STRENGTHENING SOCIAL SPENDING IN DEVELOPING COUNTRIES

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WHO Symposium on Health Financing for UHC
Montreux, Switzerland
November 12, 2019

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Structure of Presentation

- Why do we need a strategy?
- When should IMF engage?
- How should IMF engage?
- Engagement in program context
- Mapping ourselves to the SDGs
- Financing the SDGs
- Coordination with development partners
- Main takeaway messages
Why do we need a strategy?

Increasing IMF engagement on social spending issues in context of increasing focus on inclusive growth

- **Engagement increased** over recent decades in both surveillance and program contexts
- IEO Report on IMF and Social Protection also recognized and welcomed this trend

Strategy needed to guide staff in this engagement

- To ensure consistency and evenhandedness of policy advice
- To establish the appropriate scope and boundaries of this engagement

Strategy approved by the Board on May 2, 2019

- Focused on broader concept of social spending (social protection, education, health)
- Extensive consultation with development partners, academics, CSOs
- [Strategy](#), [Background papers](#), [Case studies](#)
- [MD Speech](#) at the ILO – Strategy Launch
When should IMF engage?

Channels of macro-criticality

- Engagement would be guided by an assessment of the macro-criticality of a specific social spending issue and consideration of that issue in a program context, as well as by the existence of in-house expertise.
- A social spending issue can be macro-critical if one, or any combination, of these channels is significant a policy concern.

- Is social spending sustainably financed?
- Is social spending efficient in achieving social outcomes?
- Is social spending adequate for inclusive growth and protecting the vulnerable?
How should IMF engage with development partners?

**Typical stumbling blocks**
- Competing priorities and misaligned workplans
- Identifying the right counterparts

**The way forward**
- Early dialogue to align priorities and foster collaboration, both at HQ and in the field
- Establish stronger network of social spending counterparts across development partners

**Common concerns**
- Fiscal sustainability
- Spending adequacy
- Spending efficiency

**Differences in approach**
- IMF: Top down/aggregate Macro-fiscal context
- Other IDIs: Bottom Up Sectoral & individual program design issues

**Common challenge**
- Financing
Engagement in a program context: conditionality

Programs should aim to mitigate the adverse effects of adjustment measures on the vulnerable, and conditionality should support objectives where critical for the program’s success

**PRGT-supported programs**

- **Strategy** *maintains* the mandate of PRGT-supported programs to safeguard social and other priority spending, and whenever appropriate, to increase it
- **Programs** are expected to explicitly incorporate measures, possibly as conditionality

**GRA-supported programs**

- **Strategy** *clarifies* that GRA-supported programs should analyze and, as appropriate, document the social impact of adjustment and measures to protect the vulnerable
- **Programs** would include conditionality if the social spending issues are critical for achieving program success

**Program conditionality on social spending should be tailored to:**

- **Mitigate the impact of adjustment on the vulnerable**
- **Where relevant, strengthen social spending in line with capacity and fiscal space**
- **Where relevant, improve quality and efficiency of social spending**
Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors
(Average, GDP Weighted, Percentage Points of GDP)

Source: IMF staff calculations and Gaspar and others (2019), Fiscal Policy and Development, SDN /19/03.

Note: The IMF defines fragile states as those having either weak institutional capacity measured by their World Bank Country Policy and Institutional Assessment score (average of 3.2 or lower) and/or an experience of conflict (signaled by the presence of a peace-keeping or peace-building operations in the most recent three-year period).
Mobilizing domestic revenue is central

2016 Distribution of Tax-to-GDP Ratios,
by Income Groups

- Average for LIDCs and EMs is 16.6 percent of GDP
- In the medium term, countries could raise up to 5 percent of GDP in tax revenues implementing revenue strategies
- Countries’ effort on the revenue side should be mirrored on the spending side with greater efficiency
Financing challenge is greater for LIDCs

**LIDCs: Additional Spending and Increased Tax Revenues in 2030**

(Billions of 2016 U.S. dollars)

- Additional needs: 528 billion US dollars
- Increased tax revenue: 0.3 percent of global GDP

Source: IMF staff calculations.
Mapping ourselves to INFF: Fiscal Building Blocks

SPENDING TOOLS
- SDG Costing Framework,
- Expenditure Assessment Tool,
- Public Investment Management Assessment (PIMA / PFRAM),
- PEFA/FTE

REVENUE TOOLS
- TADAT, RA-FIT/GAP, TEA, FARI

CORRUPTION and GOVERNANCE DIAGNOSTIC

Support to Spending Reviews

SUPPORT TO FISCAL INSTITUTION BUILDING
- M-T Expenditure Framework,
- M-T Revenue Strategy,
- M-T Budget Framework,
- M-T Debt Strategy,
- Fiscal Rules
Key takeaway messages

- Strategy provides guidance to IMF staff on when and how to engage (scope and boundaries)
- Scale of challenge (SDGs) is very large in many countries, but especially in LIDCs
- Meeting this challenge
  - Strong emphasis on enhancing tax capacity and spending efficiency
  - Whole of government and society approach
  - Effective partnerships with IDIs