

PUTTING PROGRESS AT RISK?

MDG spending in developing countries



Thirty-two months remain to the deadline for reaching the Millennium Development Goals. This report is the first ever to track what developing countries are spending on the MDGs. It finds that recent spending increases explain the rapid progress on the MDGs. But the vast majority of countries are spending much less than they have promised, or than is needed – for example, on wages for teachers and nurses, and maintenance of water facilities – to achieve the MDGs or their potential successor post-2015 goals. Aid cuts, low implementation rates and low recurrent spending all threaten to reverse existing progress.

This Government Spending Watch report suggests that developing countries need to make data on MDG spending more accessible to their citizens; to strengthen policies for revenue mobilisation (notably combating tax avoidance and tax havens), debt and aid management; and to spend more on agriculture, water, sanitation and hygiene, and social protection. Donors need to report and repatriate illicit outflows; end laws and investment treaties which reduce poor countries' revenues; increase innovative financing such as financial transaction and carbon taxes; put more aid through developing country budgets; maximise budget and sector support to make spending more accountable; and report planned disbursements to developing countries. The IMF needs to sharply increase space for sustainable spending in its programmes. The post-2015 framework should set targets for spending on social protection, gender and sustainable development including climate change. Only by implementing these measures can the global community reach the 'World We Want'.

Development Finance International (DFI) and Oxfam International have collaborated on the Government Spending Watch report to share research results, contribute to public debate and invite feedback on development policy and practice. This report does not necessarily reflect Oxfam or DFI policy positions, and the views expressed are those of the authors.

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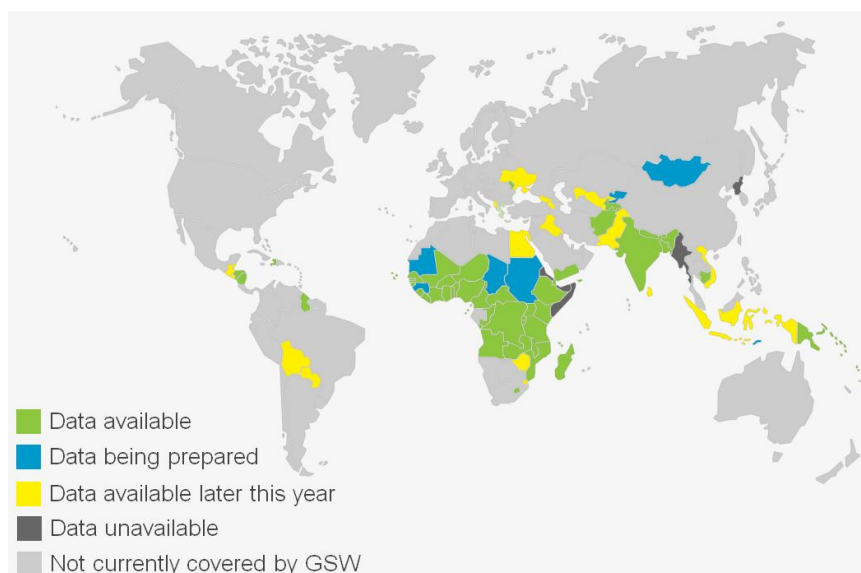
EXECUTIVE SUMMARY

ABOUT THIS REPORT AND THE DATA

The first ever report on MDG spending

Thirty-two months remain until the 2015 deadline set by world leaders for reaching the Millennium Development Goals (MDGs). This Government Spending Watch (GSW) report is the first ever to track how much developing countries are spending on the MDGs. It is based on data compiled by Development Finance International (DFI) and Oxfam, covering 52 low- and lower-middle income countries, as shown in Map 1. Future reports will extend the analysis to 34 more countries. The data, research, and information on current campaigns on MDG spending, are available from the GSW website: www.governmentspendingwatch.org

Map 1: Countries covered by the GSW database



Data sources and types

The data have been compiled from country budget documents and other published sources. They cover seven sectors – agriculture/food, education, environment and climate change, gender, health, social protection, and water and sanitation – from 2008 to 2015 (including medium-term forecasts). They examine planned and actual spending, disaggregated by type (recurrent or capital) and funding source (government or donor). As the data are often hard to find or interpret, a network of country officials worldwide helped to compile them.

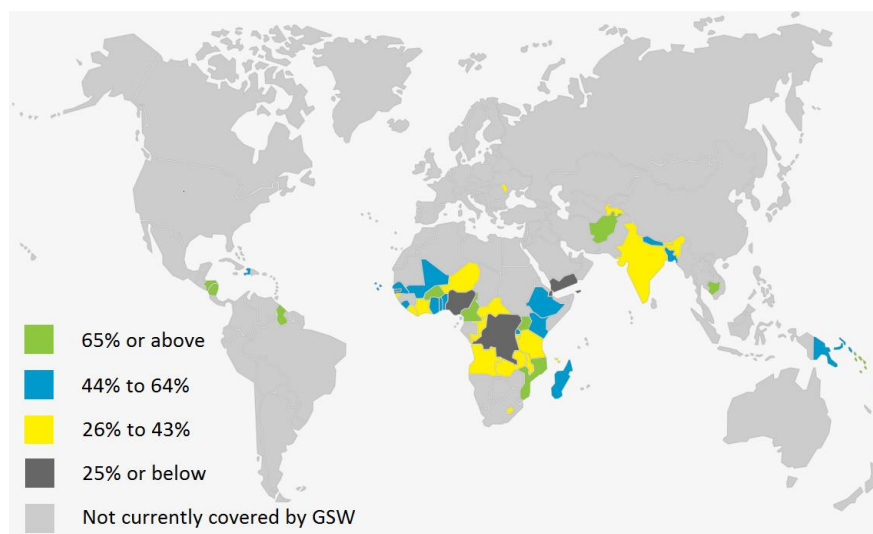
Major data gaps need filling

GSW has managed to find data on total spending for almost all countries. However, it has been possible to compile only three-quarters of sector data for education and health, two-thirds for agriculture, half for social protection and environment, a third for water and sanitation, and a fifth for primary education and gender. Data on actual spending are only half as accessible as data on budgeted spending, partly due to delays in auditing and publication. There are major gaps in breakdowns of sector data: into recurrent/capital spending (55 per cent missing) and sources of funding (65 per cent missing). As Map 2 shows, GSW has been able to compile an excellent

share of data for 10 countries, a good share for 17, but only a moderate share for 19, and a low share for 5. As discussed below, donors bear a major responsibility for data problems, often failing completely to report recent or current aid disbursements at country level, and rarely providing reliable forecasts of future disbursements.

- *Countries should track and publish more data on their MDG spending, and make these data more easily accessible to their citizens. Data are particularly lacking on water, sanitation and health (WASH), primary education and gender, and should be disaggregated by type of spending and source of funding. MDG spending data should be integrated into national and local campaigns for greater budget transparency. Donors have a role to play in providing support and resources for countries to compile data, and could also support global monitoring and analysis of spending trends. They must also live up to their aid effectiveness promises (most recently in the Busan Global Partnership) to report recent, current and forecast aid flows to recipient governments. Vital decisions on future development goals affecting millions of lives should be informed by the best possible information.*

Map 2: data currently available for each country on the GSW site



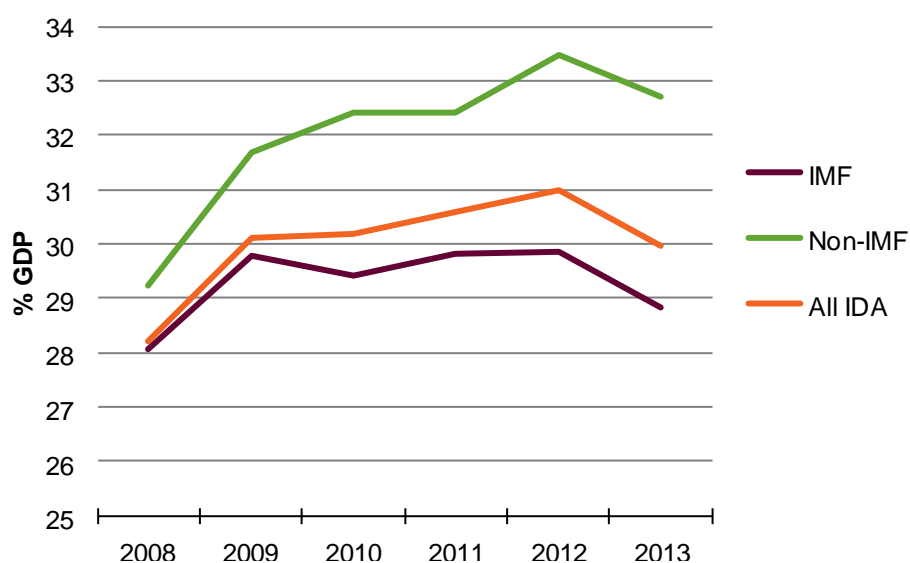
KEY FINDINGS

Most countries have increased revenue and spending since 2008, but this trend is now being reversed

Poor countries lost \$140bn in budget revenues due to the global economic crisis which began in 2008 (actual revenues compared with the levels forecast by the IMF in 2008, before the crisis hit). However, many have been growing rapidly despite global economic stagnation. They have increased their revenue by 2 per cent of gross domestic product (GDP) since 2009, so have been able to reduce their budget deficits while spending more than ever, and (in spite of rapidly increasing aid flows) reduce their dependence on aid. On the other hand, a substantial minority of countries are being hit harder by global stagnation and other climate or conflict-related shocks. They are growing much more slowly, and have had to cut spending. As Figure 1 shows, in 2013, on average all countries covered by the GSW database have cut overall planned spending as a proportion of GDP.

- *Countries need to increase their fiscal space to spend enough to reach the MDGs, by mobilising more revenues through progressive taxes, ending tax exemptions for investors, imposing a stricter tax regime for extractive industries, and combating tax avoidance via havens and illicit flows. Donors can help by providing technical assistance to negotiate better tax deals and to track and repatriate illicit or tax-avoiding flows, by encouraging multinational corporations to pay tax in host countries, and by ending investment treaties and laws which reduce tax paid in developing countries.*

Figure 1: Spending as a proportion of GDP, 2008–13



Aid came too little and too late, leading to increased debt burdens

Aid came too little and too late to fill the fiscal hole created by the global economic crisis, or to accelerate MDG progress, especially on infrastructure and growth. As a result, 40 per cent of extra spending by developing countries has been funded by borrowing, including expensive domestic and external commercial bonds, as well as risky and expensive off-budget private financing initiatives for infrastructure. There is no new debt crisis, but higher debt burdens and risks are increasingly being cited as a reason to cut spending.

- *Countries need to maintain strong debt policies, and donors need to maximise concessional flows using innovative financing mechanisms, in order to keep debts sustainable and to preserve fiscal space for increased spending on MDGs.*

The picture is less positive for countries with IMF programmes¹

Countries with International Monetary Fund (IMF) programmes have increased revenue levels more slowly, are cutting deficits faster, and have seen less positive trends in MDG spending. Compared with non-programme countries, their spending on agriculture and health is much lower as a percentage of GDP, and education and social protection spending is rising more slowly. Other MDG sector spending is stagnating when measured as a percentage of GDP or total spending.

- *The IMF should be much more flexible in adapting programme deficit targets to encourage higher MDG spending, especially where this can be achieved without compromising debt sustainability. It should also be much more proactive in encouraging progressive measures to increase revenues, especially from multinationals and extractive industries; and increased on-budget aid grants and loans from the international community to increase fiscal space.²*

Overall MDG spending trends are mixed

Many developing countries are spending more in real terms than ever before on the MDGs. This is a laudable achievement and a sign of their governments' and citizens' strong commitment to achieving the MDGs. This level of spending partly explains the rapid progress made towards achieving the MDGs in many countries. However, other countries are seeing stagnant or reduced spending and making much less progress.

In addition, all targets and cost estimates for reaching the MDGs have been set using spending as a proportion of GDP or total government spending. Yet MDG spending has risen by only 0.5 per cent of GDP, and has fallen by 1 per cent of total spending, since 2008. The IMF's own monitoring of 'anti-poverty spending floors' also shows a fall as a percentage of GDP.

- *The IMF, UN Development Group agencies and the World Bank should enhance efforts in all countries to improve monitoring of total MDG spending using a consistent methodology – if necessary drawing on GSW data. They should incorporate analysis of these data in all country programme documents, and in national and global progress reports on the MDGs. Countries which are falling short of the MDGs should set their own floors for MDG spending in relation to GDP and total spending. These should be based on national cost estimates and used to mobilise more revenue and aid, allowing them to accelerate MDG progress.*

Spending falls way short of promises and needs, notably on agriculture

For all the MDGs, the vast majority of developing countries are spending much less than they promised, or than international organisations have estimated is needed (see Table 1.1). Most sectors show increases in real spending, but these are woefully insufficient. No spending target is on track in all countries: only one-third of countries are meeting promised or needed levels for health, one-quarter for education, and one-fifth for agriculture and WASH. Trends for each MDG sector show that spending is either stagnant or falling back from promised or needed levels. The worst trend is for agriculture, which is especially worrying given the lack of progress on reducing global hunger. As a result, there are still massive spending gaps for each of the MDGs.

- *Each developing country should include in its budget a statement of whether and when it expects to meet its MDG spending commitments and targets; the African Union (AU) and various United Nations (UN) agencies should publish up-to-date data on whether countries are meeting commitments and needs, as well as detailed country analysis of success stories and problems. All sectors need increased spending, but particular attention should be given to agriculture and water, sanitation and hygiene (WASH).*

Even less positive for the potential 'post-2015' goals

As Table 1.1 also shows, there is no progress on spending in areas which will be crucial to any post-2015 'sustainable development' goals. These include social protection to reduce inequality, agriculture to reduce hunger and increase the incomes of smallholder farmers, and programmes to combat environmental degradation and climate change. In addition, there is no sign of increased spending on the broader empowerment of women (beyond equal access to education) to reduce gender inequality. Under the MDG framework, the international community has not even made spending commitments for gender or the environment. Hardly any countries are tracking the degree to which spending targets women; and no country is meeting commitments or estimated needs for social protection spending.

- *The post-2015 successors to the MDGs should include targets for spending on social protection, gender and environment (including climate change). Gender budgeting should become the norm in developing countries; and rapid scaling up of social protection and climate change spending is essential.*

Table 1: Progress on MDG spending by sector, 2008–13

	Targets	Trends
	= all countries meeting target	= upward trend
	= some countries meeting target	= no clear trend, or stagnation
	= no countries meeting target	= downward trend
Sector		
Agriculture	19% meet Maputo target/World Bank estimate	Average stagnant, falling in most countries
Education	24% meet Education For All goal	Averages falling since 2009, slight increase in most countries
Environment	No target! Very low levels	Stagnant as percentage of GDP
Gender	No target! Very low levels	Stagnant or falling as % of GDP
Health	3% meet Abuja target; 37% WHO estimate	Average falling since 2009, most countries cutting % of spending
Social protection	0% meet Windhoek target or ILO estimate	Average stagnant since 2009, no clear trend in countries
Water, sanitation and hygiene (WASH)	23% meet eThekweni target + UNDP estimate	Average stagnant since 2008, no clear trend in countries

Recent spending increases could be threatened by aid cuts

Around one-third of current MDG spending is funded by aid, especially in the WASH, agriculture, health and education sectors. This is despite the fact that much aid (especially for health and education) is provided ‘off-budget’, undermining accountability between developing country governments and their citizens. However, aid flows from Organisation for Economic Co-operation and Development (OECD) countries are now declining in real terms,³ though this is somewhat offset by a rise in South–South cooperation. In addition, concessional flows are increasingly moving away from MDG sectors to infrastructure. If budget revenue levels do not rise even more rapidly to offset this trend, MDG progress could stagnate or even be reversed, especially in sectors such as agriculture and WASH, which are highly dependent on aid. Given budget constraints on traditional aid in some countries, the only obvious way to generate more concessional financing is through ‘innovative financing’ such as taxes on financial transactions, carbon taxes or issuance of Special Drawing Rights, and their use to fund development and the fight against climate change.

- *Donors should continue to increase aid flows in real terms through to 2015, drawing as much as possible on new innovative financing sources such as financial transaction taxes and carbon taxes, which could easily mobilise sufficient funding to reach all MDGs in every country. They should improve the cost-effectiveness and predictability of aid and be more accountable to recipient-country citizens, by bringing it on-budget and making greater use of general and sector budget support. They should also target flows to countries which are furthest from achieving the MDGs and more vulnerable to shocks. Developing countries need to design strong aid management policies, reach strong ‘mutual accountability’ agreements with donors and national stakeholders holding all parties accountable for reaching the MDGs; and continue to improve public financial management, procurement and anti-corruption policies to encourage donors to make aid on-budget and predictable.*

Low implementation rates are undermining progress

In some countries and sectors, actual MDG spending falls far short of planned spending. This is particularly the case for gender and WASH, reflecting delays in donor funding, but also absorptive capacity problems in sector ministries and decentralised government agencies. Implementation has improved in WASH and agriculture in recent years. There is, therefore, a major need to increase implementation rates so that countries can make more rapid progress towards achieving the MDGs.

- *Donors and developing country governments need to analyse the factors that are delaying execution in each country and sector. They should simplify or accelerate procedures for appraisal, procurement and disbursement of funds; and provide greater support to line ministries and decentralised agencies, in order to accelerate execution and deliver on the MDG targets for their citizens.*

Low recurrent spending could undermine long-term sustainability

Types of spending show two worrying patterns. Some sectors (WASH and agriculture) are dominated by project investments, and have a need to increase recurrent spending dramatically to maintain and support existing investments. Others (education, health, and social protection) are dominated by recurrent spending on wages and supplies, and would be highly vulnerable to any reduction in donor budget support which funds recurrent spending. All sectors require a balance of investment and recurrent spending, best defined through 'programme budgets' which show how they will be combined to reach the MDGs.

- *Developing countries need to present 'programme budgets' to donors that combine investment and recurrent spending, showing why it is essential to fund both types; and to maximise domestic revenue to maintain recurrent spending. Donors should maximise general and sector budget support to fund recurrent spending, and fund entire sector programmes rather than small projects, especially in the agriculture and WASH sectors.*

Medium-term spending forecasts show declines

The countries which publish medium-term spending forecasts show that MDG spending as a proportion of GDP is declining for all sectors. This partly continues the recent stagnation or falls in the share of GDP and total spending going to these sectors. However, it also reflects increasing cuts in OECD aid, and poor reporting by donors of intended aid disbursements.

- *Developing countries need to prepare medium-term forecasts compatible with spending needs to attain the MDGs (including agriculture, environment and basic infrastructure, as well as social sectors). Donors need to report planned disbursements to 2015, as promised in the Busan Global Partnership Declaration; to increase development co-operation in real terms; and ensure that flows are targeted to the MDGs and the post-2015 goals.*

The trends described in this report could end an age of rapid progress towards the MDGs. Unless they are reversed and MDG spending is rapidly increased, most poor countries are unlikely to reach the MDGs by 2015. Nor will they be able to spend more on the new post-2015 goals, including reducing inequality and combating climate change.

As the UN's global survey, *The World We Want*,⁴ is clearly demonstrating, citizens across the world are passionately committed to achieving these goals before and after 2015. This report is therefore only the first step in a longer-term effort to mobilise citizens across the world to monitor spending on global and national development goals, and to lobby their governments to increase spending. This is the only way to ensure that developing country governments and the international community deliver on their promises to finance the 'World We Want'.

1 INTRODUCTION

It is more than 12 years since the international community agreed on the Millennium Development Goals (MDGs) as the key framework of objectives to measure progress on global development. Government spending is a key means for countries to achieve the MDG targets, especially in key sectors such as agriculture and food, education, environment, health, social protection, water/sanitation/hygiene (WASH), and women's rights. Yet astonishingly, there have until now been no comprehensive data available that would allow analysis of trends in MDG spending, of whether it is reaching the levels necessary to achieve the MDGs.

This report is the first comprehensive analysis of MDG spending from 2008 until 2015

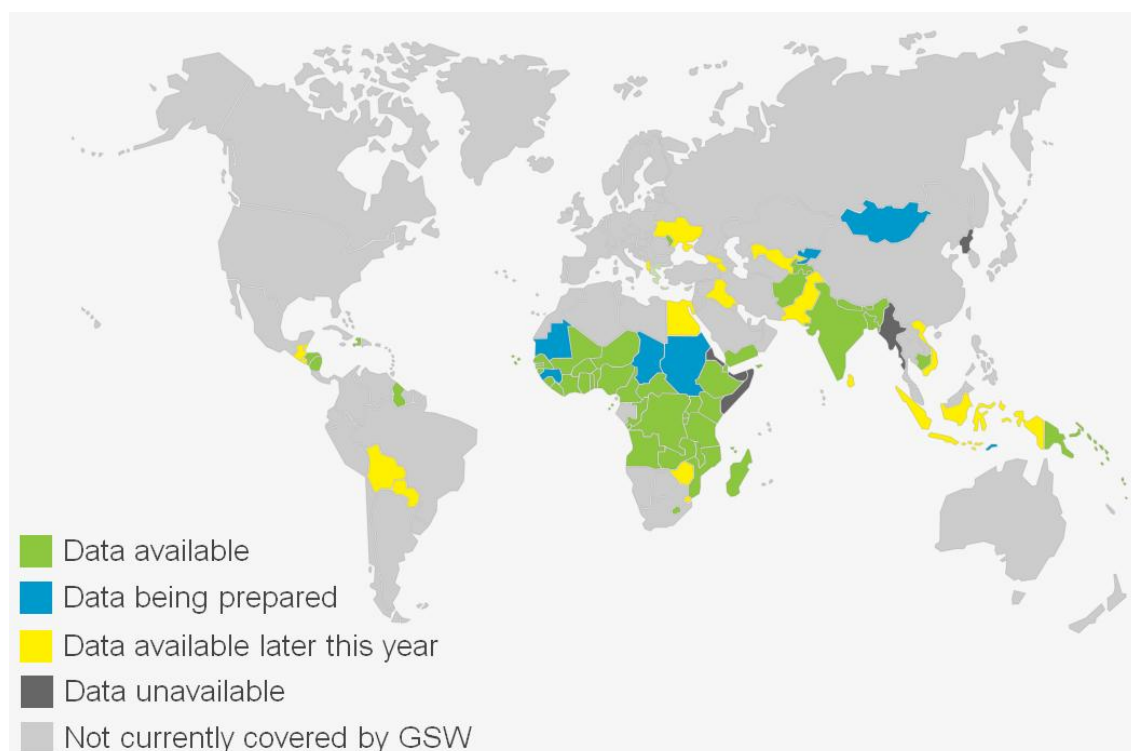
In 2009, Development Finance International (DFI) began to compile data on government spending on the MDGs. The resulting reports for Oxfam (Kyrili and Martin 2010a) and UNESCO (Martin and Kyrili 2009) showed that in 2009, the global crisis dealt a severe blow to poor countries' growth, slashing their budget revenue by 13 per cent (\$65bn). Despite this, they managed to increase MDG spending slightly, partly because the international community encouraged them to stimulate their economies. However, because aid grants and loans to support this spending came too little and too late, it was funded largely by expensive domestic borrowing, pushing up debt.

Since 2009, further studies (Martin and Watts 2012a; Ortiz and Cummins 2012, 2013) have indicated that lower global growth is continuing to reduce poor countries' growth: their gross domestic product (GDP) is 5 per cent less than it would have been had the crisis not occurred. At the same time, the international community has changed direction, encouraging countries to prioritise getting budget deficits back to 'sustainable' levels, and therefore to cut spending or increase taxes. As a result, MDG spending as a proportion of GDP has stagnated or fallen since 2010 (Martin and Watts 2012a and b; Save the Children 2012; WaterAid 2011, 2013).

Oxfam and DFI believe that a much more comprehensive and regular analysis of progress on MDG spending is needed to help governments, parliaments and citizens track their relative progress on MDG spending and advocate greater transparency and higher spending levels. This Government Spending Watch report is the first comprehensive analysis of MDG spending trends from 2008 until 2013, and spending forecasts up to 2015.

One of the key strengths of this research is that it is based on direct and detailed analysis of budget-related documents produced by the 52 countries shown in Map 1.⁵

Figure 1.1: Countries covered by the Government Spending Watch database



However, compiling the data was by no means simple: many countries spread them across multiple websites, or documents on other subjects; others put only part of the data on government websites, with the rest only available in unwieldy printed budget books or detailed tables sent to parliament with the budget. In addition (as discussed in Section 4), the way data are presented in national budgets often makes it extremely difficult to identify MDG-oriented spending. DFI has, therefore, compiled this dataset through a lengthy exercise involving investigative data gathering, using a complex and consistent methodology and meticulous research skills, as well as a network of officials in developing country governments who provided assistance with interpreting and categorising budgetary data. In many cases, where data were unclear, they were 'rejected', rather than risk the inclusion of over- or under-estimates.

The result of this work is a unique analysis of whether countries are meeting the spending commitments required to achieve the MDGs. This research is part of a joint initiative to enhance advocacy and campaigning to encourage governments to increase spending on the MDGs and their successor post-2015 goals. In April 2013, Oxfam and Development Finance International launched a new website: www.governmentspendingwatch.org, which for the first time provides easily accessible data on government spending related to the MDGs in more than 50 poor countries (see Box 1.1). Oxfam and DFI will continue to work in partnership and with other organisations over the next few years to make this database fully comprehensive. The Government Spending Watch report will also be updated annually, as a persuasive advocacy tool for citizens who want to lobby governments to increase MDG spending.

*It is part of a DFI–
Oxfam initiative to
scale up campaigns
across the world to
increase MDG
spending*

The rest of this report is organised as follows. Section 2 looks at the overall budget picture in poor countries. Section 3 analyses trends in total MDG spending, looks at each MDG sector in detail to assess whether countries are meeting spending targets or needs, explores four factors which influence spending levels, and presents overall conclusions based on the GSW findings. Finally, Section 4 analyses the availability and quality of budget data on MDG spending.

Box 1.1: The Government Spending Watch website



The Government Spending Watch (GSW) website provides comprehensive, up-to-date information on government spending on the Millennium Development Goals (MDGs). It is the first global up-to-date database: several other organisations publish data on MDG spending, but with a 2–3 year delay, and only for a few sectors or countries.

The website contains data for 52 low- and lower middle-income countries (see Map 2). It covers seven MDG-related sectors: agriculture, education, environment, gender, health, social protection, and water, sanitation and hygiene (WASH). The data span planned and actual expenditure for 2008 to 2012, and medium-term spending plans for 2013 to 2015.

Data are disaggregated by type of spending (recurrent vs investment) and source of funding (government vs donor). They are presented in national currency, \$ equivalents, constant and current prices, as a percentage of GDP and total spending, and per capita. They can be viewed as graphs or tables, or downloaded in Excel. As discussed in Section 4, some data are not available, and one of GSW's aims is to encourage technical support, advocacy and campaigning so that data are more readily available. In addition, due to lack of resources, data on the GSW website are currently limited to 2011–12: all data will be made publicly available as soon as possible.

The website also contains a series of analytical research reports, most of which focus on specific sectors. To make the right decisions, policy makers in governments and international institutions need clear analysis of spending trends, comparisons with other countries, and assessments of whether they are keeping their promises and spending enough on the MDGs. These research reports therefore explain spending trends, drawing on case studies from individual countries, and explore how they are affecting progress towards the MDGs. The reports have been produced by a coalition that includes Oxfam, Save the Children, UNESCO, UNICEF and WaterAid.

The GSW website also has a brief guide to campaigning and advocacy which we hope will help civil society and parliaments hold their governments and donor agencies to account for spending on the MDGs and other goals. This includes a summary of targets set and promises made by governments across the world. There are also inspiring stories and videos about key global, regional and national campaigns which have increased spending and made a difference to the lives of citizens across the world, as well as links to global, regional and national coalitions working on increasing spending and transparency.

The GSW site is growing rapidly, with plans to include data for a further 20 countries later in 2013, as well as to update data to take account of 2013 budgets, as more information becomes available and is processed by the project team. The ultimate aim is to cover all low- and middle-income countries, to add more sectors, and eventually to incorporate the post-2015 development goals.

As of April 2013, GSW is jointly sponsored by Development Finance International (www.development-finance.org) and Oxfam International (www.oxfam.org). They aim to gradually build a wider coalition of sponsors for this vital initiative. All comments and feedback, and expressions of interest in joining this coalition, are welcomed. Please use the website's feedback page to contact us:

<http://www.governmentspendingwatch.org/feedback-and-suggestions>

2 THE ECONOMIC CONTEXT

REVENUE RECOVERY IS REDUCING DEFICITS AND SUSTAINING SPENDING

Poor countries⁶ were badly hit by the global economic crisis that began in 2008, with per capita real growth falling to just 1 per cent in 2009. Growth recovered steadily over the next three years (2010–12), rising to between 2.5 per cent and 3 per cent. Alongside greater efforts to raise revenue, this allowed budget revenue to recover rapidly, almost reaching the levels the IMF had projected for 2012 before the crisis.

Nevertheless, as Figure 2.1 shows, the cumulative ‘fiscal hole’ or revenue shortfall between 2009 and 2012 (compared with forecasts made by the IMF in 2008 before the crisis hit) will reach almost \$140bn by 2012, equivalent to 5.5 per cent of 2008 GDP. As shown in Figure 2.2, at the end of 2012, half of poor countries will have lower revenue than forecast in 2008. This has sharply reduced their ability to spend money on achieving the Millennium Development Goals.

Most poor countries lost a lot of revenue due to the global economic crisis, but have grown fast since 2010, and increased revenue efforts

Figure 2.1: The fiscal hole facing poor countries

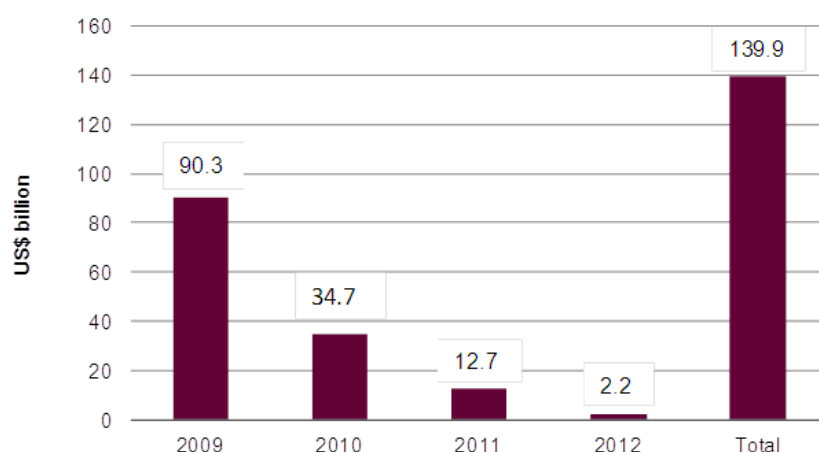
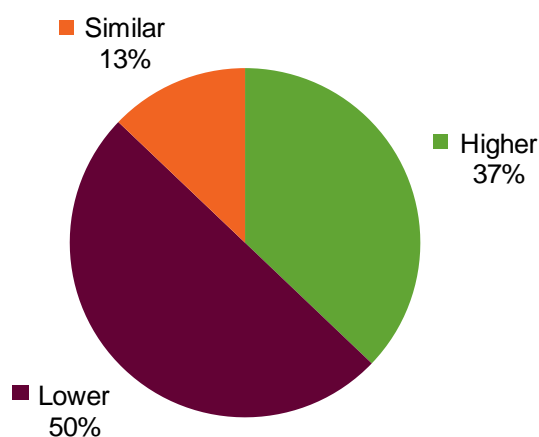


Figure 2.2: Country revenue levels (2012 compared with 2008)



Throughout this report, the performance of countries which have agreed programmes with the International Monetary Fund (IMF) is compared with those which have not. This is because the IMF is potentially well placed to monitor MDG spending trends and assess whether MDG spending levels (overall, and as a percentage of GDP) are sufficient to increase progress towards the MDGs. Perhaps surprisingly, as shown in Figure 2.3, countries with IMF programmes in place for almost all of the period since 2008 still have average revenue levels way below those projected (in 2008 before the crisis) for 2012, and account for virtually all (\$129bn) of the cumulative fiscal hole. By contrast, the countries which have not had IMF programmes rapidly increased their revenue on average, and have lost only \$11bn. Without more detailed investigation it is not possible to attribute causality. For instance, rather than IMF programmes explaining a slower recovery in revenue, it is possible that some countries' greater ability to increase revenue allowed them to avoid the IMF, while others who were less able to do so were forced to turn to the IMF for support.⁷

Figure 2.3: Revenue shortfalls or excesses

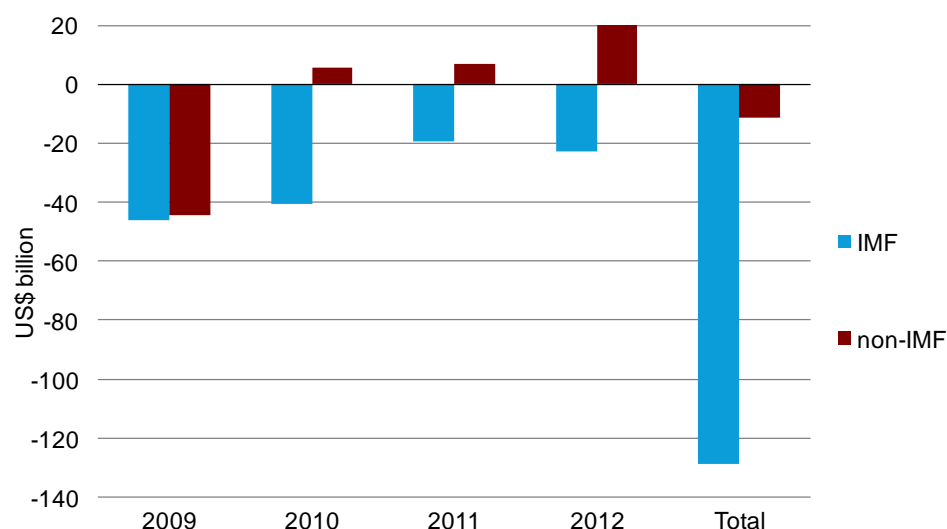
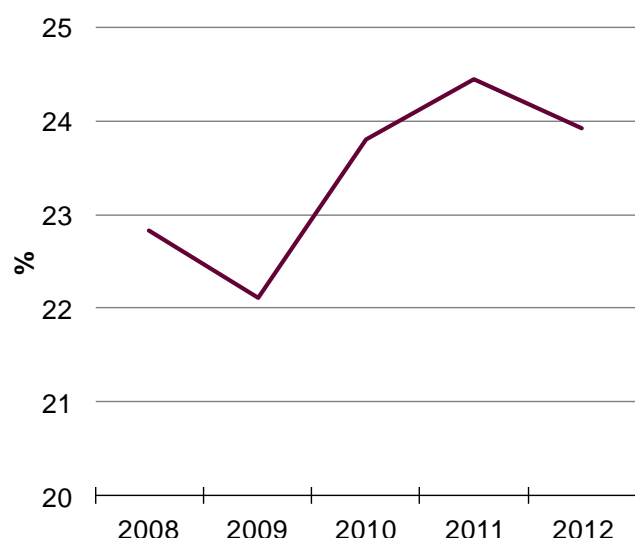


Figure 2.4 shows how hard countries have been working to increase revenue. After falling by almost 1 per cent of GDP in 2009, revenue rose by 2.5 per cent of GDP in 2010–11, before falling slightly in 2012. However, a country's ability to fill the fiscal hole has been strongly related to its revenue sources. Two-thirds of countries that successfully closed the revenue gap by 2012 were oil or mineral exporters – especially those making new discoveries or renegotiating contracts with investors. In many other countries, rises in revenue/GDP reflected specific tax rises to reduce budget deficits, or ongoing tax reform programmes that moved away from direct and external trade taxes to consumption taxes. These tend to hit the poorest households hardest, as they consume a higher proportion of their income. In this way, crisis-induced tax policies have, in many cases, made tax systems more regressive (see also Itriago 2011).⁸

Figure 2.4: Revenue/GDP ratios (%)



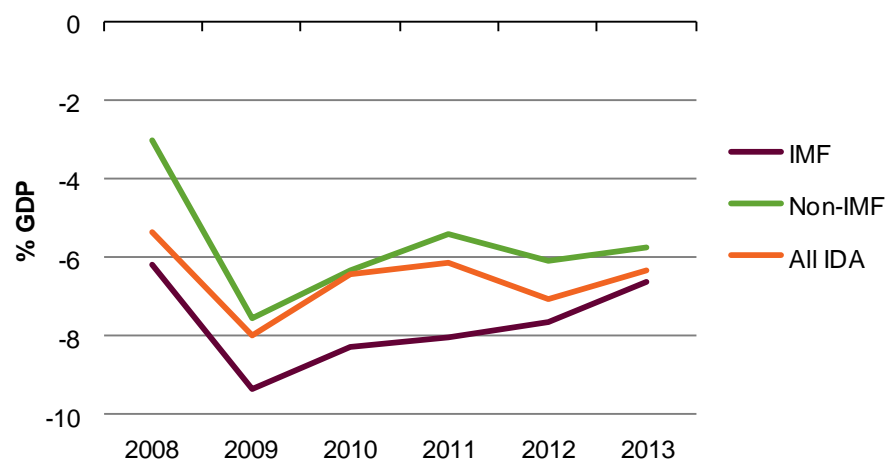
Some countries have used this recovery in revenue levels to cut their budget deficits. In 2009, deficits rose across all poor countries, whether or not they had an IMF programme. This owed a lot to the prevailing mood (notably among G20 countries) that stimulus was the best way out of the crisis. However, as Figure 2.5 shows, countries without IMF programmes increased deficits more sharply. Since 2010, both groups of countries have reduced their deficits, but those with IMF programmes have reduced them more rapidly. Overall, between 2008 and 2012, countries without IMF programmes increased their deficits – and applied stimulus to their economies – by a cumulative 15.8 per cent of GDP compared with 2008. This is more than 1.5 times higher than the stimulus applied by IMF programme countries; at the end of 2012, non-IMF programme countries were still running deficits almost 3 per cent higher than in 2008.

In 2009, countries increased their budget deficits to combat the recession: since then they have cut them, but deficits will be essential to reach the MDGs

However, during the same period, countries with IMF programmes have had higher budget deficits than those without. This was initially one of the main reasons why they needed IMF assistance, and it was possible to keep budget deficits higher under IMF programmes because they had greater access to grant and loan financing than countries without IMF agreements. However, between 2008 and 2013, the difference between the average deficits of the two groups will have fallen by three-quarters, from 3.2 per cent to 0.9 per cent of GDP, because countries with IMF programmes have been reducing their deficits more rapidly.

Are continued budget deficits desirable in poor countries? Received wisdom is that governments should act counter-cyclically, spending more to achieve stimulus in bad times, and cutting deficits as GDP recovers. However, poor countries face massive MDG spending needs (as discussed in the next section), and this spending has the potential to set them on a much stronger long-term growth path that will enable them to reduce deficits much more sustainably over time. In addition, there is considerable potential to finance these needs by increasing revenue as well as aid commitments and disbursements. These mechanisms must be used to the fullest extent possible, in order to avoid unnecessary trade-offs between deficit reduction and spending on the MDGs – trade-offs which are clearly emerging in IMF programme countries.

Figure 2.5: Budget deficits (excluding grants) as a percentage of GDP



So what explains the sharp growth in deficits in 2009, and the reductions thereafter? Figures 2.6 and 2.7 show some striking contrasts between IMF and non-IMF programme countries. Because revenues recovered more rapidly in non-IMF programme countries, expenditure was also able to increase more sharply and stay higher.

Figure 2.6: Reasons for deficit changes (IMF programme countries, percentage of GDP)

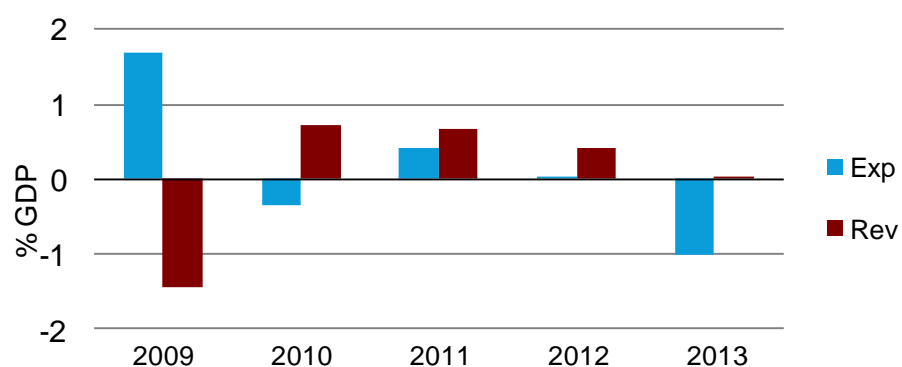
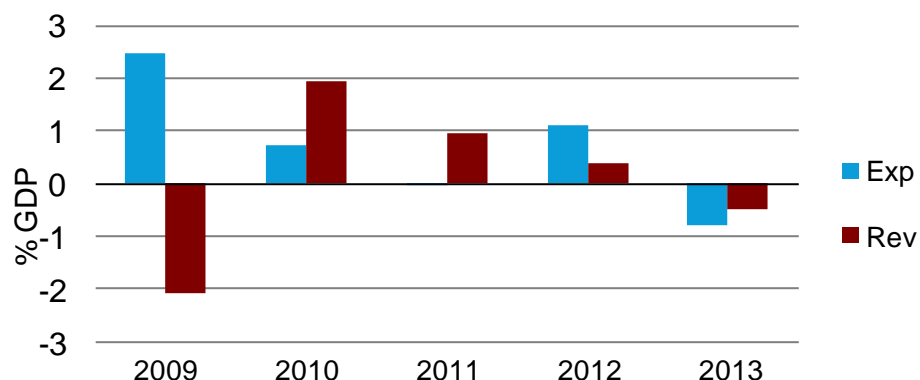


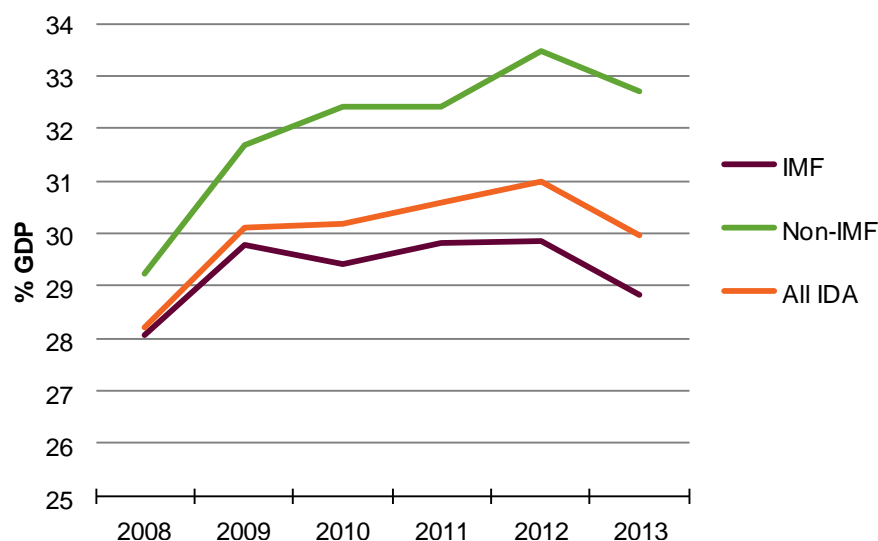
Figure 2.7: Reasons for deficit changes (non-IMF countries, percentage of GDP)



This picture is confirmed by Figure 2.8, which shows expenditure trends. Overall across poor countries, expenditure has risen sharply since 2008 – by 2 per cent of GDP – reflecting initial stimulus spending, and the fact that subsequent increases in revenues have allowed deficits to fall while maintaining expenditure levels. This shows that poor countries have been trying hard to fulfil their massive investment needs for growth and development. However, while spending in non-IMF programme countries in 2013 will be 3.5 per cent higher than in 2008 (as a proportion of GDP), spending in IMF programme countries will only be 0.8 per cent higher than in 2008, and has stagnated since 2009.

Spending rose sharply in 2009, but has stagnated since then for countries with IMF programmes, and will fall in 2013

Figure 2.8: Total spending by poor countries (as a percentage of GDP), 2008–13



INCREASED SPENDING HAS BEEN PARTLY FUNDED BY LOANS

In addition to raising more revenue, poor country governments have three options to finance higher spending: aid grants; external borrowing; or domestic borrowing from their own banks and citizens. Grants have one key advantage over the other options: they do not increase a country's debt burden; while domestic financing has the advantage of not increasing dependence on external funds.

Grants came too little, too late, so countries resorted to expensive loans

In 2009 and 2010, the international community provided around \$50bn of financing to multilateral institutions to help low-income countries mitigate the impact of the crisis, through grants or loans. From 2008 to 2011, annual aid increased by \$14bn, of which \$12bn went to the countries covered by this study. Even though this increase fell \$19bn short of pledges made by donors in 2005–06,⁹ it suggests that there should have been much more scope for poor countries to increase their spending using aid. The analysis in this section is therefore important because it shows whether this extra aid was in fact delivered to low-income countries to support national budgets.

Figures 2.9 and 2.10 show the scale and proportions of financing that were provided to the poorest countries in response to the crisis. Loans¹⁰ quadrupled as a percentage of GDP in 2009, while grants fell slightly. Loans increased from 15 per cent of total financing in 2008, to more than 40 per cent during 2009–12, and as a percentage of GDP increased by almost as much as revenue during the same period.

Figure 2.9: Financing sources (as percentage of the total)

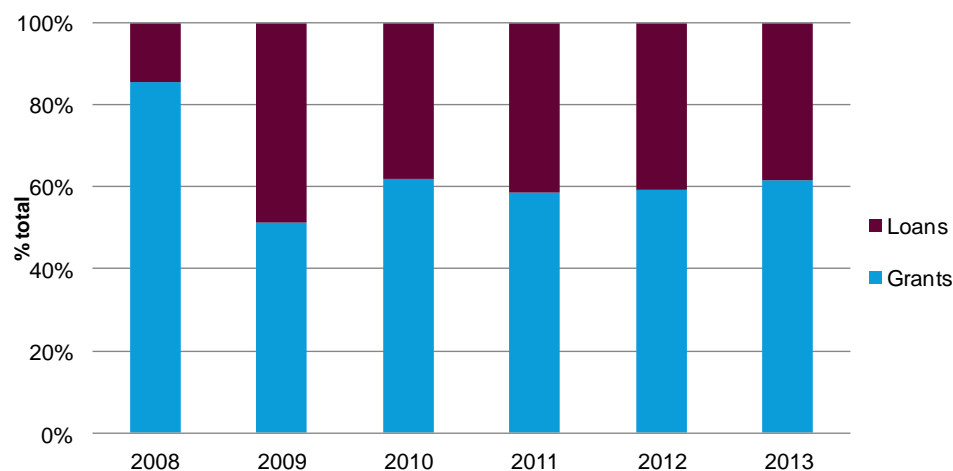
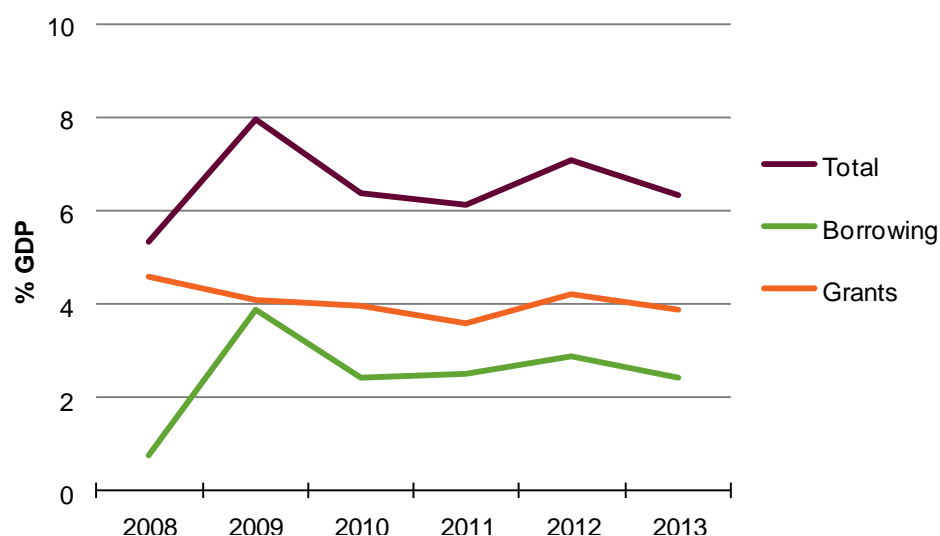


Figure 2.10: Scale of financing (as percentage of GDP)



As Figures 2.11 and 2.12 show, there were no major differences in financing patterns between IMF and non-IMF programme countries: both saw initial sharp increases in loans and smaller rises in grants, followed by fall. However, between 2009 and 2013, IMF programme countries will have received 2.4 per cent of GDP more financing a year than non-IMF programme countries. As 38 per cent of this took the form of debt, it has increased these countries' debt by 16 per cent of GDP since 2008, whereas non-IMF programme countries' cumulative debt rose by only 11 per cent.

Figure 2.11: Financing for IMF programme countries (percentage of GDP), 2008–13

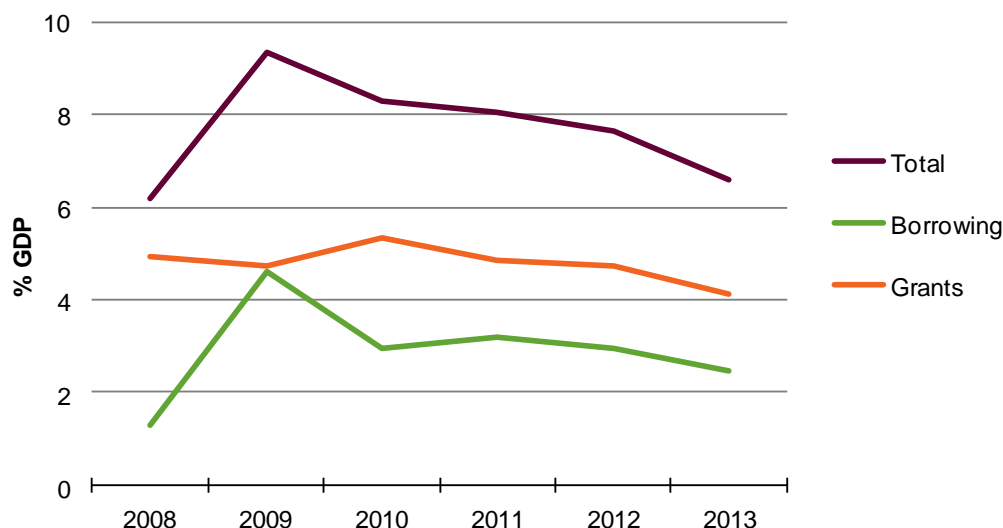


Figure 2.12: Financing for non-IMF programme countries (percentage of GDP), 2008–13



Grants have been woefully insufficient compared with the enormous fiscal hole created by the crisis, and much of the recent increase in global grants has been through off-budget channels (via donors, direct contractors and non-government organisations). As a result, 80 per cent of countries were forced to take on additional borrowing in 2009; though this fell to only 35 per cent in 2010, it rose again in 2011 to 50 per cent, and to 61 per cent in 2012.¹¹ The rapid and continuing rise in loans reflects the fact that this is the main support mechanism offered by those who responded fastest to the crisis (multilateral development banks, and non-OECD lenders such as China and India).

Fortunately, most of the external loans had low interest rates and long repayment periods. Therefore, even though around 20 countries borrowed more than 20 per cent of GDP, this has not increased their debt service payments dramatically. Many poor countries are continuing to implement cautious and responsible borrowing policies, having learned the lessons of previous debt crises. They are determined not to finance spending in ways which compromise long-term fiscal sustainability.

Expensive domestic and external borrowing and public-private financing partnerships are increasing risks of unsustainable debt levels

There are, however, three worrying trends in financing spending.

- Domestic borrowing has been rising much faster than external loans (see also Gooptu 2012), and is usually far more expensive (with higher interest rates and shorter repayment periods). Poor countries' finance ministers and technical-level debt managers have therefore welcomed the fact that under the recently revised Debt Sustainability Framework for Low-Income Countries (DSF), the IMF will pay much closer attention to domestic debt burdens.
- The IMF has introduced more flexibility to allow more expensive external borrowing for high-return or self-financing projects (see IMF 2013b). While this may still be somewhat cheaper than domestic borrowing, and is justifiable if projects will produce considerable benefits for inclusive growth, a close eye needs to be kept on the exceptions to ensure that they do not encourage unsustainable debt.
- Perhaps most worryingly, poor countries are increasingly resorting to public-private financing partnerships to fund major infrastructure projects. As these can cost between 25 and 30 per cent a year in lost revenues to repay private financing costs and profit margins, they are much more expensive than borrowing, and could easily divert public sector revenue and crowd out spending on the MDGs unless tightly controlled. Though they are in principle 'off-budget' and do not add to debt burdens, based on experiences in OECD and middle-income countries, they could also turn into major public debt burdens in cases where private partners are unable to meet their financial obligations (see Jubilee Debt Campaign 2012; Martin 2012a/b).

This situation does not mean that poor countries are rapidly approaching a new debt crisis. Yet there is growing evidence from IMF programme documents of higher debt burdens for individual countries, concerns about the potential public liabilities which might be generated from public-private financing partnerships, and worries about future falls in OECD aid grants. These are being used to justify 'tighter fiscal policy' (especially spending cuts), in order to keep debt down in countries with moderate to high risks of unsustainable debt. The international community should respond to concerns about poor country debt, not by pressing the countries to cut spending, but by providing more cheap financing. The far preferable alternative would be to mobilise more concessional financing using innovative mechanisms such as taxes on financial transactions and carbon emissions, and issuance of IMF Special Drawing Rights (SDRs). This would ensure that there is adequate cheap financing to allow countries to reach the Millennium Development Goals and their post-2015 successors, and to fight climate change.

Rather than cutting spending due to worries about rising debt, the international community must provide more cheap finance using innovative mechanisms

3 MDG SPENDING TRENDS

One key factor ensuring that progress towards the MDGs continues will be the degree to which governments increase expenditures on MDG-related sectors (agriculture, education, environment, gender, health, social protection, and water and sanitation).¹² This section examines total MDG-related spending across these sectors.¹³ It also considers the impact of IMF initiatives to improve tracking of poverty-related spending, and to set 'indicative floor' targets for such spending in its country programmes. It then goes on to analyse each of the MDG-related sectors in detail to assess whether countries are meeting the spending targets or needs established at regional or global level, and to examine trends and levels of spending. Finally, it explores four factors that could explain the trends in spending, and draws some overall conclusions about whether MDG spending targets are being met and trends are positive.

MIXED TRENDS IN OVERALL MDG SPENDING

For the first time, the Government Spending Watch (GSW) database makes it possible to assess overall MDG-related spending trends in 52 countries. MDG spending has risen in real terms every year since 2008. This represents a remarkable and laudable effort by many governments who, despite losing revenue as a result of the global economic crisis, have considerably accelerated progress towards achieving the MDGs, as the UN progress report (United Nations 2012) has indicated. However, the rate of real growth has slowed sharply, from 7 per cent in 2009, to 3 per cent in 2010–11, and only 1 per cent in 2012.

MDG spending rose by 15% in real terms since 2008, but is falling against the benchmarks on which targets are set: % of GDP and % of total spending

In addition, when looked at from a different perspective, the picture is less rosy. Governments have set their own targets for MDG spending, and international organisations have estimated the spending levels needed to reach the MDGs. These are all measured as a percentage of GDP or total government spending. Figure 3.1 shows that planned MDG spending has risen as a proportion of GDP since the crisis began, but the main increase took place in 2009, and since then it has fallen in 2010 and 2011, and stagnated in 2012.

Overall, at the end of 2012, countries will be spending only 0.5 per cent of GDP more on the MDGs than they did in 2008.

Figure 3.2 also shows that MDG spending has not kept pace with overall spending since the crisis. MDG spending was very much in line with trends in overall spending in 2009, but while total spending rose by a further 1 per cent of GDP from 2009 to 2012, MDG spending has fallen by almost 1 per cent of total spending over the same period.

Figure 3.1: Total MDG spending (as a percentage of GDP)

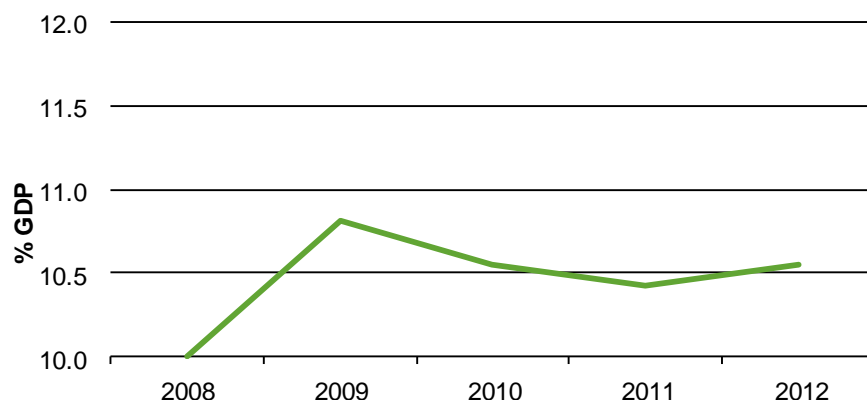
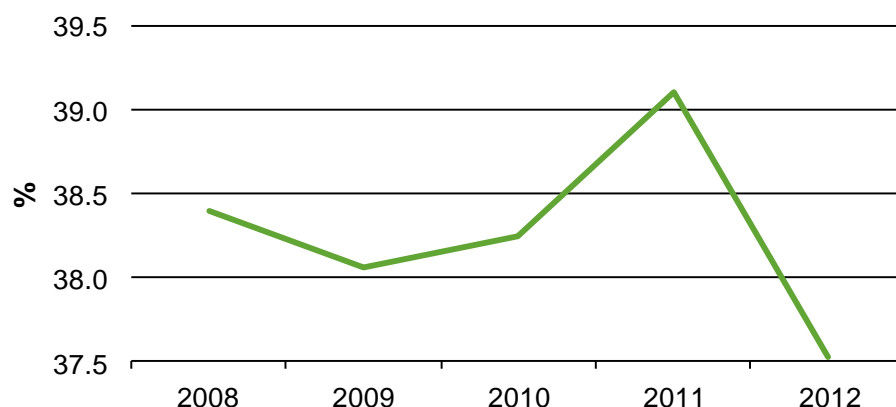


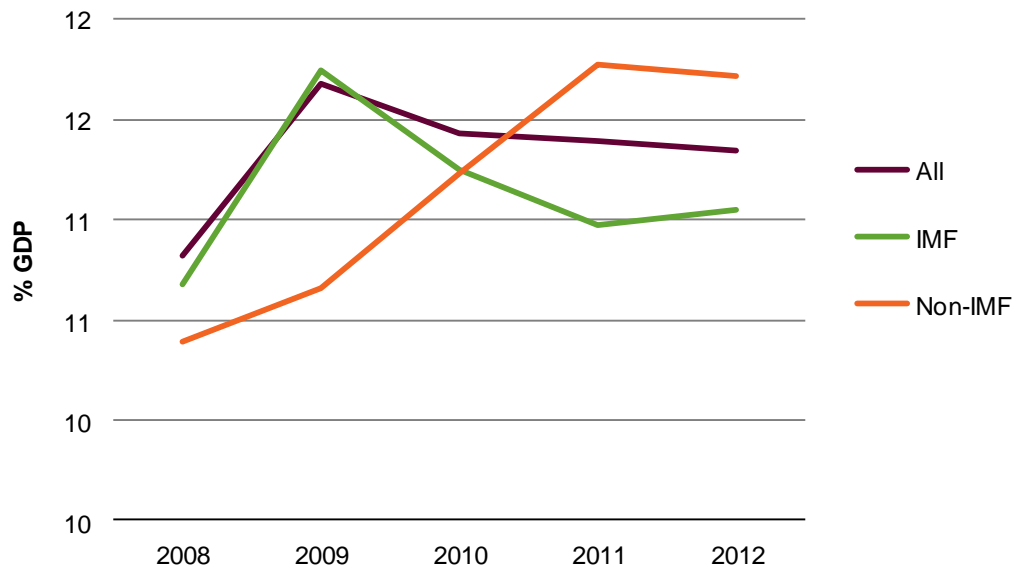
Figure 3.2: MDG spending (as a percentage of total spending)



Trends have been very different between countries with and without an IMF programme. Both groups increased MDG spending in 2009, but whereas countries with IMF programmes reduced MDG spending as a percentage of GDP every year from 2010 to 2012, those without programmes continued to increase spending during 2010 and 2011. Therefore, by the end of 2012, IMF programme countries were spending 0.4 per cent of GDP more than in 2008, but the increase for non-IMF countries has been much higher, at 1.3 per cent, and in 2012 their total planned MDG spending was 0.7 per cent higher than IMF programme countries.¹⁴

MDG spending has risen faster and is higher in countries without IMF programmes

Figure 3.3: MDG spending, 2008–12



How does this compare with the IMF's own analysis of developing country spending on poverty and the MDGs? The IMF has conducted longer-term analysis which shows that social sector spending has risen slightly over the past 20 years – partly reflecting the advent of Heavily Indebted Poor Countries (HIPC) debt relief, which was specifically channelled to social sector spending (Clements et al. 2011). The IMF has also recently improved its monitoring of current levels of social spending through the introduction of 'anti-poverty spending floor' conditionalities (see Martin and Watts 2012a, 2012b). Of 27 countries with IMF programmes, 23 have floors.

However, as almost all of these floors began in 2010 or later, they do not provide a basis for comparing MDG spending trends since 2008. There is also a wide variation in the scope of expenditure covered, from less than 1 per cent of GDP (for Kenya) to more than 15 per cent (Mozambique). This reflects the fact that the targets are not covering a comparable set of 'anti-poverty expenditure' for all countries: in many countries, important components of anti-poverty spending are not included, making the IMF reluctant to measure aggregate trends.¹⁵

The IMF measure of planned anti-poverty floor spending shows an even less positive trend than the GSW data – with spending falling as a percentage of GDP. Moreover, many countries have not lived up to these plans: in 2010, 6 of 17 countries did not reach the floor,¹⁶ and in 2011, 4 out of 10 did not. This is partly because the floors are only 'indicative targets', so programme reviews can still be completed if they are not met, and there is no detailed analysis in programme documents, or discussion with the authorities, of why the target is missed or any corrective measures needed (see Martin and Watts 2012a).

The IMF's anti-poverty spending floors are falling as a % of GDP and are not always being met

SPENDING TRENDS FOR EACH MDG SECTOR



Agriculture and food

Are countries meeting the spending targets for agriculture and food?

Tracking spending on agriculture and food allows us to see how much is being spent to achieve MDG target 1.C, which aims to halve the number of people who suffer from hunger. It also allows us to see the level of government spending on agricultural development, which (because most poor people in low-income countries rely on agriculture for livelihoods) can lift many poor people out of poverty.

Government spending is only one of the drivers of agricultural growth: development experience shows that this has been mostly about adoption of improved technologies by smallholder farmers. However, analysts agree that, especially in low-income countries, where poor farmers cannot afford to pay for market-based services, government can provide crucial support in terms of extension and training services, irrigation, and other inputs such as seeds or fertilisers.

In addition, many countries invest via their budgets in supporting farmers' organisations, or in providing microcredit to encourage agriculture – and some also invest in state-run agro-processing facilities to increase value added of agricultural products, as well as broader rural development such as rural markets and feeder roads.

The only formal target for agriculture spending was agreed in 2003 at a meeting of African Union (AU) agriculture ministers in Maputo, Mozambique. They called on member states to spend at least 10 per cent of national budgets on agriculture by 2008.

Figure 3.4 shows how 30 African countries are performing in relation to this target, in terms of planned expenditure for 2011 and 2012. Seven have met the target (Burkina Faso, Burundi, Ethiopia, Guinea-Bissau, Malawi, Mali and Gambia), while Niger is close. Benin, the Democratic Republic of Congo (DRC), Madagascar, Rwanda, Senegal, Sierra Leone, Tanzania and Zambia spend 6 per cent or more; Cameroon, Cape Verde, Central African Republic (CAR), Congo, Kenya, Mozambique, Togo and Uganda spend 5 per cent or less; and Angola, Côte d'Ivoire, Ghana, Lesotho, Liberia and Nigeria spend only 2 per cent. These countries need to accelerate their efforts considerably to meet the target.

Only 9 of 47 countries are spending 10% of their budgets on food and agriculture

Though there is no formal target for other regions outside Africa, we have assessed the performance of other countries against the Maputo target (see Figure 3.5). The World Bank also regards this target as desirable, based on evidence that countries which had successfully transformed their agricultural sectors had allocated around 10 per cent of total government spending to agriculture (World Bank 2007). Figure 3.5 shows that of the 17 other countries covered by this report, only Bhutan and India are allocating more than 10 per cent of their national budget to agriculture (though Afghanistan also did in 2011).

Figure 3.4: Are African countries meeting the Maputo target for spending on agriculture?

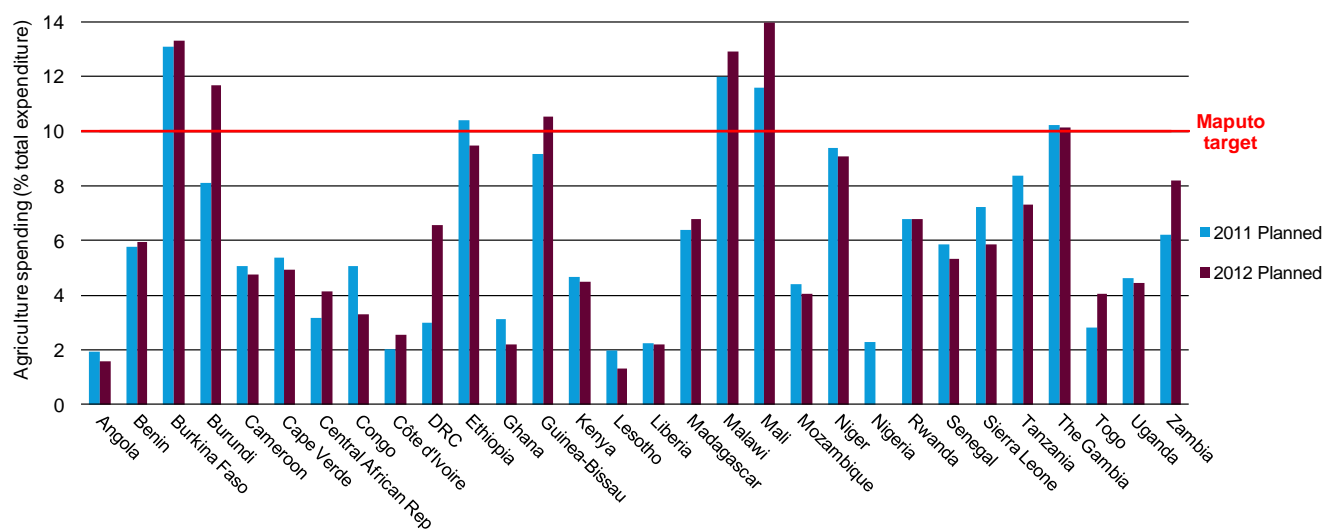
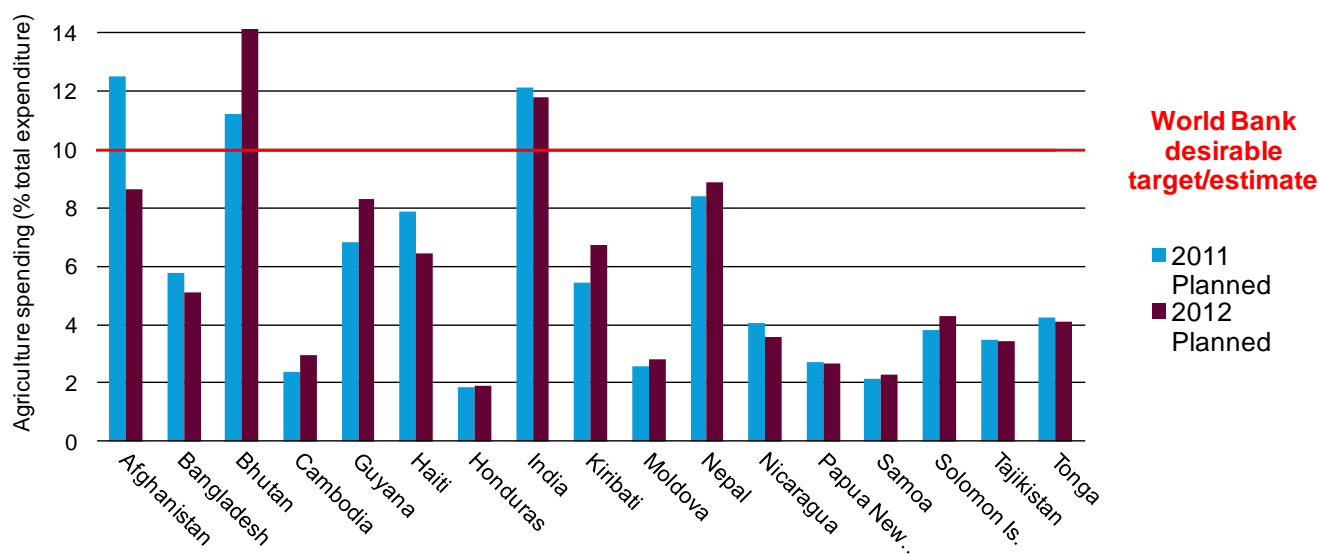


Figure 3.5: Are other countries meeting the World Bank estimate?



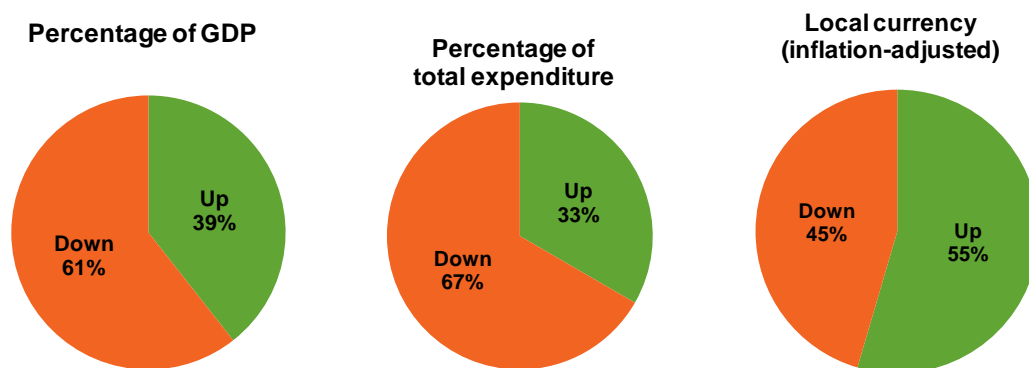
What are the recent trends in agriculture and food spending?

Across all the countries studied, agriculture spending rose by just 0.06 per cent of GDP between 2008 and 2012, much less than spending on education or health. However, non-IMF programme countries increased their spending by 0.4 per cent of GDP, while spending by IMF programme countries stagnated, after only a small rise in 2009. As a result, agriculture spending is now 63 per cent higher as a proportion of GDP in non-IMF than in IMF programme countries. This suggests a strong case for greater attention to the level of agriculture and food-related spending in IMF programme 'anti-poverty' spending floors.

Agriculture spending is stagnant or falling compared with GDP or total expenditure

Given these overall trends, it is not surprising that after an initial small rise in 2009, around two-thirds of countries have seen falls in agriculture spending as a percentage of GDP or total spending (the benchmark used for targets) since 2009. Nevertheless, around half managed to raise spending in real terms, as their economies grew.

Figure 3.6: Percentage of countries increasing spending on agriculture, 2009–12





Education spending

Are countries meeting the spending targets for education?

MDG target 2.A is to ensure that, by 2015, children everywhere will be able to complete a full course of primary schooling. Tracking spending on primary education would allow us to see how much is being spent to achieve this goal. However, since 2000, the world has adopted a broader set of Education for All (EFA) goals, which include pre-school care and adult literacy. It is almost universally acknowledged that such education must be provided free (without fees) and by government. Therefore the tendency at global level is to monitor both overall education and primary education government spending.

Forty-four developing country governments signed up to a target for education spending of 20 per cent of total spending (with half earmarked for pre-primary and primary education) in 2010 as part of their commitment to implement the Education for All Fast-Track Initiative (EFA-FTI). Fifty-six developing countries are now members of the Global Partnership for Education, the successor to EFA-FTI. Of these, 40 are covered by the GSW database.¹⁷ Eleven countries covered by GSW are not members of the Global Partnership.¹⁸

Figures 3.7 and 3.8 show the progress made by individual countries towards this target in 2011 and 2012. Twelve countries – eight in Africa (Benin, Burundi, Côte d'Ivoire, Djibouti, Ethiopia, Madagascar, Mali, and Senegal) and four elsewhere (Honduras, Moldova, Nicaragua, and Vanuatu) – have consistently reached this target, while 11 (Bhutan, Comoros, Kenya, Kiribati, Malawi, Mozambique, Nepal, the Solomon Islands, Tanzania, Tonga and Zambia) have been very close.¹⁹

Only 12 of 51 countries are spending 20% of their budgets on education

On the other hand, 13 countries (Afghanistan, Angola, Bangladesh, Cambodia, Central African Republic, Congo, DRC, Guinea-Bissau, Guyana, India, Liberia, Nigeria, and Papua New Guinea) have spent closer to 10 per cent, and need to considerably increase this if they are to meet the MDG targets. Interestingly, a similar proportion of GPE and non-GPE countries are meeting the education target, suggesting that it does not require a global partnership to generate domestic political commitment to spend more on education.

On primary education, GSW data indicate that Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Mali, the Solomon Islands and Vanuatu are meeting the 10 per cent target, while Djibouti, Malawi, the Gambia, Nicaragua, Togo and Zambia are close to doing so.²⁰

Figure 3.7: Are African countries meeting EFA spending targets?

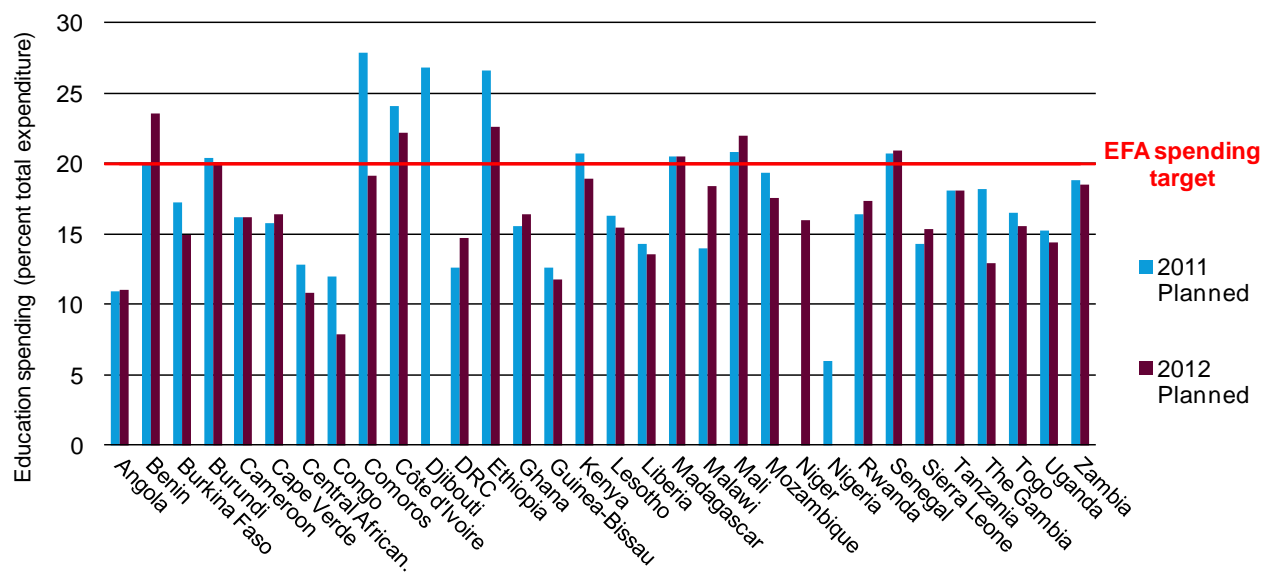
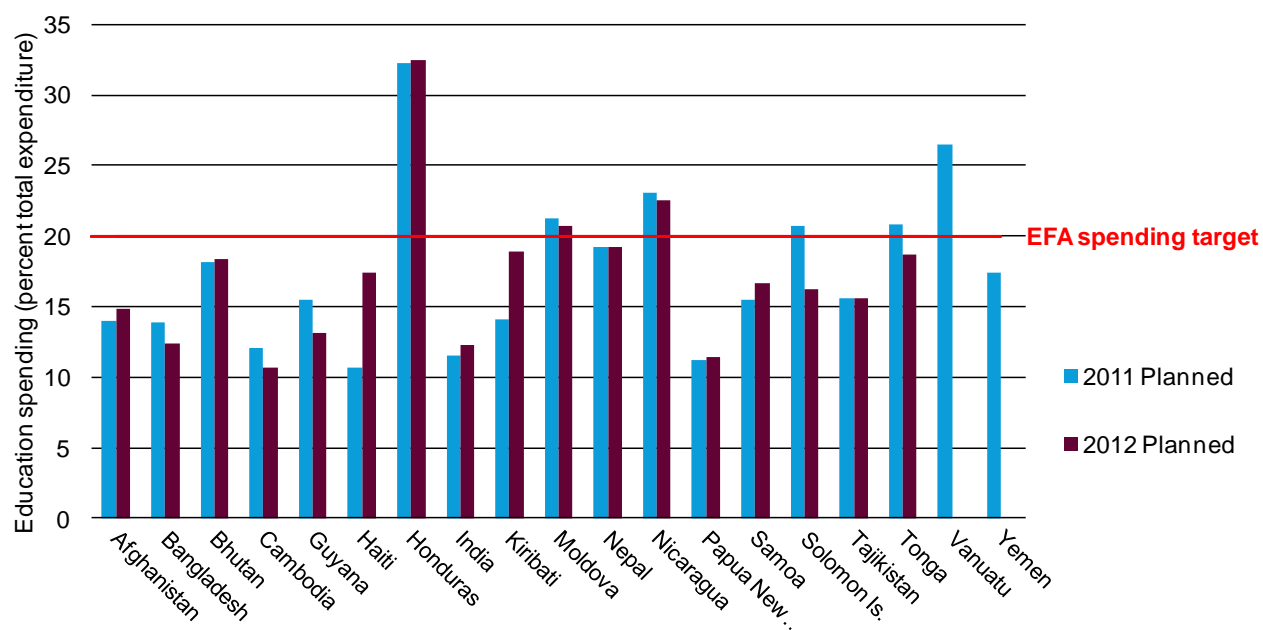


Figure 3.8: Are other countries meeting EFA spending targets?



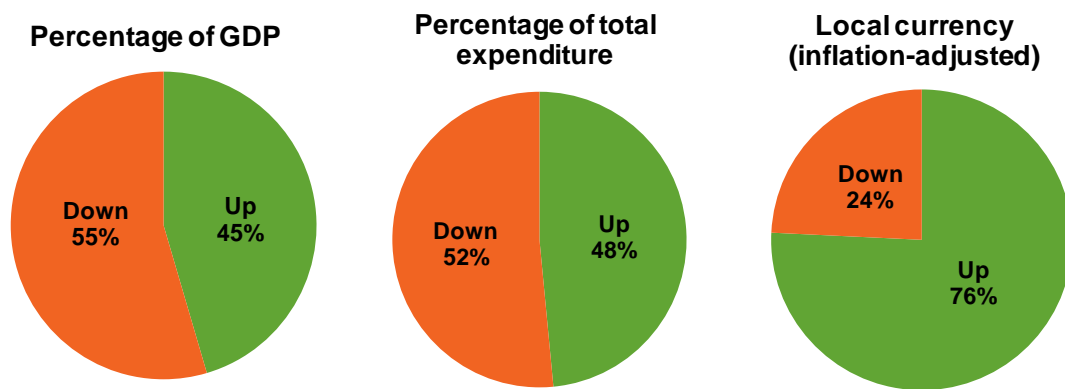
What are the recent trends in education spending?

Across all the countries in the GSW database, education spending rose by a small amount (0.34 per cent of GDP) between 2008 and 2012. But trends were very different for IMF programme countries, where spending rose sharply in 2009 and stagnated thereafter, and non-IMF countries, where the rise over the period was 0.1% larger. As a result, the gap between education spending in IMF programme and non-programme countries fell to only 0.47 per cent of GDP by 2012.

Education spending has risen slightly, but most countries have been reducing it as % of budget or GDP

Despite the small overall rise in education spending during the period, from 2009, countries found it increasingly hard to increase spending in line with EFA targets. More than half reduced spending as a percentage of GDP, and as a percentage of total spending. In real terms, however, three-quarters continued to increase spending after 2009.

Figure 3.9: Percentage of countries increasing education spending, 2009–12





Environment spending

Are countries meeting the environment spending targets?

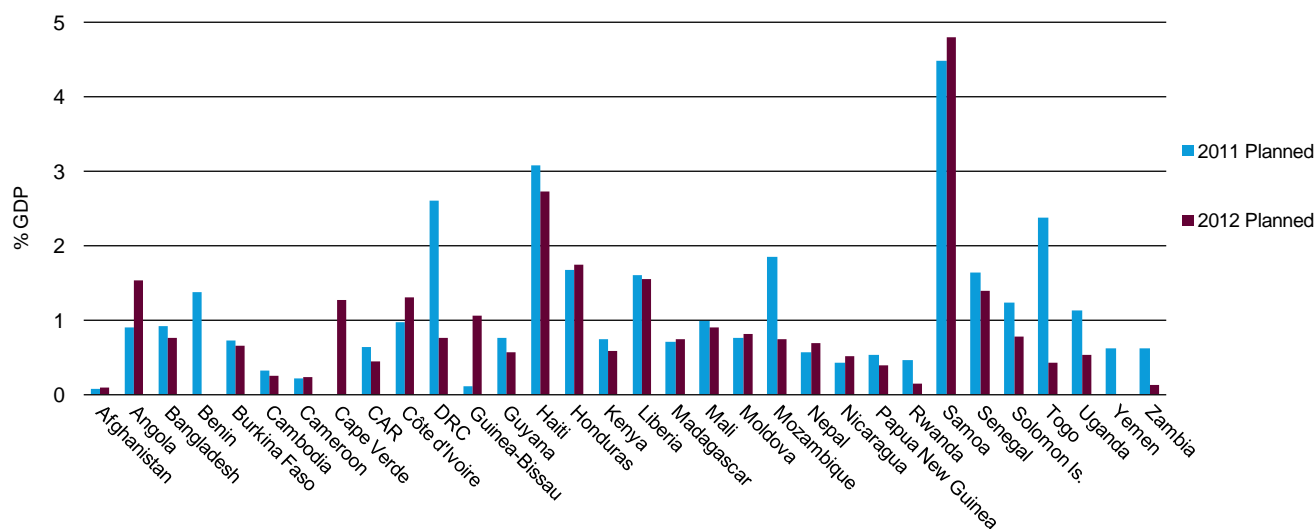
MDG target 7.A is to integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources; target 7.B is to achieve, by 2010, a significant reduction in the rate of biodiversity loss. By tracking spending on the environment, GSW aims to cover these targets as well as other environment spending – which will gradually come to be dominated by spending to combat climate change.²¹

There are currently no global targets or reliable estimates for costings of the MDGs relating to the environment. This may be why spending on the environment has fallen behind other types of MDG spending, despite expectations raised by a renewed focus on the issue at recent high-level global meetings such as the Rio+20 conference in June 2012. The lack of targets seems to be reducing the political will of individual governments to spend on the environment MDG – though this could be remedied relatively easily by funding the much higher spending levels contained in national environmental protection and climate change adaption plans.

There are no global or regional targets or costings for environment and climate change spending: most countries spend much less than 1% of GDP

In the absence of any spending targets or costings, this GSW report analyses the current levels of spending in this sector – which seem shockingly low in most countries. Figure 3.10 shows that for the 32 countries where data are available, in 2011 and 2012, two-thirds planned to spend well below 1 per cent of GDP on environmental issues – including countries facing major climate change problems such as Bangladesh, Guyana and Papua New Guinea. Only Haiti and Samoa have planned to spend more than 2 per cent in both years.

Figure 3.10: Environment spending (as a percentage of GDP)



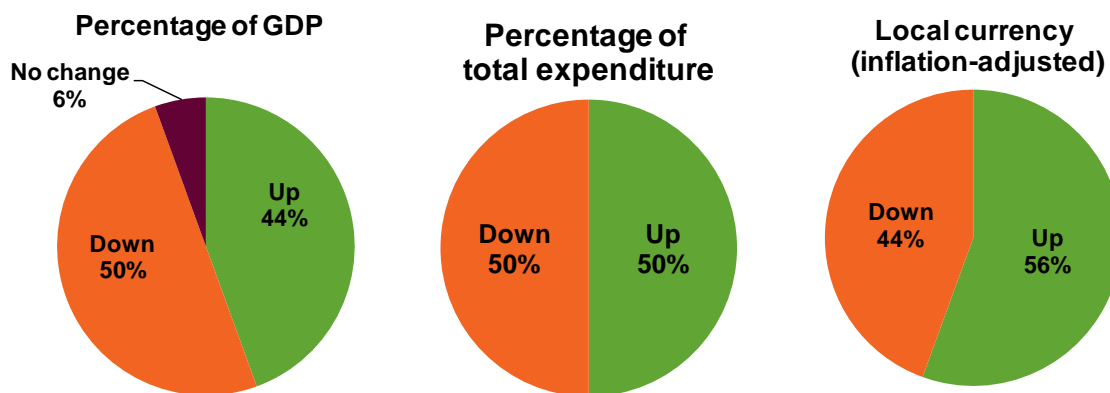
What are the recent trends in environment spending?

Environment spending rose very slightly (by 0.02 per cent of GDP) from 2008 to 2012 for all countries, whether they had an IMF programme or not. Spending was relatively volatile for all three groups (IMF programme countries, non-IMF countries, and all countries), rising in 2009 and 2011, but falling in 2010 and 2012. It remains very low, at less than 0.3 per cent of GDP and 1 per cent of government spending. Despite the renewed global focus on the importance of tackling climate change and on sustainable development, there is little sign that spending is rising to address these needs.

There is no sign of increased environmental spending to match the rhetoric of the Rio+20 and climate change meetings

In addition, as Figure 3.11 shows, roughly half of all countries covered by GSW have seen falls in environment spending, whichever method of measurement is used, though the percentage is slightly lower for real terms spending and higher for spending as a percentage of GDP or of total spending.

Figure 3.11: Percentage of countries increasing environment spend, 2009–12





Gender spending

Are countries meeting the gender spending targets?

MDG target 3.A is to eliminate gender disparity in primary and secondary education by 2005, and in all levels of education no later than 2015. However, the MDGs go much further in terms of aiming to promote equality for – and to empower – women in wage employment in the non-agricultural sector, and in the proportion of seats held by women in national parliaments. The GSW database tracks all spending by women's ministries or agencies, as being the key spending which is not covered by other sectors and aims specifically to promote women's development and empowerment.

There are no agreed targets or costings for gender spending, and spending by government gender agencies is below 0.4% of GDP

There are currently no global targets or reliable estimates for costings of the MDGs relating to gender equality and women's empowerment. This may be why gender-related spending has fallen behind other types of MDG spending and has failed to keep pace with expectations raised by global meetings such as Beijing+15 in 2010. It may also partly explain why it is more difficult to find data on gender-related spending than for other MDGs. As with the environment sector, the lack of targets on gender spending may be reducing the political will of individual governments to increase such spending. It is true that estimating costings for gender spending would be more challenging, given that impacts may be difficult to identify or measure, and may only be tangible in the longer term. However, gender budgeting – a useful tool to assess how much spending is allocated to meeting women's needs – is currently being used successfully in Bangladesh, India and Rwanda (see Box 3.1). This means it should be possible to assess what proportion of total spending needs to be gender-oriented (directly and indirectly) in order to make a major difference to gender equality and women's empowerment.

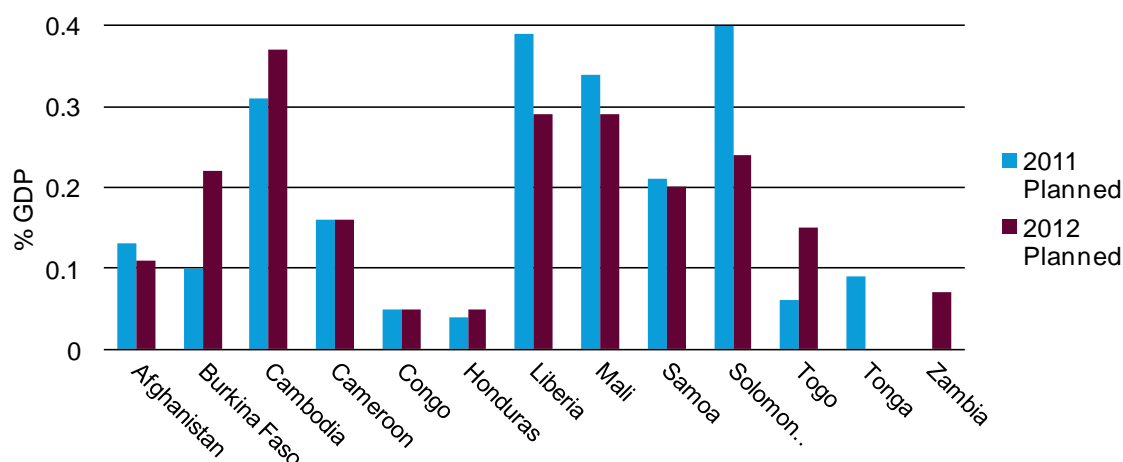
Box 3.1: Gender budgeting: a key tool for tracking MDG spending

Insofar as governments ensure that spending is targeted equally to men and women, spending via specific women's ministries represents a major underestimate of spending oriented towards women. However, very few countries conduct such assessments. Bangladesh, India and Rwanda are often cited as the best examples of gender budgeting. In all three countries, a growing number of government agencies assess how much of their spending will affect women. Bangladesh has had a 'gender responsive budget' for the last three years, and covers 25 ministries. Rwanda has a gender budget statement annexed to the budget, which has covered all Ministries, Agencies and Districts for the last 2 years.

In India, there has been a 'gender budget statement' since 2005–06, which now covers 30 ministries/departments and 5 Union Territories in the central government budget. Spending is classified into two types: A (which is 100 per cent targeted at women) and B (which is at least 30 per cent targeted at women). In the fiscal year 2012/13, A represented 1.5 per cent of total central government spending; the total of A and B represented 5.9 per cent. In India, only 13 per cent of total gender-oriented spending (and 7 per cent of spending that goes entirely to women) is via the Ministry of Women and Child Development, showing that 'women's ministries' often have relatively little control over gender spending.

In the absence of gender spending targets or estimates of costings, this GSW report analyses current levels of spending by ministries or agencies specifically responsible for women's rights and empowerment. This covers only a small part of total spending for women's development (because 80–90 per cent of such spending is in other ministries), but it is a crucial component in that it includes the programmes most closely targeted to women's rights and empowerment (as opposed to service delivery and livelihoods). The spending levels seem shockingly low in the 13 countries for which data are available. As Figure 3.12 shows, none of these countries spend more than 0.4 per cent of GDP via ministries or agencies responsible for women's rights and empowerment; and Afghanistan, Cameroon, Congo, Honduras, Togo, Tonga and Zambia spend less than 0.2 per cent.

Figure 3.12: Gender spending (as a percentage of GDP), 2011–12



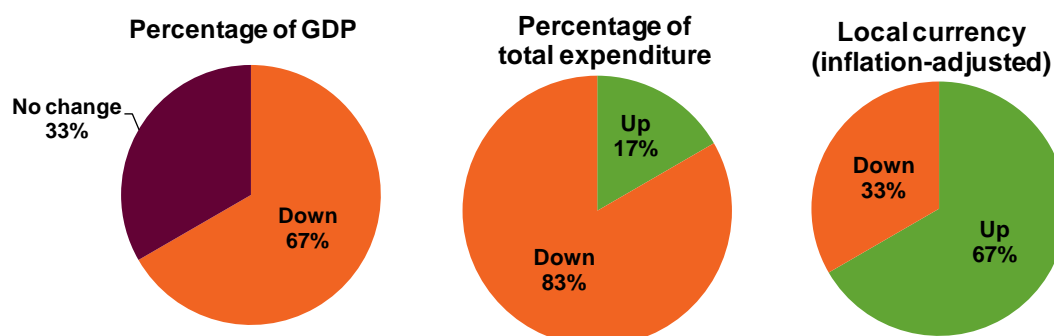
What are the recent trends in gender spending?

Unfortunately, the number of countries publishing separate gender-related spending data is so small that there are insufficient data to analyse trends for non-IMF programme countries. However, the available data indicate that gender spending averages only 0.06 per cent of GDP in all country groups (whether they have IMF programmes or not), equivalent to just 1 per cent of education spending or 2 per cent of health. In addition, gender spending has stagnated or fallen between 2008 and 2012 as a percentage of GDP. With so many of the MDGs depending on gender equity, it is not surprising that progress is faltering, given such low spending by the core ministry responsible.

Gender spending is stagnant on average and falling in most countries as % of GDP or budget

As Figure 3.13 shows, since 2009, two-thirds of countries have seen a decrease in gender spending as a percentage of GDP, and 83 per cent as a percentage of total spending, though the figure is only 33 per cent for real terms spending.

Figure 3.13: Percentage of countries increasing gender spending, 2009–12





Health spending

Are countries meeting the health spending targets?

Health is the most prominent sector in the MDGs, with its spending responsible for three goals:

- Infant mortality, with MDG Target 4.A aiming to reduce by two-thirds the under-five mortality rate.
- Maternal mortality, with MDG Target 5.A aiming to reduce by three-quarters the maternal mortality ratio; target 5.B aiming to achieve universal access to reproductive health.
- Combating key diseases, with MDG Target 6.A aiming to have halted and begun to reverse the spread of HIV and AIDS; target 6.B aiming to achieve universal access to treatment for HIV and AIDS for all those who need it; and target 6.C aiming to have begun to reverse the incidence of malaria and tuberculosis.

It is also widely acknowledged that health care should be free and publicly provided, because cost recovery puts off the poorest citizens of the world from requesting health services and drugs. As a result, health spending has been one of the most closely watched sectors, and targets have been defined. Tracking health spending allows us to assess the efforts being made to reach all of these targets, as well as to improve overall health systems in countries. Over time we will improve the disaggregation of spending as much as possible to see how much is being spent on programmes targeted to the individual health MDGs.

Health spending has two clear sets of targets. In 2002, at a Special Summit on HIV/ AIDS, Tuberculosis and Other Infectious Diseases held in Abuja, Nigeria, AU Heads of State committed themselves to allocating a minimum of 15 per cent of government expenditure to health. At the global level, the World Health Organization (WHO) Commission on Macroeconomics and Health estimated that the cost of essential interventions to avoid preventable deaths was \$30–40 per capita in 2004, on the basis of spending levels in low-income countries with good health outcomes.

As Figure 3.14 shows, of the 32 African countries covered by GSW, only Malawi has succeeded (in 2011) in allocating more than 15 per cent of its spending to health. Ten countries (Burundi, Central African Republic, Comoros, Djibouti, DRC, Lesotho, Liberia, Rwanda, Tanzania, and Zambia) spend more than 10 per cent, and six (Burkina Faso, Ghana, Mali, Mozambique, Sierra Leone and Uganda) are close to 10 per cent. However, three (Côte d'Ivoire, Nigeria and Senegal) only spend around 5 per cent – well below the Abuja target.²²

Only 1 African country is spending 15% of its budget on health; but 17 of 51 countries are meeting WHO needs estimates

In relation to the WHO target, only 6 of 32 African countries (Angola, Cape Verde, Congo, Djibouti, the DRC, and Lesotho) exceed it (see Figure 3.15); Ghana and Zambia are within the spending range (\$30–40 per capita); and the other 22 countries all spend \$20 or less per capita on health. Eight countries (Central African Republic, Ethiopia, Guinea-Bissau, Madagascar, Niger, Sierra Leone, The Gambia, and Uganda) spend less than \$10 per capita on health via the government's budget.²³

For non-African countries, the picture appears to be much more positive (see Figure 3.16). Eleven out of 19 countries are spending well above the WHO upper target (\$40 per capita), and

therefore meeting that target, even if adjusted for annual inflation of 3 per cent since 2004. However, the eight other countries (Afghanistan, Bangladesh, Cambodia, Haiti, India, Nepal, Tajikistan and Yemen) spend far below the WHO levels.

Figure 3.14: Are African countries meeting the Abuja target for health spending?

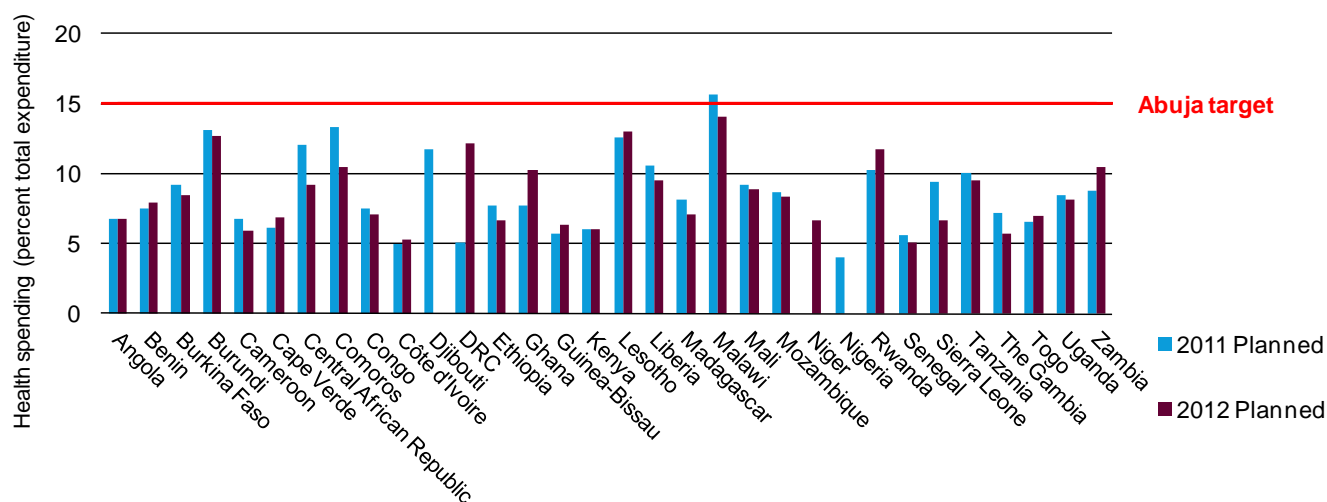


Figure 3.15: Are African countries meeting WHO spending estimates?

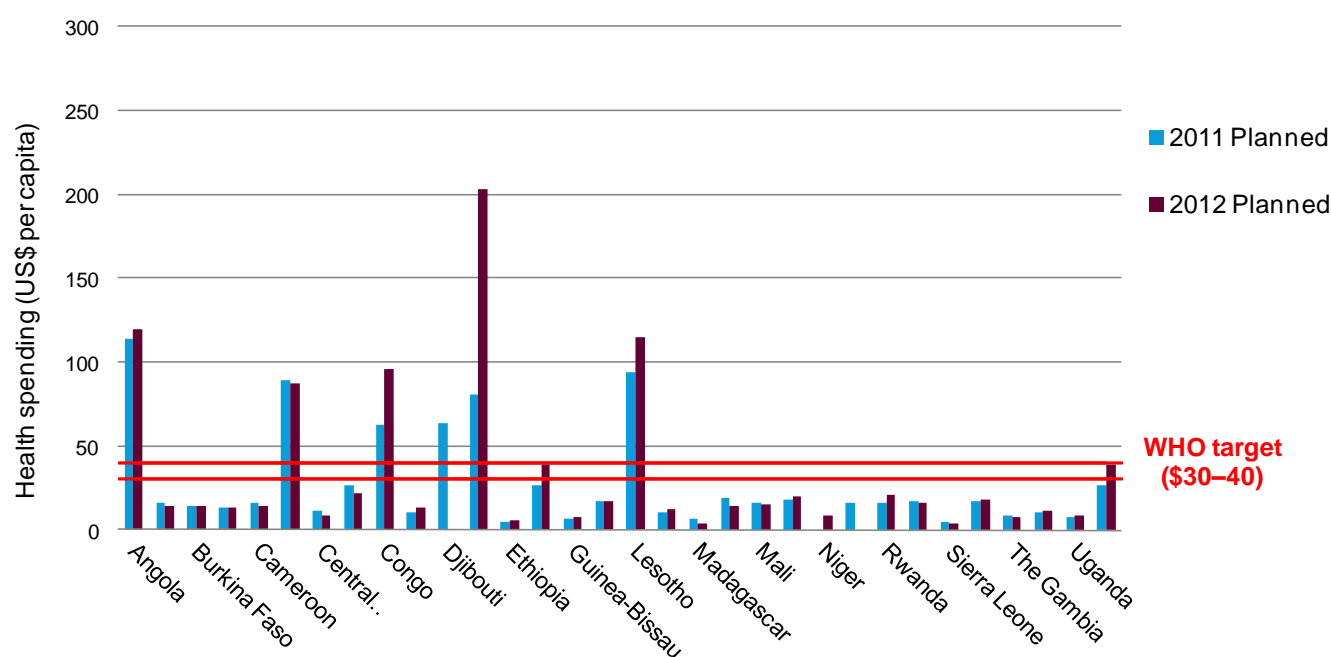
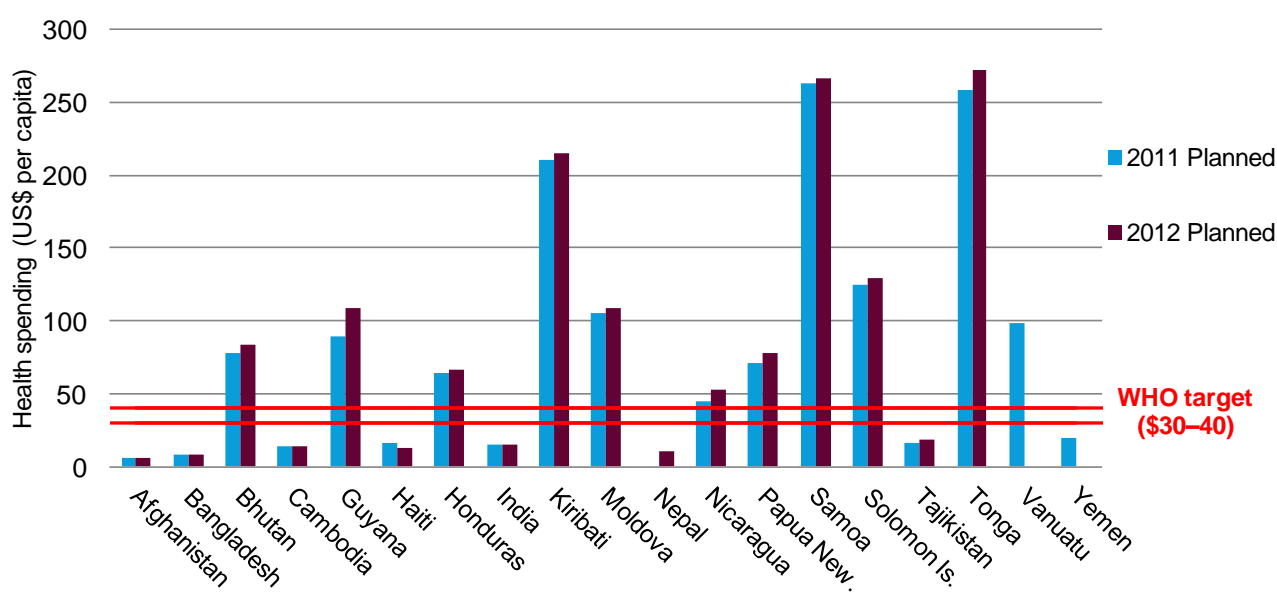


Figure 3.16: Are other countries meeting WHO estimates?



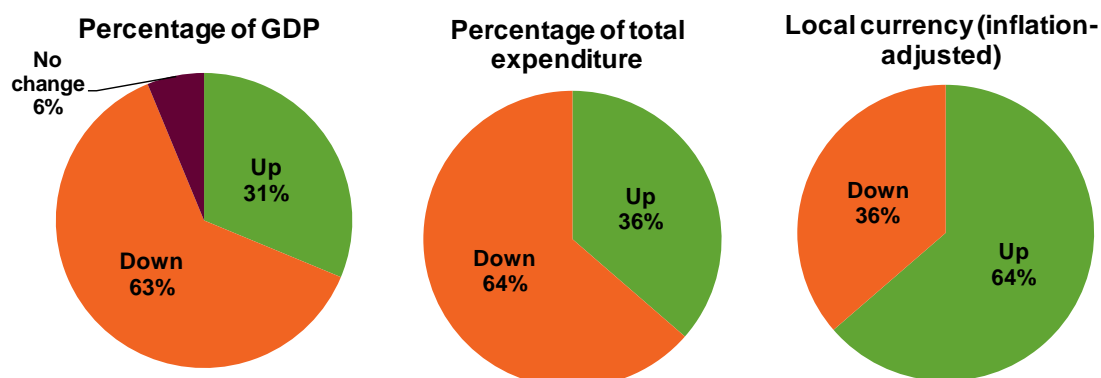
What are the recent trends in health spending?

Across all countries covered by the GSW database, health spending rose by only half as much as education between 2008 and 2012 (0.17 per cent of GDP). Once again, trends were very different for IMF and non-IMF programme countries. In IMF programme countries, spending fell back in 2010 and 2011 after a sharp rise in 2009, while in non-IMF programme countries, it continued to rise until 2011. The overall rise for non-IMF countries was almost twice that for IMF countries, widening the degree to which non-IMF countries spend more on health, to 0.55 per cent of GDP. This deserves further investigation, since it appears to be at odds with the focus of IMF programme 'anti-poverty' spending floors on health.

Health spending has risen on average but is now falling in most countries

After initial rises in health spending in some countries in 2009, two-thirds of countries have seen decreases in health spending (see Figure 3.17) compared with GDP and total expenditure (which is used to assess the Abuja target). In real terms, about two-thirds of countries have managed to continue increasing health spending, but by less than 3 per cent a year.

Figure 3.17: Percentage of countries increasing health spending, 2009–12





Social protection spending

Are countries meeting the social protection spending targets?

MDG target 1.A is to halve the proportion of people whose income is less than \$1 a day; MDG target 1.B is to achieve full and productive employment and decent work for all, including women and young people. All government spending which boosts economic development for the poor and promotes inclusive and employment-intensive growth (as well as, of course, private sector activity) can help meet these goals.

Nevertheless, the GSW site does not include all growth-promoting expenditure, such as infrastructure, because it is not possible to assess how much of it will impact on the income and decent employment of poor people. The data on the GSW website focus on the most direct government interventions that have been proven to be highly effective in reducing poverty and providing employment, known as 'social protection' spending: social insurance and assistance which provide income for the poorest and most vulnerable groups, as well as employment schemes. In subsequent reports, GSW aims to publish data on infrastructure and other sectors crucial to eradicating poverty and expanding employment, which also look likely to be a more prominent focus of the post-2015 global development goals.

In Windhoek in 2008, African governments adopted a declaration which recommended that spending on social protection should be around 4.5 per cent of GDP. In addition, the International Labour Organization (ILO) and others have estimated the level of government spending needed to provide basic social protection at between 2.9 and 5.2 per cent of GDP.²⁴

For the countries covered by the GSW database, planned spending on social protection appears to be well below both these targets, as shown in Figure 3.18 and Figure 3.19. Of the 26 African countries for which data are available, only three – Burundi, Kenya and Rwanda – spent more than 1 per cent of GDP on social protection during 2011 or 2012. No country is anywhere near meeting the Windhoek target or the ILO's estimated range.

No country is meeting the Windhoek or ILO social protection targets: most spend well below 1% of GDP

Elsewhere, a much higher proportion of countries are spending 1 per cent or more of GDP (5 out of 12: Bangladesh, India, Papua New Guinea, Samoa and Tajikistan). However, the average level of spend, despite rising slightly in recent years, is well below 1 per cent of GDP: less than one-third of the minimum suggested by the ILO (see Figure 3.19).

Overall, in terms of level of MDG spend compared with targets, social protection is the sector with the largest shortfall. Despite the recent focus on inclusive and equitable growth at 2011–12 global meetings of the G20, IMF and World Bank, and the growing evidence base on the positive impact of large-scale social protection programmes (like the *Bolsa Família* in Brazil or social security grants in South Africa) on poverty reduction, there is little sign of any substantial increases in spending on social protection.

Figure 3.18: Are African countries meeting the Windhoek target or ILO spending estimates?

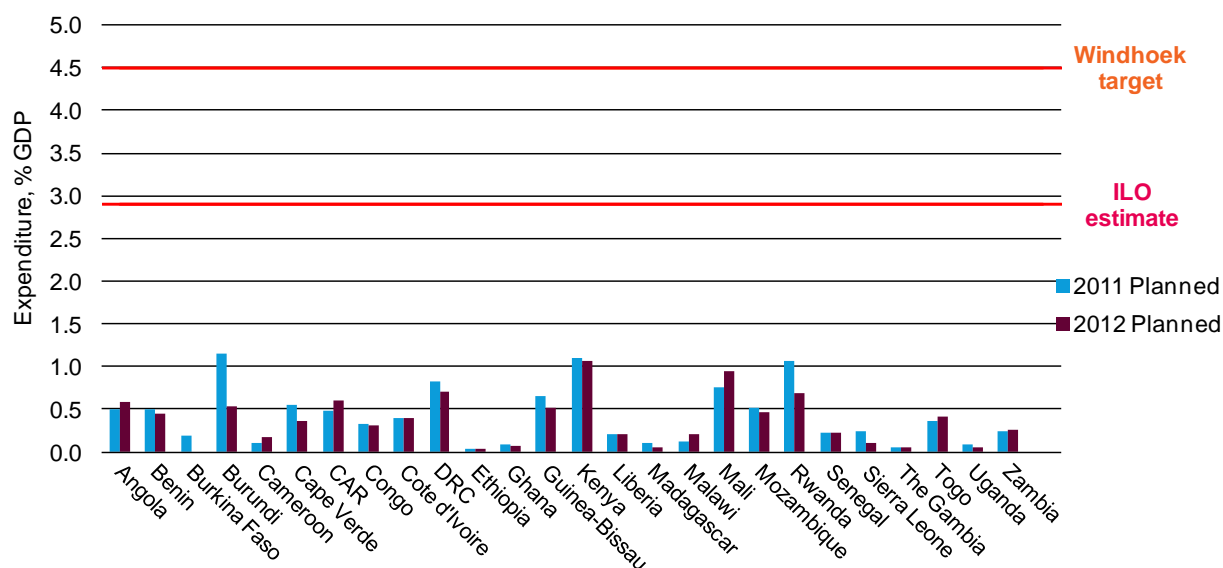
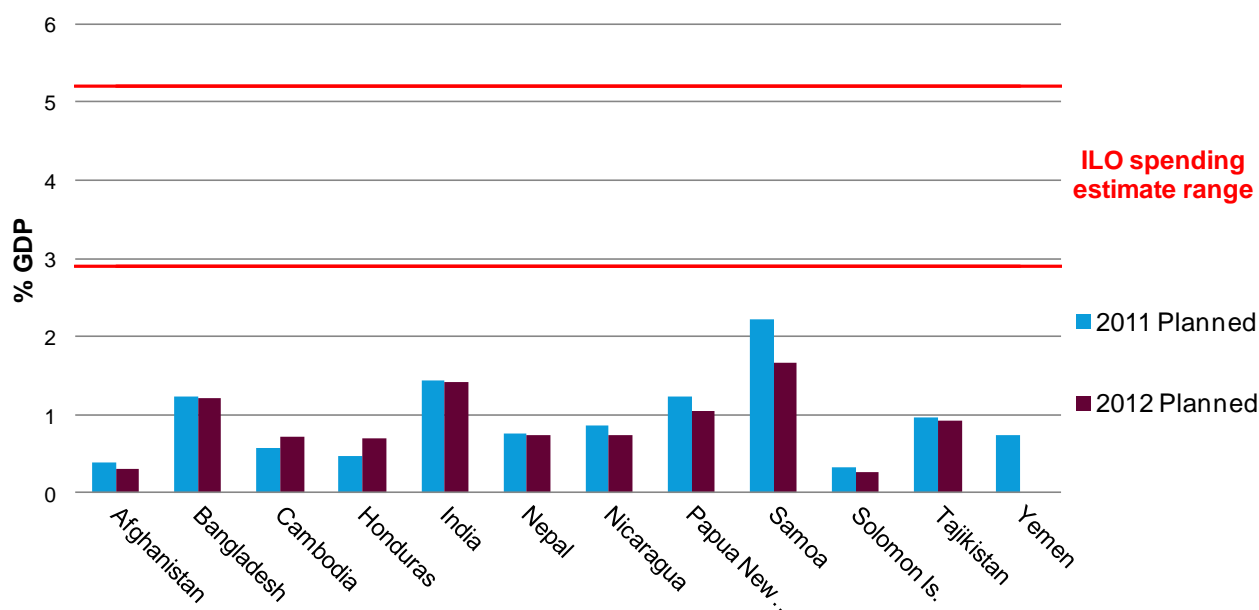


Figure 3.19: Are other countries reaching the ILO spending estimates?



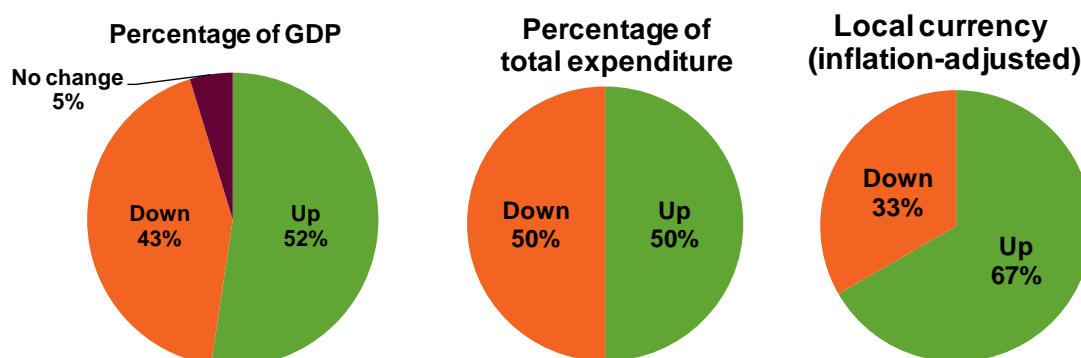
What are the recent trends in social protection spending?

Across all countries covered by the GSW database, social protection spending rose only marginally (by 0.1 per cent of GDP) between 2008 and 2012, and remains very low, at just 1.2 per cent of GDP (46 per cent of health spending and 24 per cent of education spending). As with education and health, social protection spending rose for all three categories in 2009, but fell back for IMF programme countries thereafter, while continuing to rise among non-IMF programme countries. As a result, social protection spending in non-IMF programme countries rose almost five times as fast as in countries with an IMF programme. By the end of 2012, both groups had a very similar level of social protection spending.

Social protection spending has risen but is nowhere near levels needed to end extreme poverty

However, trends in social protection spending since 2009 have been slightly more positive than other MDG sectors. As Figure 3.20 shows, around half of all countries covered by GSW have been able to continue increasing their social protection spend as a percentage of GDP (by which targets are measured) or a percentage of total spending, following an initial rise in 2009. Around two-thirds of countries have managed to continue increasing social protection spending in real terms, but on a very small scale – with no plans to scale up spending to the levels needed to make a serious impact on poverty reduction.

Figure 3.20: Percentage of countries increasing social protection spending, 2009–12





Water, sanitation and hygiene (WASH) spending

Are countries meeting the WASH spending goals?

The final sector covered in this report is water, sanitation and hygiene (known as WASH). MDG target 7.C is to halve the proportion of the population without sustainable access to safe drinking water and basic sanitation. Monitoring spending on water and sanitation allows us to see how much emphasis governments and donors are placing on these goals. WASH spending also impacts indirectly on the health MDGs, as clean water and good sanitation and hygiene are key means to help keep citizens healthy.²⁵

Some countries have in recent years experimented with privatising water systems, but this has often caused a major drop in use of WASH facilities by the poorest people; government spending therefore continues to be seen as essential by almost all experts in the sector, and targets have therefore been set.

In South Africa in 2008, at the eThekweni AU meeting, African ministers set a target to spend 0.5 per cent of GDP on sanitation and hygiene. Various other studies, notably by UNDP, have suggested that the cost of meeting the MDG water goal would be around 1 per cent of GDP annually (ODI 2010). No targets have been set outside Africa, though studies have indicated that similar levels of spending would be needed. Due to the difficulty of disaggregating water and sanitation spending at country level, this GSW report therefore assesses country progress against an overall target of 1.5 per cent of GDP.

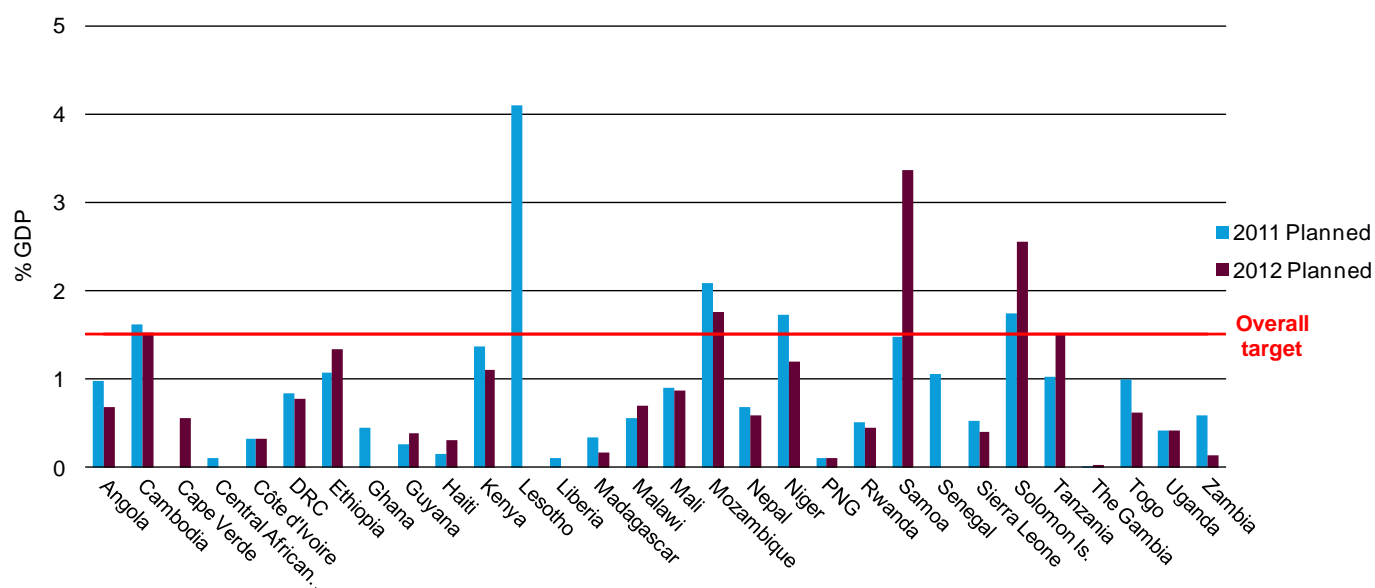
Planned spending is well below this target in most countries, as Figure 3.21 shows. Of the 30 countries for which GSW has data, seven (Cambodia, Lesotho,²⁶ Mozambique, Niger, Samoa, the Solomon Islands, and Tanzania) have recently spent more than 1.5 per cent of GDP on WASH. However, nine others (Central African Republic, Côte d'Ivoire, Ghana, Guyana, Haiti, Madagascar, Liberia, Papua New Guinea, and the Gambia) are spending much less than 0.5 per cent of GDP (the amount needed for sanitation alone) on all aspects of WASH.

7 of 30 countries are meeting WASH spending targets, but most fall well short

A much higher proportion (43 per cent) of non-African countries than African countries (17 per cent) are reaching the desirable level of spending on WASH. This suggests that much greater efforts are needed by governments and donors in Africa to meet this MDG target.

The average level of spending across all countries has been around 0.8 per cent – about half the level needed to reach the spending target or estimate. WASH is therefore another sector where governments and donors need to scale up their efforts in order to accelerate progress, especially on the sanitation and hygiene component of the MDG goal.

Figure 3.21: Are countries meeting the eThekweni spending targets or other estimates for WASH?



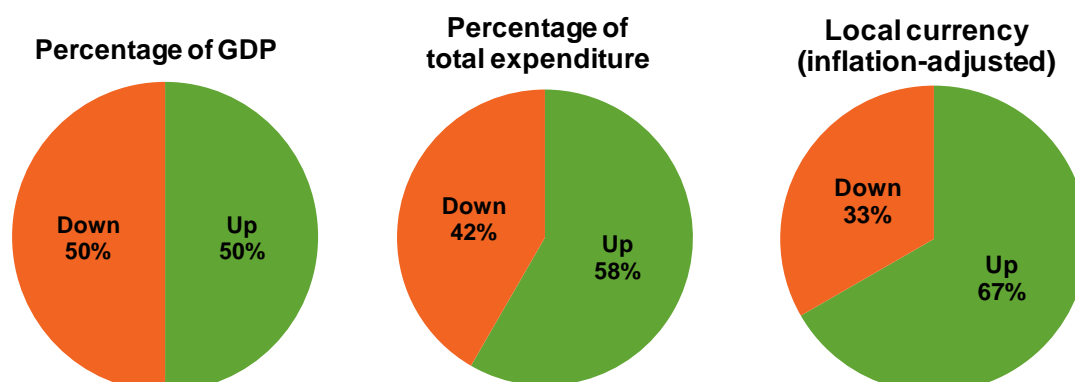
What are the recent trends in WASH spending?

WASH spending stagnated, on average, for all countries covered by the GSW database between 2008 and 2012, at only 28 per cent of health spending and 15 per cent education spending. It fell marginally in IMF programme countries, while rising marginally in non-IMF countries. As a result, by the end of 2012, non-IMF and IMF programme countries had virtually the same level of WASH spending as a proportion of GDP.

WASH spending stagnated on average, but rose in most individual countries

Individual country performance was somewhat better between 2009 and 2012, though there was virtually no increase in 2008. Half of the countries managed to increase WASH spending as a percentage of GDP (against which targets are measured), 58% increased spending compared with total spending, and two-thirds increased spending in real terms.

Figure 3.22: Percentage of countries increasing WASH spending, 2009–12



WHAT EXPLAINS SPENDING LEVELS?

This section explores four factors which could explain the trends in different sectors: the degree to which they are funded by government revenue and donor aid; the degree to which actual spending falls short of planned spending; the split between capital (investment) and recurrent (salaries, maintenance) spending; and whether countries that have made medium-term expenditure forecasts plan to scale up spending by 2015.

1 Comparing government and donor funding



To reach the spending levels need to attain the MDGs, developing countries were intended to receive extensive support from a Global Partnership, reflected in MDG 8. This contains a series of targets on trade, debt, aid, essential drugs, new technologies and the special needs of least developed, landlocked and small island countries. The GSW data and analysis looks at how aid is contributing to government spending on the MDGs, by tracking the amounts spent from aid which go through developing country budgets, in the sectors discussed above.

The aim of the GSW initiative is to enhance the accountability of governments to their citizens, and to show what independent allocation decisions donors are making through projects and how those influence overall spending levels in different sectors. Therefore in this year's analysis, donor budget support is classified as government funding, because it follows the allocation decisions of the governments, rather than changing them to support donor priorities. However, this does mean that the amount of donor funding available to sectors with high levels of spending (especially education and health) is underestimated. In future years, the GSW report will analyse the different impacts of donor funding on spending allocations and execution, depending on whether budget support is classified as government-funded or donor-funded.

Figure 3.23 shows dramatic variations in the proportions of spending in key sectors, which are funded by donors on-budget, and by government revenue, including budget support. The sectors fall into three broad groupings:

- WASH is largely funded (70 per cent) by donors through projects;
- agriculture is half funded by donors and half by governments;
- education, health, gender, social protection and environment are largely funded (more than 60 per cent) by governments.

How does this affect the spending levels of particular sectors? High levels of government allocation to the education and health sectors, together with donor budget support in some countries, appear to explain the continuing high levels of spending in these sectors. On the other hand, low donor interest in funding the environment, gender and social protection may be holding back spending; and low government allocations to WASH may reflect perceptions that this sector is more attractive for donor projects, so is less in need of domestic revenue.

The fact that sectors such as agriculture and WASH are heavily dependent on donor funding, as well as that high amounts of donor aid are going to education and health, provides cause for concern on two fronts. First, donor aid is more volatile than government budget revenue (see Bulir and Hamann 2005; CONCORD AidWatch 2013). Donors and developing country governments need to work together to achieve a

High aid dependence of agriculture and WASH is worrying, given aid volatility and recent cuts

better balance of funding sources between revenue and aid for each sector, to make spending less volatile and more sustainable. Second, as Official Development Assistance (ODA) from the Development Assistance Committee (DAC) of the OECD is not only projected to fall over the next few years but is likely to focus more on infrastructure and growth, aid-funded spending on the seven MDG sectors discussed in this report could be reduced, putting further progress at risk and even reversing the gains already made, particularly if domestic budget revenue does not rise even more rapidly.

Figure 3.23: Funding sources (government vs donor) by sector, 2012 planned

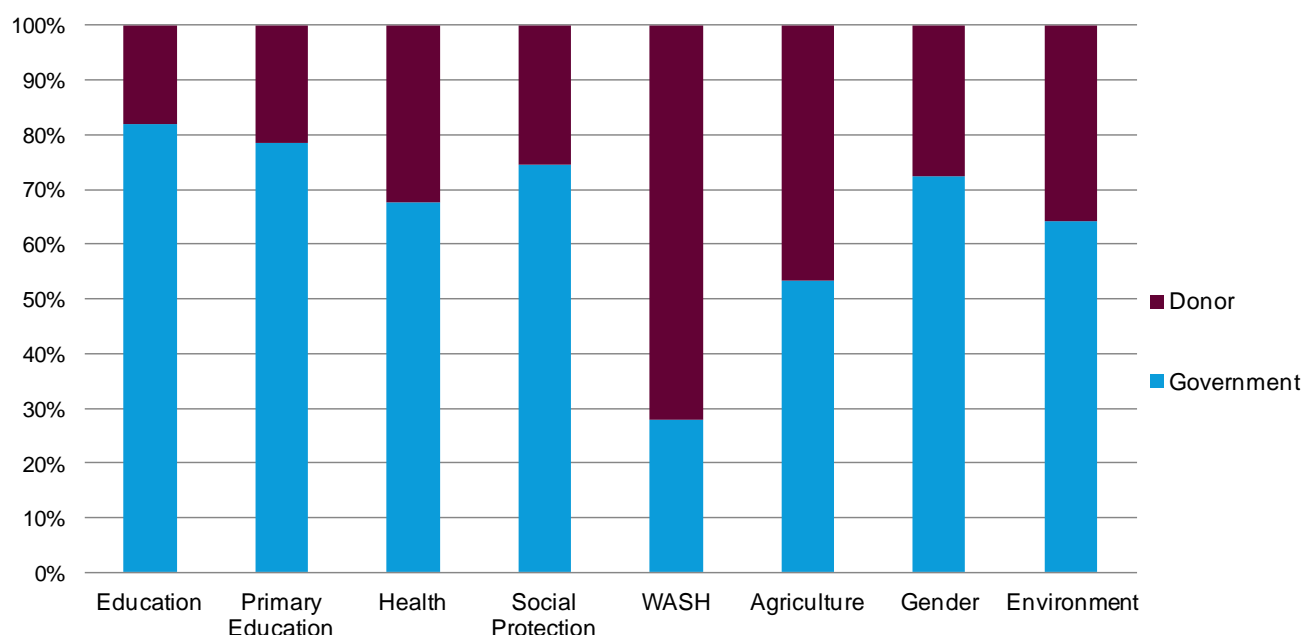
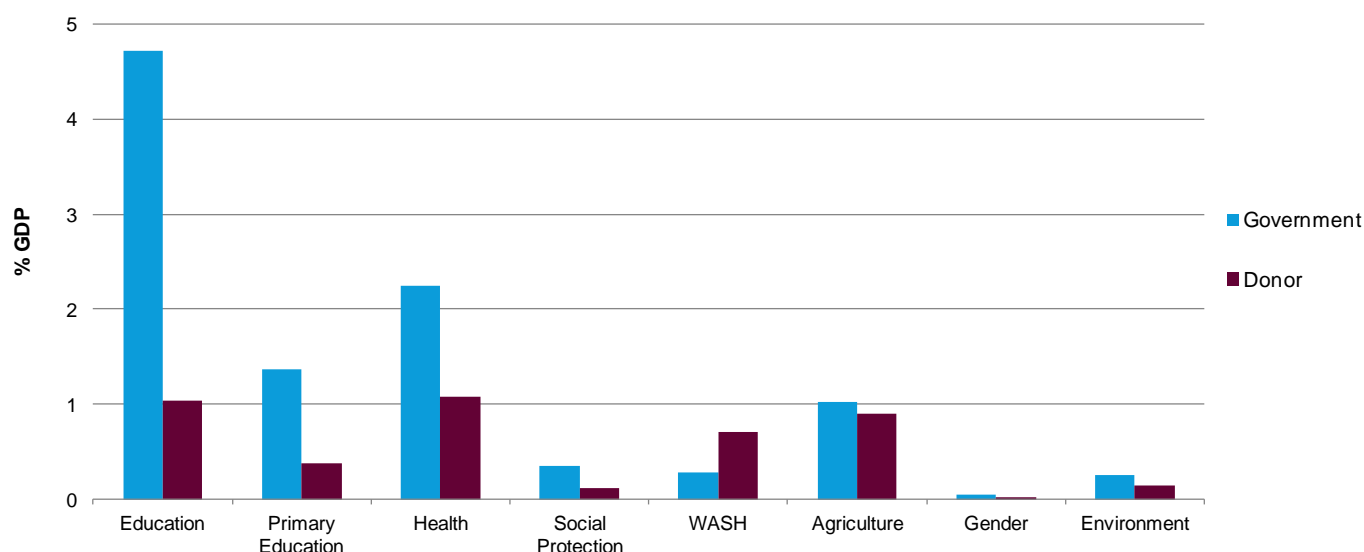


Figure 3.24 shows the actual amounts that these sums represent as a proportion of GDP. It reinforces the findings on the allocation of government funds – which heavily favour education and health. It is a slight corrective to the message of Figure 3.23 in that it shows donors are spending more on health and education than any other sector – but only a little more than on WASH and agriculture – and very little on the environment, gender, and social protection. Donor allocation and disbursement patterns are therefore one of the reasons why countries find it difficult to meet sector spending targets.

Low aid flows to environment and social protection do not bode well for the post-2015 agenda

Figure 3.24: MDG spending funded by governments and donors by sector



Comparing GSW data with OECD data (see Figures 3.25 and 3.26), these patterns look somewhat different from the sector allocations of donor aid as tracked by the DAC:

- In the DAC numbers (Figure 3.26), health dominates slightly more because a considerable proportion of aid to health is off-budget – going through parallel programmes run by donors.
- Aid to social protection represents a much higher share in the DAC numbers, because it includes food aid and off-budget support by NGOs.
- Aid to the environment is somewhat higher in DAC data, implying it is mainly off-budget.
- Aid to agriculture and WASH is somewhat higher in the GSW data (Figure 3.25), implying that a higher proportion of these flows go via country budgets.

Large amounts of aid do not reach government budgets, especially for health and the environment

For sectors where a large amount of aid is off-budget, this can often mean that a lot of the funding is wasted in establishing parallel donor systems to manage projects and programmes.

Figure 3.25: Percentage of donor funding by MDG sector (GSW data)

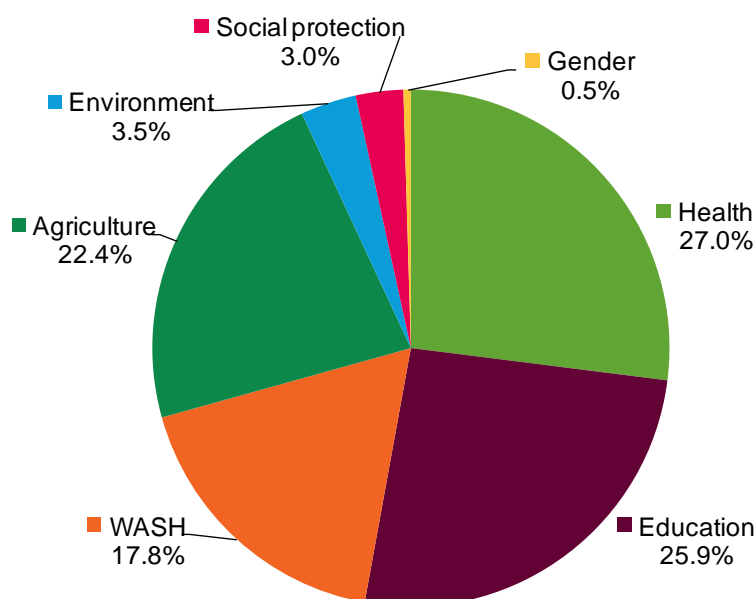
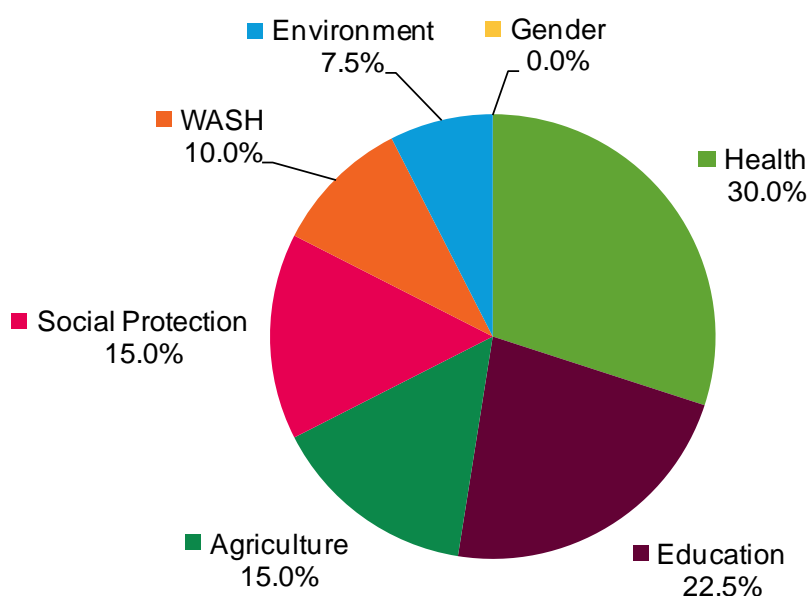


Figure 3.26: Percentage of donor funding by MDG sector (DAC data)

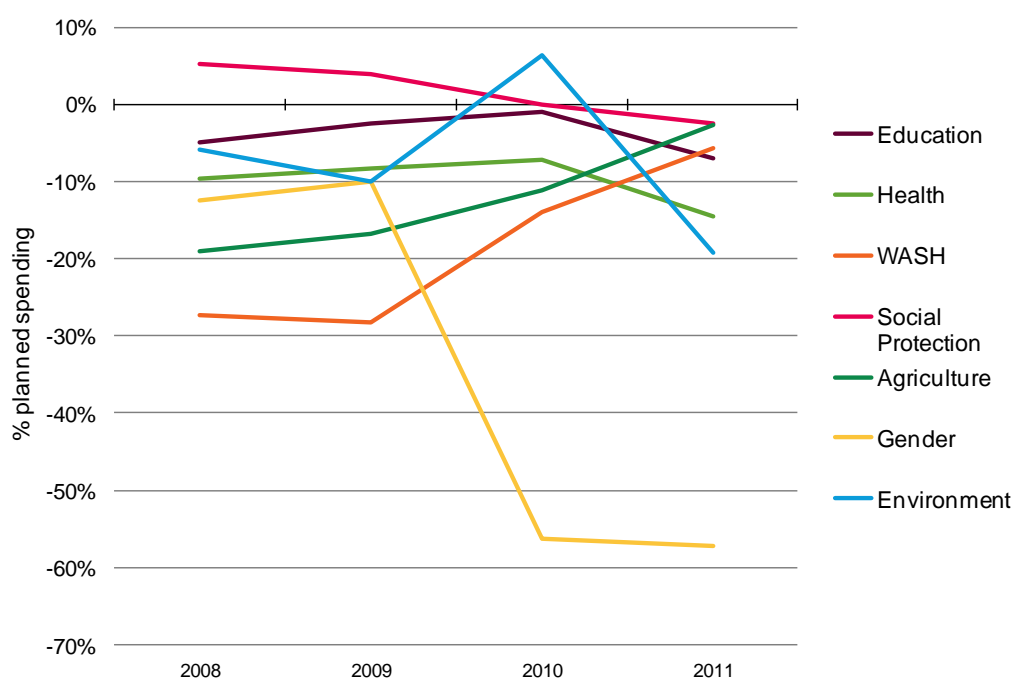


2 Implementation rates: comparing planned and actual spending

Another important factor which can influence actual spending levels is the proportion of of implementation in a particular sector. Figure 3.27 looks at the average underspend in each sector as a percentage of GDP, comparing planned with actual spending for each year from 2008 to 2011. Some sectors – notably gender and WASH, and to a lesser extent agriculture and health – have major implementation problems with shortfalls of more than 10%. Of course, underspend patterns vary between countries, but are broadly the same in terms of the numbers of countries where shortfalls occur (principally in health and agriculture). On the other hand, social protection spending has tended to exceed planned levels.

Implementation shortfalls are slowing progress, due to donor and recipient delays

Figure 3.27: Average underspend by sector (as a percentage of GDP), 2008–11



More detailed country analysis of education, health, social protection and WASH spending (Kyrili and Martin 2010b; Martin and Watts 2012a and b; WaterAid 2011) shows that major implementation shortfalls have been due to delays in donor funding as well as weak absorptive capacity on the part of government, especially in decentralised agencies. The factors responsible for higher implementation levels (in countries or sectors) have been strong sector programmes supported by pledges of donor sector budget support, or of project money linked to these programmes, because developing country governments and donors show greater determination to implement strong sector programmes.

As the GSW initiative develops, it will be vital that the campaigns and advocacy work it informs is directed at the correct targets, to look even more carefully at what is causing shortfalls in absorption/execution, and to analyse patterns of shortfalls in government-funded and donor-funded spending, as well as in recurrent or capital spending, to assess which funding sources and types of spending are more problematic. Advocacy and campaigning will increasingly need to focus on ensuring that spending plans are delivered and not undermined by low implementation rates.

3 Type of spending: recurrent vs capital

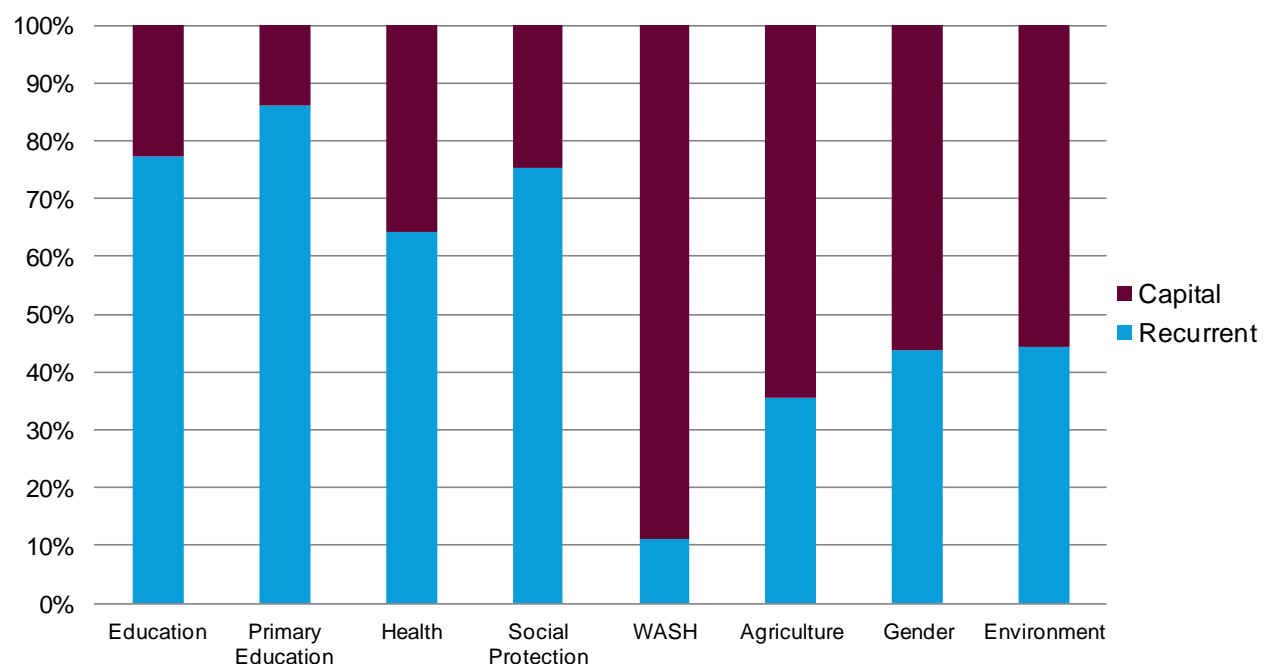
Another categorisation of spending included in the GSW database is a breakdown between capital spending (investment in buildings, equipment, etc.) and recurrent spending (for wages, maintenance, and other goods and services). Both are needed to ensure that new investment continues to deliver improved performance, and ultimately to enable countries to meet the MDGs. Too much of one without enough of the other can lead to investments not being maintained, or recurrent spending being less effective because of lack of investment. However, analysing these breakdowns is difficult, because all donor project money is counted as capital spending in government budgets, regardless of whether it funds capital or recurrent items.

Some sectors are too project-dependent, so investments are not maintained properly

Nevertheless, the GSW data reveal some major differences in spending patterns across sectors (see Figure 3.28):

- WASH spending is almost entirely (and agriculture, gender and environment largely) funded by investment projects – reflecting the high level of donor funding in these sectors linked to their preference for ‘projects’. One constant characteristic of WASH spending in recent years has been the lack of recurrent spending to maintain water and sanitation facilities once constructed.
- Education, social protection and health are much more dominated by recurrent spending – partly because they genuinely have high recurrent bills (e.g. salaries, drugs, books, and social transfer grants) and partly because they are funded to a large degree by government, and donor budget support.

Figure 3.28: Recurrent vs capital spending by sector, 2012 planned



The more worrying of these findings is the high level of ‘investment’ in WASH, (and to a lesser degree), agriculture, environment and gender sectors. Earlier analysis of WASH sector spending (WaterAid 2011 & 2013) indicated that the strong focus on ‘projects’ (i.e. investment spending) was one of the main reasons for low implementation rates. This is because it delayed disbursements and added to fragmentation of aid into small amounts of money which can be spent only in particular regions or on particular goods and services, through complex donor procurement and disbursement procedures.

Future GSW analysis and the advocacy and campaigning work it informs will also need to focus on the type of spending (investment or recurrent) to ensure that investment is well supported by long-term recurrent maintenance spending, and that donor preference for funding discrete projects does not undermine government efforts to reach spending targets by reducing funding available for recurrent spending.

4 Future spending forecasts

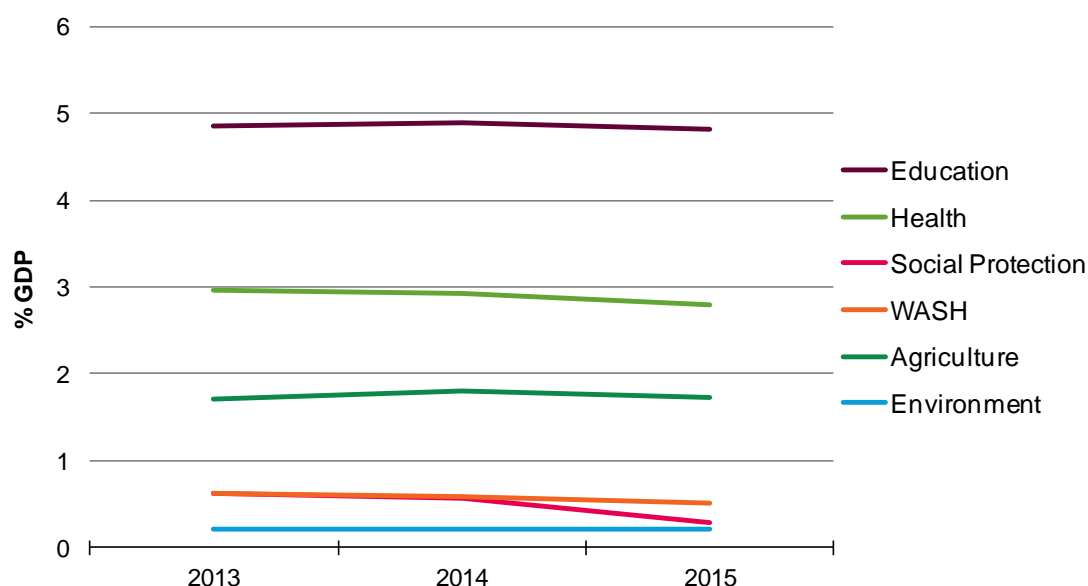
To assess whether some developing countries are aiming to scale up their MDG spending to achieve the goals, GSW has looked at projected spending through to 2015 for those countries with medium-term expenditure plans. Of the 46 countries examined so far, 19 have issued budgets for 2013, but only 12 have medium-term forecasts that cover 2014 and 2015.

There is no sign of countries planning to scale up spending by 2015

Because of the small sample size, these should not be taken as any kind of firm prediction of trends. Nevertheless, it is clear from Figure 3.29 that overall, countries appear to be planning to reduce spending between now and 2015 as a percentage of GDP, particularly in social protection and health. It is not clear how much of this trend reflects problems with getting accurate multi-year forecasts from donors as to what they will disburse, and how much reflects genuine cutbacks in spending due to fiscal tightening, budgetary constraints or expected reductions in donor aid.

There seem to be two exceptions to this picture though: Liberia, which is planning to increase spending on education, health and agriculture as a percentage of GDP; and Honduras, which plans to increase environment spending. Several other countries are planning major switches of spending priorities towards infrastructure and production. Overall, the medium-term plans offer no evidence that countries are planning to direct significantly more spending to the MDGs.

Figure 3.29: Medium-term expenditure forecasts, 2013–15



CONCLUSIONS

Overall, of the 52 developing countries covered by the GSW database, more have managed to increase real terms spending in each of the seven MDG sectors than have cut spending. This is a remarkable achievement, and reflects the strong commitment of many national governments and their citizens to achieving the MDGs.

However, in terms of trends as a percentage of GDP, most sectors have followed the overall MDG spending trend – rising in 2009 and falling back since then. Over the entire period, most sectors have seen spending rise slightly as a proportion of GDP (notably social protection), though WASH and gender spending have stagnated. Agriculture, education and health have fallen slightly as a percentage of total spending, but environment, WASH and gender in particular have seen sharper cuts, while social protection has risen.

Overall, spending on education, health and social protection has fared best since 2008, with increases of between 0.1 and 0.2 per cent of GDP. Agriculture has seen a smaller increase, while spending on environment, gender and WASH has stagnated.

The WASH sector has fared relatively well in terms of the number of countries that have increased spending as a percentage of GDP. Gender-related spending, however, has fared very badly, and the picture for education and health is surprisingly mixed. Despite the strong focus on climate change/environmental and agriculture issues at the G8 and Rio+20 summits in 2012, there is little sign of any rise in the proportion of total spending going to these sectors.

Table 3.1 gives a ‘traffic light’ summary of progress on MDG spending in each sector, including the proportion of countries meeting targets as well as the trends from 2008 to 2012. It reveals two very worrying findings:

- **No spending target is on track:** the percentage of countries meeting targets is well under half in all cases and no country is meeting the target for social protection; the key sectors of environment and gender do not even have spending targets.
- **No trend is clearly upwards:** for most sectors, spending is stagnant compared with the targets, and it is actually falling in agriculture and gender.

No spending target is on track, and there is no sector with a clearly positive trend

There is clearly a major challenge ahead for those involved in advocacy and campaigning to persuade national governments, donors, and regional and global bodies that MDG spending must be dramatically scaled up. This is the only route to avoid putting at risk the progress made towards achieving the MDGs, and to maintain progress under their successor post-2015 goals.

Table 3.1: Progress on MDG spending by sector, 2008–13

KEY	Targets	Trends
	= all countries meeting target	= upward trend towards target
	= some countries meeting target	= no clear trend, or stagnation
	= no countries meeting target	= downward trend from target
Sector		
Agriculture	19% meet Maputo target/World Bank estimate (10% of spending)	Averages stagnant Expenditure falling in most countries
Education	24% meet EFA goal (20% of spending)	Averages falling since 2009 Small majority of countries increasing spending
Environment	No target! Very low levels	Stagnant as percentage of GDP
Gender	No target! Very low levels	Stagnant/falling as percentage of GDP
Health	3% meet Abuja target of 15% of spending; 37% meet WHO estimate of \$30-40 per capita	Averages falling since 2009 Majority of countries cutting percentage of spending
Social Protection	0% meet Windhoek target (4.5% GDP) or ILO estimate (2.9-5.2%)	Average stagnant since 2009 No clear trend in number of countries
WASH	23% meet eThekweni target + UNDP estimate (=1.5% of GDP)	Average stagnant since 2008 No clear trend in number of countries

4 THE STATUS AND QUALITY OF DATA ON MDG SPENDING

WHY GOOD DATA ARE IMPORTANT

This section discusses the availability and quality of data on MDG spending across the 52 countries covered by this report, and how improvements could be made. If citizens are to be able to hold their governments (and donors) accountable for spending on the MDGs, then the first step must be for all governments to publish high-quality data which make this spending easy to identify. Yet this is currently far from normal practice in developing country budgets.

Easily accessible data are vital to transparency and accountability for spending

All of the data on MDG spending used in this report come from published documents.²⁷ These are not always easily accessible inside or outside each country, partly because some are not widely circulated (they are often not uploaded onto government websites, or are only available in printed 'budget books', of which few copies get beyond parliamentarians and government officials). GSW has managed to assemble these data through its wide global network of contacts in budget and planning offices in more than 50 countries.

In a number of cases, data were not deemed to be of sufficient quality to include in the GSW database or in this report. This was particularly the case where only a small sub-component of spending in relation to a particular MDG is known (for example, if only central government spending is available when it is known that most spending takes place through decentralised government entities); or where there is not enough disaggregation to make it possible for GSW to distinguish data on spending linked closely to an MDG.

In most cases, the lack of data is not because of an aversion to transparency by the government concerned. Instead, it is due to longstanding budget practices (such as delays in validating detailed actual spending data; or lack of disaggregations which cross-reference sectors with types of expenditure or sources of funding). However, there have been dramatic improvements in the availability and quality of data since 2000, and further improvements can easily be made if governments and other stakeholders understand the importance of the data in terms of accountability on MDG progress, and if developing country governments receive appropriate capacity-building support to present better disaggregations of their data.

To identify the remaining data gaps, this section looks at the availability of: overall data; data on total spending; data on sectoral and sub-sectoral spending; and data on type of spending and source of funding. Finally, it summarises overall data availability for each country.

OVERALL AVAILABILITY OF COUNTRY DATA

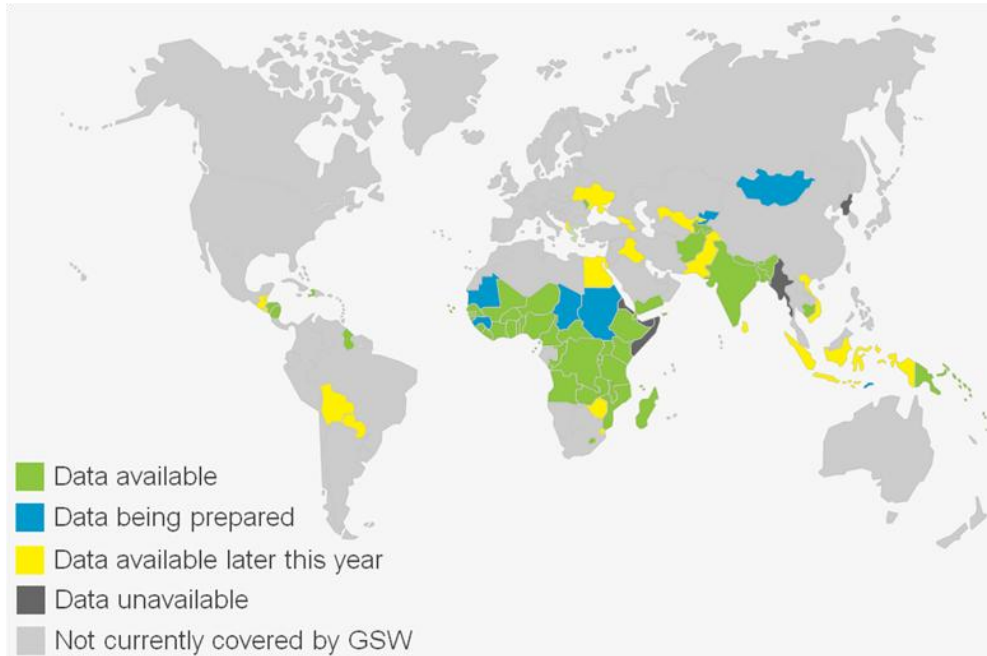
As shown in Map 1, GSW is currently reporting on MDG spending in all 36 low-income countries and (subject to resource availability) expanding this to 54 lower middle-income countries.²⁸ Of these:

- data for 52 countries are analysed in this report (27 low-income countries and 25 lower middle-income countries);

GSW currently covers 52 countries and will extend to 34 more in 2014

- work is continuing on a further 34 countries (5 low-income and 29 lower middle-income), which will be available on the GSW website by the end of 2013, and included in the 2014 GSW report;
- it has not been possible to find any reliable published data for four low-income countries (Eritrea, Burma/Myanmar, Somalia, and the Democratic People's Republic of Korea).

Map 1: Countries covered by the Government Spending Watch database



DATA ON TOTAL SPENDING

As Figure 4.1 shows, data on total spending are the easiest data to find. They are almost always contained in a summary table attached to budget speeches. Countries have increasingly been making these public and even putting them on the internet. Therefore, there has been a considerable improvement in availability of data on total national spending, from 40 countries in 2008 to 50–52 countries in 2010–11.

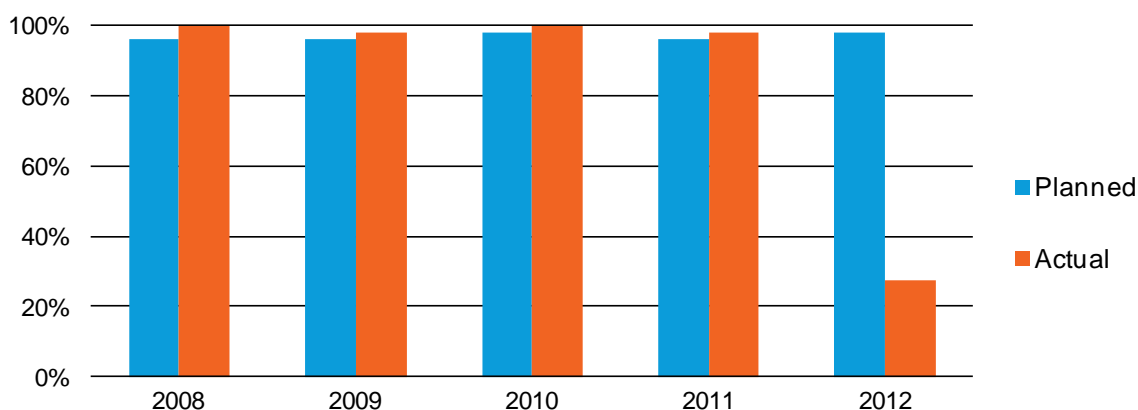
Data on total spending are high accessible, though there are some delays publishing actual spending

These documents tend to present both actual spending for the previous year and planned budget spending for the coming year. Therefore, the only significant data missing from the GSW database are for 2012, with only 14 countries having published data on actual spending. Data for 2012 actuals and 2013 budgets are expected to be available through the GSW website by the middle of 2013.

Almost all countries are now also publishing timely data showing a breakdown of total spending by type (recurrent vs capital) and by source of funding (government vs donor). However, Burundi, DRC, Madagascar and Niger have not yet published 2011 data on type of spending; and Kiribati, Madagascar and Niger have not yet published 2011 data on sources of funding.

The main reason for the data gaps in actual spending is that many (especially Francophone) countries do not publish actual spending data broken down by sector. In addition, some countries take longer (sometimes two to three years) to publish sector breakdowns, often because these are required to be audited or validated by parliament before being published. Accountability would be dramatically improved if all countries would publish reports on actual sector spending, and if auditing and validation procedures were expedited or estimates published while auditing is taking place.

Figure 4.1: Availability of overall spending data, 2008–12



DATA ON SECTORS

Data on sector and sub-sector breakdowns, which are vital to track MDG-related spending, are less readily available in most countries than overall spending data. This is generally because some countries have not established their budget classification systems to link to MDGs or other national development objectives. Instead, they are classified according to the ministry or agency which is implementing the activities funded by the spending.

As Figure 4.2 shows, the sectors where we have been able to obtain most data are education and health (72 per cent), closely followed by agriculture (67 per cent). All countries publish some data for these sectors. This reflects the fact that these sectors are generally covered by clear separate ministries and/or agencies (sometimes there are several education ministries split into primary or basic, secondary and tertiary, but it is easy to aggregate these; and the same is true for different health agencies such as national AIDS commissions, which are separate from health ministries).

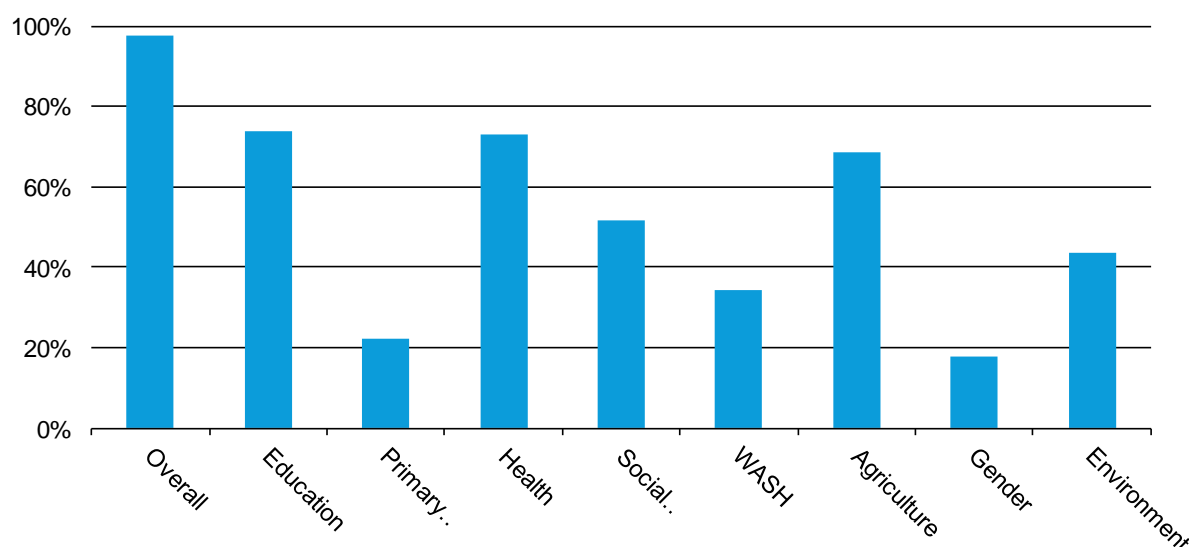
Data for education, health and agriculture sectors are most accessible: WASH and gender are least

Sector data for social protection and environment spending are available, but to a lesser extent (51 per cent and 43 per cent respectively). Though they are often split across multiple ministries and agencies, in most countries it has been relatively easy to identify social protection and environment programmes and to aggregate their data. However, for 11 countries (Bhutan, Comoros, Djibouti, Guyana, Kiribati, Lesotho, Niger, Nigeria, Tanzania, Tonga, and Vanuatu) it has not been possible to compile social protection data; and the same is true for 17 countries on environment spending (Bhutan, Burundi, Comoros, Djibouti, Ethiopia, Ghana, India, Kiribati, Malawi, Niger, Nigeria, Sierra Leone, Tajikistan, Tanzania, The Gambia, Tonga, and Vanuatu). It is striking that more than half of the countries that do not publish environmental spending data are either small islands or small states, which are highly vulnerable to climate change. In these countries, data are less readily available because the spending is only part of some ministries or agencies' budgets, and they do not publish data in enough detail to allow its compilation according to MDG breakdowns.

The sectors where data are most difficult to find are WASH (only 31 countries)²⁹ and gender (only 13 countries).³⁰ In the case of WASH, the problem arises from spending being hidden as part of a ministry or agency whose remit goes beyond water, sanitation or hygiene; and in multiple different agencies for rural and urban services. For gender, the difficulty in finding data reflects the fact that gender-related spending is often subsumed into broader social welfare ministries, with insufficient disaggregation to identify specific spending on women. In addition, only 18 countries disaggregate education spending sufficiently to identify primary education.³¹

Overall, this means that there are three countries (Comoros, Djibouti and Vanuatu) in which only education and health data are identifiable; three with data only on education, health and agriculture (Bhutan, Kiribati, Nigeria); two with data only on education, health, agriculture and social protection (Burundi, India); two with data on education, health, agriculture and WASH (Niger, Tanzania); and one with data on education, health, agriculture and gender (Tonga).

Figure 4.2: Availability of data by sector



DETAILED DATA WITHIN SECTORS

Planned and actual sector data

Figure 4.3 shows that in all sectors, there is a substantial difference between availability of data on planned as opposed to actual spending.

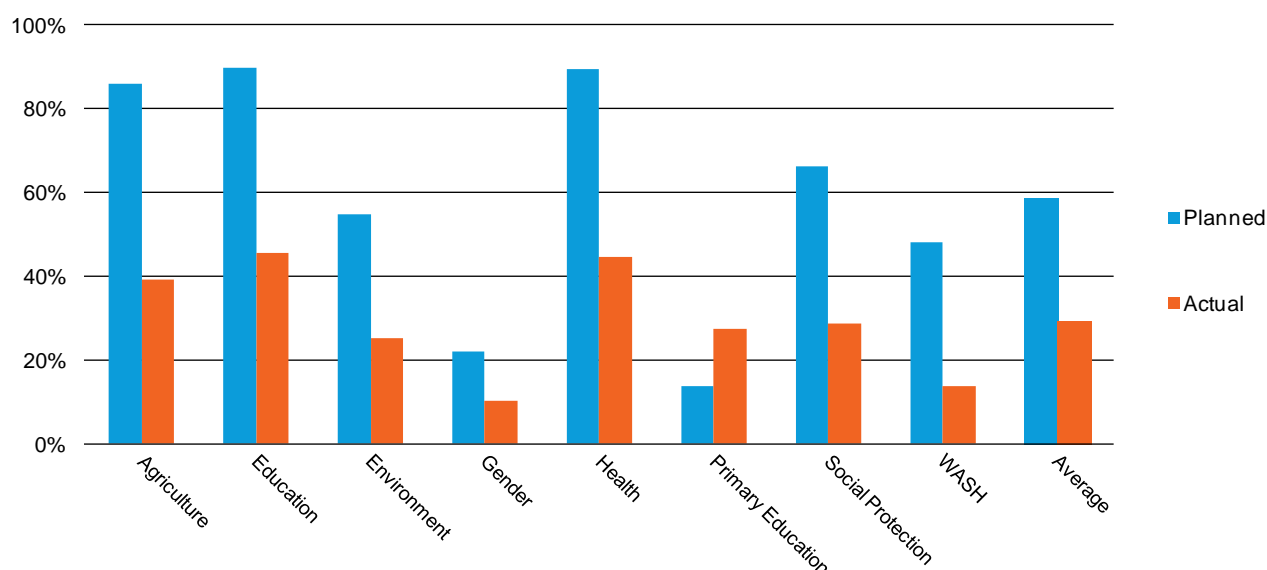
Planned spending data allow us to assess most of the targets for government spending discussed in Section 3, because they are expressed as 'budget allocations'. They are reasonably readily available – though reflect the same problems for individual sectors as discussed above. GSW has been able to compile 58 per cent of planned sector spending data, including planned education and health data for almost all countries (50), with the main gaps being an aggregate total for Nigerian states (which undertake most education and health spending) and Yemen. The database contains planned spending on: agriculture (46 countries, excluding Comoros, Djibouti, Nigeria, Vanuatu and Yemen); social protection (39 countries); environment (33 countries); WASH (31 countries); primary education (21 countries); and gender (only 14 countries).

Data on budget plans is much more accessible than on actual spending

Actual spending data allow citizens to see whether their government has delivered on its MDG spending plans, and to assess whether it is meeting the spending targets or cost estimates for each sector established by regional or global bodies (see Table 3.1). However, GSW has been able to compile only 28 per cent of actual spending data. This includes education and health spending data for 35 countries; agriculture for 29, social protection for 27, environment for 21, WASH for 13, primary education for 11 and gender for only 10 countries.

The reasons for these gaps in overall data were discussed in the previous subsection. To address these data gaps, it is essential that countries publish actual spending data disaggregated by sector, and in a timely manner.

Figure 4.3: Availability of planned and actual spending data by sector



Sector data by type of expenditure

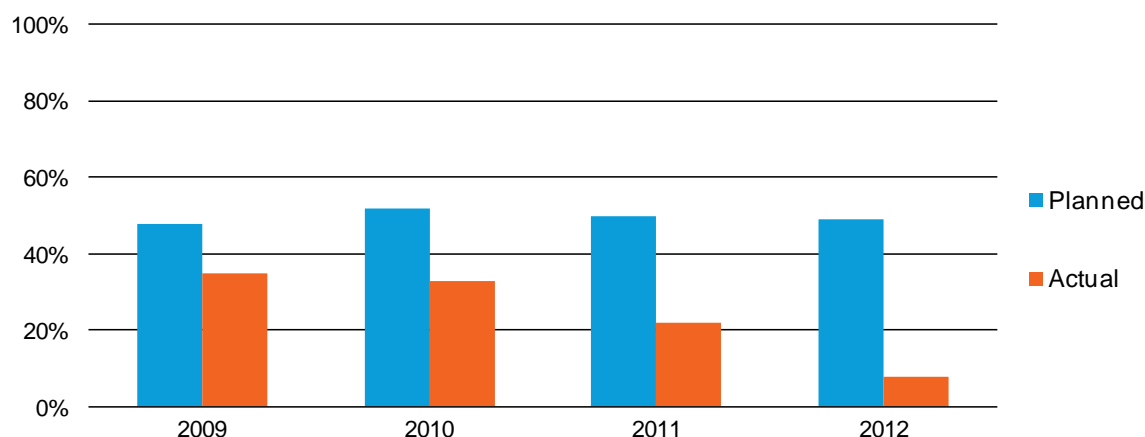
Data on types of expenditure should allow citizens to judge whether their government is spending more on recurrent costs or investment and, if disaggregated even further, would allow analysis of such aspects as wage bills or equipment costs. Analysis of the split between recurrent and investment spending is vital to assess whether investment spending is adequately increasing service provision or productivity, and whether recurrent spending is supporting recurrent costs or maintenance.

However, sector-specific data disaggregated in this way are relatively unavailable. As Figure 4.4 shows, GSW has been able to compile only 46 per cent of planned data, and 25 per cent of actuals. In particular, eight countries (Angola, the DRC, Liberia, Moldova, Nigeria, the Gambia, Yemen and Zambia) do not publish any planned recurrent/capital breakdown for sectors, and 16 countries (Benin, Burundi, Central African Republic, Djibouti, the DRC, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Moldova, Niger, Tanzania, the Gambia, Togo and Zambia) do not publish any actual sector data containing types of spending.

Only half of data are split by type of expenditure into recurrent and investment

In most countries, the lack of these data reflects: 1) a separation of responsibilities between recurrent and investment budgets, with the former details being held in finance ministries and the latter in planning ministries or commissions, which can hamper compilation of joint data (though other countries with similar splits manage to put data together successfully); and/or 2) lack of reporting from donors on the progress of projects (see next section). There need to be greater efforts to compile overall disaggregated budgets, and to enhance donor reporting.

Figure 4.4: Availability of sector data by type of expenditure (planned and actual)



Sector data by source of funds

Data on sources of funds allow citizens to judge whether their government is allocating its own funds to particular sectors, or relying on donor funding. As discussed in Section 3, this allows them to see whether government is reducing its aid dependence, the degree to which donors are supporting national priorities in different sectors, and (given aid volatility) the likely sustainability of spending.

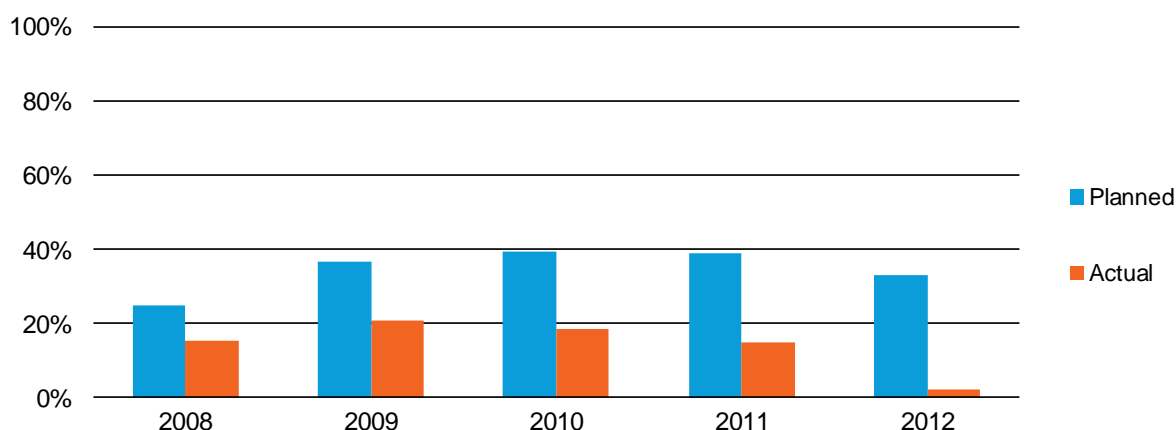
Only one third of data are split by source of funding between government revenue and donor financing

Gathering sector data by source of funds proved the most difficult task, with only 34 per cent of planned data and 14 per cent of actual data available (see Figure 4.5). Fourteen countries (Angola, Bangladesh, Bhutan, Cambodia, Côte d'Ivoire, DRC, Ethiopia, India, Liberia, Moldova, Nigeria, the Gambia, Yemen and Zambia) do not publish any planned sectoral data by source of funds; and 22 (Afghanistan, Angola, Bangladesh, Benin, Burundi, Comoros, Côte d'Ivoire, Djibouti, the DRC, Ethiopia, India, Kenya, Liberia, Madagascar, Malawi, Moldova, Nepal, Niger, Tanzania, the Gambia, Yemen and Zambia) do not publish any actual sectoral data by source of funds.

In a few countries (such as Bangladesh and India), the lack of this data reflects the national budget's low level of dependence on aid – which makes publishing separate figures for donor flows less of a priority. However, in other countries, it reflects the inability or unwillingness of donors to report (or government to collect) planned or actual donor data.

Efforts are under way to remedy this at national level through the use of more aid databases into which donors can report planned and actual spending, and by including a requirement for donors to report on these funds in 'mutual accountability' agreements with developing countries. These efforts need to be enhanced and accelerated in a large number of countries.

Figure 4.5: Availability of sector data by source of funds (planned and actual), 2008–12



OVERALL DATA AVAILABILITY BY COUNTRY

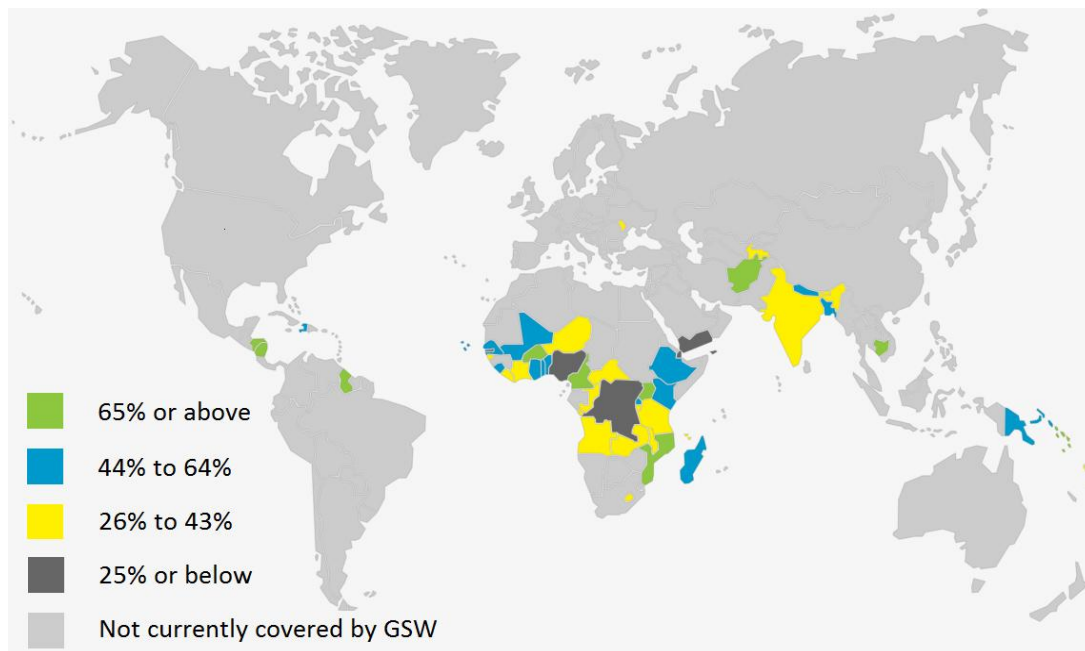
Overall, GSW has been able to compile only 44 per cent of the data needed to track and analyse country spending on the MDGs. This is largely due to: the shortfall in data on actual spending (especially for 2012) compared with planned spending; the gaps in sectoral data on gender, primary education and WASH; and the fact that sectoral data are generally not disaggregated by type of spending or source of funding.

44% of data are accessible, with widely varying country progress

However, as shown in Map 2, there is major variation across countries in the proportion of data available on the GSW site to track and analyse their spending on the MDGs.

- for ten countries (Afghanistan, Burkina Faso, Cambodia, Cameroon, Guyana, Honduras, Mozambique, Nicaragua, the Solomon Islands and Uganda), 65% or more of the data have been found to be accessible and are therefore on the GSW website.
- a further seventeen countries (Bangladesh, Benin, Cape Verde, Ethiopia, Ghana, Haiti, Kenya, Madagascar, Mali, Nepal, PNG, Rwanda, Samoa, Senegal, Sierra Leone, Togo and Tonga) have more than the 44% average level of data accessible.
- nineteen countries (Angola, Bhutan, Burundi, CAR, Comoros, Congo, Côte d'Ivoire, Guinea-Bissau, India, Kiribati, Lesotho, Liberia, Malawi, Moldova, Niger, Tajikistan, Tanzania, Vanuatu and Zambia) have only between 25% and 43% of data accessible; and
- five countries (Djibouti, DRC, Nigeria,³² The Gambia and Yemen) have accessible and on the GSW website less than 25% of the data needed to analyse spending on the MDGs.

Map 2: The proportion of data currently available for each country on the GSW site



These findings imply that countries in the latter two groups need to make concerted efforts to improve accessibility of data on MDG spending for their citizens. GSW has made the best possible efforts to obtain these data, but they do not seem to be available in a readily accessible format. These would seem to be the objective priority countries for identifying further sources of data which GSW may have missed, or for technical work, advocacy and campaigns to ensure greater transparency of MDG spending data. We hope that by working together with national governments, parliaments and civil society we can make such data rapidly accessible for updates on the GSW website, and report strong progress in this regard in the 2014 GSW report.

GSW aims to work with governments, parliaments and citizens to make more data accessible by 2014

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NOTES

- 1 This does not imply that IMF programmes are causing lower spending; many other factors may be responsible. However, it is worrying that countries following IMF programmes are seeing lower MDG spending, in spite of the IMF's recent increased focus on anti-poverty spending.
- 2 For more details on this recommendation, see Martin and Watts (2012a).
- 3 See Oxfam International (2013).
- 4 For more details, see *The World We Want* website: <http://www.worldwewant2015.org/>
- 5 For more details on data and sources, see www.governmentspendingwatch.org
- 6 Throughout this report, the phrase 'poor countries' means countries eligible for IDA assistance from the World Bank – which includes all low-income countries and most lower middle-income countries.
- 7 Throughout this report, wherever IMF programme and non-IMF programme countries are compared, this is not intended to imply any causation between the existence of an IMF programme and a trend; rather, the aim is to indicate and analyse correlations. A 2011 report (Clements et al. 2011) shows that over a longer period of 1985–2009, which included large amounts of debt relief targeted to additional social spending, spending on education and health rose by 0.75% of GDP and 1% of GDP respectively for countries with IMF-supported programmes.
- 8 In low-income countries, the very poorest are generally not taxed as they do not have formal income or buy products from sellers who apply taxes. So it is those emerging from poverty and beginning to use formal markets who are the most penalised by indirect taxes.
- 9 See OECD (2012).
- 10 No detailed and up-to-date data are currently available on external and domestic borrowing, so it is impossible to split borrowing between these two categories. This information is based on the sources for the 2010 report (Kyrili and Martin 2010a).
- 11 These figures for loans do not include IMF loans, which are not included in fiscal accounts for low-income countries because they are treated as a supplement to reserves. Their inclusion would increase the amount of loan disbursements substantially.
- 12 Increased amounts of spending are essential but not sufficient to reach the MDGs. The quality and efficiency of spending also matters. This report focuses on amounts because it makes data on quantity available for the first time. Future GSW reports (and other analysts) will use GSW data to analyse the impact of MDG spending on development indicators.
- 13 Each of these sectors of MDG-related spending has been carefully defined to ensure that it is closely linked to spending that will promote the MDGs. So, for example, education is distinguished from 'primary education'; and social protection and water and sanitation are taken from multiple ministerial and agency budgets. Much more detail on definitions and sources, generally and for each country, is available at www.governmentspendingwatch.org
- 14 The definition of MDG-related spending used here is limited to spending that is expected to have a direct impact on one of the sectoral MDGs, and does not include other sectors that promote growth and poverty reduction (e.g. industry or infrastructure). Future research and analysis by GSW will incorporate this type of spending as well.
- 15 The IMF indicates that this is because countries define differently the spending they wish to include in the floors.
- 16 Guinea-Bissau met its target only because it was halved mid-year.
- 17 Afghanistan, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Comoros, Côte d'Ivoire, Djibouti, DRC, Ethiopia, Ghana, Guinea-Bissau, Guyana, Haiti, Honduras, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Moldova, Mozambique, Nepal, Nicaragua, Niger, Nigeria, Papua New Guinea, Rwanda, Senegal, Sierra Leone, Tajikistan, The Gambia, Togo, Uganda, Yemen, and Zambia.
- 18 Angola, Bangladesh, Cape Verde, Congo, India, Kiribati, Samoa, Solomon Islands, Tanzania, Tonga, and Vanuatu.
- 19 The listing of countries meeting the EFA target is somewhat different from recent reports by the Global Campaign for Education and UNESCO – for two reasons. Their reports include a share of off-budget aid in the calculation, so for countries receiving a lot of off-budget aid (Burkina Faso, the Gambia, Lesotho, Mozambique, Tanzania, Zambia) their data are higher than ours; however, our understanding is that the EFA targets are set as a proportion of government spending in the budget, including only on-budget aid. On the other hand, GSW data are more up-to-date than UNESCO data, so for countries which have recently increased education spending sharply (such as Benin, Honduras, Madagascar, Nicaragua, Senegal), GSW shows higher spending levels.
- 20 UNESCO data also suggest that Burundi, Ethiopia, Mozambique and Nepal are meeting the primary education target.

- 21 However, GSW does not yet include a separate estimate of spending for MDG target 7.D, which is to achieve a significant improvement in the lives of at least 100 million slum dwellers. It has not been possible to separate out the amounts spent by governments on slum areas from the amounts spent on other housing and programmes. Over time, we aim to find ways to remedy this.
- 22 African Union (AU) data suggest that five countries (Burkina Faso, Malawi, Niger, Rwanda and Zambia) are meeting the target. However, these use a methodology which adds a proportion of off-budget aid into government spending. GSW does not include this, because it tracks the amount of funding allocated to health *in the budget*. In its most recent assessment of progress on the Abuja target, WHO states that Rwanda is the only low-income African country meeting the budget target.
- 23 The WHO target is not limited to government spending, so by excluding other spending, GSW is underestimating progress.
- 24 In this report, 'social protection' excludes all social services provided by government that could be classified as education or health, all support for nutrition or WASH, and universal contributory systems such as civil service pensions that do not involve any clear focus on social transfer or social protection. This is consistent with the 'social transfer' element of the UN social protection floor concept: the ILO estimates include costed grants for people with disabilities, children, the elderly, and provision of support for the unemployed (100 day public works).
- 25 It is often difficult to identify data on WASH spending as they are often subsumed within health and education. Wherever possible, we have extracted WASH spending using detailed budget data.
- 26 Please note that the level of spending may be slightly exaggerated by the case of Lesotho, which is for construction of a large dam. However, one of the main aims of the dam is to improve access to water for poor citizens, so this is included in the totals.
- 27 Detailed sources for data from each country are available on the GSW website, www.governmentspendingwatch.org by downloading the individual country data files.
- 28 For the full list of low-income countries and lower middle-income countries, see <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>
- 29 It has proved impossible to compile data on WASH spending in the following countries: Afghanistan, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cameroon, Comoros, Djibouti, Guinea-Bissau, Honduras, India, Kiribati, Moldova, Nicaragua, Nigeria, Tonga, Vanuatu, and Yemen.
- 30 The following countries *do* publish gender data for ministries or agencies specifically targeting women's development: Afghanistan, Burkina Faso, Cambodia, Cameroon, Honduras, Liberia, Mali, Samoa, the Solomon Islands, Togo, Tonga, and Zambia. Bangladesh, India and Rwanda also publish much broader annual reports analysing how much of total spending is oriented to women's development.
- 31 Angola, Bangladesh, Benin, Burkina Faso, Cameroon, Cape Verde, Côte d'Ivoire, Djibouti, Ghana, Lesotho, Malawi, Mali, Nepal, Nicaragua, the Gambia, Togo, Uganda, and Zambia.
- 32 Nigeria is something of a special case as around 60% of the federal government data needed is available, but there are big gaps in the accessibility of the budgets of decentralised states. This makes it possible in this edition of GSW to compile only actual rather than planned total government spending.

ACKNOWLEDGEMENTS

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For more information, or to comment on this report, email Richard Watts at rjwatts@development-finance.org or Alhassan Adam at aadam@oxfam.org.uk

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GOVERNMENT SPENDING WATCH

Government Spending Watch is an initiative to provide the latest available information and analysis on government spending which fights against poverty and targets the Millennium Development Goals, and to increase advocacy and campaigning worldwide on these issues. The GSW site is jointly sponsored by DFI and Oxfam, aiming to build a wider coalition of sponsors over time. For more information, please visit

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