Domestic Resource Mobilization and Its Use for the Transformative 2030 Agenda

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The 3rd International Conference on Financing for Development in July 2015 adopted the Addis Ababa Action Agenda (AAAA) as a strong commitment of the global community to achieve all the Sustainable Development Goals (SDGs) spelled out in the new development agenda. Compared to the MDGs, the new goals and targets are too many and this depicts the increased diversification and complication of the development challenges we are facing toward the post-2015 period.

Global landscape of development finance has also changed dramatically for the last 15 years. While domestic public revenues rose rapidly and are the largest source of finance, international public finance, net ODA and OOF, rose moderately but it's small in absolute amount and declining relative importance as source of development finance. Private domestic finance rose most rapidly, but it still remains much lower as a percentage of GDP in Low Income Countries (LICs). These facts call for the global community to move the development finance discussion from "Billions" in ODA to "Trillions" in investments of all kinds. An analysis of available sector studies shows that incremental spending needs for SDGs annual investment in LICs and Lower-Middle-Income Countries (LMICs) amount to at least US$ 1.3 trillion per year.

Empirical studies show as countries move towards higher income levels, they tend to experience: (i) declining aid-to-GDP ratios; (ii) increasing tax-to-GDP ratios; and (iii) increasing private investment-to-GDP ratios. While we see the emergence of the South-South efforts for resource mobilization, ODA and domestic resource mobilization (DRM) will remain essential in the post-2015 world to accelerating economic growth and lifting people from extreme poverty, particularly in LICs.

Multilateral development banks point out that the combination of technical assistance and increased financing for capacity building can play a vital role in strengthening DRM and lead to more effective and efficient use of public expenditure. JICA's ten-year technical cooperation for capacity development in tax administration in Mongolia also casts a few implications. Since their decision on the transition to a market economy in the early 1990s, tax revenue in Mongolia increased more than 25 times from the initial level. Starting its 1st phase cooperation in 1994, JICA has gradually shifted its target for capacity development phase-wise in more than a decade from problem analysis to policy-making and institution building, legislation, then to the improvement of tax inspection system, then to staff training, and to awareness-raising of the current and future taxpayers.

This is also our response to the needs of capacity development at all levels, which is mentioned in the SDG 17.9, and the implications and lessons learned apply not only to DRM for other LICs and LMICs, but also to the other public spending for SDGs. First, international cooperation for capacity development at all levels calls for long-term commitment of the providers. This requires us to change our mindset from result management at individual project level to program-based management, combining different types of operations to meet the national development goals and strategy. Third, it must go hand-in-hand with strong government ownership. Earlier involvement of legislators and phasing out of Japanese presence for indigenous efforts of the counterparts are the

measures that JICA chose in Mongolia to bring about a strong sense of ownership. Implementing quick-impact projects and demonstrating the impacts at the earlier stage have also convinced the Mongolian side for their long-term commitment to the result.

While we must be more concerned about the results of long-term capacity development, it also matters as well on how we could allocate financial resources to maximize the impacts. There are a few earlier practices of prioritizing areas for investment. For example, ECDPM suggests the financial resources be directed to 6 enablers for sustainable development. Taking account of the aforesaid estimation that 65 to 70 percent of incremental spending needs would be for investments in infrastructure, the government of Japan announced the *Partnership for Quality Infrastructure*, which would play a catalytic role in further mobilizing financial resources and know-how from the private sector, pursuing both quality and quantity by mobilizing public and private finance. In the meantime, the Copenhagen Consensus Center advocates *Smart Development Goals*, selecting 19 SDG targets out of 169. They insist that concentrating on these targets first would effectively quadruple aid budget without any extra spending. JICA is also facing the urgent need for prioritizing the targets.

It is often pointed out that if we stay on our current trajectory, the world will miss the goals by a wide margin. We must improve policies and enhance international cooperation so that we could bring more public and private resources to bear on financing the investments needed to achieve the SDGs. In their last meeting in September 2015, many JICA country directors pointed out that we should have long-term strategy that helps us to concentrate our aid resources onto selected targets of higher priority, as well as further strengthening our result orientation in the country programs including the ones for DRM. We already know that we should align our programs with the national SDG implementation plan of the host countries. Also, we now know that we should depart from "business as usual" and be more conscious of prioritization and leveraging of our resources for better and scaled-up results. These practices require more intellectual input from the research community.