PUTTING PROGRESS AT RISK?

MDG spending in developing countries

THE Government Spending Watch REPORT

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'.

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

Development Finance International

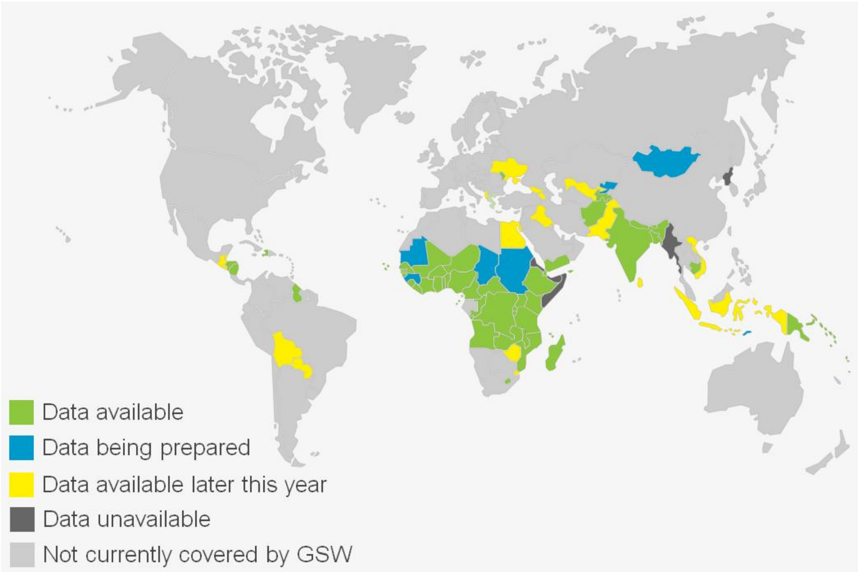
OXFAM

1 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

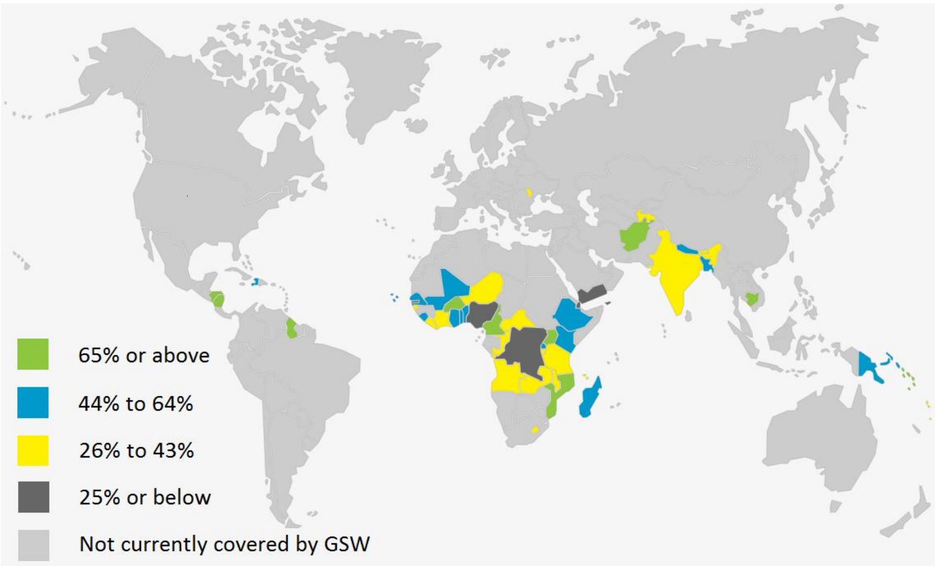
The data have been compiled from country budget documents and other published sources, using a consistent methodology across countries and with no estimates or extrapolation. They cover seven sectors – agriculture/food, education, environment and climate change, gender, health, social protection, and 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 and almost all the data needed to judge whether budget allocations match targets. However, Data on actual spending are only half as accessible as data on budgeted spending, partly due to delays in auditing and publication. As a result, 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. 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 hygiene (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



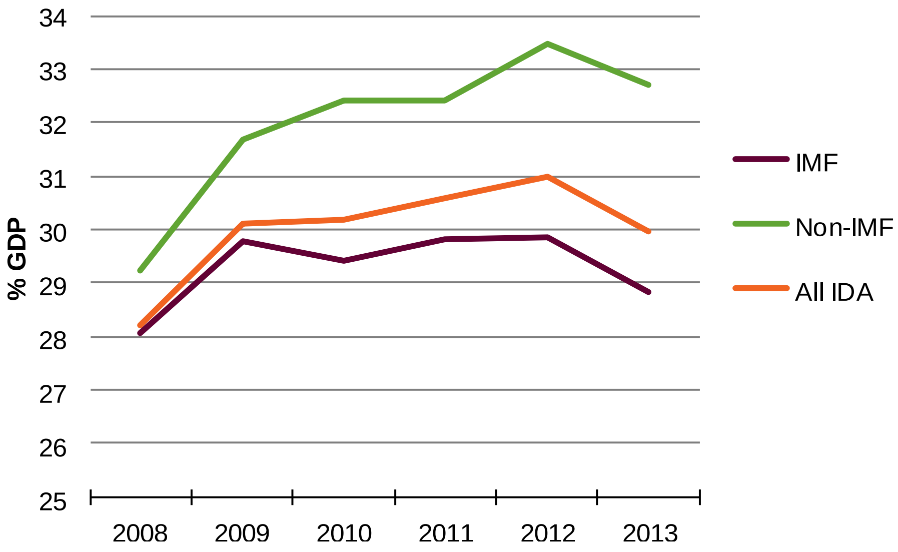
KEY FINDINGS

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 programmes[1]

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 eThekwini 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' and sector plans, which show how they will be combined to reach the MDGs.

- *Developing countries need to present 'programme budgets' and sector plans 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'.

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/

Matthew Martin, principal author of this report, is Director of Development Finance International. The DFI team compiling the data for the Government Spending Watch database was headed by Richard Watts, and include David Waddock, Maria Holloway, Jeannette Laouadi and Lance Karani. Earlier contributions, without which GSW would not have been possible, were made by Alison Johnson, Katerina Kyrili, and Hannah Bargawi. Key contributions to the compilation and interpretation of the data were made by budget officials in 52 developing countries. The Oxfam team, which provided valuable input, included Phil Bloomer, Max Lawson, Duncan Green, Elizabeth Stuart, Ricardo Fuentes-Nieva, Adam Musgrave, Alhassan Adam, Emma Seery, Guppi Bola, and James Lees. DFI and Oxfam are grateful to Save the Children (Norway and UK), WaterAid and UNESCO for financial contributions which helped to start the GSW project

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Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, 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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