Papers on Public Finance and Fiscal Sustainability

Fiscal Policy Options for Resilient and Sustainable Development

The Commonwealth

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Foreword

The world faces compounding crises of climate change, conflict, unsustainable debt, food and energy insecurity, and the economic legacy of the COVID-19 pandemic. The scope and nature of these challenges transcend the ability of any individual, or any single nation, to overcome. They need our collective will and our collective action to achieve sustainable and resilient development outcomes.

Reform of the global financial architecture is imperative to enhance access to international finance for vulnerable countries. The fiscal rules and institutions that govern global financial distribution were built for a world that has completely transformed today. They must be more flexible and move beyond arbitrary cut-off points or GDP boundaries.

Sustainable development is built on a foundation of good public governance. Importantly, effective local governance is needed to ensure provision of essential services to the right communities. In the face of even the harshest economic headwinds, we can revive and revitalise our economies for the benefit and wellbeing of our citizens.

The Commonwealth Secretariat continues to provide evidence-based economic research and analysis to our member countries. Building consensus through our international forums, including the Commonwealth Finance Ministers Meeting and Commonwealth Heads of Government Meeting, we will together deliver a more prosperous, resilient and sustainable future for the whole Commonwealth.

As we strive for solutions to the ongoing macroeconomic challenges confronting us, we must keep the urgent need to attain the Sustainable Development Goals by the end of this decade in the forefront of our minds.

To achieve the future we want, a future that leaves no one behind, global and regional collaboration remains vital. We need to acknowledge that while the rising cost of living affects everyone, it disproportionately affects climate-vulnerable, small, developing and low-income countries. More needs to be done to provide inclusive debt relief and financial support for them all.

The Rt Hon Patricia Scotland, KC
Secretary-General of the Commonwealth

Executive Summary

Ever-increasing and diverse shocks and uncertainties threaten resilient and sustainable development, more so in Small Island Developing States (SIDS) and least developed countries (LDCs) which are disproportionately affected.

Creating enabling environments and the capacity to access and generate multidimensional financing for development, climate change and enhanced resilience, remains challenging amid global pressures. One feasible approach is to revisit the criteria for financing allocation and the management of earmarked international transfers and debt relief. As was highlighted at COP27, sustainable financing solutions for climate investment are needed, and a greater role for the private sector is anticipated going forward. Implementation requires a foundation of effective national and local taxation mechanisms and better governance, especially in cases of intergovernmental and cross-border transfers. Moreover, criteria for debt sustainability and fiscal rules, especially at subnational level, need to be realigned.

This paper focuses on fiscal policy options for resilient and sustainable development. An appropriate design and mix of national taxes would help raise revenues efficiently, reduce the cost of doing business and the barriers to exports, and encourage economic integration to counteract disruptions in global value chains. Further, attention to subnational tax regimes is needed to ensure the stable provision of essential public services and local infrastructure. Robust local, and especially city-level, own-source revenue generation and sound fiscal management is essential for accessing private finances, including bonds, international capital markets and public–private partnerships (PPPs). Greater integration of environmental, social and governance (ESG) criteria in public investment practices can be used to improve fiscal governance and accountability.

1. Increased Vulnerabilities: Risks and Uncertainties

Pandemic-related health and economic shocks have compounded climate-related risks and uncertainties faced around the globe, especially in vulnerable SIDS and LDCs. Conflict-driven food, fuel and energy shocks have affected access to finance for emerging market economies (EMEs) given a tightening of credit and global interest rates, as major G7 central banks respond to inflationary trends.

The ongoing Russian invasion of Ukraine has had global economic and human repercussions and stalled post-COVID-19 recovery. As of December 2022, almost 8 million refugees have been displaced[1], and countries face insecurity in supply of commodities including energy, food (especially wheat and grains), fertilisers and more. Surges in food and fuel prices have only accelerated rising inflation pressures, creating direct and indirect impacts as countries restrict the availability of commodities and tighten export and import policy, even exporter countries like India that normally run agricultural surpluses. Disruptions in global value chains compound increasingly frequent and intense natural disasters driven by climate change.

Low-income countries are facing severe debt distress. Ghana is the latest Commonwealth country to seek debt relief under the G20 Common Framework for Debt Treatment.[2] Debt relief should build on the lessons from the previous Heavily Indebted Poor Countries initiatives (HIPC and HIPC II) and the Addis Ababa Action Agenda. The policy lessons from the pandemic are also relevant and highlight the importance of recognising the interconnections between economic, environmental and socio-political risks, and the need for better integration of uncertainty into policy design and international support.[3]

Many of the standard **policy prescriptions are based on risks and perturbations around a known growth trajectory. But increasingly shocks lead to uncertain outcomes, and standard prescriptions do not necessarily apply. Policy-makers can no longer assume economies will return to the pre-crisis 'steady-state normal'.** The pandemic and climate shocks have made it clear that fiscal policy frameworks need to be strengthened for developed and emerging market countries alike, and arbitrary eligibility criteria for support and debt relief need to be revisited.

We will argue that relief for major disasters should be provided without reference to an arbitrary income cut-off point or 'graduation' as climate shocks and conflict are indiscriminate. However, several serious issues need to be addressed, not including the eligibility criteria for concessional finance.

1. Problems with the HIPC initiative demonstrate it is important to ensure that the poor in poor countries benefit from the relief. This involves enhanced emphasis on governance, accountability and information flows, including at local levels.
2. The risk of bailing out private creditors with public funds places weight on ring-fencing the debt relief.
3. Some countries might be tempted to use debt relief to avoid taking difficult decisions on domestic resource mobilisation. However, debt relief can reduce resilience and make such countries habitual clients of the international finance institutions (IFIs) and bilateral donor agencies.

1 UNHCR (2022), Ukraine Refugee Situation: Operational Data Portal, available at: https://data.unhcr.org/en/situations/ukraine (accessed December).

2 'About 15% of low-income countries are already in debt distress and an additional 45% are at high risk of debt distress. Among emerging markets, about 25% are at high risk and facing default-like borrowing spreads.' Giorgieva, K (2023), 'Confronting fragmentation where it matters most: Trade, debt and climate action', *IMF Blog*, January 16.

3 This argument is similar to the theme underlying both the UN Multidimensional Vulnerability Index (https://www.un.org/ohrlls/mvi) and Commonwealth Universal Vulnerability Index (https://thecommonwealth.org/news/new-global-index-seeks-transform-how-developing-nations-are-supported) which combine these data into quantitative national measures.

4. Often debt relief comes in tandem with conditionality such as numerical subnational fiscal rules, that might prevent needed investments in risk-prone areas or the achievement of the Sustainable Development Goals (SDGs). The basis for such conditionality needs to be revisited.

Fiscal issues arise in each of the cases highlighted above and need to be better integrated in sustainable adjustment programmes to reduce vulnerability to health and climate shocks, as well as disruptions in trade and conflict.

> '*If we continue with business as usual, then we must accept that what we risk now is not simply a debt crisis, but the spawning of a financial crisis leading to social implosion, and that takes a generation to recover from*.'
>
> The Hon Mia Amor Mottley, Prime Minister of Barbados

2. Commonwealth Countries: At High Risk

Many Commonwealth countries do not meet per capita income thresholds set by IFIs for access to development finance. However, they are still extremely vulnerable to environmental and economic shocks, as also shown by the Commonwealth Universal Vulnerability Index[4].

SIDS are unable to handle covariate risks and are extremely susceptible to climate shocks. Many have also been badly affected directly by the pandemic, and indirectly by sharply curtailed tourism revenues and disruptions in global value chains. For example, Sri Lanka had well-developed social indicators and no longer qualified for concessional finance, yet a bunching of short-term liabilities exacerbated its vulnerability to pandemic shocks. A structural dependence on tourism and travel sectors affected by the pandemic, clothing exports affected by disruptions in supply chains, and ill-advised policy measures to cut tax rates did not help. Combining the economic crisis and resulting social unrest with long-term backsliding on socio-economic development, the country faces severe challenges to its recovery post-COVID.

Other **emerging market Commonwealth countries are subject to severe climate risks** – including more frequent floods, droughts, wildfires and hurricanes. The June–September 2022 floods in Pakistan were reportedly the worst the country has experienced, caused by heavy monsoon rains and melting glaciers that followed a severe heat wave. Pakistan has consistently and frequently sought support from the IMF over a quarter of a century. The country would benefit from making progress on domestic resource mobilisation to achieve greater resilience. Policies involving implicit taxation of agriculture, through overvalued exchange rates and procurement prices below international levels in the past have transformed a potential granary for the region into a food importing country. Despite developing one of the world's most extensive irrigation systems, Pakistan remains water insecure with poor agricultural productivity. A growing informal sector in sprawling urban slums, with limited access to public services, heightens both social and economic vulnerability. Climate change is the real 'tipping point' for Pakistan. The intense heat wave and flooding in 2022 submerged a third of the country, displaced around 33 million people and killed over 1,700. The World Bank estimates total economic losses of US$15.2 billion, and US$16.3 billion is needed for rehabilitation and reconstruction, not including existing climate adaptation needs.[5] The poor and informal sector as well as rural livelihoods and children bear the greatest burden, with potential loss of incomes highly likely for the medium term. Failure on tax reforms over the last 30 years has meant tax/GDP ratios remain around 10 per cent. This raises questions about the effectiveness of the multilevel governance structures and accountability, in which the distorting tax system adds to the cost of doing business, encourages rent-seeking and combines with loss-making state-owned enterprises (SOEs). Given failures on domestic resource mobilisation with multiple IMF programmes and World Bank structural adjustment loans over three decades, the current adjustment programme imposes cuts on subnational spending beyond the numerical fiscal rule, with serious consequences for achieving the SDGs,[6] and investment to reduce future vulnerabilities.

Rising levels of sovereign debt around the world are creating new flashpoints of economic instability. However, the 60 per cent debt/GDP threshold for vulnerability is arbitrary, with no guarantee that problems can be avoided below that level, or that they are imminent if a country is above that limit. For example, Bangladesh's debt/

4 Commonwealth Secretariat (2021), *The Commonwealth Universal Vulnerability index: For a global consensus on the definition and measurement of vulnerability.*

5 Government of Pakistan, Asian Development Bank, European Union, United Nations Development Programme and World Bank (2022), *Pakistan Floods 2022: Post-disaster needs assessment.*

6 Prior to the pandemic, while the country could not increase the tax/GDP ratio much above 10 per cent over three decades, the IMF estimated that Pakistan needed an additional 16.5 per cent of GDP to meet the SDGs. Brollo, F, E Hanedar and S Walker (2021), 'Pakistan: Spending needs for reaching Sustainable Development Goals (SDGs)', *IMF Working Paper*, 2021/108.

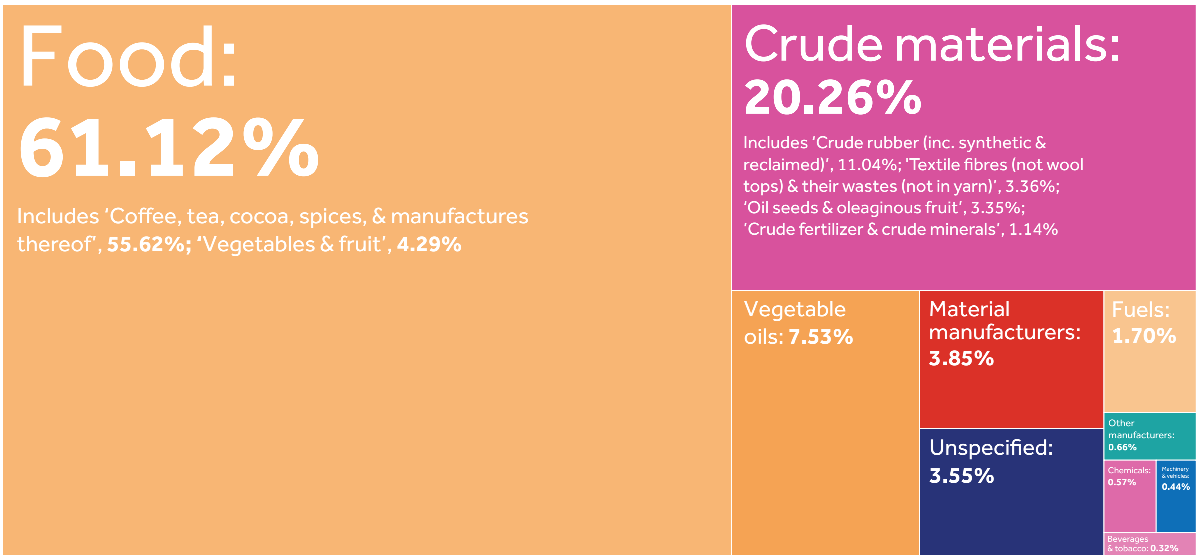
Figure 2.1a Composition (%) of exports by sector, Bangladesh, 1972

Notes: *'nes' = 'not elsewhere specified'.
Exports are defined using the international Harmonised System (HS) commodity classification.
Source: The Growth Lab at Harvard University. (2019). 'Growth Projections and Complexity Rankings, V2' [Data set]. https://doi.org/10.7910/dvn/xtaqmc.

Figure 2.1b Composition of exports by sector, Bangladesh, 2016

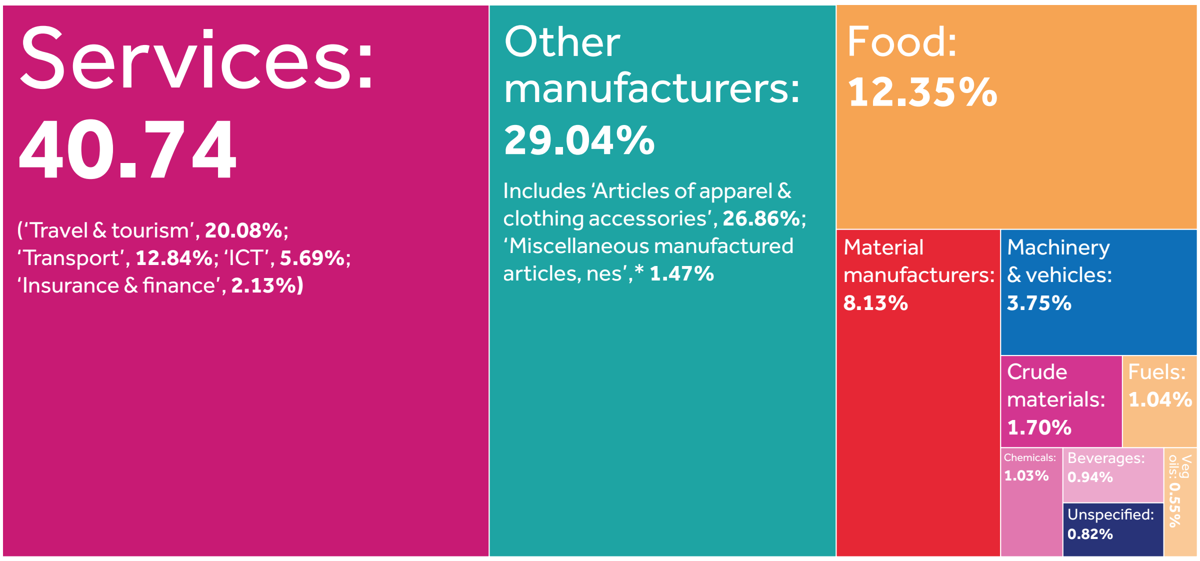
Note: exports are defined using the international Harmonised System (HS) commodity classification.
Source: The Growth Lab at Harvard University. (2019). 'Growth Projections and Complexity Rankings, V2' [Data set]. https://doi.org/10.7910/dvn/xtaqmc.

Figure 2.2a Composition (%) of exports by sector, Sri Lanka, 1972



Note: exports are defined using the international Harmonised System (HS) commodity classification.
Source: The Growth Lab at Harvard University. (2019). 'Growth Projections and Complexity Rankings, V2' [Data set]. https://doi.org/10.7910/dvn/xtaqmc.

Figure 2.2b Composition (%) of exports by sector, Sri Lanka, 2016



Notes: *'nes' = 'not elsewhere specified'.
Exports are defined using the international Harmonised System (HS) commodity classification.
Source: The Growth Lab at Harvard University. (2019). 'Growth Projections and Complexity Rankings, V2' [Data set]. https://doi.org/10.7910/dvn/xtaqmc.

GDP is below this threshold, but the country is very susceptible to climate change and reliance on variable textile exports increases its vulnerability. At a national level Bangladesh's export economy has completed significant structural transformation away from Jute products (see Figures 2.1a, 2.1b, 2.2a and 2.2b). However, low tax/GDP ratios and energy imports increase vulnerability, thus Bangladesh is justified in seeking precautionary support with the IMF. This is also the case for Commonwealth countries in Africa facing debt downgrades, including Kenya and Ghana, where countercyclical fiscal policies would widen current account deficits.

Barbados has also been affected by the growing frequency and intensity of hurricanes. Barbados has a tax/GDP ratio well in excess of the IMF's 15 per cent of GDP 'tipping point' indicator[7], but debt/GDP ratios have been consistently high, above 120 per cent in recent years and rising to 142 per cent in 2021. Any fiscal adjustment to service these debts is borne largely by cutting public services that will most impact the poor and informal sectors of the economy. Climate-related debt deferral, negotiated with creditors, buys some time but only postpones the reckoning.

Reliance on nascent and unregulated markets for growth can create similar vulnerabilities. Until recently the growth of the cryptocurrency industry presented welcome new avenues for growth among SIDS. The Bahamas was leading the way and has been promoting digital asset businesses and crypto as a major pillar of its economic strategy. The collapse of the FTX cryptocurrency exchange, the world's largest crypto platform, which went from a US$32 billion valuation to declaring bankruptcy within a week in November 2022, highlighted the need for well-designed and enforced regulatory approaches to new technologies in order to build and maintain market confidence and ensure sustainable growth. Political sustainability and strong institutions are essential for financial stability and credibility.

The standard thresholds on debt limits (around 60 per cent of GDP) and the revenue tipping point (15 per cent of GDP) do not apply in all cases. For example, Singapore is a small island country with a well-diversified economy, but its debt/GDP ratio approached 150 per cent and its tax/GDP ratio was below 15 per cent as the authorities effectively used countercyclical policies to counter the pandemic slowdown. Transparent management of the public finances, together with adequate reserves and a sovereign wealth fund, ensured that market confidence was maintained during the crisis.

Numerical fiscal targets as rules of thumb are not adequate guides, especially in crisis situations. Given that GDP is not an appropriate indicator for ability to pay sovereign debts, the 60 per cent of GDP (or higher) debt sustainability measure is not an effective indication that countries below this level may not also be in trouble. Countries can get into difficulty well below this threshold as was the case in Argentina in the late 1990s. On the other hand, Singapore manages well above it through business-friendly taxes, replacing distortive taxes with a value-added tax (VAT), and transparent and credible management of public finances. The ability to repay debt depends on the development of credible revenue bases and policies.

Adaptation for climate change requires complementary efforts at regional and local levels. Yet it is often constrained by poor fiscal/tax design, weak governance institutions and limited information flows which generate rent-seeking opportunities. Regional support has been critical for both Sri Lanka and Pakistan during the recent crisis. India supported Sri Lanka and Egypt with supplies from grain stocks following price instability, and the Gulf states came to Pakistan's support with deferred payments for petroleum imports. Both Sri Lanka and Pakistan are negotiating for lifeline support from the IMF, involving opportunities for improving design and implementation of national fiscal policies and institutions. Hence efficient public services are essential, including access to education and health care for the poor and vulnerable, and provision of minimum nutrition and income generating capabilities.

Addressing loss and damage is a key dimension of climate justice to offset the geographic imbalance between cause and effect of the climate crisis. At COP27 in Egypt, parties agreed to the establishment of the Loss and Damage Fund (LDF) specifically to support developing and vulnerable countries to respond to the impacts of climate change. The effectiveness of the LDF will be determined by the efficiency of raising adequate capital and the development of rapid response

7 Gaspar, V, L Jaramillo and P Wingender (2016), 'Tax Capacity and Growth: Is there a tipping point?', *IMF Working Paper*, 2016/234.

mechanisms to meet the urgent needs of affected countries. In comparison it took four years for the Green Climate Fund (GCF) to raise the first round of funding after it was established, and decisions on project financing still take too long. The LDF will need to be able to disburse capital rapidly in order to be a worthwhile addition to global climate finance architecture. In 2023, as the eligibility and operational criteria for the fund are being discussed, key considerations must be enhanced accountability, transparency and governance.[8]

Finally, **debt sustainability frameworks must go beyond just recording external liabilities and the term structure of future repayments** to suppliers and international agencies. For example, off-budget liabilities, especially at the subnational level, including from PPPs, played a major role in the 2008–10 European debt crisis and cannot be ignored. Unfortunately, this information is often not available, even for G7 countries. Reconsidering the debt sustainability criteria among IFIs, such as by moving towards the use of stochastic estimates rather than debt stocks and deficits, presents one possible pathway, consistent with the critique of existing fiscal rules by Blanchard et al.[9] There need to be greater linkages with a more accountable and resilient domestic resource mobilisation strategy at national and local levels. Global economies face severe ongoing challenges and there is a need for greater financing to urgently address sustainable development gaps in this UN Decade of Action to 2030.

8 Kattumuri, R, U Nair, L Jena and A Lee-Emery (2022), 'Loss and Damage Fund – Size design and agility are essential', Commonwealth Secretariat, December 05 [Blog].

9 Blanchard, O, A Leandro and J Zettelmeyer (2021), 'Redesigning EU fiscal rules: From rules to standards', *Economic Policy*, Vol. 36 No. 106, 195–236. https://doi.org/10.1093/epolic/eiab003

3. Ensuring Resilience and Sustainability: Accountability and Responsibility in Investments

The current involvement of private financing for sustainable investment is important and has a key role to play in driving structural change. However, high levels of risk for private investments in most LDCs and EMEs remain, often due to pressures on budgets and the build-up of debt, including off-budget liabilities in SOEs and PPPs which may not be accurately captured in official statistics. The impact of tax base erosion and profit shifting by multinational firms to improve profits also distorts investment incentives between countries and requires a concerted policy response. The agreement on minimum tax payments closes a loophole, but this might benefit developed countries disproportionately, as firms may no longer have strong incentives to invest in developing countries, especially given the uncertainties associated with weak fiscal positions in the latter. Generally, the absence of adequate subnational/ local own-source revenues in many developing countries makes it hard to access sustainable private finance and credit for key infrastructure needs and investments.

Managing increasing short-term and long-term vulnerabilities requires credible and robust national and subnational public finances. General government revenue targets are useful (including the 15 per cent tax/GDP ratio) although higher revenues may be needed in many cases. The **IMF estimates that significant efforts would be needed to finance public services and development gaps.** In the period 2015 to 2030, it estimated an additional 5.6 per cent of GDP will be needed for emerging market countries with variance across countries[10]. As mentioned above, the IMF estimated (prior to the pandemic and the floods) that additional resources needed to meet the SDGs in the case of Pakistan are over 16 per cent of GDP[11]. This puts the current 10 per cent GDP of total tax collections in perspective; and the recent floods will have a further negative albeit lagged effect on activity levels and future revenues.

National wide-area taxes like VAT are needed, not just for revenue generation but to facilitate business and exports and national and supra-national integration. The level and composition of taxation depends on the productive structure, levels of government and spending patterns in any given country. For example, the introduction of the VAT/goods and services tax (GST) in Australia required a combination of taxes and transfers to persuade states (provinces) to give up state sales taxes and myriad other levies for an efficient VAT administered centrally. Exemptions are effectively 'input taxes', and split bases add to the complexity for businesses and rent-seeking opportunities. In multilevel countries, GST/VAT is best administered by a single agency to reduce the cost of doing business and limit opportunities for 'cheating' or informality. This also facilitates expansion of the income tax base. State or provincial taxes are needed for decentralised operations but could be levied as piggybacks on a consolidated income or carbon tax.[12] Carbon taxes, with national minimum limits, represent an important potential new revenue stream for government. Subnational piggybacks can provide own-source revenues and can be higher for the more congested and polluted metro areas than for others. Earmarked taxes, such as on the payroll used for social insurance

10 Gaspar, V, D Amaglobeli, M García-Escribano, D Prady and M Soto (2019), 'Fiscal Policy and Development: Human, social, and physical investment for the SDGs', *IMF Staff Discussion Notes*, 2019/003.

11 Brollo, F, E Hanedar and S Walker (2021), 'Pakistan: Spending needs for reaching Sustainable Development Goals (SDGs)', *IMF Working Paper*, 2021/108.

12 Ahmad, E (2021), 'National and Subnational Tax Reforms to Address Informality', in C Deléchat and L Medina (Eds.), *The Global Informal Workforce: Priorities for inclusive growth*, International Monetary Fund, 253–274.

Table 3.1 Example functional responsibility structures and economic components for public investment in education, health, water and sanitation services

Economic classification/ GFSM Functions/ COFOG	Compensation	Use of goods & services	Fixed capital	......	Acquisition of non-financial assets	Admin/Units Codes	Projects Codes	Programs/ Sub-programs Codes	Output	Outcomes
Education										
a. Primary & secondary	M	M	C/R	C	M/C/R	X	X	X	A	A
b. Tertiary	R/C	R/C	C/R	R/C	R/C	X	X	X	A	A
Health care										
a. Basic preventative	M	C	C/R	M	M/R/C	X	X	X	A	A
b. Hospital	R	R	C/R	R	R/C	X	X	X	A	A
Water	M	M	R/M	M	R/C/M	X	X	X	A	A
Sanitation	M	M	R/M	M	R/C/M	X	X	X	A	A

Notes: 'C' represents a central assignment, 'R' is regional and 'M' is municipal. X would be relevant codes reflecting the institutional arrangements and A are actuals for outputs and outcomes, respectively, that depend on sectoral analyses.
Source: Ahmad, E (2015), 'Governance and institutions', in Ahmad, E and G Brosio (Eds.), Handbook of Multilevel Finance, Edward Elgar, 200–230.

purposes in advanced countries, are not as effective in countries with extensive informality, and could represent 'good intentions, bad outcomes' if cheating and informality increase as a result. User charges should be used sparingly, as these typically lead to the exclusion of children in low-income and informal sector families from essential support.

A tax–benefit approach at the local level is vital to generate stable revenues for basic services, and for political acceptance and accountability. A beneficial property tax, using very simple criteria of location and size, and occupancy rather than ownership, could generate 1.5 per cent to 2.0 per cent of GDP, and anchor basic services as well as providing access to private credit for infrastructure investments.[13] This is useful for the creation of clean, compact and connected cities and for enabling adaptation to climate change. Own-source revenue handles, with subnational control over rates at the margin, create accountability for local functions and facilitate access to private finance. Local beneficial property taxes can be used to anchor access to credit for local infrastructure and adaptation, and to anchor PPPs.[14]

PPPs should be recorded on local government balance sheets. Incomplete or inadequate information sharing can lead to evasive practices, particularly by the private partner, and could effectively increase liabilities for the government. Thus, full information is needed on the sources and uses of funds and any build-up of liabilities to limit 'game play'. Further, private partners are often hesitant to take risks on new ventures and new technologies due to low credibility. This can be avoided by bringing in the appropriate multilateral partners that may guarantee and uphold the contracts.[15]

For any of the new facilities under consideration, clearer definition of earmarked transfer design and monitoring of outcomes will be needed than

13 Ahmad, E and G Brosio (2022), *Beneficial Property Taxation for Emerging Market Countries*, Palgrave-Macmillan.

14 Ahmad, E, D Dowling, D Chan, S Colenbrander and N Godfrey (2021), *Scaling Up Investment for Sustainable Infrastructure: A Guide to National and Subnational Reform*, Coalition for Urban Transitions; Ahmad, E, G Brosio and R Kattumuri (2019), 'Smart cities for sustainable and Inclusive Urban Transitions: Some options for India', London School of Economics India Observatory, Working Paper Series 10.

15 Ahmad, E, A Vinella and K Xiao (2018), 'Contracting arrangements and public private partnerships for sustainable development', *Public Sector Economics*, Vol. 42 No. 2, 145–169. https://doi.org/10.3326/pse.42.2.8

during the HIPC and HIPC II programmes. HIPC was criticised (by Professor Jeffrey Sachs among others) for failing to provide support for the poor in the countries that benefitted.[16] HIPC II provided support directly to municipalities (e.g. in Bolivia[17]) for education and health care, in the expectation that this would better reach the children in low-income families and informal sector employees. However, as wages, numbers of teachers and doctors and their wages, operations and maintenance (O&M), and investments and liabilities were managed or decided at higher levels of government, local governments had little effective control over 'assigned' functions or outcomes. **Full information is needed on functional responsibilities but also the economic components of each** (wages, O&M, investments and liabilities), using the IMF's *Government Finance Statistics Manual 2014* (*GFSM 2014*) standards for balance sheets at each level of government consistent with national accounts data (see Table 3.1). **This may require a retooling of IFI technical support for financial information management systems.**

Incentives at each level of government are important and depend on the design of own-source revenues, responsibilities, and accurate and timely information on operations[18]. Further, earmarked or special purpose transfers will also be needed in some cases, including from the international community.

It is also necessary to rethink standard recommendations for decentralised assignments in light of externalities.[19] The pandemic has shown that health care responses at the subnational level require higher level co-ordination, information sharing and additional financial support. To achieve better functional outcomes, it is important to construct clearly defined institutional arrangements and objectives.

Budget tightening at national level is often telescoped down to the state/provincial and local levels, with corresponding impacts on basic services and nutrition. This has the potential to ignite political resistance to reforms where interactions with other functions, such as clean water, sanitation and nutrition, are overlooked. Moreover, applying **uniform numerical fiscal rules at subnational levels will exacerbate inequalities**, as the poorest regions requiring greater assistance and investment will be least able to support it or attract private capital (this also applies in an international context). Indeed, evidence from India shows that numerical subnational fiscal rules negatively affect investments in poorer states, effectively exacerbating inequalities.

IFIs recommend the use of market prices for public investments and then providing conditional cash transfers to the worst off. This set of measures fails to address externalities and does not ensure sustainable employment generation. The resulting migration to crowded urban metropolises adds to informality, congestion and pollution. There is thus a **need to base public investment and tax decisions in a coherent framework incorporating consistent weights on human, social and natural capital, and on the distribution of income**.[20]

Ensuring continuing basic public services for health and education, clean water and nutrition and ensuring inclusion of the most vulnerable is essential for any resilient response to shocks or climate-related emergencies. The poor and informal sector households, including migrants and refugees, are among the most vulnerable. Food, energy and fuel security are also key for economic growth, and countries need to be able to invest in more renewable energy sources and technologies. In most cases, local public actions are needed in conjunction with national and international programmes and commensurate public and private financing.

Finally, new digital tools, including blockchain, could be used together with satellite technology and low-tech verification to simplify both the revenue and treasury/cash management and spending chains. This offers a productive area of ongoing evidence-based research and policy development, and innovative change and institutional management.

16 Sachs, J, K Botchwey, M Cuchra, S Sievers (1999) *Implementing Debt Relief for the HIPCs*, Harvard University, Center for International Development

17 See Ahmad, E, G Brosio, A Diaz, I Fainboim and R Villela (2004), *Bolivia: Improving budget and decentralization processes*, IMF, Fiscal Affairs Department.

18 Ahmad, E and G Brosio (Eds.) (2015), *Handbook of Multilevel Finance*, Edward Elgar.

19 Ibid.

20 For illustrations see Ahmad, E and H Viscarra (2016) and Ahmad, E, K Ahmed and H Viscarra (2021), *Mexico: Building Back Better: Financing urban 'hubs' for sustainable employment generation,* policymakers' summary, London School of Economics/UK Department for Business, Energy & Industrial Strategy programme on 'Financing Sustainable Urban Transitions in China and Mexico'.

4. Towards a Resilient and Sustainable Fiscal Strategy

Considering the multidimensional vulnerabilities and socio-economic development challenges faced by countries, several fiscal and policy reforms are recommended to facilitate more resilient and sustainable development outcomes.

- It is important to integrate uncertainty and shocks into economic policy making. The income graduation or 'cut-off point' for concessionality does not adequately capture the circumstances of the developing world. GDP indicators cannot fully account for the development status, debt sustainability or vulnerability of countries, or what happens to them after a shock. A more comprehensive measure is needed when formulating access criteria for concessional development financing.
- Fiscal measures need to consider human, natural and social capital and be consistent with investment at national and local levels. Full and open information sharing between departments at all levels of government is required.
- At a national level, tax reforms should include co-ordinated tax policies, such as VAT, that not only generate revenues but also improve the ease of doing business and promote national integration, and provide information that prevents evasion of direct taxes.
- Stable local revenues are needed to provide resilient public services, and proposals to develop beneficial property taxes need to be explored. Direct links between property taxes and supporting local services will increase accountability and help address the political economy problems that have so far prevented their uptake in developing countries.
- Streamlining regulations and using new digital tools to modernise the tax system are important to ensure sustainable growth. Innovations to improve transparency and governance include blockchain systems for property and financial transactions. These could form the basis for agile and accountable public financial management and revenue/treasury systems. High-tech solutions, such as satellite imagery for properties and activities, can be combined with low-tech verification of residence.
- Further work is needed at national and subnational levels for improved fiscal management. This may involve retooling and strengthening of technical assistance from the IFIs. It should also consider and encourage the uptake of digital tools.
- The private sector has an important role to play in driving sustainable development, however this must be built on a firm foundation of good public governance and financial management. Private sector engagement through PPPs requires recording of liabilities on the public balance sheet, and the monitoring of potential non-performing loans from arrangements.
- Global reform of the international financing and debt structuring architecture is required to meet the challenges of the future. Tailored financing options are needed to address the impact of climate change induced natural disasters. The development of the LDF and the IMF's Resilience and Sustainability Trust represent two new programmes for earmarked transfer from the international community to better handle disasters. These need to be accompanied by tighter monitoring on the uses of such resources, so that they do not obstruct domestic resource mobilisation and resilience building.

Statistical Appendix

Table A.1 Selected Commonwealth economies: General government overall balance, 2015–2023 (per cent of GDP)

	Actual					Projected			
Country	2015	2016	2017	2018	2019	2020	2021	2022	2023
Australia	-2.8	-2.4	-1.7	-1.3	-4.4	-8.6	-7.7	-5.2	-3.4
Bahamas, The*	-2.5	-2.5	-5.3	-3.3	-1.7	-7.2	-13.6	-6.7	-3.5
Bangladesh	-3.9	-3.8	-4.9	-4.8	-6.3	-5.6	-4.2	-6.1	-5.7
Barbados*	-9.1	-5.3	-4.3	-0.3	3.7	-4.7	-4.9	-3.4	-1.0
Canada	-0.1	-0.5	-0.1	0.4	0.0	-11.4	-4.7	-2.2	-0.8
Cyprus	0.2	0.2	2.0	-3.5	1.3	-5.7	-1.7	-1.3	-0.3
Dominica*	11.4	11.4	-3.2	-18.5	-8.3	-7.3	-9.0	-1.4	-2.0
Fiji*	-3.9	-5.7	-2.1	-4.4	-3.6	-7.9	-12.9	-13.3	-8.9
Ghana*	-4.0	-6.7	-4.0	-6.8	-7.3	-15.6	-11.6	-8.7	-7.8
India	-7.2	-7.1	-6.2	-6.4	-7.5	-12.8	-10.4	-9.9	-9.1
Jamaica*	-0.3	-0.2	0.5	1.2	0.9	-3.1	0.3	0.3	0.3
Kenya	-6.7	-7.5	-7.4	-6.9	-7.4	-8.1	-8.1	-6.9	-5.3
Malaysia†	-2.5	-2.6	-2.4	-2.6	-2.0	-4.6	-5.5	-4.9	-3.3
New Zealand	0.3	0.9	1.3	1.3	-2.5	-4.0	-4.9	-4.9	-1.8
Nigeria	-3.8	-4.6	-5.4	-4.3	-4.7	-5.7	-6.0	-6.4	-5.9
Pakistan	-4.7	-3.9	-5.2	-5.7	-7.8	-7.0	-6.1	-5.8	-4.2
Papua New Guinea	-4.5	-4.7	-2.5	-2.6	-4.4	-8.6	-7.4	-5.8	-4.7
Rwanda	-2.7	-2.3	-2.5	-2.6	-5.1	-9.4	-6.9	-6.8	-6.3
Singapore	2.9	3.7	5.3	3.7	3.9	-5.9	-0.2	1.4	2.0
Solomon Islands*	0.0	-4.2	-2.9	0.9	-0.9	-2.4	-3.1	-6.0	-3.8
South Africa	-4.4	-3.7	-4.0	-3.7	-4.7	-9.7	-6.4	-5.8	-6.1
Sri Lanka*	-7.0	-5.3	-5.5	-5.3	-8.0	-12.8	-12.6	-9.4	-10.5
Trinidad and Tobago*	-7.9	-10.4	-10.8	-5.9	-3.7	-11.6	-10.1	-5.2	-2.2
Uganda	-2.5	-2.6	-3.6	-3.0	-4.8	-7.5	-7.8	-5.6	-4.1
United Kingdom	-4.5	-3.3	-2.4	-2.2	-2.2	-12.8	-8.0	-4.3	-2.3
Vanuatu*	-9.0	-0.7	-1.2	6.3	2.8	-2.0	2.3	-4.2	-3.9
Zambia	-9.5	-5.7	-7.5	-8.3	-9.4	-13.8	-8.7	-9.0	-6.8

Source: IMF (2022, April), Fiscal Monitor and *IMF (2022, April), *World Economic Outlook*
†The balance in 2019 includes a one-off refund of tax arrears of 2.4 per cent of GDP.

Table A.2 Selected Commonwealth economies: General government revenues, 2015–2023 (per cent of GDP)

	Actual					Projected			
Country	2015	2016	2017	2018	2019	2020	2021	2022	2023
Australia	34.6	34.9	35.1	35.7	34.6	36.1	35.1	33.8	34.5
Bahamas, The*	14.7	16.1	16.8	16.2	18.4	18.5	19.1	20.1	20.1
Bangladesh	9.8	10.1	9.5	10.4	9.5	9.8	10.9	11.0	11.0
Barbados*	25.9	28.3	28.6	29.1	30.7	29.8	27.6	28.0	28.6
Canada	40.0	40.3	40.3	41.0	40.7	41.6	41.0	41.2	41.2
Cyprus	39.7	37.7	38.5	39.2	39.7	39.3	42.3	40.4	41.1
Dominica*	43.8	58.7	49.4	44.2	38.1	56.3	51.0	47.3	45.5
Fiji*	26.7	26.4	26.0	28.1	26.6	23.0	19.5	20.5	21.9
Ghana*	14.6	13.1	13.6	14.1	13.9	13.3	14.7	16.5	16.2
India	19.9	20.1	20.0	20.0	19.9	18.3	19.7	18.9	19.1
Jamaica*	27.0	28.0	29.1	30.6	30.6	29.1	30.3	28.4	28.3
Kenya	17.1	17.9	17.8	17.5	17.0	16.6	16.8	17.4	17.6
Malaysia	22.2	20.3	19.6	20.2	21.6	20.6	18.3	17.4	16.9
New Zealand	37.6	37.4	37.0	37.3	36.3	37.6	37.6	37.1	37.1
Nigeria	7.2	5.1	6.6	8.5	7.8	6.3	7.2	8.4	8.1
Pakistan	12.9	13.8	14.0	13.4	11.3	13.3	12.5	12.6	12.9
Papua New Guinea	18.3	16.1	15.9	17.7	16.3	14.2	14.4	15.6	15.3
Rwanda	23.9	22.9	22.6	23.8	23.1	23.6	24.4	25.7	23.7
Singapore	17.3	18.9	18.9	17.6	17.9	17.9	18.5	17.8	17.4
Solomon Islands*	42.4	38.6	39.2	40.4	32.8	33.2	30.7	28.1	30.6
South Africa	25.8	26.2	25.8	26.4	26.8	25.1	26.7	27.5	27.1
Sri Lanka*	13.3	14.1	13.8	13.5	12.6	9.2	8.9	10.8	10.8
The Bahamas*	14.7	16.1	16.8	16.2	18.4	18.5	19.1	20.1	20.1
Trinidad and Tobago*	28.5	22.6	21.2	24.5	27.0	22.8	25.0	26.3	28.1
Uganda	12.6	12.4	12.7	13.2	13.5	13.9	14.4	14.8	14.8
United Kingdom	35.5	35.9	36.4	36.3	36.0	36.2	36.9	37.3	37.5
Vanuatu*	35.1	35.5	35.9	39.5	42.6	42.0	45.3	45.3	35.9
Zambia	18.8	18.2	17.5	19.4	20.4	20.3	23.8	20.1	22.2

Source: IMF (2022, April), *Fiscal Monitor* and *IMF (2022, April), *World Economic Outlook*
Note: tax revenues are a subset of overall revenues.

Table A.3 Selected Commonwealth economies: General government expenditure, 2015–2023 (per cent of GDP)

	Actual					Projected			
Country	2015	2016	2017	2018	2019	2020	2021	2022	2023
Australia	37.4	37.4	36.9	37.0	39.0	44.7	42.8	39.0	37.8
Bahamas, The*	17.3	18.6	22.0	19.5	20.0	25.7	32.7	26.8	23.7
Bangladesh	13.8	13.9	14.4	15.2	15.7	15.4	15.1	17.1	16.7
Barbados*	35.0	33.6	32.9	29.4	26.9	34.6	32.5	31.4	29.6
Canada	40.0	40.8	40.5	40.7	40.7	53.0	45.7	43.4	42.0
Cyprus	39.5	37.5	36.5	42.7	38.4	45.0	44.0	41.8	41.4
Dominica*	32.4	47.3	52.6	62.7	46.4	63.7	60.0	48.7	47.6
Fiji*	30.6	32.1	28.1	32.5	30.2	30.9	32.4	33.8	30.8
Ghana*	18.6	19.9	17.6	20.9	21.1	29.0	26.3	25.2	23.9
India	27.1	27.2	26.2	26.3	27.4	31.1	30.1	28.8	28.2
Jamaica*	27.3	28.2	28.6	29.4	29.7	32.1	30.0	28.2	28.0
Kenya	23.8	25.3	25.2	24.5	24.4	24.7	24.9	24.3	22.9
Malaysia	24.7	22.9	22.0	22.8	23.6	25.3	23.8	22.2	20.3
New Zealand	37.2	36.5	35.6	36.1	38.8	41.7	42.6	41.9	38.9
Nigeria	11.1	9.8	12.0	12.8	12.5	12.0	13.3	14.9	14.0
Pakistan	17.6	17.7	19.1	19.1	19.1	20.3	18.6	18.4	17.1
Papua New Guinea	22.8	20.9	18.4	20.3	20.7	22.7	21.8	21.4	19.9
Rwanda	26.6	25.1	25.1	26.4	28.2	32.9	31.3	32.4	29.9
Singapore	14.4	15.2	13.6	13.9	14.0	23.7	18.7	16.4	15.4
Solomon Islands*	42.4	42.7	42.1	39.5	33.7	35.6	33.8	34.1	34.3
South Africa	30.2	29.9	29.9	30.2	31.5	34.9	33.2	33.3	33.2
Sri Lanka*	20.4	19.5	19.3	18.8	20.6	21.9	21.5	20.1	21.3
Trinidad and Tobago*	36.4	33.1	32.0	30.5	30.6	34.3	35.1	31.4	30.4
Uganda	15.1	15.0	16.3	16.2	18.3	21.4	22.1	20.4	18.8
United Kingdom	40.0	39.2	38.8	38.4	38.2	48.9	44.9	41.7	39.8
Vanuatu*	44.1	36.3	37.1	33.3	39.8	44.0	43.0	49.4	39.7
Zambia	28.3	23.9	25.0	27.7	29.8	34.1	32.5	29.1	29.0

Source: IMF (2022, April), *Fiscal Monitor* and *IMF (2022, April), *World Economic Outlook*

Table A.4 Selected Commonwealth economies: General government gross debt, 2015–2023 (per cent of GDP)

	Actual					Projected			
Country	2015	2016	2017	2018	2019	2020	2021	2022	2023
Australia	37.8	40.6	41.2	41.8	46.8	57.8	59.8	60.1	62.6
The Bahamas*	49.8	50.6	54.1	61.7	59.6	75.1	102.8	91.3	87.3
Bangladesh	33.7	33.3	33.4	34.6	36.1	39.5	41.4	42.6	42.8
Barbados*	147.0	149.5	158.3	126.0	123.2	146.7	135.8	121.0	113.9
Canada	91.2	91.8	88.9	88.9	87.2	117.8	112.1	101.8	98.5
Cyprus	107.2	103.1	92.9	98.4	91.1	115.0	103.9	97.2	93.4
Dominica*	68.9	75.3	81.9	84.6	94.2	107.3	101.9	99.7	96.2
Ghana*	53.9	55.9	57.0	62.0	62.7	78.3	81.8	84.6	84.8
Fiji*	44.3	44.6	43.4	45.8	48.7	62.0	79.2	87.1	86.6
India	69.0	68.9	69.7	70.4	75.1	90.1	86.8	86.9	86.6
Jamaica*	121.9	113.7	101.2	94.4	94.3	108.1	91.5	83.7	78.0
Kenya	45.8	50.4	53.9	56.4	58.6	67.6	68.1	70.3	69.4
Malaysia	57.0	55.8	54.4	55.6	57.1	67.8	69.0	69.3	68.9
New Zealand	34.2	33.4	31.1	28.1	31.8	43.1	49.1	51.2	51.4
Nigeria	20.3	23.4	25.3	27.7	29.2	34.5	37.0	37.4	38.8
Pakistan	57.0	60.8	60.9	64.8	77.5	79.6	74.0	71.3	66.8
Papua New Guinea	29.9	33.7	32.5	36.7	40.2	46.4	49.3	45.2	50.1
Rwanda	32.4	36.6	41.3	44.9	49.8	64.6	68.6	72.0	73.6
Singapore	102.2	106.6	107.7	109.4	128.2	152.0	132.8	130.9	129.7
Solomon Islands*	9.0	7.1	8.4	8.3	8.2	13.1	16.5	22.5	24.8
South Africa	45.2	47.1	48.6	51.6	56.3	69.4	69.1	70.2	73.4
Sri Lanka*	78.5	79.0	77.9	84.2	86.8	101.2	107.2	109.0	107.5
Trinidad and Tobago*	27.1	37.0	41.5	41.8	45.4	59.3	66.1	62.6	63.0
Uganda	28.5	31.0	33.6	34.9	37.6	46.4	51.6	53.1	52.4
United Kingdom	86.0	85.8	85.1	84.5	83.9	102.6	95.3	87.8	82.7
Vanuatu*	37.7	43.7	52.6	45.3	46.2	49.4	47.3	49.2	49.7
Zambia	65.8	61.6	66.3	80.5	99.7	140.2	123.2	-	-

Source: IMF (2022, April) *Fiscal Monitor* and *IMF (2022 April), *World Economic Outlook*

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