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The Affordability of Social Protection in the Light of International Spending Commitments

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In recent years a number of international sector-specific agreements have been developed by the international community and ratified by developing countries – some with specific spending targets. This article offers an empirical analysis of the individual and aggregate affordability of six sectoral targets and, based on the actual or estimated cost of each of the targets, compares target spending levels with actual government expenditure in five African countries. Most targets are not met and, while individually 'affordable', the estimated cost of meeting the six targets simultaneously indicates that they are not jointly affordable, with an estimated cost of more than 100% of total government expenditure in four of the five countries. Meeting any of the sectoral targets in full would require either sectoral trade-offs, or significant increases in donor or government expenditure.

Key words: Development targets, international agreements, development financing, aid allocation, social protection

1 Introduction

> The real problem with universal [social protection] schemes is not their aggregate cost ... but the fact ... that they have to be financed from general government revenue and therefore have to compete every year with all other expenditure priorities of the government. (Beattie, 2000: 142)

Social protection is a relatively new sector on the policy agenda in low-income countries (LICs) and, as with other development sectors, its growing policy prominence has been accompanied by a rise in advocacy for the allocation of government resources, including an African Union agreement (Social Policy Framework for Africa, 2008) that promotes a detailed package for member countries. This has raised questions relating to the 'affordability' of the provision of basic social protection in LICs, which have been only partially addressed in the existing literature (see, for instance, ILO, 2008). The affordability discussion is sometimes more ideological than empirical and – even more importantly – often examines affordability from a single, rather than a multiple, sector perspective.

Since Beattie's (2000) statement no other empirical study has considered the affordability of the social protection provision in the context of other development sector

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spending targets.The study illuminates the social protection affordability debate, locating it within a broader debate regarding the financing of a range of key development sectors, examining wider questions relating to targets and affordability. The public discourse in other sectors, such as health, has followed a similar pattern of sectoral-silo activism and the subsequent setting of specific spending targets.

This article offers an empirical analysis of social protection affordability, by examining the social protection expenditure levels implied by the Social Policy Framework for Africa – in relation to actual social protection expenditure in five sub-Saharan African countries. The same analysis, involving the costing of international agreements relating to five other key development sectors (health, education, water and sanitation, agriculture and infrastructure[1]) is carried out and compared to actual sectoral and total government expenditure, thus illuminating the individual and joint affordability of international spending targets. Since three of the six sectors do not have explicit spending targets, implied spending targets have been used in the article, based on simulation studies, and the simplifying assumption that investment in each sector is to be realised at full scale right away. Hence the article presents an assessment of the hypothetical affordability of financing these development sectors simultaneously, and sheds some light on the following questions:

- How does current government expenditure on social protection and other key development sectors relate to international sectoral targets and commitments?
- How much does international aid contribute to achieving targets?
- What is the aggregate cost of these targets in comparison with total government expenditure?
- What are the implications for social protection affordability and public finance management?

In order to address these questions the article provides a detailed analysis of government expenditure in five sub-Saharan African (SSA) countries: Ethiopia, Kenya, Malawi, Mozambique and Uganda using national budget data for the year 2006/7, the most recent year for which actual expenditure data were available for all five countries. The empirical analysis is based on a specially constructed dataset that takes account of comparability problems that arise when using national budget data. We examine social protection expenditure in a broader fiscal context by considering it in conjunction with expenditure on the other development sectors. Expenditure in each of the six sectors is reviewed in relation to international sectoral targets to which SSA governments are signatories. Joint affordability of the targets is examined by assessing the total cost of the targets against total government expenditure, or their estimated values. The role of on- and off-budget expenditure is also analysed.

The five case-study countries vary greatly in terms of income levels and aid dependence, as shown in Table 1.

1. These sectors are considered central to the social and economic development process and will be referred to as development sectors for the sake of brevity.

Table 1: GDP and government expenditure (2006-7) (US$m.)

	Ethiopia	Kenya	Malawi	Mozambique	Uganda
GDP (2007)	20,232	24,725	3,456	7,011	12,077
GDP per capita, PPP (constant 2005 $)	683	1386	660	708	966
Total govt. expend. (% GDP)	4,192 (20.7%)	6,017 (24.3%)	923 (26.7%)	1,669 (23.8%)	2,454 (20.3%)
Total govt.-recorded ODA (% govt. expend.)	1,460 (35%)	188 (3%)	256[a] (28%)	485 (29%)	1,172 (48%)
Off-budget ODA/ total ODA	>26%		89%	56%	50%

Notes: ODA=Official Development Assistance; a) Excludes debt relief.
Sources: Country budgets; World Development Indicators (2010); Christiansen et al. (2007); Warren-Rodriguez (2007).

Kenya is the richest country, both in terms of absolute GDP and also on a per capita basis, with double the GDP per capita of the two poorest, Ethiopia and Malawi. Across the case studies government expenditure ranges from 20% to 27% of GDP.

All five countries are recipients of Official Development Assistance (ODA). While on-budget ODA does not account for a significant share of government expenditure in Kenya (3%), it represents between 28% and 48% in the other case-study countries. In addition to on-budget ODA, governments also receive off-budget donor allocations which are not reported in the national budget or voted on by parliament. The consolidated information available to a recipient country regarding off-budget aid is often poor and most countries can provide only rough estimates of total off-budget expenditure. In the case-study countries total off-budget aid is significant, ranging from 26% to 89% of total ODA.

This article proceeds as follows. First the debate on the affordability of social protection is summarised, and then the sectoral spending agreements and declarations in the key development sectors are outlined. The methodology and data sources are explained next. Section 5 gives the results, measuring actual expenditure against targets. The final section presents the conclusions and highlights the implications for social protection affordability, as well as the affordability of the other key sectors, donor funding practices and overall public finance management.

2 The debate on the affordability of social protection

The literature on the affordability of social protection in LICs does not attempt to define 'affordability', but does imply that it may be in some sense objectively ascertained. This article does not attempt to define affordability, but considers it as an inherently subjective, rather than objective, term, and assesses it as a relative rather than absolute concept, which is ultimately determined by political preferences and the trade-offs which these imply, relative to expenditure in other sectors.

The literature has addressed the question of affordability from three distinct perspectives in recent years: (i) social justice and economic efficiency, (ii) assessments of cost and (iii) exploration of financing modalities. The first debate spans social justice and economic arguments, arguing that it is both morally necessary and economically efficient to invest in social protection. Social protection is argued to be affordable and essential because of its contribution to creating inclusive growth and reducing poverty, and with the cost of inaction being much higher. For example, Cichon et al. (2004) argue that social protection affordability should be seen in terms of transfer efficiency, as well as a reflection of societal values.

The second perspective calculates the cost of the provision of a minimum package of social protection, and derives conclusions on affordability from these costs. The International Labour Organization (ILO) has undertaken an influential series of studies (see, for example, Pal et al., 2005; ILO, 2008) that model the cost of the provision of a basic social protection package in LICs.[2] The package costed includes universal old age and disability pensions, basic child grants and provision of support for the unemployed (100-day public works), as well as access to basic healthcare. The cost of the basic package, excluding health provision, was modelled for seven SSA countries[3] and the results were found to range from 2.9 to 5.2% of GDP in 2008 (ILO, 2008). The ILO argues that this package is affordable in the medium term on the basis of both donor and governmental reallocation of existing finance and raising new funds. This approach examines the question from an exclusively social protection sector perspective (described in the remainder of this article as a 'silo-approach' for the sake of brevity), rather than examining the affordability in the context of competing sectoral claims on the fiscus.

More research on the cost of social protection has been done by Hanley (2009) in a study on fiscal space for social protection in five countries in West and Central Africa. On the basis of various simulation studies, it found that the cost of providing a universal child benefit and social pension varies considerably across the countries, ranging from 1.1% of GDP in Equatorial Guinea to 11.3% in Ghana, considerably higher than the ILO estimates, despite the more limited set of instruments funded.[4] The study argues that while there may be potential fiscal space for social protection provision in the low-population, oil-rich countries of the Gulf of Guinea, in poorer, more population-rich countries only more modest packages would be affordable.

The third perspective comprises a group of studies which examine sources of financing rather than offering specific cost estimates. Starting from the reasonable assumption that spending on social protection is inadequate in LICs and should be increased, Barrientos (2007) argues that an appropriate financing mix is necessary not only to generate funds, but also to ensure the right incentives and secure legitimacy. The optimal financing mix should include reallocation, growth, creating a greater tax base and more reliable aid funding. Holmqvist (2010), considering sources of funding for the basic ILO social protection package, looks specifically at the potential contribution of ODA financing and proposes a model of Cash on Delivery Aid, in which the costs of social protection are shared on the basis of an agreed formula between donors and governments over time. Both

2. The ILO studies were the first to assess the costs of providing a basic social protection package and were used as an analytical basis for key documents, notably the UN Social Protection Floor and Social Protection Expenditure Reviews.
3. Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal and Tanzania.
4. Senegal is the only country in both studies. Hanley (2009) estimates a cost of 6.4% for a universal child benefit only, while ILO (2008) estimates a cost of 4.2% for the basic social protection package.

studies argue for an increase in government and donor financing, but with an appropriate set of linked incentives also in place.

Rather than addressing financing mechanisms, or attempting to cost provision, this current article adopts ILO cost estimates and examines the question of affordability from the perspective of government expenditure and competing sectoral claims, locating the social protection sector within the wider development financing and public finance management context, rather than adopting a sectoral silo-approach. With the exception of Beattie (2000), who points out that the main affordability dilemma of universal social protection is the competition with other government expenditure priorities, this is an understudied area, especially in the academic literature.

3 Sectoral spending targets

Social protection is the most recent in a number of key development sectors that has been the focus of donor and government interest over recent decades. For each of the six key development sectors, regional or international sectoral agreements to which the case-study governments are signatories are identified. These agreements include targets which are either expressed in the form of spending targets, in the form of percentage of government expenditure or GDP, or in terms of a commitment to the provision of specified outcomes (as in the case of social protection, infrastrucute and water) without explicit expenditure targets. For the latter, the objectives outlined in the declaration were matched with an appropriate costing study, adopting an identical or similar sector specification, and targets were derived on the basis of the cost of achieving the expected outcomes. Each sectoral target is discussed below.

The main social protection sector target to which African Union governments are signatories is enshrined within the Windhoek Declaration of 2008 (African Union, 2008a). The Social Policy Framework (SPF) aspires to the provision of a minimum package of social protection, comprising grants for children, informal workers, the unemployed, older persons and the disabled, together with broader social policy provision, including basic health care, and an implied commitment to ongoing contributory pension schemes for civil servants. No specific start date is given and it is expected that such a system will be built gradually. Furthermore, no specific expenditure goal was associated with the social protection component of the SPF, but the cost of the Windhoek target is approximated in this study using the 2008 ILO costing study which is almost identical in terms of provision.[5] Despite the fact that the SPF framework is not expected to be fully implemented right away, the cost of the full package is used in this analysis in order to assess its hypothetical affordability.

For the seven ILO case-study countries, the average cost of the basic social protection package in 2008 was estimated at 4.5% of GDP, ranging from 2.9 to 5.2% of GDP (ILO, 2008), depending on the poverty and demographic profile of a given country. Two of the countries selected for inclusion in the present study, Ethiopia and Kenya, were also

5. The SPF mainly differs in its implied commitment to public pensions, these costs are not included in the estimate of cost of basic provision in this study, which interprets the social insurance schemes and benefits to informal workers included in the SPF as broadly comparable in cost terms to the 100-day employment scheme included in the ILO costing.

included in the ILO study which estimated the country-specific cost of social protection provision to be 5.2% in both countries, the upper bound of the range of estimates. The cost of health, while included in the basic ILO package, has been excluded throughout this study to avoid overlap with the health sector costing.

SSA governments are signatories to a costed commitment on health provision made at the Special Summit on HIV/AIDS, Tuberculosis and Other Infectious Diseases held in Abuja, Nigeria in 2002. AU governments agreed to a minimum health-sector spending target of 15% of government expenditure.

In the education sector a specific target has been signed by 25 governments in SSA in the form of the Education For All Fast Track Initiative (EFA-FTI)[6] at the World Education Forum in Dakar, Senegal, in 2000, on the basis of which governments agreed to increase education spending to at least 20% of government expenditure. Although being a signatory does not necessarily guarantee increased aid in this sector, the EFA-FTI does also function as a source of donor financing.

A specific spending target for sanitation was agreed in the eThekwini Declaration signed at the second African Conference on Sanitation and Hygiene in Durban in 2008, where the African Ministers' Council on Water agreed to spend a minimum of 0.5% of GDP on sanitation and hygiene. However, no similar spending target was agreed for water. While AU governments pledged to 'significantly increase domestic financial resources allocated for implementing national and regional water and sanitation development activities' at the AU summit in Sharm el Sheikh in 2008, no spending target was associated with this commitment. Since the case-study governments were also signatories to the Millennium Declaration at the 2000 UN Millennium Summit, the water target of 1% of GDP required to meet the Millennium Development Goal (MDG) 7c[7] (as costed by UNDP, 2008) is adopted. Hence in line with the costed sanitation and MDG objectives, the implied commitment of African governments to water and sanitation is approximated in this study by a total spending target of 1.5% of GDP.

In Maputo, Mozambique, in 2003 AU Ministers of Agriculture agreed to direct 10% of government expenditure to agriculture and rural development. This includes expenditure on irrigation projects, agrarian reforms, regulation of fishing and other activities (but excluding road investments).

At the 12th AU Assembly in 2009 Heads of State and governments agreed to 'increase public financing for infrastructure' in general and 'to speed up the development of transport and energy infrastructure' (AU, 2009) in particular, but did not set a specific spending target. The 2010 Africa Infrastructure Country Diagnostic (AICD), a joint AU and World Bank initiative, estimated the investment needs for the different infrastructure sub-sectors (ICT, power, transport, and water and sanitation) at 15%, with 9.6% required for the energy and transport sectors alone. Given the AU focus on transport and energy infrastructure (AU, 2009), the lower estimate from the AICD study, addressing energy and transportation investment costs (9.6%), is used as the implicit target for infrastructure.[8] As with the social

6. Uganda was not a signatory to this initiative, but for the purposes of this study, has been treated as though it were, for the sake of completeness.
7. To halve the proportion of people without sustainable access to safe drinking water and basic sanitation.
8. The AICD study states that this expenditure level is the total required investment, but does not clearly state how much of this should be paid from public expenditure, user fees, etc. Owing to lack of better estimates, we assume the entire cost is borne by public expenditure.

protection target, the infrastructure target is not expected to be achieved by signatory governments immediately, nor is a specific spending level agreed, and it is the hypothetical affordability of full delivery which is considered here.

Based upon the discussion above, the actual or implicit targets that form the basis of the analysis presented in this article are summarised in Table 2 below.

Table 2: Sectoral spending targets

Sector	Agreement	Explicit Spending Target	Target
Social protection	Social Policy Framework for Africa (2008)	No	4.5% GDP
Health	Abuja Declaration (2001)	Yes	15% Govt. expend.
Education	Education for All Initiative (2000)	Yes	20% Govt. expend.
Water and sanitation	eThekwini Declaration (2008) Sharm El-Sheik Commitment (2008)	No (water) Yes (sanitation)	1.5% GDP
Agriculture	Maputo Agreement (2003)	Yes	10% Govt. expend.
Infrastructure	African Union Declaration (2009)	No	9.6% GDP

Note: Explicit Spending Targets are those for which the expenditure target is specified in the agreement. For the other targets the objectives outlined in the agreement are matched with an appropriate costing study.

4 Methodology

This section discusses definitions, the empirical approach adopted, and the data sources used. Government expenditure is defined as total expenditure, based on the budget approved by parliament or other legislative bodies. This expenditure is funded from both domestic sources (such as tax revenue and treasury bills) and on-budget official donor assistance (both programme and project financing). Off-budget donor expenditure is not reported in the national budget and consequently is excluded from calculations of total government expenditure.

Expenditure in the six key development sectors is examined in relation to the international agreements outlined above. As the sectoral definitions used within national budgets are not comparable across countries, a consistent estimate of sectoral expenditure was created by aligning government budget data and ODA data for each country using consistent sector definitions. This was achieved by using the UN Classification of the Functions of Government (COFOG),[9] in conjunction with the definitions adopted in the sectoral agreements outlined above to derive consistent content for each sector across

9. COFOG is a classification defined by the United Nations Statistics Division and is designed to be general enough to be able to be used in all countries. It was created to enable comparability of government budgets across countries.

countries. In the case of both social protection and water and sanitation it was necessary to deviate slightly from the COFOG sector definitions to match the target agreements, while a new infrastructure category was created, as COFOG does not include infrastructure as a separate sector. These adjusted sector definitions were used to calculate government- and donor-funded sector expenditure and the relationship between budget allocations and sectoral targets.

Activities included under social protection vary considerably by country and institution, encompassing a range of publicly mandated actions that seek to address risk and vulnerability among poor and near-poor households, as well as programmes to address chronic poverty and maintain income standards. Social protection generally includes non-contributory social assistance, as well as contributory social insurance programmes. To ensure consistency with the ILO 2008 costing study, contributory programmes, most notably civil-service pensions and their associated benefits, and emergency aid – which together comprise a significant proportion of government-reported expenditure on social protection in many LICs – are excluded from the definition of social protection adopted in this article and the associated target. The COFOG definition of social protection is also wider than that of the ILO, for example including housing and civil-service pensions. Hence, in this study estimates of social protection expenditure are likely to be lower than other analyses which include a wider range of categories as part of social protection expenditure. It is also important to highlight that allocations to initiatives which can arguably be described as 'socially protecting' but which do not employ conventional social protection instruments, such as the Agricultural Input Subsidy Programme (AISP) in Malawi, are not included in the social protection category, but in their home sectors, for example in agriculture.

Health and education are consistent in the agreements and COFOG – both definitions include all health and education expenditures as set out in government budgets. The COFOG definition of water is quite narrow, only focusing on water supply, and sanitation expenditure is not covered at all. The target sector definition used in this study includes water and sanitation, as defined by various agreements outlined above rather than COFOG. The agriculture sector target consists of agriculture, including livestock, fishing, hunting and forestry, as well as public expenditure on irrigation projects, agrarian reforms and the regulation of fishing. The infrastructure target sector definition is informed by the 2009 AU agreement and AICD 2010 study and includes transport, energy and ICT.

A range of data sources for government sector spending were used. In each country data were gathered from a number of official sources, primarily from Ministries of Finance, ranging from published budgets to unpublished audited actual expenditures. Detailed government data were investigated further with line ministries to ensure the correct allocation of budget items according to the sectoral definitions adopted in this study. This article uses data for the year 2006-7, as this is the most recent year for which both budgeted and actual government expenditure data were available for all five case-study countries.

Aid flows to the six sectors are quantified using two main ODA data sources: (i) recipient government data and (ii) data from country-level Aid Information Management Systems (AIMS), developed by donors and provided by third-party commercial partners. In order to address the problem of undocumented off-budget transfers, AIMS are designed to provide a comprehensive overview of aid within the national economy by presenting detailed information on all aid spent in a country.[10] AIMS data include both ODA that is captured in the government budget and also other, off-budget flows, using alternative data sources rather than relying on government-reported aid flows. However, even AIMS databases, while being able to measure more ODA inflows, are often unable to identify what aid is on-budget and off-budget.[11]

Two key caveats should be noted in relation to the analysis and findings presented in this article. Data on sectoral off-budget aid are not available for three of the five countries (Ethiopia, Kenya and Mozambique). Up to 89% of total ODA is delivered off-budget in Malawi, and 51% in Uganda, implying a massive additional resource flow equivalent to 120% and 26% of total expenditure, outside the formal budget process respectively in each country. Given the magnitude of off-budget aid in relation to government expenditure implied by these figures, it is likely that sectoral expenditure and total expenditure will be underestimated significantly in this study, and hence calculations of performance against targets will be similarly underestimated.

The second caveat is that three of the targets, relating to social protection, water and sanitation, and infrastructure, postdate the data under review, having been agreed *after* 2006-7. Furthermore, for these same sectors no specific expenditure level was set (with the exception of sanitation). For these sectors the analysis should not be read as a retrospective assessment of country performance against targets, but rather as an assessment of the hypothetical adequacy of sectoral financing levels, compared with the levels implied in the agreements, which the governments have signed.

5 Spending in comparison with development targets

This section compares actual sectoral expenditure with the spending targets outlined above. The fiscal implications of attempting to meet the targets collectively are also analysed. The implications of taking off-budget aid into account are examined, and an analysis comparing actual social protection expenditure against the range of ILO estimates for the social protection target is carried out.

5.1 Achieving sectoral targets

Sector-specific expenditure was calculated for each country and compared with the target levels of expenditure by sector. For the targets that were not in existence in 2006/7 or those without a specific expenditure target, Table 3 measures the potential adequacy of sectoral financing to achieve targets. The sectoral targets which are met are shaded in grey.

None of the countries come close to achieving the social protection target of 4.5% of GDP, ranging from 0.1% (Mozambique and Uganda) to 0.7% (Ethiopia), indicating that even if the lower bound of the ILO costing were considered (2.9% of GDP), there would still be significant shortfalls in each country.

The health target (15% of government expenditure) is exceeded in Malawi, and Mozambique is close to achieving it, at almost 14%. However, in the other countries less

10. In theory, AIMS should capture the share of aid that comes as credits, but in practice they frequently do not.
11. The OECD DAC data are also inadequate, because they do not capture all off-budget aid and use different sector definitions. They are not therefore comparable to government-recorded aid.

than half of the target is met according to official government data. Off-budget financing has a notable impact on addressing this deficit, as the analysis of off-budget aid below will show.

Table 3: Sector expenditure as a share of total government expenditure/GDP, 2006-7 (%)

Sector	Target	Ethiopia	Kenya	Malawi	Mozambique	Uganda
	% government expenditure or % GDP (as applicable)					
Social Protection	4.5 GDP	0.7	0.3	0.4	0.1	0.1
Health	15 Govt. expend.	6.6	5.2	16.4	13.6	7.2
Education	20 Govt. expend.	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. expend.	9.9	3.0	15.5	4.2	3.5
Infrastructure	9.6 GDP	3.6	3.0	1.9	3.5	1.7

Note: Shading indicates that target has been met.
Source: Own calculations based on government budgets

The education target of 20% of government expenditure features prominently in the national policy discourse of the case-study countries, and is met in all countries except Malawi and Uganda which allocated 14% and 16% respectively. The shortfall is thus significantly lower than for the other targets. The EFA-FTI initiative is a high-profile joint donor-recipient country partnership and a potential source of ODA. This may explain in part the relative success of progress against this target. The water and sanitation target of 1.5% of GDP is not attained by any of the countries, with some spending only about one-third of the target or less.

Kenya, Mozambique and Uganda spend around one-third of the agriculture target (between 3% and 4.2% of government expenditure). However, this target is almost met by Ethiopia, and is exceeded in Malawi by 50%, largely because of the large-scale AISP. This could potentially also be classified as a social protection programme in terms of its policy objective, since it forms a major plank of national anti-poverty policy. Conservatively estimated at 1.9% of GDP in 2006-7,[12] it would then increase social protection expenditure to 2.3% of GDP, in which case Malawi would be closer to meeting its social protection target, while still meeting its agriculture target. The infrastructure target of 9.6% of GDP was not met by any country, with spending levels at a third of the target or less.[13]

12. The Logistics Unit estimate a final figure of Kwacha 8,696 million for 2006-7.
13. The governments of Ethiopia, Kenya and Uganda have significantly increased infrastructure expenditures since 2006-7, although not sufficiently to meet the target.

This analysis shows that in 2006-7 government expenditure (including on-budget ODA) was not adequate to meet target levels for social protection, water and sanitation, or infrastructure in any country. The targets associated with explicit spending levels were met more frequently than those without. This could be attributable to the fact that these agreements are also older agreements. However, even for these explicit targets, there are significant shortfalls in government expenditure for most of the countries. The target for health was met in only one country, agriculture in two and education in three. Overall, only seven of the 30 different country targets were met, and the shortfalls in terms of expenditure are significant in most cases, ranging from 6% on average for education to an average shortfall of 93% for social protection.

It is important to recall, however, that this includes on-budget donor spending only. As discussed earlier, off-budget spending is not included because it is not possible to obtain reliable or consistent estimates of its value or composition for all five countries. Thus, depending on the scale of off-budget spending by country and sector, the foregoing analysis may significantly understate the extent to which overall expenditure (inclusive of off-budget spending) is actually meeting, or even exceeding, the targets. This is particularly a concern for sectors dependent on aid, in which off-budget allocations may be significant. Data for Malawi and Uganda indicate that in the six development sectors 65% of total aid is off-budget. The next sub-section shows the extent to which off-budget aid affects performance against targets for the two countries.

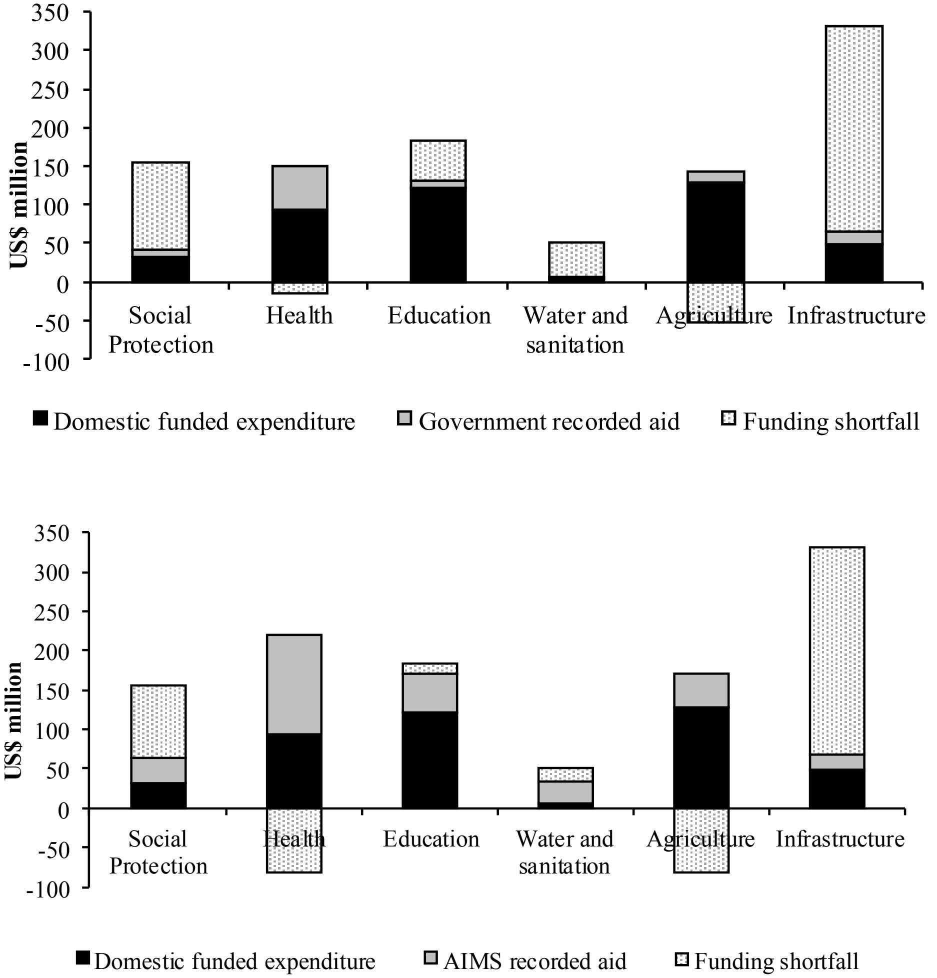
5.2 Donor allocations

An analysis of the contribution made by donors to the financing of these key sectors and the implications for government resource-allocation choices is critical, as donor funding can be substantial in particular in development sectors, and may significantly affect the adequacy of total sector financing. For example, aid accounts for 50% of total spending in the social protection sector in Malawi. AIMS data, which include information on off-budget ODA, in addition to on-budget flows, are available for two of the countries in this study, Malawi and Uganda. The discrepancies between analyses that consider only on-budget ODA – based on the information available to governments – and off-budget ODA – based on AIMS data – illustrate the critical importance of monitoring total sectoral ODA flows when assessing total sectoral expenditure.

Figures 1 and 2 illustrate the significant discrepancies between the aid recorded by government and that recorded by AIMS, splitting government expenditure into domestically- and donor-financed components, and presenting government and AIMS recorded aid as two separate categories.

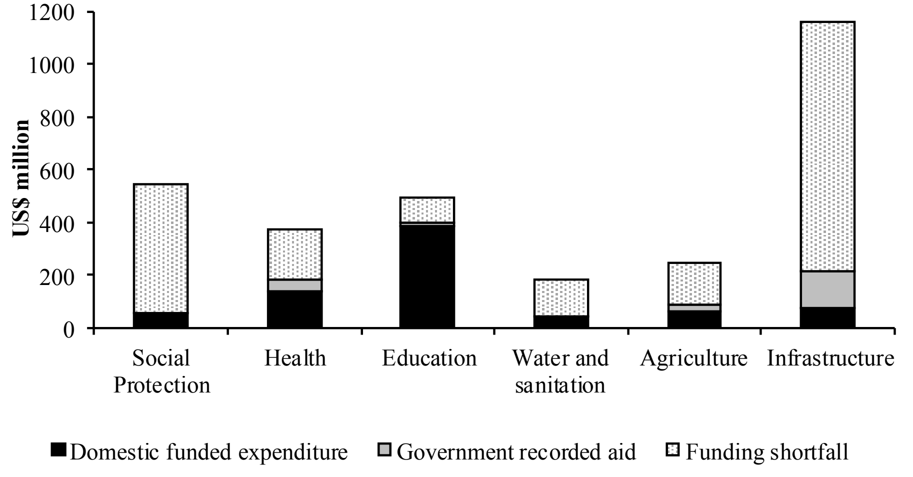
As expected, Figure 1 indicates that the financing gap for all sectors in Malawi, with the exception of agriculture, is smaller when AIMS data – including off-budget aid – are used, than when only government-recorded on-budget aid data are used. In the cases of health and agriculture, total sectoral funding including ODA is significantly above the target. Hence for health and agriculture in Malawi, off-budget aid contributes significantly to spending levels which exceed the targets. However, even when off-budget aid is taken into consideration, expenditure still falls below the target level in the social protection, education, water and sanitation and infrastructure sectors, despite high shares of off-budget aid in these sectors, for instance with off-budget aid comprising 95 % of total ODA in the water and sanitation sector.

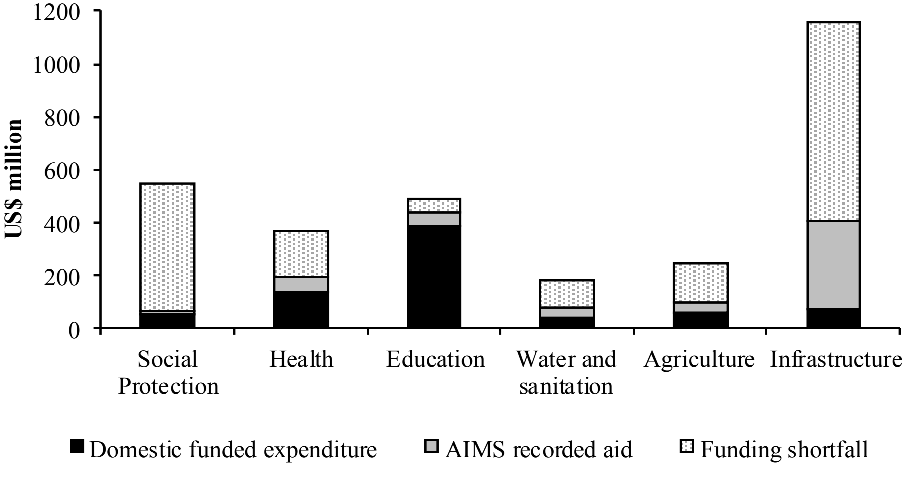
Figure 1: Funding required versus funding available, by sector using i) government recorded aid and ii) AIMS recorded aid in Malawi



Source: Own calculations based on government budgets/ AIMS

Figure 2: Funding required versus funding available, by sector using i) government recorded aid and ii) AIMS recorded aid in Uganda





Source: Ibid.

In Uganda even when off-budget aid is taken into consideration, expenditure still falls below the target level in all sectors, despite significant levels of additional off-budget aid in these sectors.

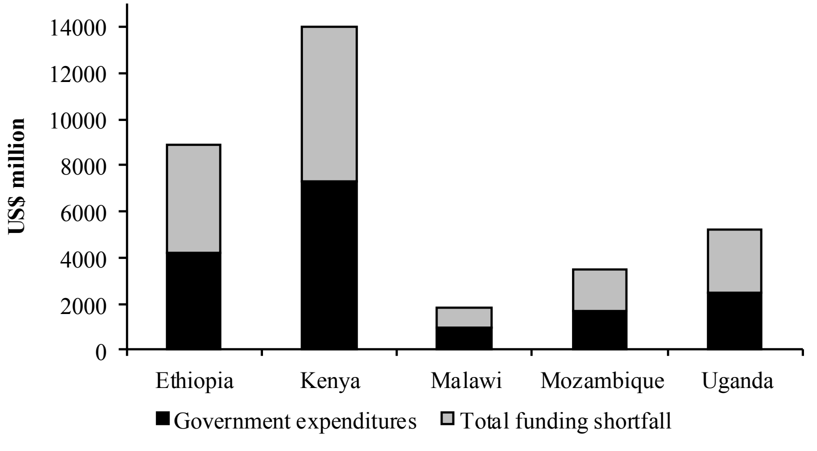
Hence, while off-budget aid has a significant impact in some sectors, its inclusion in the analysis does not change the findings of this study in terms of the inadequacy of financing in the social protection sector and most other sectors.

5.3 *The feasibility of meeting targets simultaneously*

While it has not been explicitly proposed in the international discourse that it would be feasible to finance all six sectors in full simultaneously, there is an implicit assumption that this is desirable, inasmuch as governments have indicated their commitment to realising the outcomes in each of the six sectors.[14] Hence it is instructive to assess the fiscal implications of these commitments in aggregate to evaluate their collective rather than individual feasibility, and in this way to locate the sectoral financing debate in a broader fiscal context, rather than viewing it from a single sector silo perspective. In order to do this, the total costs implied by the six targets, referred to below as the 'total commitment cost', are calculated, and compared with actual government expenditure.

The hypothetical feasibility of meeting all six sectoral targets is first assessed by aggregating the cost of the six targets in 2006-7 US dollars, and comparing the total commitment cost with total government expenditure in these six sectors. Figure 3 depicts aggregate actual government expenditure on the six sectors, and the total funding shortfall, when the former is compared with the aggregate target.

Figure 3: Aggregate funding required to meet all 6 sectoral targets and total actual expenditure in these sectors (2006-7)



Note: The targets are set as a % of GDP or government expenditure. This means that the gap is relatively smaller in extremely poor countries (Malawi) and larger in those already spending more per capita (Kenya)
Source: Own calculations based on government budgets

Figure 3 shows that all the case-study countries face a funding shortfall in terms of total expenditure on the six sectors compared to the target. Spending would need to increase by US$924 million (97%) in Malawi and more than US$6 billion (94%) in Kenya if the

14. In carrying out this analysis it is important to recognise, as mentioned above, that a number of targets do not have explicit expenditure targets and would be likely to be realised gradually. In this article, the implicit cost is adopted based on full implementation, to give an indication of the hypothetical affordability implications of full realisation of all six sectors simultaneously.

target were to be met simultaneously. The large Kenyan shortfall is in part due to the fact that it has a high GDP and hence the targets are commensurately higher than in the other case-study countries.

It is instructive to consider the joint affordability of the targets with specific expenditure levels, namely, education, health and agriculture.[15] With a combined cost of 45% of government expenditure, analysis of actual government spending shows that one country, Malawi, more than meets the combined expenditure levels with 46% and two others (Ethiopia and Mozambique) are reasonably close at 40% and 38% respectively. Kenya and Uganda follow at 28% and 25% respectively.

Returning to all six targets, the commitment cost is next compared with total (rather than sectoral) government expenditure. Table 4 summarises (i) commitment cost, (ii) total government expenditure, (iii) commitment cost as a percentage of total government expenditure and (iv) a calculation of how much government expenditure would need to increase to meet all the targets simultaneously, while keeping expenditure in other sectors constant.

Table 4: Commitment costs compared with total government expenditure (US$m. 2006-7)

	Ethiopia	Kenya	Malawi	Mozambique	Uganda
Total commitment cost	5,023	6,540	951	1,838	2,707
Total govt. expend.	4,192	7,297	923	1,669	2,454
Total commitment cost as % govt. expend.	120	98	103	111	122
% increase in govt. expend. required to meet targets, if retaining constant expenditure in other sectors	104	103	87	100	154

Note: The % increase in government expenditure required to meet targets assumes that expenditure on other sectors stays constant, so there is no reallocation towards the six sectors discussed here.
Source: Own calculations based on government budgets

Table 4 indicates that the cost of meeting the six targets in full is greater than total government expenditure (domestic revenue and on-budget ODA). The implication of this analysis is that, even if all government expenditure were reallocated towards the six sectors, it would not be adequate to meet the six sectoral targets simultaneously in any country except Kenya, where it would consume 98% of total government expenditure,[16] which is not

15. Many thanks to an anonymous reviewer for this suggestion.
16. A more consistent relationship between (i) total commitment cost as a percentage of government expenditure and (ii) how much government expenditure would need to increase to meet all targets simultaneously might have been anticipated, given that Ethiopia and Uganda both have similar shortfalls between existing current total expenditure and total commitment (the total commitment cost is 120% of government expenditure in

a realistic option given that it would leave only 2% of the budget remaining for allocation across all other sectors. This illustrates the critical shortcoming in a sector-specific, or silo, approach to development financing when the financing requirements of each sector are considered in isolation from the broader fiscal context, and challenges the feasibility and desirability of the type of implicit or explicit financing targets included in much of the current development discourse.

Reallocation is often considered to be a source of financing for priority sectors, and it has been estimated that the annual margin of manoeuvre for reallocation is typically up to 5% of total budgeted expenditure (Schiavo-Campo and Tommasi, 1999). However, given the binding fiscal constraint highlighted in this analysis, budgetary reallocation is not an option in terms of meeting in full, or even in significant measure, the financing requirements for all the targets simultaneously. The total resource envelope does not contain a margin for reallocation, but rather a shortfall in terms of the implied resource demands of the six sectors in all but one of the case-study countries.

Given that targets cannot be met through reallocation within existing resource envelopes, achieving the targets simultaneously would only be possible by increasing total government funds (achieved by raising more revenue, borrowing, securing more donor funds and/or putting more donor funds on-budget). However, since three of the targets are linked to government expenditure, the total cost of meeting the targets is itself a moving target: as government expenditure increases, so too does the cost of the targets. Taking into account the fact that increasing government funding would increase the commitment costs and the funding required to meet them, government expenditure would need to increase by between 87% (Malawi) and 154% (Uganda) in order to meet the targets, whilst retaining constant levels of expenditure on other functions of government, if this approach alone were adopted.

5.4 Social protection sensitivity analysis

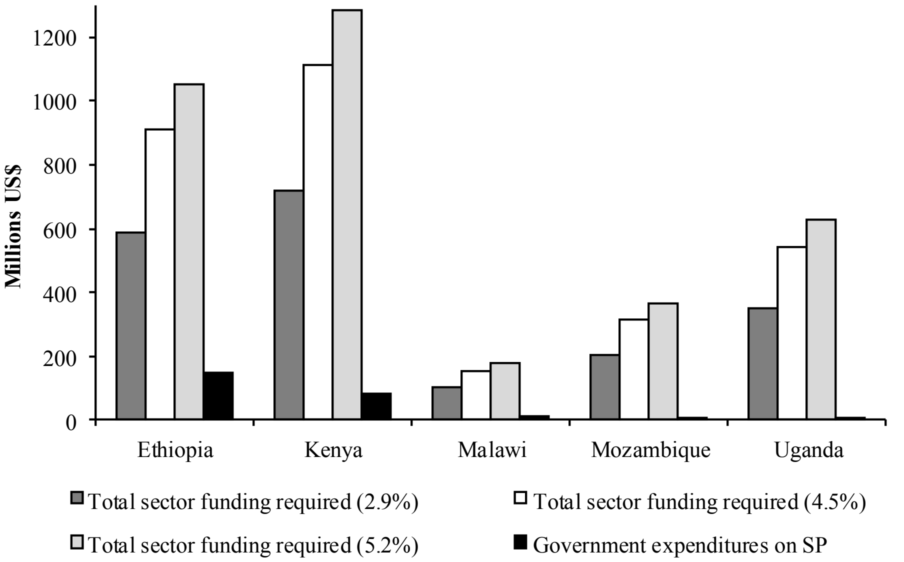
The social protection target of 4.5% of GDP used so far is based on the average cost for all seven SSA countries included in the ILO study (ILO, 2008). Since this average is based on a limited number of countries, and also to accommodate the country-specific estimates calculated by the ILO for Ethiopia and Kenya, a sensitivity analysis including the lower and upper bounds of the ILO study (2.9% and 5.2% respectively) is carried out next. Figure 4 shows the divergence between the commitment cost for the three social protection targets and actual social protection expenditure.

For all three levels of the social protection target, there is a significant shortfall between the total funding required and actual expenditure. Even for the lower bound (2.9% GDP), governments are far from meeting the target. While the shortfall for the lower bound is less than for the higher targets, it remains sizeable. The ILO has estimated the cost of a basic social protection package in Kenya and Ethiopia at 5.2% of GDP, but these two countries are far from meeting this requirement. The issue is explored further in Table 5,

Ethiopia, and 122% in Uganda). However, the percentage increase needed to meet the targets is much bigger in Uganda (154%) than Ethiopia (104%). This is because of an endogeneity loop, whereby three targets are expressed as a percentage of total spending, and thus increase as the other (GDP-based) targets rise.

which shows (i) current funding as a share of required expenditure and (ii) how much social protection expenditure would need to increase to meet the target.

Figure 4: SP commitment cost (three different target levels) and actual government expenditure, 2006/7



Note: The % increase in government expenditure required to meet targets assumes that expenditure on other sectors stays constant, so there is no reallocation towards the six sectors discussed here.
Source: Own calculations based on government budgets.

Table 5: SP expenditure, 2006-7, as percentage of target expenditure using different target levels

	Ethiopia	Kenya	Malawi	Mozambique	Uganda
Social Protection	*Current expenditure as share of target expenditure*				
(2.9%)	25	12	14	4	2
(4.5%)	16	8	9	2	1
(5.2%)	14	7	8	2	1
	percentage by which SP expenditure must be increased to meet target				
(2.9%)	300	747	622	2527	4923
(4.5%)	520	1214	1021	3976	7695
(5.2%)	617	1419	1195	4610	8907

Source: Ibid.

The table shows that current social protection expenditure is a small fraction of target expenditure, ranging from 2% for the lower and 1% for the higher bound in Uganda, to 25% for the lower and 14% for the higher bound in Ethiopia. Expenditure on social protection alone would need to be increased by between 300 % (Ethiopia) and 4900% (Uganda) for the 2.9% target and 620% and 8900% respectively for the 5.2% target. This analysis indicates that, on the basis of 2006-7 data, the social protection target cannot be met from existing resources. Even the highest social protection spender (Ethiopia) would need to increase social protection expenditure by 620% to finance the basic social protection package envisaged at Windhoek.

6 Conclusions and policy implications

This article has shown that in the sub-Saharan African countries reviewed, spending on the six key development sectors in 2006-07 falls considerably short of the levels implied in internationally agreed targets. Analysed by sector, only the education, agriculture and health targets are met in any of the case-study countries; the education target in Ethiopia, Kenya and Mozambique, the agriculture target in Ethiopia and Malawi, and the health target in Malawi only. The remaining sectoral targets are not met in any of the countries, with the social protection sector having an average funding shortfall of 93%. The analysis suggests that these figures would not alter significantly for the social protection sector, or the other sectors, even if off-budget ODA were also taken into account. It is not possible for governments to meet all six targets simultaneously with existing resources, challenging the notion of the absolute 'affordability' of attaining these targets. Even if all government expenditure were re-allocated exclusively to these sectors, the targets could only be met in one country (Kenya), and the cost of these commitments represents more than 100% of total government expenditure in four of the five case-study countries.

As discussed earlier, three of the more recent agreements (social protection, water and infrastructure) have no explicit expenditure targets and were instead estimated using cost simulations. While two of the targets were intended to be realised gradually (notably social protection and infrastructure), this study assessed the affordability of full provision, and has shown that, when these implicit declarations are turned into concrete expenditure levels and compared with overall government commitments, the commitments are difficult to achieve. The level of the shortfall, particularly in the case of social protection, and the limited space for reallocation show that it is unlikely that most of the targets could be realised in the short or medium term.

It is possible that considerations other than the intent to comply drive governments to become signatories to international agreements. Political-economy analysis suggests that governments may sign up to some international initiatives in response to implicit financial or political incentives, with little intention of actively working towards the realisation of the initiative (see, for example, Dijkstra (2011) in relation to PRSPs). Furthermore, the fact that some of these targets have an implied, rather than specific, expenditure level, may make it easier for countries to sign up to these targets. However, while affordability is a subjective rather than objective term, and is inherently informed by the political process and policy preferences, this analysis makes it clear that political choices in the short to medium term are significantly constrained by very real fiscal constraints, which limit the simultaneous realisation of development targets in the key sectors. In the absence of massive increases in government expenditure and/or donor support, neither of which is foreseeable, individual sectoral targets are effectively in competition for extremely limited resources, and may only realistically be achieved at each other's expense.

The findings suggest that, compared with an indicative cost for the provision of a basic social protection package of between 2.9% and 5.2% of GDP, current expenditure on social protection in the case-study countries is between 0.1% and 0.7%, a massive shortfall. While there is some potential for reallocation from programmes such as civil-service pensions which dominate current expenditure in this sector in many LICs, significant reallocation away from such programmes is not likely for a range of political reasons. Hence, while it may be possible to increase financing to this sector through the conventional range of instruments (efficiency savings, reallocation, increased borrowing, increased revenue generation, increased ODA or private-sector financing), the social protection sector is in effect in competition with each of the other key development sectors in pursuit of any additional resources which can be created.

In the countries reviewed, government expenditure would need to increase by 87-154%, keeping expenditure in other sectors constant, to meet the sectoral spending targets. However, increased revenue generation is not easily achieved in countries with a small domestic tax base, especially when economic growth is slow. At the same time, there are limited prospects for major increases in aid flows as donor nations seek to reduce public spending in the aftermath of the global economic crisis and the resulting fiscal deficits within OECD economies. The findings in this article raise questions relating to basic principles of public financial management, to ODA management and to the adoption of a silo-based approach to development financing. For long-term development, decisions on the quantity of revenue raised and spent, and how it is generated, need to be rooted in processes that emphasise a strategic vision, coherence across sectors, fiscal sustainability and domestic accountability. However, the adoption of sectoral spending targets can result in spending decisions which undermine coherence across sectors and effective public finance management.

This analysis raises wider questions about the role of international targets for specific development goals. The adoption of sectoral targets can result in sectoral lobbying, reflecting donor or national interest groups, wherein successful advocacy in one sector may be at the expense of investment in other sectors which may be equally if not more important in terms of economic growth, social justice, or redistributive efficiency, but with less efficient advocates. In this context it is important to recognise that the social protection sector has entered the debate later than other sectors, at a time when their claims on government budgets are already well established, and budget allocations are largely set with limited space for reallocation. This does not imply, however, that claims for social protection are any less important or less 'affordable' than those of other sectors, and it is important to note that the issues raised are not specific to the social protection sector, but represent a bigger problem with silo approaches to development financing.

Notwithstanding this criticism, targets have an important role in promoting international development, since results cannot be achieved unless adequate resources are allocated to their realisation. Over recent decades financial targets have been used as part of the development process to stimulate debate and concentrate available donor and national resources on priority sectors (Fukuda-Parr, 2010). It can be argued, however, that the role of such targets is not to be taken literally, but rather to stimulate progressive reallocation in favour of the provision of key services, with the explicit target figures serving an essentially symbolic or aspirational function.

This article has shown that at 2006/7 expenditure levels the achievement of a set of key development targets simultaneously is not fiscally feasible. Striving to achieve them may not be consistent with realistic or credible public financial management and is likely to create a tension at national level between those responsible for the overall management of the budget and those advocating particular sectoral (ministerial) objectives, and also amongst donors between those whose concern is overall national fiscal integrity and those working to attain specific sectoral allocations. While the intention behind the introduction of such targets reflects a desire to direct limited public resources in favour of developmental spending, the collective impact of target proliferation is likely to be at best minimally positive, and at worst potentially unhelpful.

Good practice in public finance management argues strongly for predictable expenditure plans linked to government policy priorities; for a credible budget that ensures consistency between appropriation and execution; and for budget comprehensiveness so that all government revenues and expenditures are included in a single budgeting process and subject to (annual) appropriation by parliament. The fact that this study has found that such a high proportion of donor spending is off-budget may undermine these objectives. Poor information on aid programming 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 and accountability between the government and its citizens. International agreements, such as the Accra Agenda for Action and the International Aid Transparency Initiative in 2008, set out principles and practical actions towards better alignment of aid to recipient country requirements, but the implementation of these actions is currently imperfect and still in its infancy.

When an overview of the financing requirements for the six development sectors based on sectoral spending targets is made, as in this study, it becomes clear that there are no grounds for a realistic expectation that the targets agreed can be realised in the medium term, because of binding fiscal constraints. Affordability remains essentially a question of political choice over the allocation of scarce and ultimately inadequate resources and as LIC governments will not be able to satisfy all sectoral lobbies, the affordability of social protection is inherently linked with domestic policy preferences.

There are ongoing challenges for adequate financing of basic social protection provision in LICs. It will be difficult to finance a basic social protection package, but that does not mean that it should not be an aspiration. The key question that remains is how to find practical ways for sustainable financing, using a combination of national and donor financing, given the very real fiscal constraints. There is a need for those with responsibility for national budgetary coherence to work together with those with sectoral responsibilities to find sustainable solutions, rather than continuing with sectoral silo approaches. This should be an area for ongoing research and dialogue between donors and governments.

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