FOCUS SESSION 2:

Linking Domestic Resource Mobilization to Public Expenditure Needs

April 15, 2014, 8:00 AM, Diezmo 2

Speakers/Panelists:

- Maxwell Mkwezalamba, Minister of Finance, Malawi
- Ariel Pablos-Mendez, MD, Assistant Administrator for Global Health, USAID
- Arsenio M. Balisacan, Secretary, National Economic Development Authority, the Philippines
- Mr. Eric Postel (Moderator), Assistant Administrator for Economic Growth, Education, and Environment, USAID

Conclusions and key messages:

During our 15-year drive toward the MDGs for 2015, both donors and developing countries have stepped up their mobilization of government budget resources. Domestic government revenue of LICs, which had stagnated for 20 years, increased by more than 3 percentage points during 2000-2011, reaching 16 percent of GDP on average. Most LMICs and UMICs are at higher levels and also showed modest further gains; and donor countries and NGOs have scaled up their development assistance. At the same time, our knowledge about how to deliver improved public welfare (in health, education, social transfers) and stronger economic growth (through smart investment in public infrastructure) has also advanced through program evaluation -- raising further opportunities to advance global welfare.

Reducing donor dependence is a key motivator. Given the financial challenge for delivering scaled-up and sustained levels of public services to 2030, Minister Mwezalamba noted that Malawi, although still a low-income country, will be among those that have a need to further strengthen their mobilization of domestic revenue. We know that Malawi's recent dependence on foreign grants to fund 40 percent of its government operations will not be sustainable in the future and that, as Malawi learned last year, such dependence can be dangerous when the flow of donor resources is disrupted by episodes of corruption or other events that may seem beyond the control of the government.

Universal health coverage will demand more resources. Dr. Pablos-Mendez commented on current research that USAID and World Bank colleagues have been conducting on health sector performance, economic growth, and health financing in Sub-Saharan Africa. Given the great strides made toward reducing the prevalence of

HIV/AIDS and malaria infection, the key questions for the 2030 Development Agenda that health experts across the continent and among donors are now asking are: How much progress can be made towards Universal Health Coverage in which

- 80 percent of the poor have access to good quality primary care and,
- through adequate government funding, out-pocket payments for health care can be dramatically reduced as a cause of family financial ruin among the poor?

Based on trends over the past 15 years and projections of the likely trajectory of health financing efforts to 2030, their research raises concerns in two important areas:

- despite an overall increased commitment of budget resources to health care since 2000, for many – 17 countries in Africa at latest count – the provision of donor resources exceeds the budget resources that partner countries commit to their own health sector; and
- dependence of patients upon 'out-of-pocket' payments has grown – reaching average levels of more than 40 percent of total health-care spending (THE) in low-income countries and of more than 50 percent of THE in lower-middle-income countries.

To address these concerns and to realize the WHO target of bringing health services to 80% of the population in developing countries by 2030, most of their governments must act to mobilize more adequate domestic revenue.

Parallel improvement of public services makes higher taxes politically feasible. Since 2011, the Philippine Government has embarked on a series of tax and governance reforms intended to widen the tax base, eliminate corruption, run after tax evaders, and raise sin taxes on alcohol and tobacco. The purpose of this drive has been to create more 'fiscal space': for infrastructure, improved delivery of health and education services, and social protection – including resilience against natural disasters.

So far, this approach has been succeeding. Raising domestic resources has proven politically more feasible because the revenue raised from new measures are committed to the priorities in the Plan/Expenditures program, particularly on social development and infrastructure. In addition, the Philippine economy has become one of the bright spots in Southeast Asia. In 2013, real GDP grew by 7.2 percent, improving from the 6.8 percent achieved in 2012 and from an annual average of 5.0 percent in 2000-2010.

Next steps. To set achievable, post-2015 development goals, Partnership members need to assess the longer-term domestic expenditure requirements of low- and middle-income partners and to project their associated domestic revenue needs. These assessments will help both donors and partner countries to identify disparities between the costs of achieving key outcomes at the country level and apparent capacity to self-finance those costs – and, in turn, will help prioritize where reform in tax administration and policy can lead to an adequate and sustained level of public service delivery.