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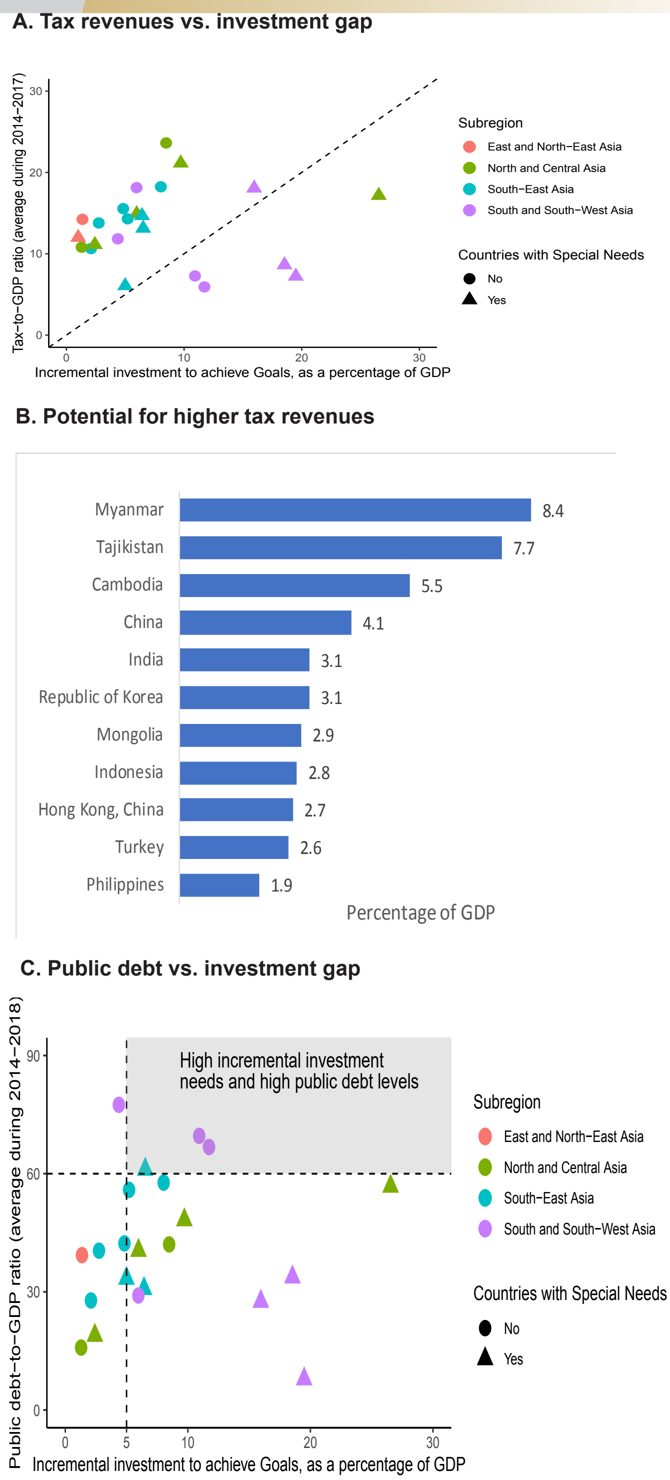
Fiscal space and national budgets for SDGs

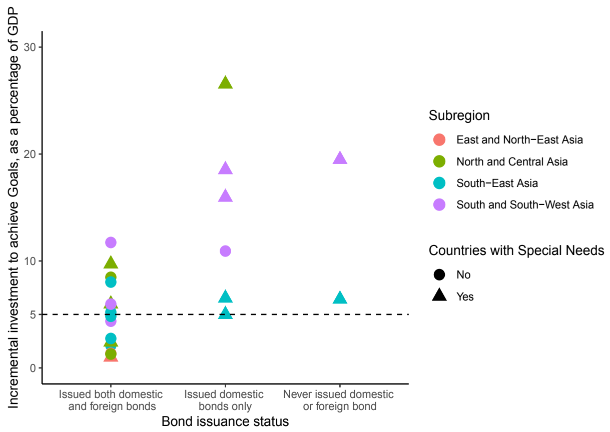
Public investment in Sustainable Development Goals can be supported by increased tax collection or prudent sovereign borrowing. The Asia- Pacific region has one of the world's lowest tax-to-GDP levels. ESCAP (2014) found that actual tax collections were below potential for 17 economies for which data were available, with gaps of up to 6 per cent of GDP for such countries as Afghanistan, Bangladesh, Bhutan and Maldives[1]. Figure 1 compares estimates of the country-level investment gap for achieving the Goals, with current levels of tax revenues. The five countries below the 45-degree line in panel A – which are South Asian and/or countries with special needs – have investment gaps which exceed their tax revenues. For these countries, a priority would be to mobilize tax revenues through tax administration reforms and expanding the tax base. Based on ESCAP (2018), panel B shows that better tax administration could increase tax-to-GDP levels by 5 to 8 per cent in Cambodia, Myanmar and Tajikistan. Many countries also have room to expand their tax base by introducing progressive, wealth-based taxes and/ or environmental taxes, which would contribute directly to the achievement of the Goals, as well as indirectly by making resources available for public investments (Subhanij, Banerjee and Jian, 2018)[2].

Along with tax revenues, public debt is a popular indicator of fiscal space. Public debt-to-GDP levels are relatively low in the Asia- Pacific region and are projected to remain stable or decline over the next five years in many countries. Nevertheless, panel C reveals that only a few countries have relatively high public debt and investment gaps above the regional weighted-average of 5 per cent of GDP. Moreover, panel D shows that countries with above-average investment gaps also have limited access to international capital markets, having either issued domestic bonds only or never issued domestic or foreign bonds. For these economies, a priority would be to develop domestic capital markets by having in place: (a) an effective legal framework for the issuance process, such as frameworks for different types of issuers and investor protection; (b) a sizeable investor base; (c) a diverse set of products; (d) knowledgeable financial

Figure 1. Is there fiscal space to meet the investment needs?



D. Options for bond issuance



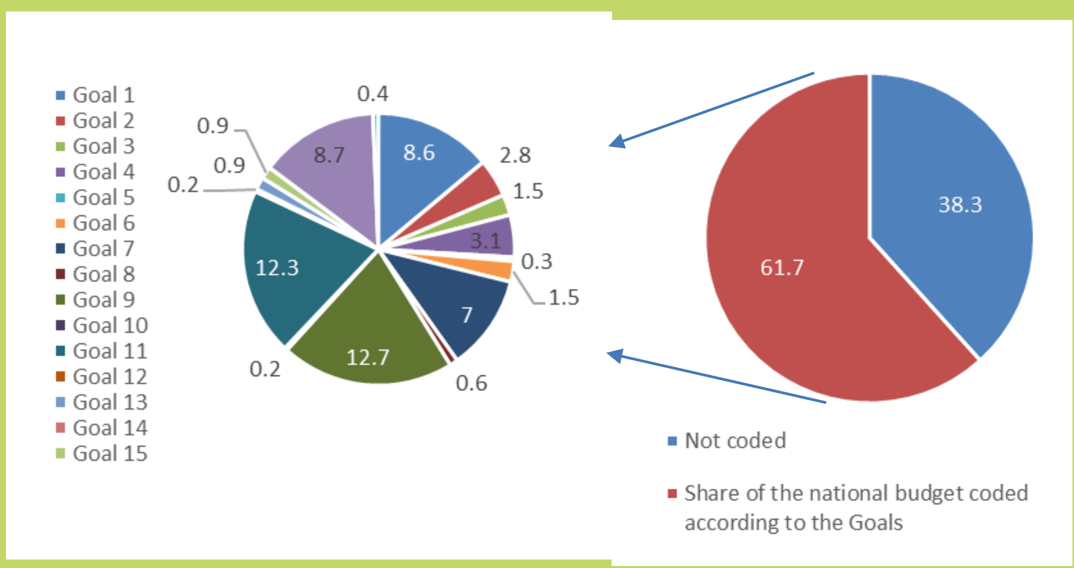
Source: Survey 2019 calculations, ESCAP (2018) and World Bank, IMF and CEIC data.
Note: **Panel A:** Countries below the 45-degree line have wider investment gap than their current tax revenues. **Panel B**: Based on regression analysis using ESCAP Tax Administration Index; for more details, see ESCAP brief at www.unescap.org/resources/mpfd- policy-brief-no-68-improving-tax-administration. **Panel C**: While there is no universal threshold for prudent debt levels, countries in the shaded area with relatively high public debt levels and investment gaps above the regional average are likely to face greater financing challenges. Public debt is measured by general government gross debt. **Panel D**: It shows that countries with above-average investment gaps have limited access to international capital markets; for more details, see ESCAP brief at www.unescap.org/resources/mpfd- policy-brief-no-70-prudent-sovereign-borrowing-financial-markets.

intermediaries, such as the business analysis capacity of investment banks and securities firms; and (e) an enabling market infrastructure, such as credit rating agencies and bond pricing agencies (ESCAP, 2018).

Reprioritizing spending will require an understanding of how the national budget is supporting national development priorities and the achievement of the Goals. While existing tools, such as public expenditure reviews, can help in this regard, there is a need for better classification and monitoring of public spending on the Goals. Among different approaches to mainstreaming the Goals into the national budget, several Governments have introduced gender-responsive budgeting and child-focused budgeting frameworks.[3] Climate budget tagging systems have also been introduced to monitor and track climate-related expenditures. While the proportion of budgets classified as "aligned with climate objectives" varies, it averages in the range of 5 to 10 per cent of a country's budget.[4] The box below highlights some of new initiatives.

Box. Tracking public spending on the Goals

The Sustainable Development Goals are ideally suited for informing budget decision-makers, members of parliaments, media, civil society organizations and the general public on national policies, priorities and targets. Instead of inventing and applying a new full-fledged budget classification, a simpler coding or tagging system can be a good starting point for countries which lack the technical capacities to integrate the Goals-relevant codes into their financial management information systems. A challenge to consider while introducing such budget coding is the "overcrowding" of the budget system with various classifications. To address this matter, an alternative is "mapping" of Goals with the functional classification of the national budget, as is done in Nepal. The figure below shows that more than 60 per cent of the country's national budget was linked to the 17 Goals. Goal 9 (industry, infrastructure and innovation) and Goal 11 (cities) each accounted for 12-13 per cent of the budget, followed by Goal 1 (end poverty) and Goal 16 (peace and justice) at 8-9 per cent.



Source: ESCAP, based on National Planning Commission, Government of Nepal.
Note: Projection is for the fiscal year 2019/20 (www.unescap.org/sites/default/files/Nepal_15.pdf).

Another example from the region is Japan's SDG Action Plan 2019, which frames the national budget into priority areas which are linked to the Goals. Two of those areas concern energy, sustainable consumption, climate change and biodiversity Goals, as shown in the table below.

Priority areas	Goals	Programmes	Budget (Billions of Japanese yen)
Energy conservation, renewable energy, climate change countermeasures, and sound material-cycle society	7, 12, 13	Promoting thorough energy efficiency	437.50
		Fostering introduction of renewable energy	324.50
		International cooperation on energy	107.30
		Measures for addressing climate change	138.00
		Establishing a sound recycling-based society	3.60
		Ensuring sustainable consumption	0.25
		Further reducing food losses and waste and promoting food recycling	1.34
		Environmental preservation in agriculture	88.00
		Subtotal	**1 100.49**
Conservation of environment, including biodiversity, forests and oceans	2, 3, 14, 15	Biodiversity and forestry resources	1 740.20
		International cooperation on agriculture and forestry	2.90
		Measures for chemicals management	76.00
		Measures against air pollution	8.90
		Measures against marine debris and marine pollution	47.20
		Subtotal	**1 875.20**

Source: Government of Japan (www.mofa.go.jp/mofaj/gaiko/oda/sdgs/index.html).

Endnotes

[1] Tax potential was predicted by a cross-country regression using income, economic structure and other variables.

[2] An example of a socially oriented tax is wealth-based tax, which would help to reduce wealth inequality in economies. This would include taxes on financial transactions, inheritances and gifts. Examples of environment-oriented taxes are taxes on carbon emissions, natural resource use, airline travel and vehicle use in urban areas.

[3] For instance, in the Philippines and Thailand, UNICEF assessed the equity implications of existing public financial management systems from a child's lens.

[4] For further information, see undp.org/content/undp/en/ home/ blog/2018/Financing_the_response_to_climate_ change_we_all_ need_to_play_our_part.html.

References

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The MPFD Policy Briefs aim at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. This issue was prepared by Daniel Jeongdae Lee and Zhenqian Huang (Macroeconomic Policy and Financing for Development Division). It benefitted from inputs and comments by Sweta Saxeta, Vatcharin Sirimaneetham (MPFD); Ma. Fideles Sadicon (ESCAP Subregional Office for East and North-East Asia) and Suren Poghosyan (UNDP). For further information on this issue, please contact Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development Division, ESCAP (escap-mpdd@un.org).

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