Panel discussion 4 - Beyond DRM: From mobilisation to spending

2-4 July, Berlin/Germany

Day 3, 9:15 – 10:30

Background

Raising public revenues is not an end in itself. It also serves financing of governments and its provision of public goods and services, in order to generate growth and improve the well-being of all citizens. domestic revenue mobilisation (DRM) and Public Expenditure Management (PEM) are indeed two sides of the same coin required to fund social and economic development. Only if the public revenues collected are also spent in an efficient, effective, fair and accountable manner, they will contribute to sustainable development.

Moreover, even successful DRM reforms in many countries may not yield sufficient resources required for reaching national development objectives and realising progress against the United Nations Sustainable Development Goals (SDGs). According to a recent IMF analysis, low-income developing countries (LIDC) will need resources averaging 14.4 percent of their gross domestic product (GDP) to achieve sustainable development goals in five areas: education, electricity, health, roads and water.[1] 14.4 percent of GDP is already more than many LIDCs mobilise as own-source revenues overall.

This means that efforts to strengthen DRM must be complemented with measures to improve public spending. Good Public Expenditure Management (PEM) – improving efficiency, transparency and accountability of public expenditure – increases fiscal space in the same way as receiving additional resources. It also contributes to tax compliance by increasing tax morale among companies and households. Improving expenditure prioritisation and management (e.g. through public procurement rules) and increasing spending efficiency are particularly important in this respect. For example, many subsidy programmes are ineffective and wasteful, i.e. they cost a lot while delivering limited benefits to deserving target groups

Improving public spending is often a technical, as well as a political challenge. From a political economy perspective, good PEM involves addressing misaligned incentives to ensure that public resources are effectively allocated. From a technical perspective, good PEM also means improving planning systems, budgeting formats and public accounting systems, as well as internal and external control mechanisms and analytical capacities of public entities. Besides allocative efficiency, substantial resources may indeed be freed up by increasing operational efficiency e.g. in education and health spending.[2] Efficiency losses are

[1] See https://blogs.imf.org/2018/09/24/give-todays-children-a-chance/.

[2] Recent evidence suggests that some governments use 25-35 percent more input in both the education and health sectors than more efficient ones, to produce the same level of output. See Sanjeev Gupta in: https://www.devex.com/news/opinion-achieving-the-sdgs-will-require-more-than-domestic-resource-mobilization-93647.

particularly high in public investment in physical infrastructure.[3] Improvements in public investment management could significantly enhance the efficiency and productivity of public investment.

The panel will discuss ways to make PFM work for development. In this respect, it will look beyond domestic revenue mobilisation to consider additional options to increase the fiscal space for development and consider through what ways governments can better link their revenue and expenditure strategies. This exchange will ultimately aim to identify whether the Addis Tax Initiative, whose commitments are meant to be achieved by 2020, should grant more attention to PEM issues in its continuation beyond 2020.

Intended outcomes

- The potential for increasing fiscal space beyond taxation – e.g. by improving where and how public resources are being spent – has been acknowledged;
- Good practices for improving effectiveness and efficiency of spending towards development objectives have been shared;
- The possible role for the ATI-post 2020 in this area has been discussed.

Moderator

Monika Jones

Speakers

1. Sèwènan Rodrigue CHAOU, Directeur General du Budget, Benin
2. Kimberly ROSEN, Deputy Assistance Administrator, USAID
3. Jonathan NZAYIKORERA, Head of Fiscal Decentralisation Division, Ministry of Finance and Economic Planning, Rwanda
4. Ibrahim ALUBALA, Child Rights Governance Advisor, Save the Children Kenya