

Online Training Workshop on
Effective National to Local Public Governance for SDG Implementation

Financing for SDG Localization

25 March 2021



We need to invest more resources if we want to achieve SDGs

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- The world is in danger of missing the SDG targets
- Many different methodologies exist which attempt to estimate the funding gap
- The gap is generally estimated to be around \$2.5T or around 2% of world GDP per year

Annual Investment Needed to Meet SDGs



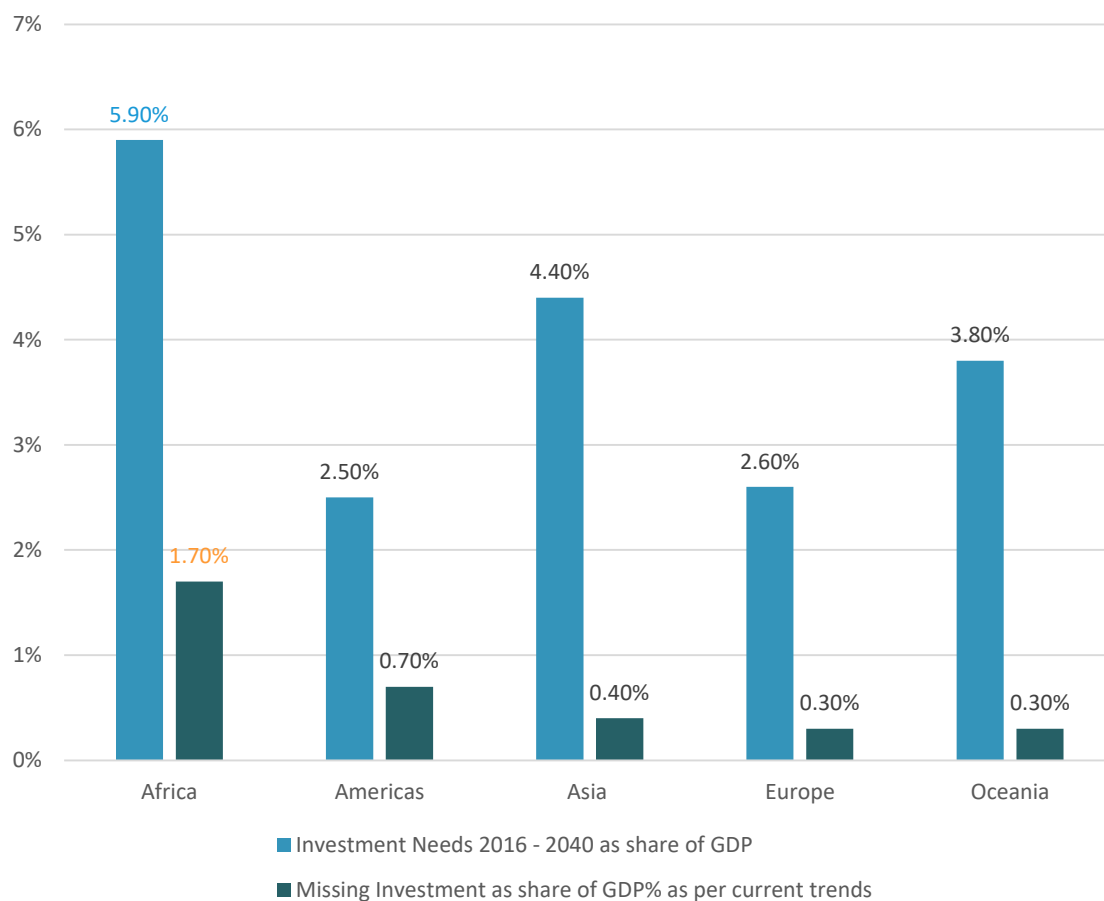
Long way to go to achieve SDGs

- *more than 660 million people lack access to a clean source of drinking water*
- *water scarcity affects over 40% of the global population and is expected to rise*
- *several hundred thousand children die each year from preventable water and sanitation-related diseases*
- *approximately one billion people worldwide live without access to electric power*
- *nearly three billion people use wood, coal, charcoal or animal waste for cooking and heating, causing health risks*
- *congested and inadequate ports, airports and roadways also impede economic growth*
- *about one billion people live without access to an all-weather road, restricting health, education, employment and trade.*

The financial gap is largest in lower income countries

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Infrastructure Gap as share of GDP, 2016-2040*



Takeaways

- Africa requires the largest relative increase in infrastructure investment as a % of GDP
- 63% of the needed investment until 2035 will be in emerging economies

Significant investments are needed in almost all SDG sectors

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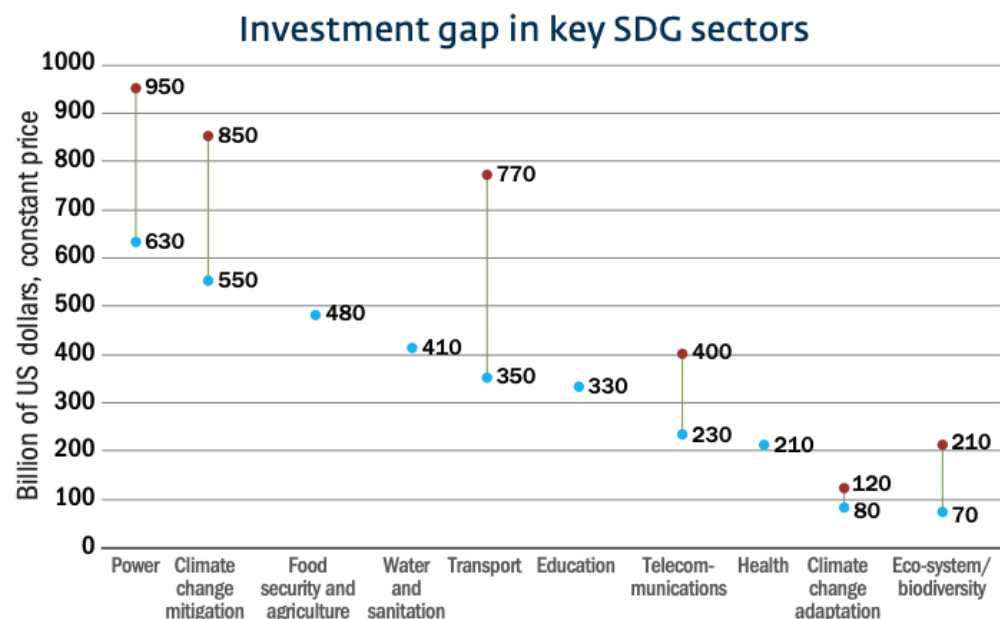


FIGURE 2 Investment gap for developing countries

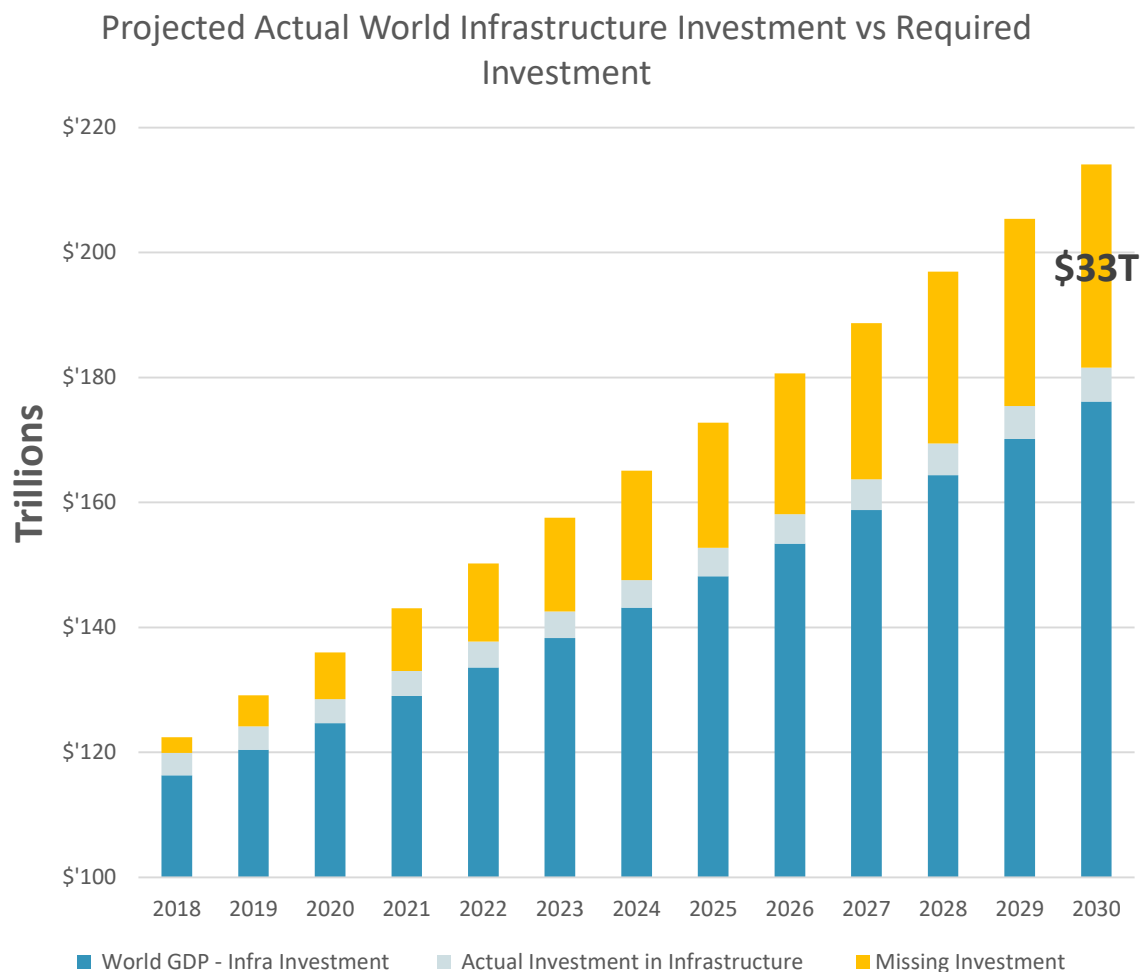
Source: Authors using UNCTAD estimates – World Investment Report 2014, UNCTAD.

Takeaways

- Different methodologies exist to estimate the gap per sector and the gap per country
- Transportation and Power are usually listed among the SDG sectors with the greatest investment needs

The investment gap is likely to keep growing

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Takeaways

- Investment in infrastructure needs to increase from $\approx 3\%$ of world GDP to $\approx 5\%$ to reach the SDGs by 2030
- Annually there is a shortage of around \$2.5T on avg. over the next 10 years
- If the gap is not closed it will grow to around \$33 trillion by 2030
- **75% of investments are required at the subnational level and 1.3T in Africa**

Where will the missing funds come from?

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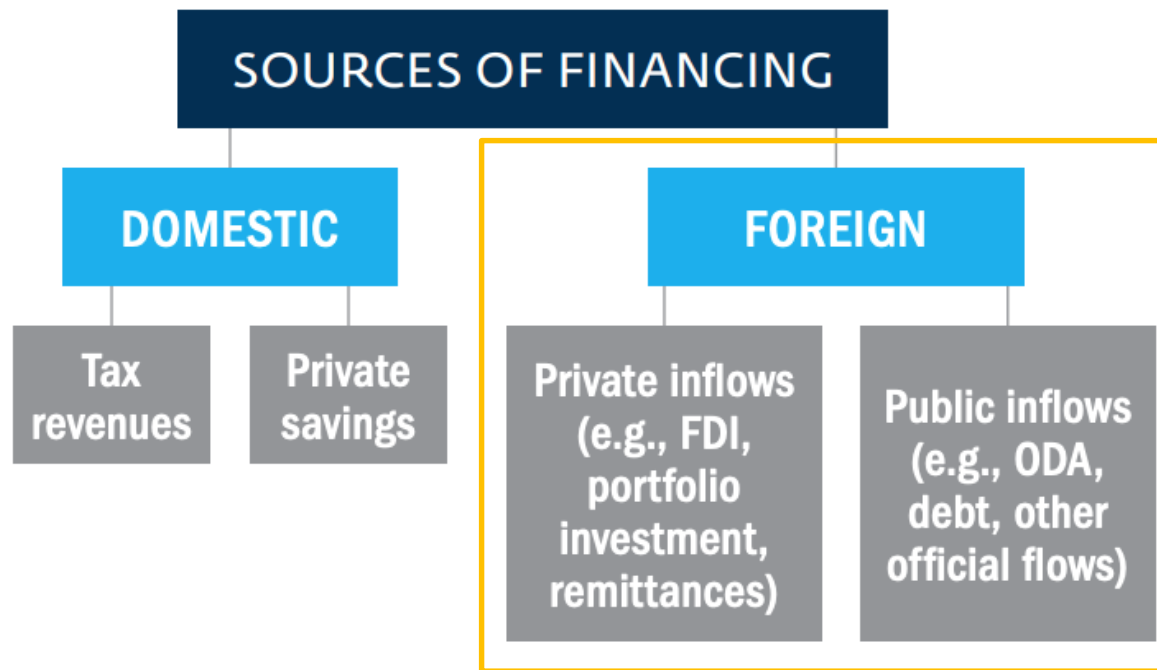


FIGURE 1 Potential sources of financing for the SDGs

Some might urge for more Overseas Development Assistance

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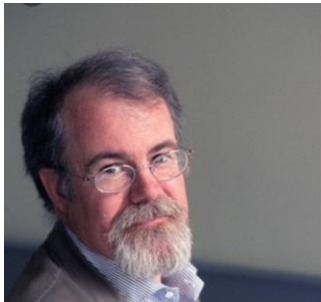
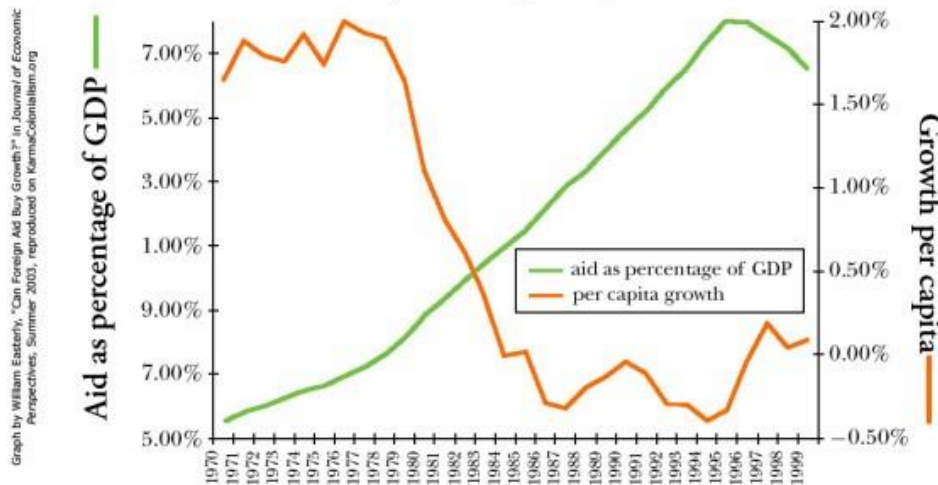
Table 8: The SDG Financing Gap as a Percentage of Global Wealth

	2019	2030	Average 2019-2030
% GDP <i>Advanced Economies</i>	0.9%	0.4%	0.7%
% GDP <i>World</i>	0.5%	0.2%	0.4%

The aid model has serious shortcomings

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Aid and Growth in Africa (10-year moving averages) Graph by William Easterly



Remember, aid cannot achieve the end of poverty. Only homegrown development based on the dynamism of individuals and firms in free markets can do that.

— William Easterly —

When you are in a hole, the top priority is to stop digging.

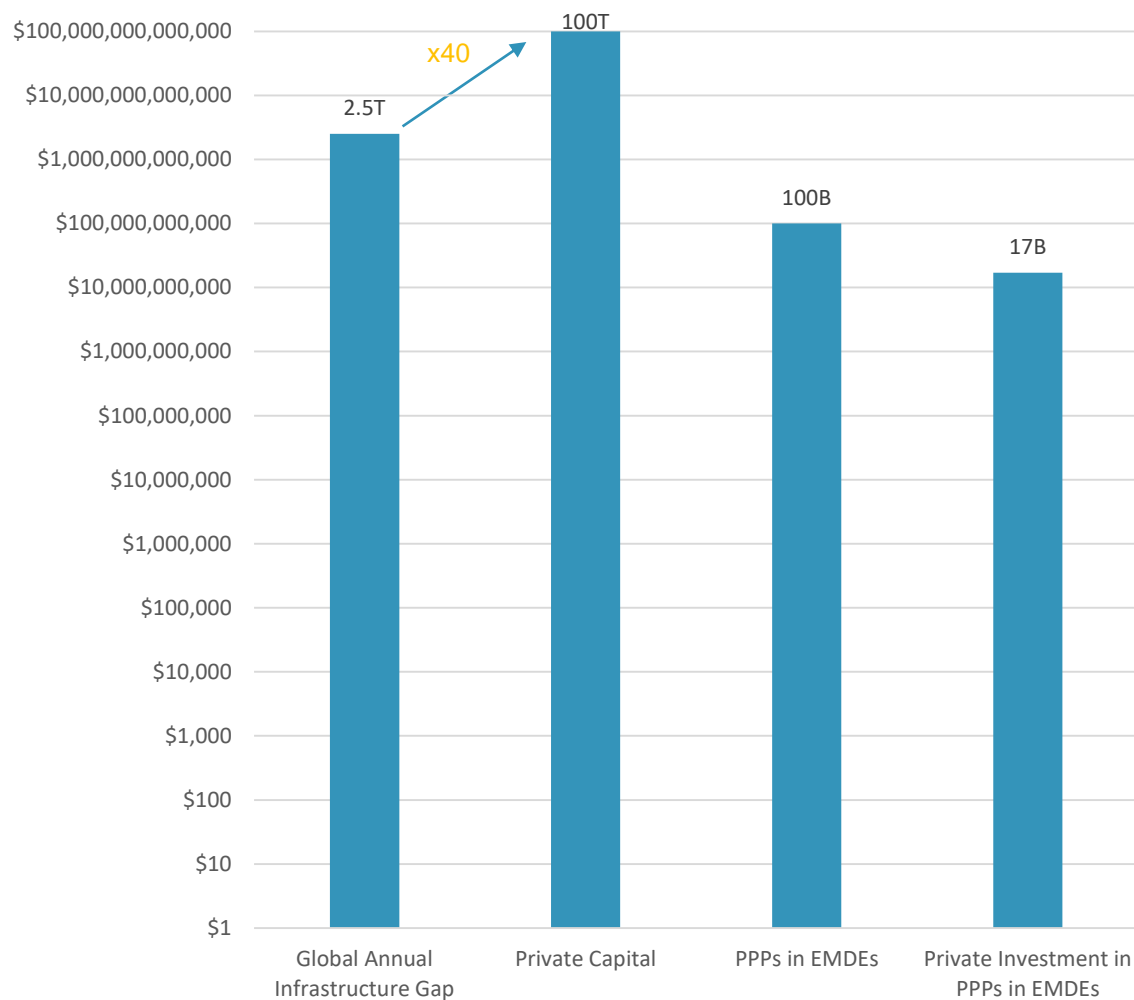
— William Easterly

Shortcomings of Aid

- Not enough aid (Jeffrey Sachs)
- Conditionality, upwards accountability to donors
- Lack of local ownership
- Sets wrong incentives
- Aid shields states from the need for responsible governance (Brett, 2010)
- Even donors have false incentives to lend too much (Stiglitz, 2003)

Some might say that we need to focus on attracting private finance

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Why is private finance not supporting SDGs?

- Opportunity costs
- Lack of bankable projects
- High risk environments
- Lack of financial intermediaries
- Pre-requisites for investments often not in place

What does this leave us with? – A need to focus on domestic finance

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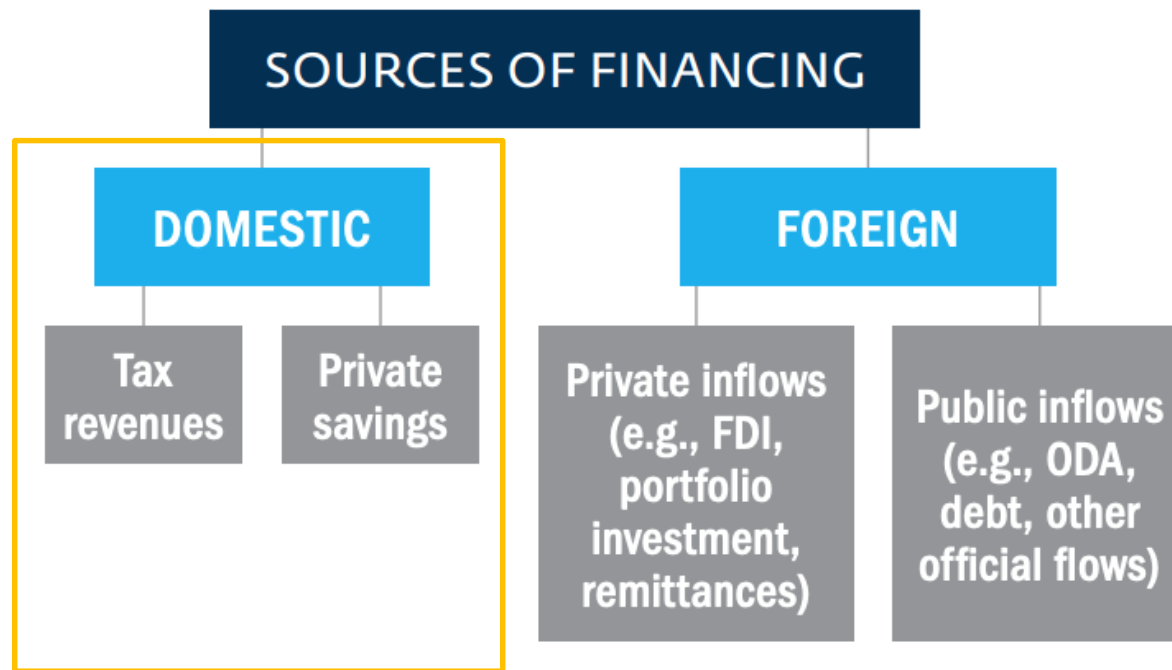
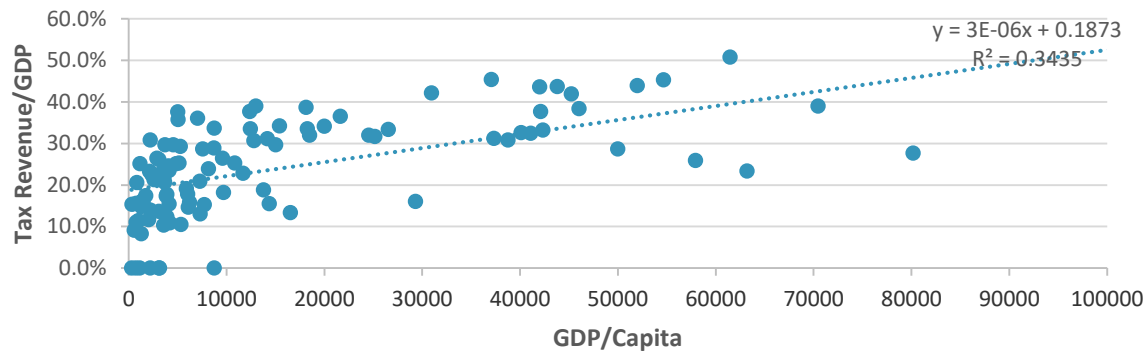


FIGURE 1 Potential sources of financing for the SDGs

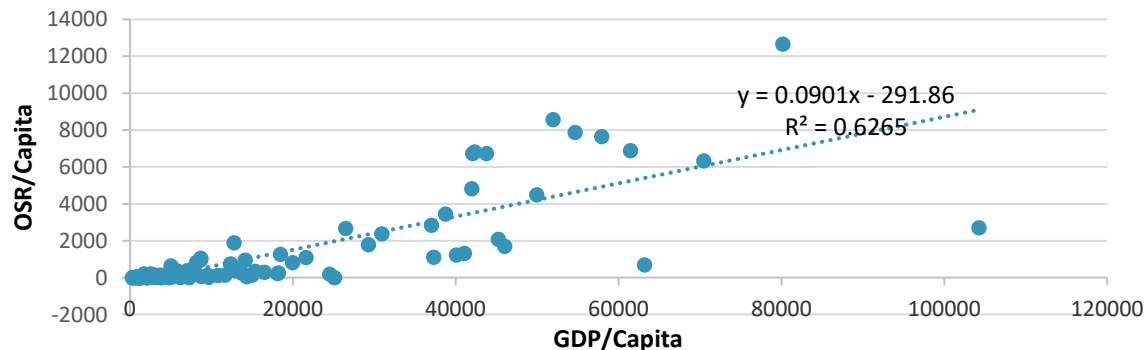
Domestic Resource Mobilization is key

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Tax Revenue/GDP compared with GDP/per capita across countries (2016)



GDP/capita compared with OSR/capita across countries (2016)

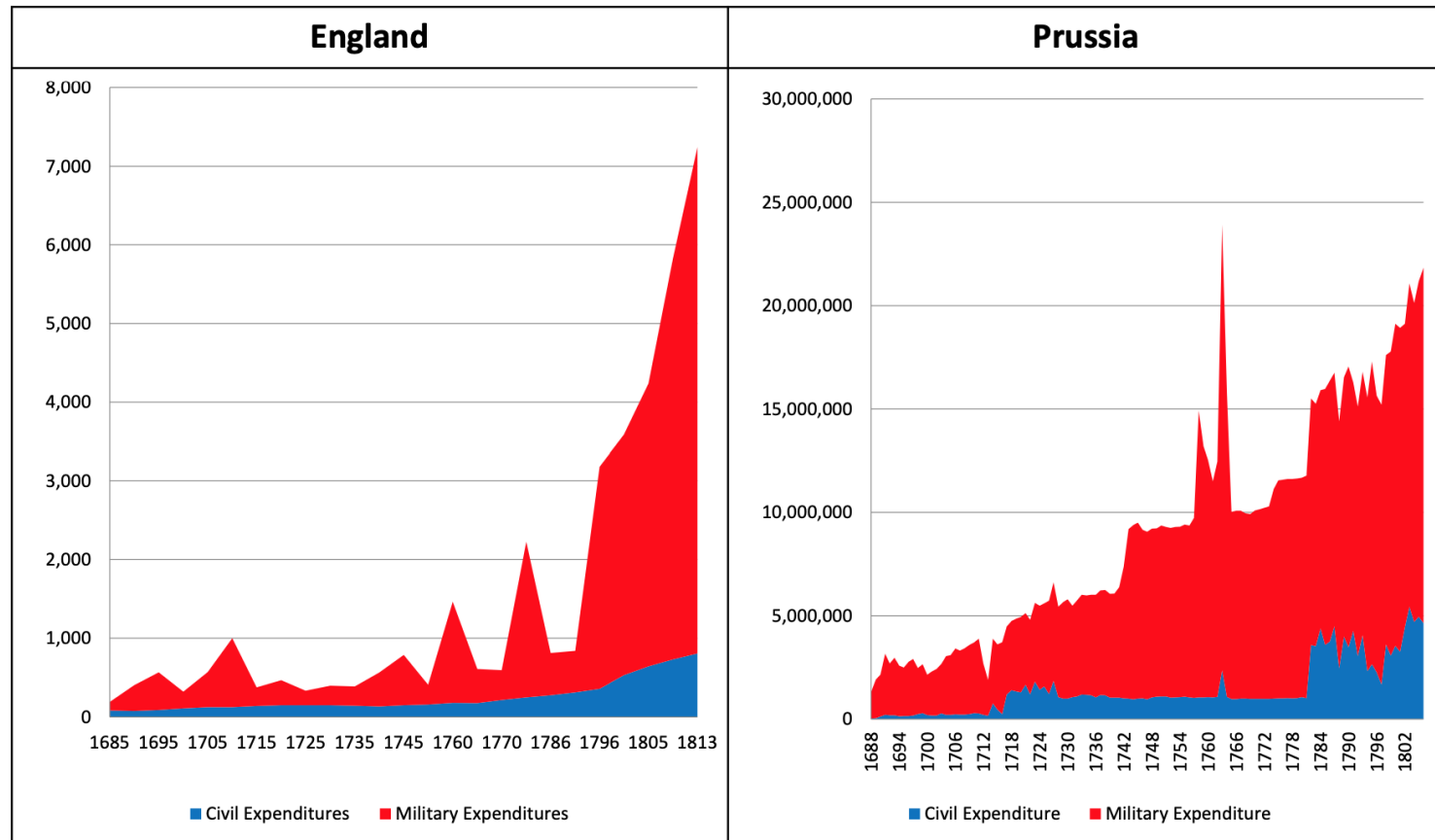


Why is DRM key

- PPPs and loans still need to be paid back eventually
- DRM builds social contract and strengthens accountability (resource curse)

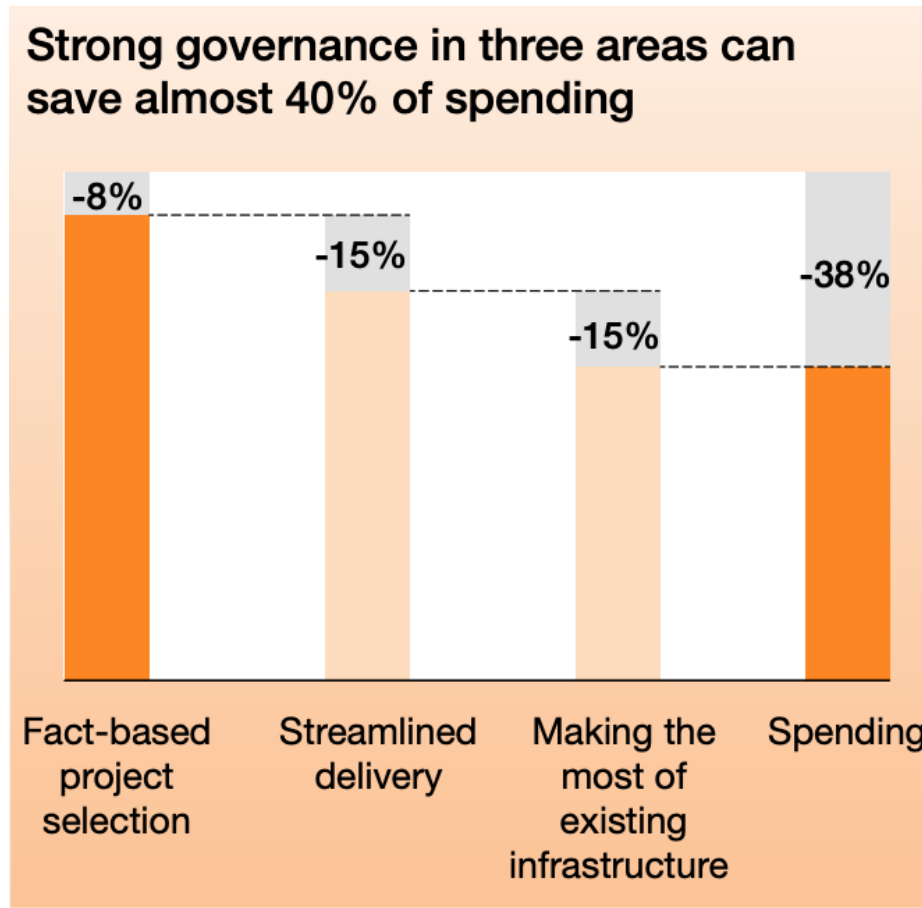
The birth of the modern state is tightly connected to taxation

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If we finance via DRM we also tackle the critical spending problem

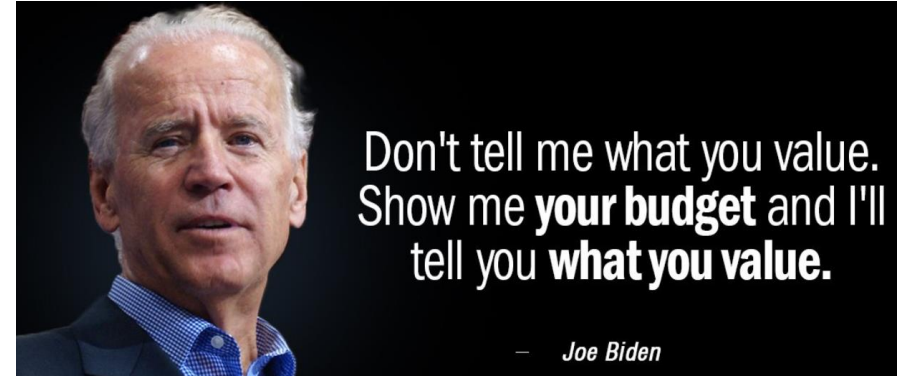
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DRM is complicated by structural hurdles and political interests

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- Structural factors
 - Agricultural
 - Informal economy
 - Corruption
- Lack of political interests
 - If you can access foreign, why tax local
 - If you can put off-balance sheet why tax local
 - If you fix DRM you may close taxloop holes that powerful people benefit from
 - If you focus on DRM, foreign investors have less opportunities



What has the ROSRA been able to achieve – Results from Kiambu County, Kenya

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Problem Outline

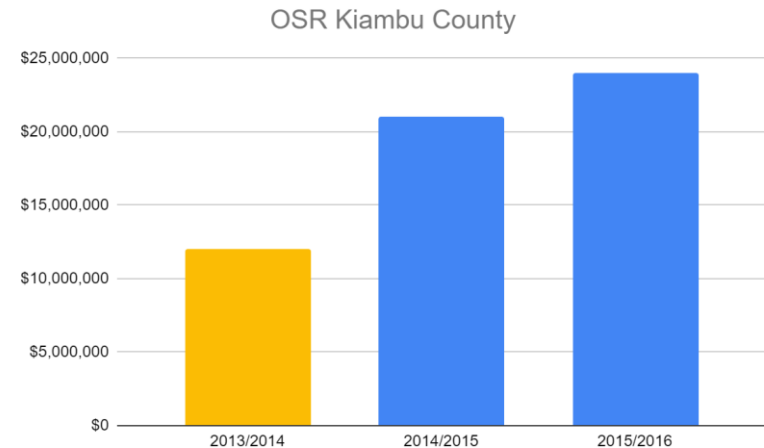
- Low property tax collection
- Low tax receipt from public hospitals
- Accounting challenges and perception of embezzlement

ROSRA Recommendations

- Re-zoning for property tax
- Digitalisation of tax processes
- Audit of accounting processes and discovery of “unearned revenue at sale”

Outcomes

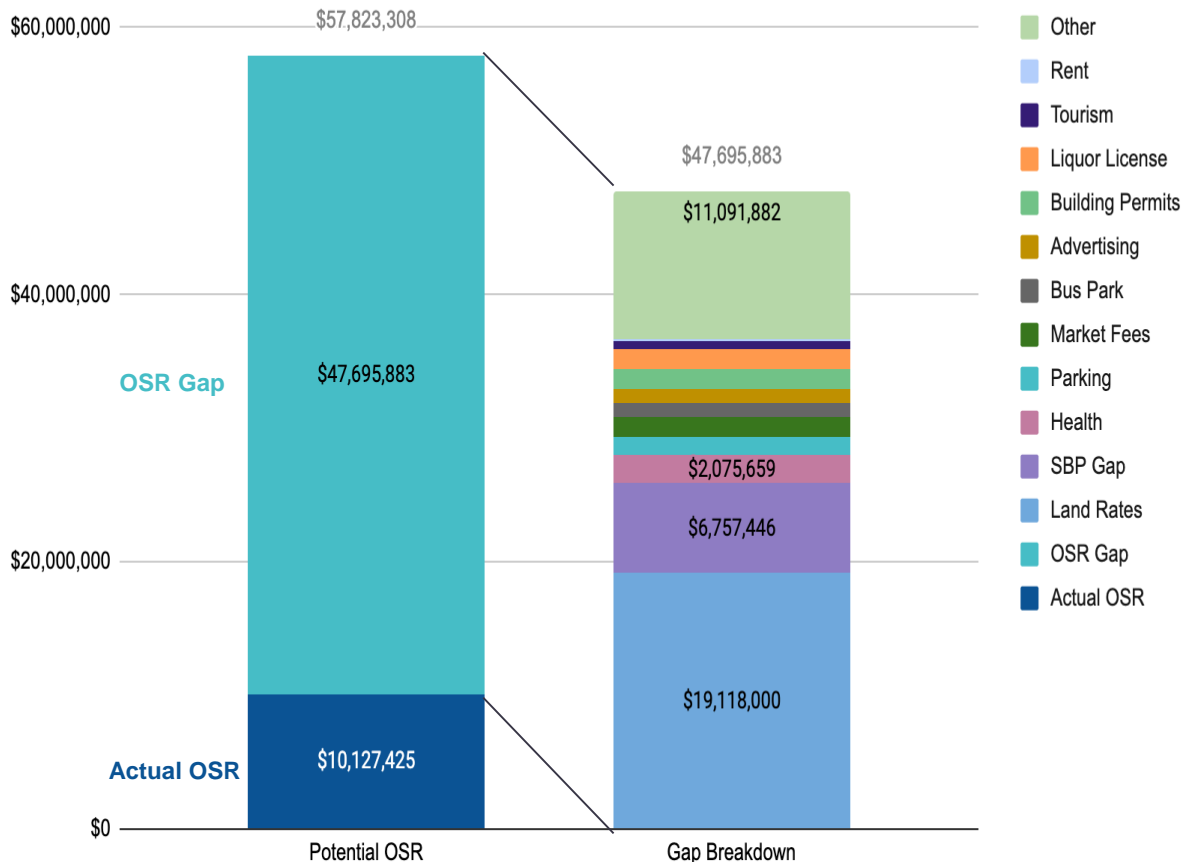
- Increased – from ~\$12M to ~\$24M – revenue collection in 2015/2016
- Improved accounting processes
- Improved government hospital accountability
- Increased intergovernmental transfers



The ROSRA decomposes the revenue gap by revenue stream to allow reform prioritization

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OSR Potential & Gap Analysis by Revenue Stream



Why is it important to analyze the Revenue Gap?

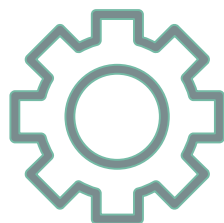
It provides a direct measurement of the degree to which an administration is effective in maximizing OSR. The tax gap is thus a crucial component of results-based management for an administration. Factors contributing to the gap can be identified without necessarily estimating the size of the gap. Breaking the gap down provides insights on the issues of each stream and the strategy which should be pursued for revenue maximization

The journey of the ROSRA so far...

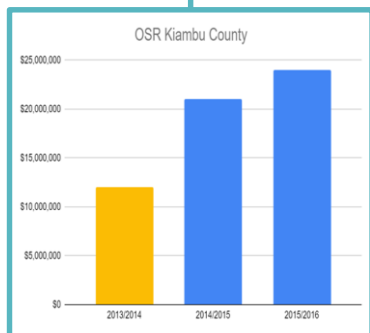
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Inception

The origin of the ROSRA dates back to the UN-H OSR optimization project in Kiambu in 2013



2013



Piloting

of the methodology in Kisumu Kenya, achieving proof of Concept

2019



Going to Scale

start of the automation of analysis, compilation of databases

2021

2018

Analysis
compiling of the methodology for OSR optimization



2020

Further Testing
of the methodology in Tanzania and perhaps Somalia, Afghanistan

Conclusion

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- The Financing Gap is huge
 - Many options exist to fill it
 - There is an over-emphasis on foreign funding
 - Domestic Resource Mobilization is key to closing the gap
 - DRM requires political will and needs to be more central in the discourse
 - UN-Habitat can help to optimize Own Source Revenues
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Thank You



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