



The feasibility of financing sectoral development targets

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Key points

- Government spending on key development sectors is falling short of spending targets in many developing countries
- Even total government expenditure would not, in most cases, be enough to meet the agreed spending targets
- A silo approach to sector financing means that development sectors compete for resources and this has the potential to undermine good public finance management

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A sector-oriented 'silo' approach to development financing characterises much of the current discourse. International spending targets have been set for the key sectors central to social and economic development: social protection, health, education, water and sanitation, agriculture and infrastructure, referred to in this briefing as 'development sectors' for the sake of brevity. However, this silo approach can isolate decisions regarding targets and resource allocations in these individual sectors from the overall fiscal picture – making targets inconsistent with realistic or coherent budgeting.

The Overseas Development Institute (ODI) has reviewed government expenditure and the feasibility of meeting sectoral spending targets in the six key sectors identified above

in five low-income countries in sub-Saharan Africa. The findings provide a range of insights into sector targets and affordability, the implications of sectoral targets for good public finance management and the current donor approach to development financing.

Background

Budget documents from five sub-Saharan African countries (Ethiopia, Kenya, Malawi, Mozambique and Uganda) were analysed to examine actual expenditure in the six key sectors. The analysis reviewed total government expenditure and sector specific spending targets to which governments are signatories in 2006/07, the most recent year for which comparable data are available (see Box 1 for the specific targets).

Box 1: Sectoral spending targets

Sector	Agreement	Target
Social protection	Social Policy Framework for Africa (2008)	4.5% GDP
Health	Abuja Declaration (2001)	15% government expenditure
Education	Education for All Initiative (2000)	20% government expenditure
Water & sanitation	eThekwin Declaration (2008) Sharm El-Sheik Commitment (2008)	1.5% GDP
Agriculture	Maputo Agreement (2003)	10% government expenditure
Infrastructure	African Union Declaration (2009)	9.6% GDP

The sectoral spending targets for each of the six key sectors are derived from regional or international agreements to which the case study governments are signatories, with the exception of Uganda for the education target (included for completeness). The target level of expenditure is stated in three sectors: health, education and agriculture. In the three other sectors – social protection, water and sanitation and infrastructure – the target expenditure levels are derived from costing studies with sector specifications which are identical or similar to those set out in the international agreements. An analysis of performance against the 'targets' offers an indication of the adequacy of actual sectoral financing levels, and illustrates the gap between current practice and the target levels specified by the international community. Some are expressed as a share of GDP; others as a percentage of total government spending.

As the sectoral definitions used within national budgets are inconsistent across countries, ODI created a consistent estimate of sectoral expenditure by aligning government budget and outturn data with official development assistance (ODA) data for each country. This was done using mainly the UN Classification of the Functions of Government (COFOG), in conjunction with the definitions adopted in the sectoral spending agreements and declarations. By definition governments do not include off-budget ODA (donor allocations that are not reported in the national budget or voted on by parliament) in the budget. This means that total sectoral expenditure may be underestimated by as much as 50%, and that a government expenditure review may well underestimate performance against targets.

Achievement of targets

Total government spending (including on-budget ODA) varies significantly, ranging from 20% of GDP in Ethiopia and Uganda, to around 24% of GDP in Kenya and Mozambique, and a high of 27% in Malawi. Table 1 shows: i) sector expenditure as a share of total government expenditure or GDP in 2006/07, and ii) performance against targets. As not all the sectoral agreements were in existence in 2006/07, the table measures the adequacy of actual sectoral allocations to meet targets. The targets that were met are shaded.

The research finds that government sectoral expenditure (including on-budget ODA) was not high enough in any of the five case study countries in 2006/07 to meet the social protection, water and sanitation, or infrastructure targets. Table 1 shows that only Malawi and Ethiopia met the 10% target for agriculture, and only Malawi met the 15% target for health. Ethiopia, Kenya and Mozambique managed to achieve (or exceed) the 20% target for education, but overall, only seven of the 30 different country sectoral spending targets were met. In most cases, the shortfalls were significant.

Even if off-budget sectoral aid were included, this would only increase the amount by which the targets were exceeded in those sectors where the target was already met, rather than causing targets to be met in additional sectors.

Can all targets be met simultaneously?

An analysis of 2006/07 data indicates that it would not be possible to finance the six targets simultaneously in any of the case study countries, given existing government expenditure. The total cost of all six sectoral spending targets as a percentage of government expenditure ranges from 98% in Kenya to around 120% in Ethiopia and Uganda. Figure 1 illustrates the funding shortfall if all government expenditure (domestic revenue plus on-budget ODA) were reallocated towards the six sectors.

If all government resources were directed to these six sectors, four of the five case study countries would be unable to allocate expenditure to any other government functions, and would still face a sizeable target funding shortfall. Hence fully financing all six targets from existing (2006/07) budgets would not be feasible. Reallocation would, therefore, not be an option for meeting the six targets simultaneously; the total budget does not contain a margin for reallocation, but rather a shortfall in terms of the implied resource demands of the six sectors.

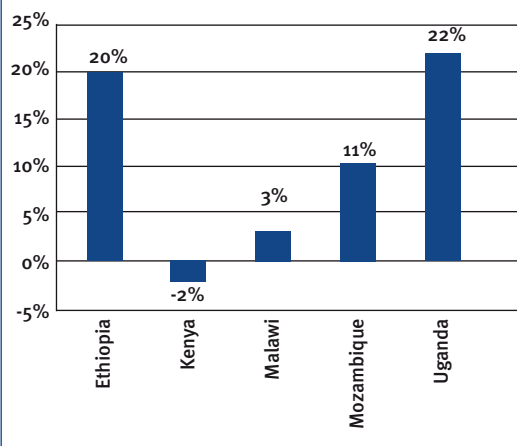
The only options for meeting the sectoral targets simultaneously would be either to increase government expenditure (for example through increased revenue or on-budget aid) or through the utilisation of off-budget aid. However, as government expenditure increases, so too do the costs of the targets as three targets are calculated as a proportion of government expenditure, so the total cost of meeting the targets is itself a moving target. Government expenditure would need to increase by between 87% (Malawi) and 154% (Uganda) to meet the targets while also retaining current levels of expenditure on other government functions.

Alternatively, if the resource envelope were to be kept constant and any of the targets were to be met, or their financing increased significantly, it would be necessary to prioritise the financing of one or two sectoral targets over others. The potential for year on year reallocations is limited. The annual margin of manoeuvre across sectors is estimated as no more than 5% of total budgeted expenditure, as committed expenditure cannot be discontinued easily in the short term (Schiavo-Campo and Tommasi, 1999).

Table 1: Sector expenditure as a share of total government expenditure/GDP in 2006

Sector	Target	Ethiopia	Kenya	Malawi	Mozambique	Uganda
		% government expenditure/% GDP				
Social Protection	4.5% GDP	0.7%	0.3%	0.4%	0.1%	0.1%
Health	15% govt. expenditure	6.6%	5.2%	16.4%	13.6%	7.2%
Education	20% govt. expenditure	23.6%	19.9%	14.4%	20.1%	16.2%
Water and sanitation	1.5% GDP	0.4%	0.5%	0.2%	0.6%	0.3%
Agriculture	10% govt. expenditure	9.9%	3.0%	15.5%	4.2%	3.5%
Infrastructure	9.6% GDP	3.6%	3.0%	1.9%	3.5%	1.7%

Figure 1: Sectoral financing shortfall if all government expenditure were allocated to the six targets (2006/7)



If off-budget aid is included in the analysis, the picture becomes more complex. This is not possible for all the countries, given data constraints, but is possible for Malawi and Uganda. In these countries 65% of total aid in the six sectors is off-budget, and not recorded in government budgets. Despite the magnitude of these flows, even when off-budget aid is taken into consideration, expenditure still falls below target in all sectors in Uganda, and in the social protection, education, water and sanitation and infrastructure sectors in Malawi. Interestingly, for health and agriculture in Malawi, off-budget aid contributes significantly to spending levels in sectors where the target is already exceeded. As off-budget aid is by definition not recorded in government budgets, governments are not able to monitor total sectoral expenditure. This undermines the possibility of effective sectoral budgetary management.

Assuming that 2006/07 levels and shares of sector spending have remained broadly consistent, total on-budget ODA would need to double to achieve the sectoral spending targets in these six sectors. In the current environment of fiscal consolidation in donor countries, such a significant increase is unlikely in the short to medium term and even the maintenance of 2006/07 ODA levels may be a challenge.

Policy lessons

It is argued by some that developing country governments lack the political will to allocate resources to certain sectors. Political economy analysis suggests there may be a range of implicit financial and political incentives for governments to become signatories to international initiatives, even if they have little intention of working actively towards the realisation of the targets (see, for example, the work of Dijkstra (2011) on PRSPs and Cooksey (2011) on agricultural marketing).

However, this study has indicated that the inadequacy of public expenditure in key sectors is also informed by real fiscal constraints, and the inherent impossibility of meeting the range of international targets simultaneously, using domestic resources. In the absence of significant increases in government expenditure and/or donor support, neither of which is foreseeable in the short term, these sectoral spending targets are, effectively, in competition for scarce budgetary resources, and can only be fully financed at the expense of each other.

Decisions over expenditure allocations are part of the domestic political process and reflect policy preferences, with broad political economy issues often overriding developmental policy concerns. Attempts to influence the reallocation of expenditure between competing development priorities must contend with the reality of both formal and informal political pressures. Despite the identification of potential efficiency gains, or the preference for increased funding in a particular sector by donors, the influence of domestic political constituencies is the dominant factor underlying decision-making.

Decisions on how much revenue is raised and spent, and how it is allocated across sectors, need to be rooted in processes that take into account coherence across sectors, fiscal sustainability and domestic accountability. Working to achieve sector spending targets can result in silo-based spending decisions that challenge effective and efficient public finance management.

This analysis raises wider questions about the role of international targets for specific sectoral development goals. Lobbying for the attainment of specific targets may result in the realisation of targets in certain sectors at the expense of investment in others with less efficient advocates. More importantly, however, the achievement of all the targets simultaneously is not fiscally feasible in the short or medium term. For this reason efforts to reach these targets simultaneously in line with international agreements would not be consistent with realistic or credible public financial management. The incompatibility between meeting the targets and overall fiscal coherence is illustrated by the tensions which can emerge between those in government and the donor community whose concern is overall fiscal integrity (such as Ministries of Finance and the International Monetary Fund), and those working to attain specific sectoral allocations.

This study has also illustrated the potential of off-budget aid to disrupt budget planning and accountability in aid-dependent countries. The fact that such a high proportion of donor spending in the six sectors is off-budget may further undermine good public finance management practice. Lack of consolidated information on off-budget aid from donors means that recipient governments must make budgetary decisions based on partial, inaccurate, and sometimes unreliable information, and this risks undermining the integrity of the budget cycle.

International agreements, such as the Accra Agenda for Action and the International Aid Transparency Initiative of 2008, set out principles and practical actions towards better alignment of aid to recipient country requirements, but these agreements are still in their infancy and implementation remains imperfect.

Sectoral spending targets have a role, as it is impossible to achieve desired outcomes without allocating adequate resources. Over recent decades, financial targets have been used as part of the development process to stimulate debate, in an attempt to concentrate domestic and donor resources on priority sectors. While such targets can serve as a useful focus for sectoral lobbying, they should be taken 'seriously but not literally' (Wood, 2004), and used to guide and motivate the raising and spending of public finance, whilst being mindful of the impossibility of their collective realisation in the short to medium term.

It is important to caution against the notion that any particular sectoral spending target is inherently 'affordable' (or 'unaffordable') in any objective sense, as affordability is contingent on broader political preferences, and the realisation of one target is likely to be at the expense of another, given the inadequacy of the total resource envelope. Successful lobbying in one area may be to the detriment of performance in other key sectors with weaker lobbies. Given the unavoidable overall financing shortfall, the key question becomes the prioritisation of the use of existing resources, and the opportunity cost, in terms of meeting sectoral objectives and of allocating resources to programming outside these sectors.

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Useful resources:

The full report is available at <http://bit.ly/i1huQX>

Project Information:

This research project was carried out by the Social Protection Programme, in collaboration with the Centre for Aid and Public Expenditure (CAPE) and Business and Development Programme at ODI in 2010. It was funded by the UK Department for International Development (DFID). The Social Protection Programme is continuing work on financing social protection. For the full report, visit: www.odi.org.uk/resources/details.asp?id=5128&title=financing-social-protection-light-international-spending-targets-public-sector-review