilizing domestic financial resources
2. Mobilizing international resources
3. Using international trade for development,
4. Enhancing international financial and technical cooperation
5. Managing external debt, and
6. Addressing systemic issues: enhancing coherence and consistency of the international monetary, financial and trading systems

Addis Ababa Action Agenda – highlights

1. tax competition and tax avoidance,
2. declining ODA commitments,
3. Role of private finance
4. Use ODA as a catalyst and lever to mobilize more private resources.

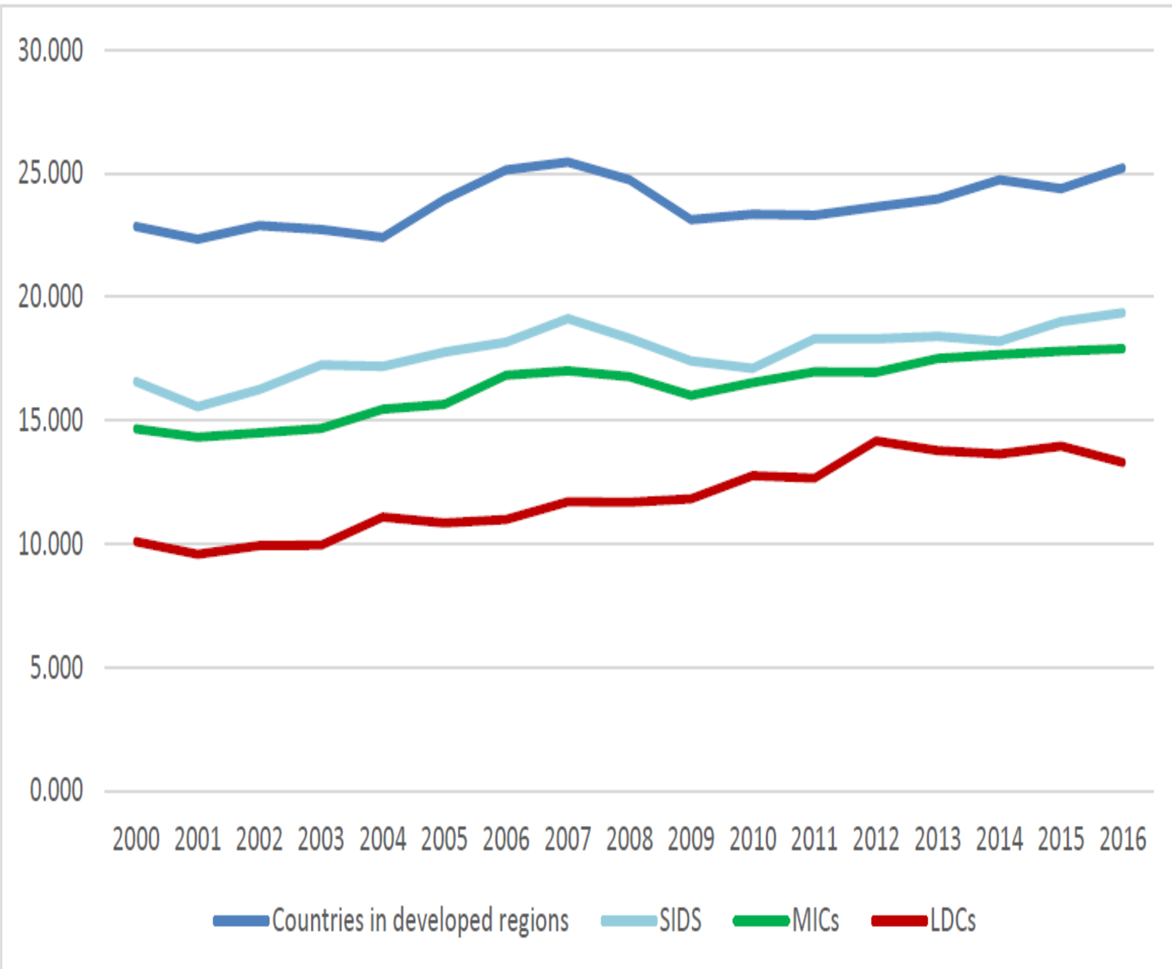
Mobilizing resources

- ‘Mobilizing’ suggest that resources are available, but that they somehow are either (a) not collected fully, or (2) not being used, or at least not for development, due to specific obstacles or a lack of incentives.

Domestic Resources

Domestic resource rising

Median tax/GDP ratio (%) by income grouping, 2000-2016

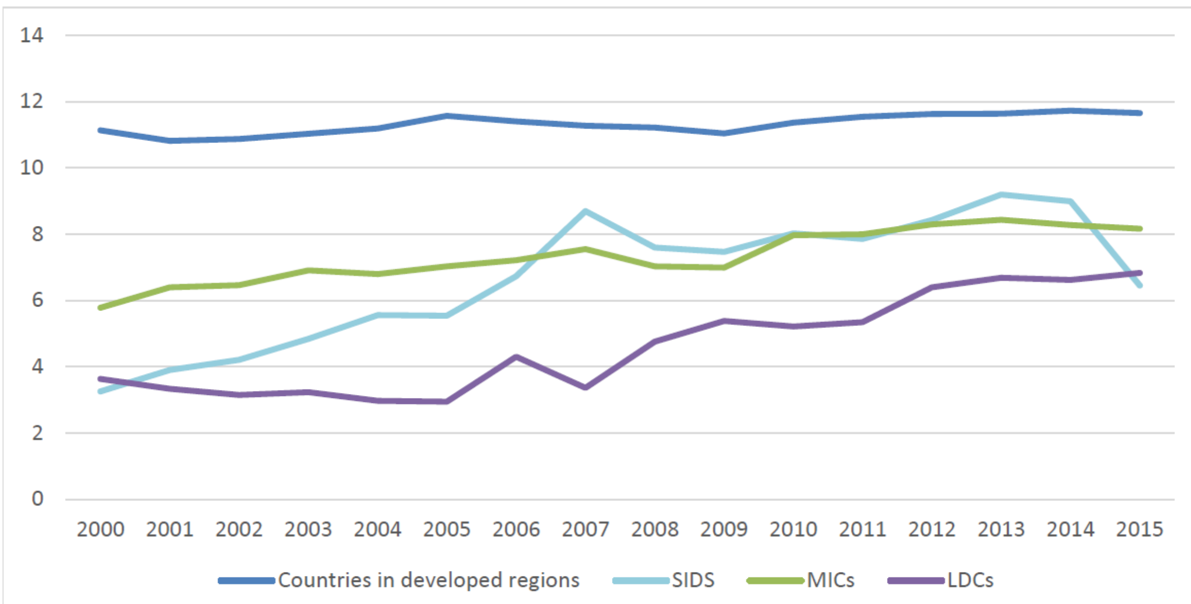


Most developing countries improved their domestic resource mobilization; but still need to do more. In LDCs, median tax revenue declined in 2016 to 13.3% of GDP.

Domestic resource mobilization

- Reverse the tendency to raise VAT & other regressive indirect taxes

Median goods and services tax revenue, 2000-2015 (% of GDP)



The GST in developing countries has generally increased over the past decade, particularly in LDCs. They are generally regressive and their burden falls disproportionately on low income households.

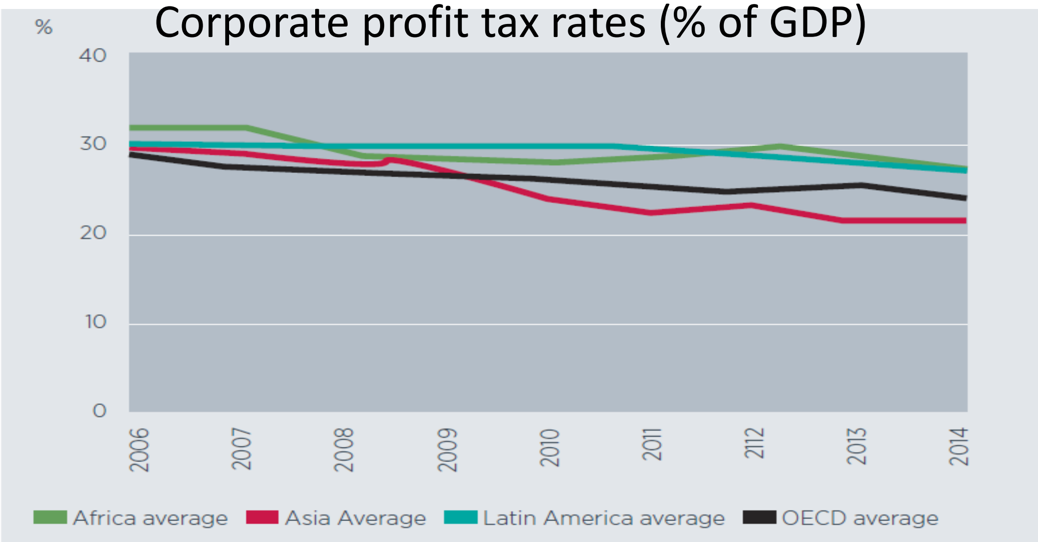
Domestic resource – Expand tax base

- VAT – limited in scope… greater efforts needed in taxing elites and high-income/wealth individuals (IMF); given its regressive nature VAT should be on luxury goods (ILO)
- Excise taxes have a buoyant base and can be administered at low cost - currently amount to < 2% of GDP in low-income countries
- New taxes – e.g. environmental tax; “sin” tax; financial transactions tax; resource rent
- Strengthen tax administration

Domestic resource - Reverse tax cuts

Stop tax competition

– 34 of the 149 countries with data lowered the tax rates for the highest income earners in 2014, compared to the 2010-13 period.

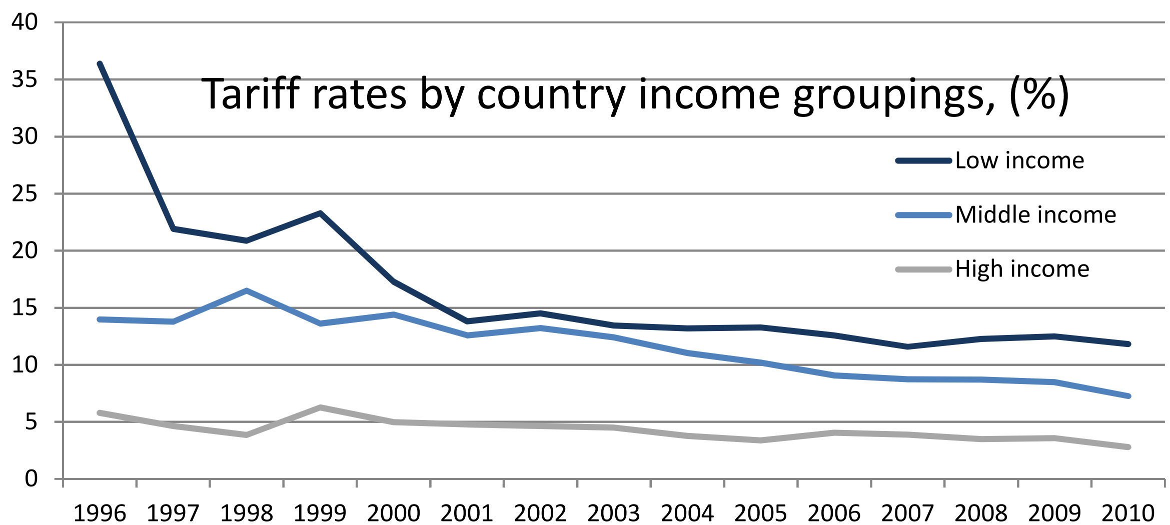


– Tax concession is not a main determinant of FDI (OECD)

– The revenue loss from tax concessions to foreign investors is more than the benefits. Forgone tax revenues ranged between 9½ and 16% of GDP per year, whereas total foreign direct investment did not appear to depend on concessions (IMF).

Domestic resource – Reconsider trade tax

- Revenue losses from trade liberalization NOT compensated by other indirect taxes, especially VAT - Middle-income countries recovered only up to 60 cents of each dollar of tariff revenue lost, and low-income countries recovered no more than 30 cents (IMF)
- Low-income countries cut tariffs by more than half, from 36 to 12% between 1996 and 2010, on average, compared to a 7% average cut in middle-income countries

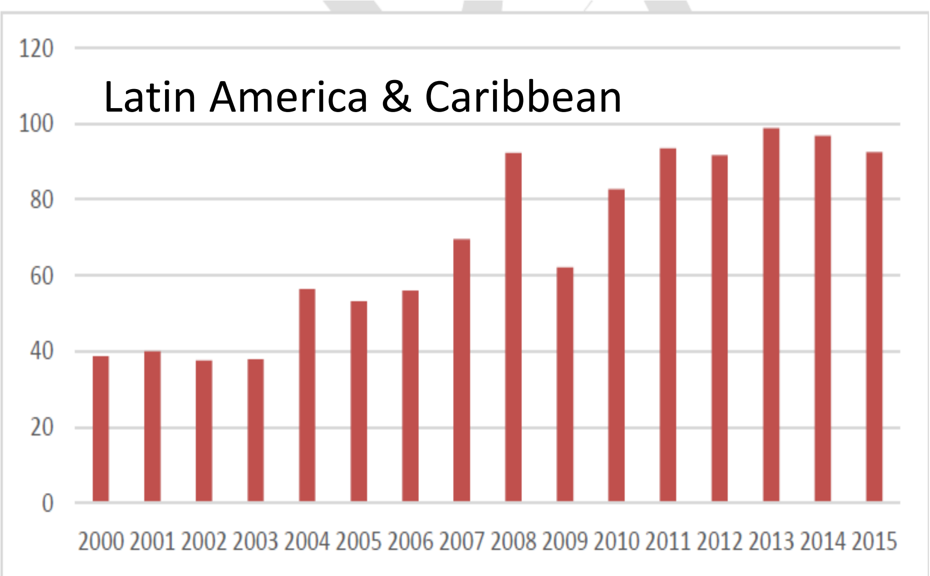


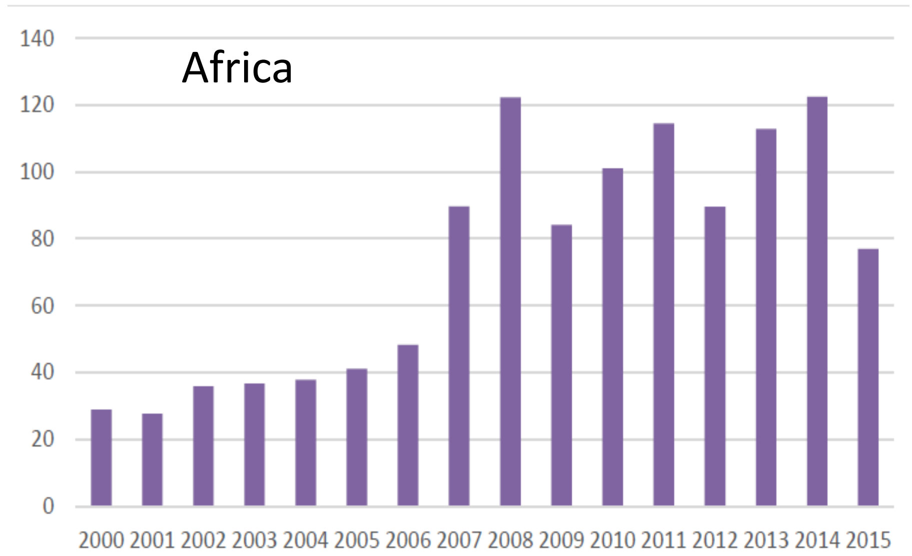
Domestic resource – Stem tax evasion

Estimates by	Estimated volume of tax loss
OECD Economics Department Working Paper (Johansson, Skeie, Sorbe, & Menon, 2017)	\$100 billion - \$240 billion in 2014
WIDER Working Paper (Cobham & Janský, 2017)	\$500 billion annually
IES Working Paper (Janský, & Palanský, 2017)	\$150 billion - \$188 billion annually

Domestic resource – Stem illicit financial flows

Estimates of gross outflows from goods trade mis-invoicing (USD billion)

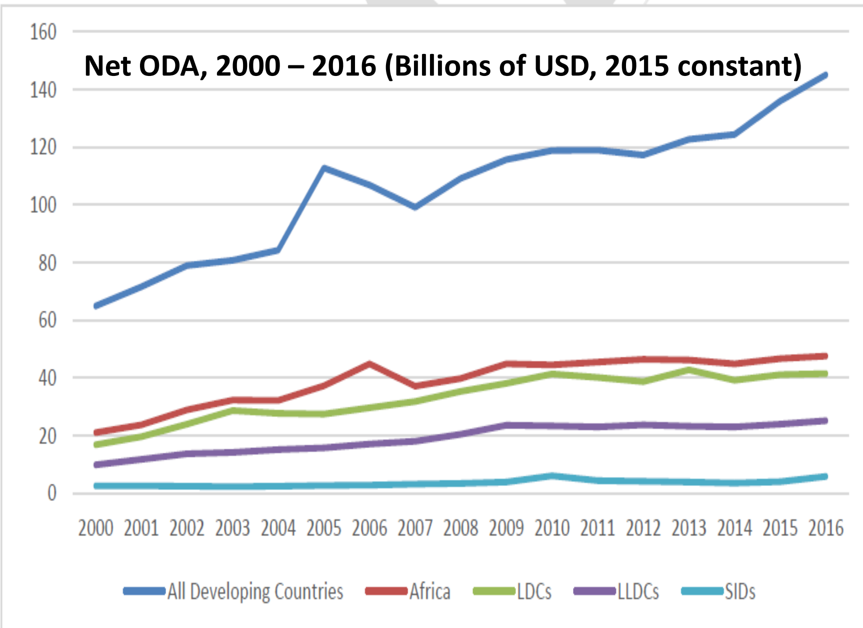


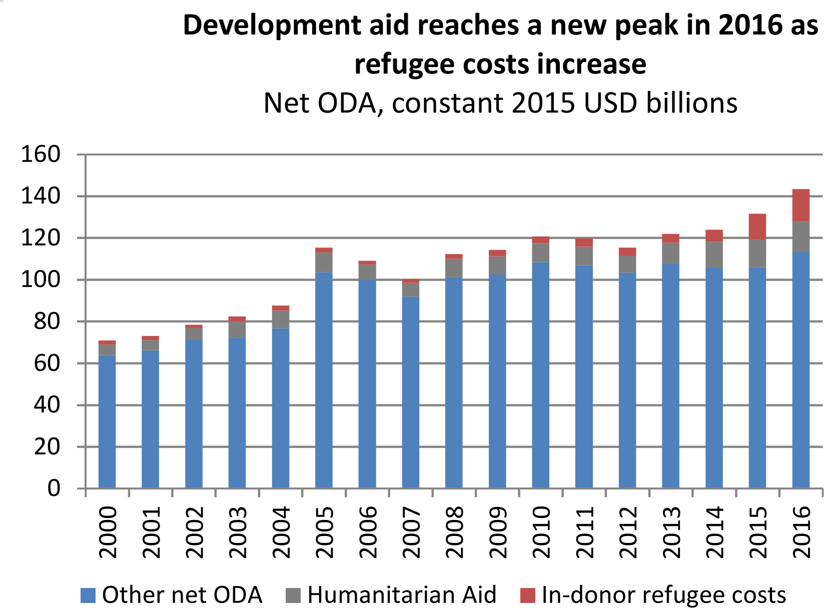


- Developing and emerging economies lost US$7.8 trill in IFFs during 2004-2013, with IFFs increasing at an average of 6.5% per year—nearly twice as fast as global GDP
- Tax cooperation – needed at the international & regional levels

External resources

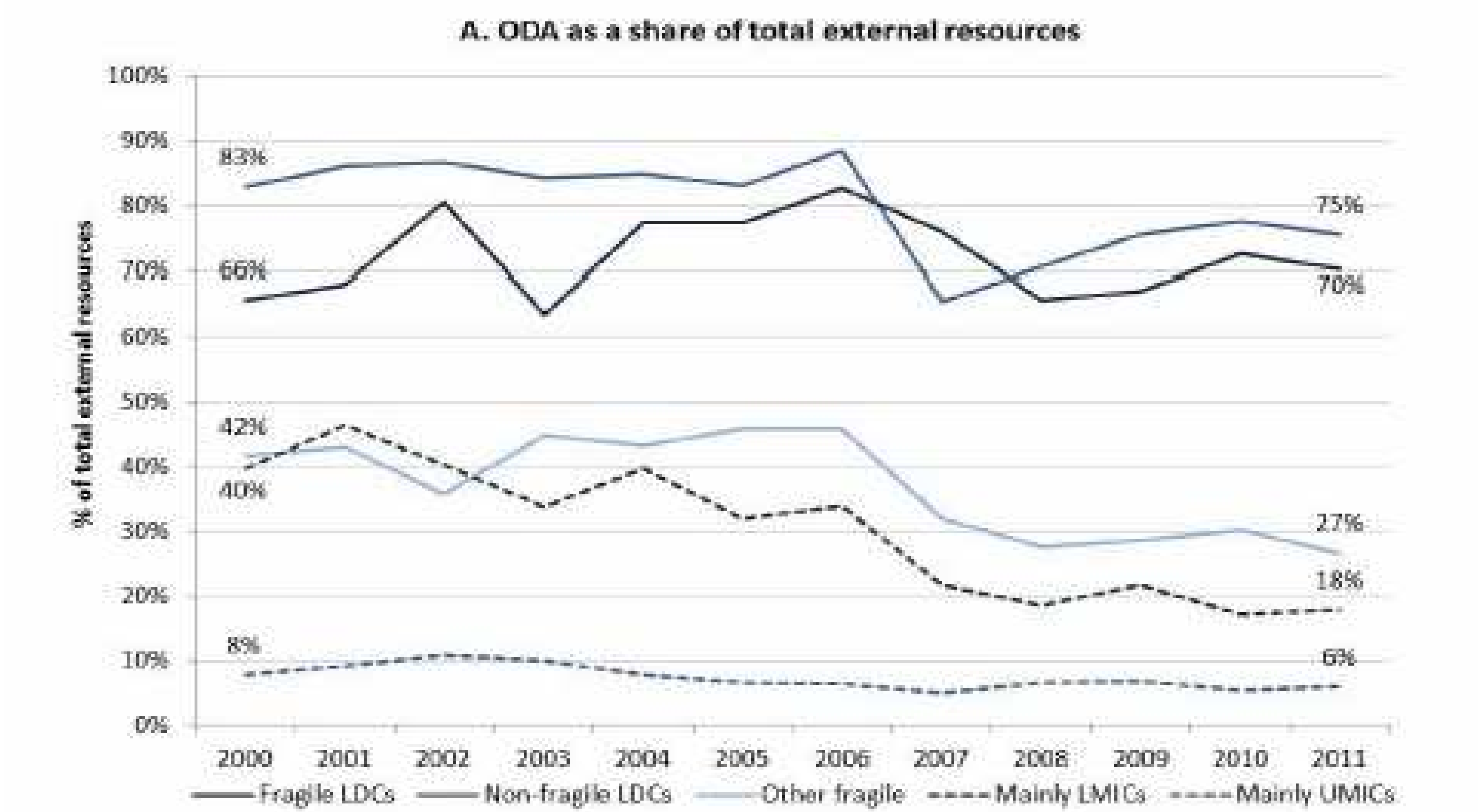
Development aid





- Increase mostly due to hosting & processing of refugees within donor countries – jumped by 27.5% in real terms from 2015. Humanitarian aid increased by 8% in real terms.
- ODA stagnant or declined in SIDS and LDCs – bilateral aid to LDCs fell by 3.9% in real terms from 2015 and aid to Africa fell 0.5%,
- Only 6 DAC members met or exceeded the 0.7% of GNI target – averaged 0.32% of GNI for 20 DAC members in 2016

Aid volatile; but remains important for LDCs



Aid's share is declining and insignificant in Middle-income countries where global poverty is concentrated.

Blended finance – needs caution

- No common definition
- Public and private resources have different roles. Little attention is given to safeguard public interest & development objectives.
- Financialization of aid through risky commercial financial services & products can jeopardize development objectives
- No reliable evidence of contributing to development objectives.
- No reliable evidence of leveraging additional private finance
- No appropriate mechanisms to involve developing countries' stakeholders, which risks undermining country ownership.
- Lacks transparency and accountability, and insufficient information is made available to the public.
- Mainly serves the interest of MNCs of donor countries

PPPs- advantages exaggerated

- Few good results in the public interest - negotiations subject to commercial confidentiality - likelihood of abuse and undermines parliamentary and democratic accountability
- In low- and middle-income countries, healthcare PPPs have increased competition for funding; favoured private partners (usually powerful foreign healthcare companies); undermined national health policy goals.
- More expensive – contingent fiscal risk; off-budget activities
- Typically socialize costs and risks while guaranteeing profits for the private partner.
- In social sectors (health, water supply, etc) adversely affected access and equity

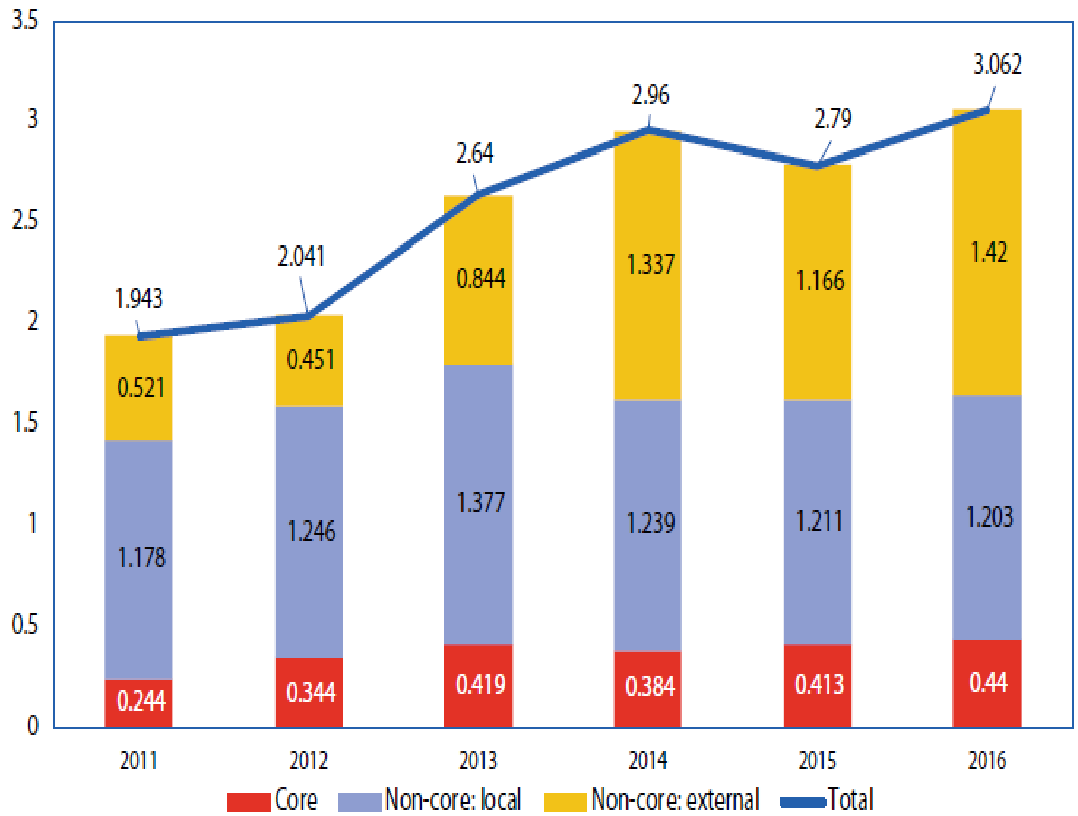
Aid effectiveness

- Reduce volatility – enhance predictability
- Remove conditionality; tied aid
- Increase budget support
- Stop aid diversion – refugee settlement, climate finance additionality
- Frontloading to legally bind long term ODA commitments
- Cautious approach to blended finance & PPPs
- Capacity building in the areas of tax administration, PPP negotiations, management & evaluation

South-South Cooperation increasing

Southern partners' contributions to the United Nations operational activities for development by funding type, 2011–2016

(Billions of United States dollars)



UN-DESA's estimates from partial data suggest that the financial component of SSC may have grown to reach $26 bill in 2015.

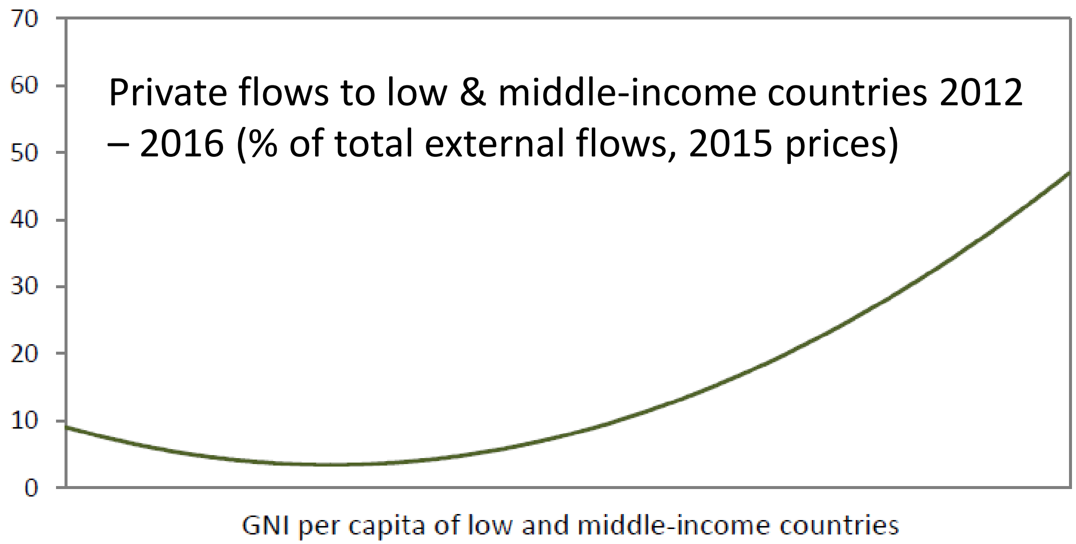
SSC – not easy to track

- Not comparable definitions and categories used for reporting SSC - country practices differ in reporting indirect & direct costs
- Methodologies to calculate the grant element in official loans may also vary.
- Estimates from academic institutions or international organizations can differ from those of official sources
- The non-financial modalities significant to SSC—capacity-building, technology development and transfer, joint action for policy change and partnerships — are not easily valorized.
- Often focuses on promoting regional integration.

SSC – China's Belt & Road Initiative

- China's BRI is an example of enhanced regional cooperation - provides desperately needed financing for infrastructure
- Pledged approx. $124 bill in new financial support, including through the Silk and Road Fund, lending by the China Development Bank and the Export-Import Bank of China.
- But concerns with rising debt – 23 countries are at risk of debt distress; careful project selection needed with significant productivity impacts
- Conversion of debt into equity raises concerns about foreign presence in strategic areas (e.g. ports)
- Also concerns about the use of foreign workers; limited skill & technology transfer

Private flows - FDI



- Private capital inflows represent up to 50% of capital flows in upper middle-income countries, but only 5-10% in LDCs and countries with lower per capita incomes.

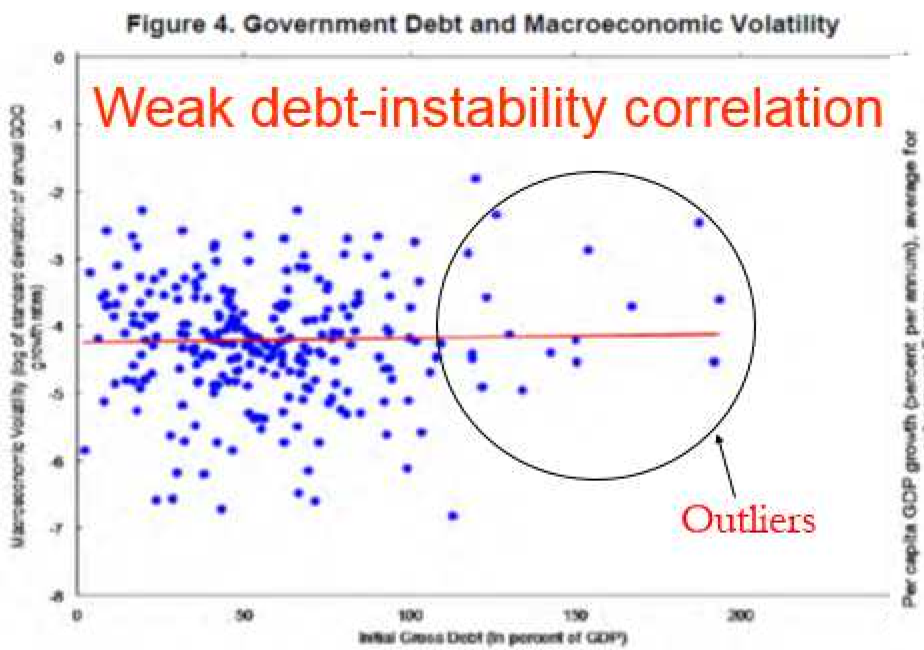
- Total FDI to developing Countries – more stable –approx. US$653 bill. in gross terms in 2017
- Around US$32.6 bill. in LDCs –2% of total global FDI – but decreased by 11% from 2016
- FDI heavily concentrated in a few countries and in the extractive industries,
- FDI often provides few forward and backward productive linkages within the economy.

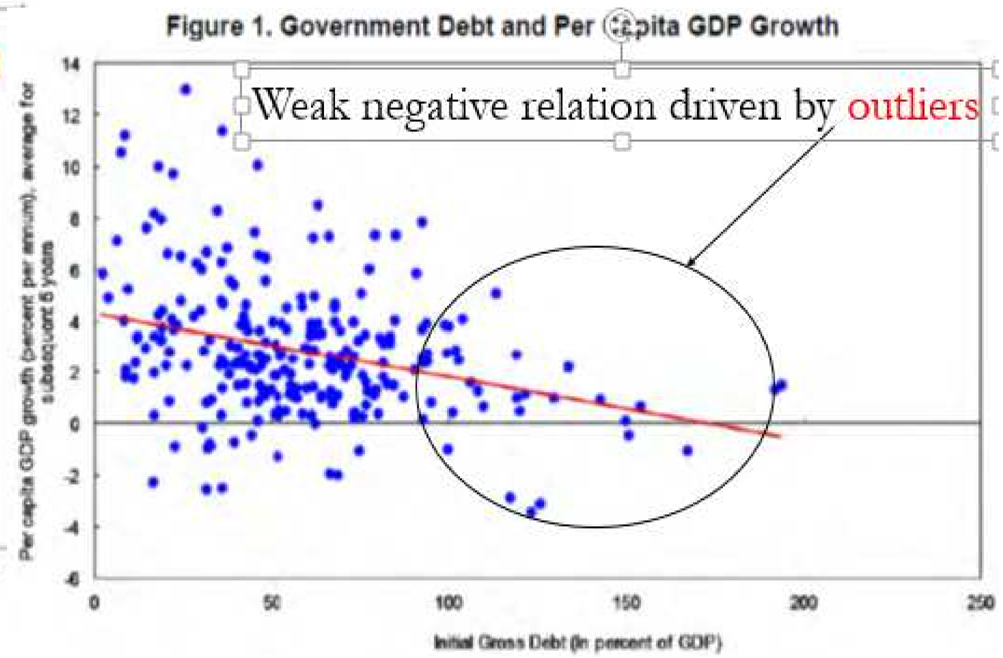
Private flows – Short-term portfolio

- Short-term flows remain volatile – cross-border portfolio and bank flows, in particular, are subject to periodic episodes of high volatility
- Overall there was a net outflow from developing countries of $124 billion in 2017
- Monetary tightening in developed economies could lead to further volatility and outflows of portfolio capital.,

Fiscal space

Counter cyclical policy space - debt

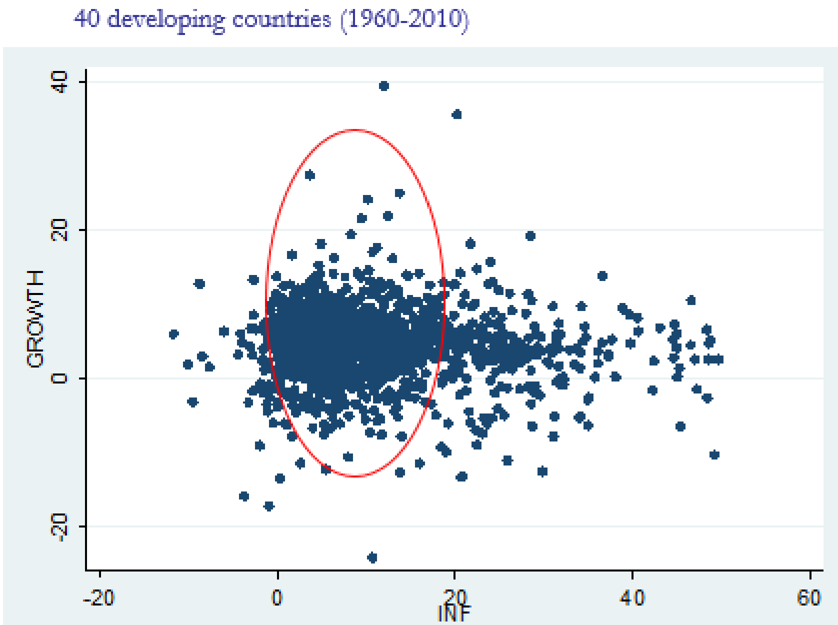




- "no simple relationship between debt and growth. … no single threshold for debt ratios that can delineate the 'bad' from the 'good'. (IMF, WEO, Oct. 2012, p. 109)
- "debt-financed projects could have large output effects without increasing the debt-to-GDP ratio…" (IMF, WEO Oct. 2014, p. 75)
- debt-financed public investment in infrastructure, education, health and social protection would boost aggregate demand and productivity. (IMF, WEO, 2015)
- "The fiscal deficit is a useful indicator … of stabilization, … but it offers little indication of longer term effects on …economic growth." (IMF-WB Dev. Committee, 2006)

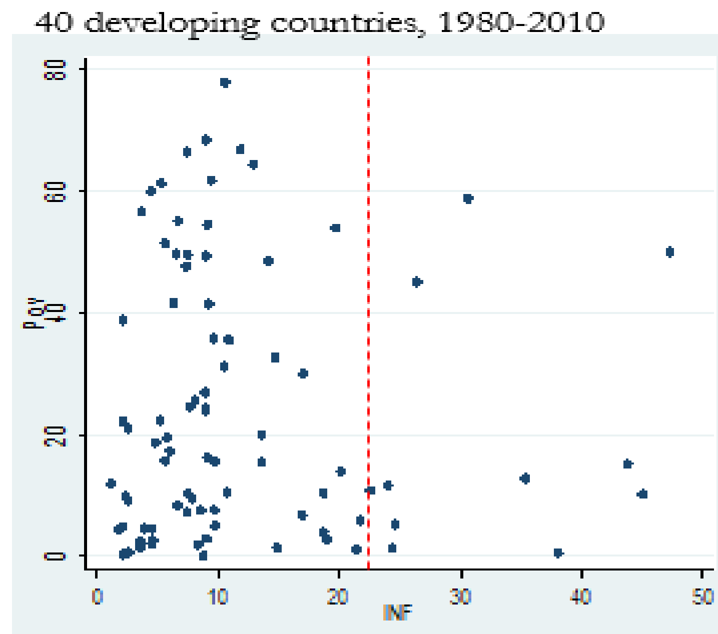
Counter cyclical policy space - inflation

Inflation-Growth



- Inconclusive evidence; (IMF-IEO, 2007: 10)
- Mild +ve relation upto 20% inflation rate.
- Threshold could be a plateau, NOT a sharp cliff-edge

Inflation-poverty



- Inconclusive evidence; depends on:
  - Real wage & employment effects
  - Wealth & net debt effects
  - Food & essential prices

Concluding remarks

- Fiscal space is crucial
- Depends on dependable export earnings, tax revenues, aid & debt relief – they require international / regional cooperation
- Debt & inflationary financing should not be ruled out
- Counter cyclical policy measures and social protection are essential to reduce vulnerability

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