FINANCING THE SUSTAINABLE DEVELOPMENT GOALS

Lessons from government spending on the MDGs

Government spending is falling short of MDG needs by one-third – and the SDGs will require at least US$1.5 trillion extra a year. Based on lessons from tracking country budgets, this report recommends how the SDGs should be financed: doubling tax revenue, by radically overhauling global tax rules; doubling concessional development cooperation and improving its allocation and effectiveness; and raising US$500 billion in public innovative financing. In addition, all spending must be dramatically reoriented to fight inequality, and be much more transparent and accountable to the world’s citizens. If these measures are not taken, the SDGs may well be dead at birth.

Development Finance International (DFI) and Oxfam International have collaborated on the Government Spending Watch report to share research results, contribute to public debate around public financing for development, financing the SDGs, and the FfD processes. This report does not necessarily reflect Oxfam or DFI policy positions, and the views expressed are those of the authors.
EXECUTIVE SUMMARY

THE AIM OF THIS REPORT AND ITS DATA

Nine months remain until the end of the Millennium Development Goals (MDGs) - the framework used to measure global development progress since 2000. Government spending is a key way for countries to achieve the MDGs. Yet astonishingly, throughout the MDG period, the international community has conducted no comprehensive monitoring or analysis of spending.

Since 2009, Development Finance International (DFI) has compiled the latest data on MDG spending through investigative data-gathering with government officials, across seven key sectors: agriculture and food, education, environment, health, social protection, water/sanitation/hygiene (WASH), and women’s rights. These data were published in reports and on a joint DFI/Oxfam website (www.governmentspendingwatch.org), helping to increase spending levels and transparency.

The 2015 Government Spending Watch report aims to take stock of progress on MDG spending (and less desirable spending on debt and defence) as the world moves towards the finish line for the MDGs. However, 2015 is also the year when the international community will agree a new set of more ambitious Sustainable Development Goals (SDGs) for 2016-2030, and will decide how Financing for Development (FfD) should fund them. This report aims to influence these decisions, by:

• analysing whether current spending trends will suffice to achieve the SDGs.
• examining how spending has been funded since 2008, and what needs to change in FfD.
• identifying what needs to be done to ensure government spending combats inequality; and
• assessing how ready countries (and the international community) are to track SDG spending, and to hold governments and funders accountable for its levels and results.

MDG AND SDG SPENDING

Section 2 of this report looks at recent spending on the MDGs and its implications for potential spending on the SDGs. It demonstrates that government spending in developing countries has risen rapidly in 2012-14, but revenues have not. This has led to growing deficits, resulting in sharp increases in debt service. As a result, debt service is “crowding-out” MDG spending in 21 of 66 countries, and MDG spending has not risen to the same degree as overall government spending, because debt service has absorbed 40% of the extra spending, and infrastructure 35% - only 25% of additional finance has been allocated to MDG sectors.

In terms of specific sectors, based on 2014 data, what is country spending performance and what implications does this have for spending on the SDGs?

• Agriculture. Only 14-16% of countries are meeting financial targets, and average spending is only halfway to the target and has fallen since 2012. The SDGs for zero hunger and sustainable agriculture will require doubled spending, and tracking of what is anti-hunger and sustainable.

• Education. Only 19-22% of countries are meeting EFA targets, though average spending is 80% of the target and most countries are increasing. Education is closest to reaching its MDG targets, but the SDGs’ lifelong high-quality learning agenda will require US$161 billion more.
• **Environment.** This sector has no MDG financial targets, received less than 1% of spending, and the average is falling. The environment and climate change SDGs require US$261 billion more a year, and it is urgent to set targets and ensure all spending is “sustainability-compliant”.

• **Health.** No African country is meeting its targets, though 40% of all countries are meeting WHO per capita spending targets. Average spending is only half the targeted level, and recent trends have been mixed. Universal free health care will require an increase of US$50-80 billion, and a major effort to monitor spending split by disease and beneficiary group.

• **Social Protection.** Only Timor Leste meets any of the international finance targets on social protection: across all countries the average spending is less than 1% of GDP – though most countries have increased spending in recent years. Higher spending will be vital to target zero extreme poverty, full employment and decent work, and reduced inequality: even a cash transfer programme would cost US$65-90 billion extra a year. It will also be vital to invest in capacity to disaggregate social protection spending by target and beneficiary.

• **WASH.** Only 10% of countries are meeting targets, spending averages less than 1% of GDP, and a majority of countries are reducing spending as a percentage of GDP. Reaching universal access to WASH will require US$24 billion, plus more to ensure sustainable water management, and much better monitoring of spending for both purposes.

Overall, countries should be spending close to 60% of their budgets on the MDGs, but current allocations are only 38% and falling. Total additional public spending needs for the SDGs (including the sectors above as well as access to modern energy and infrastructure) could be as high as US$1.5 trillion a year. New sectors will also pose extra challenges for tracking spending, as much of it will be implemented by state-owned enterprises, or use complex finance mechanisms such as PPPs.

**FINANCING THE SDGS**

Section 3 analyses how the MDGs have been financed. It finds that **government revenue** currently funds 77% of spending, which has been more stable, aligned with government priorities, balanced between investment and recurrent, and easy to implement than donor-funded spending. The SDGs therefore require a massive step up in domestic resource mobilisation, which requires:

• major changes in international tax rules and practices, to give fair treatment to developing countries, including in current G20/OECD tax initiatives. By allocating taxation rights primarily to source countries of raw materials, redesigning tax treaties and sharply reducing tax exemptions.

• major reinforcement of developing country capacity to receive, analyse, audit and supply tax information, prosecute evaders, and renegotiate contracts and agreements with corporations.

• agreement on inclusive global governance of cooperation in tax matters, via the FfD process and a reinforced UN Tax Committee, to give developing countries equal decision-making power.

Whatever the rise in government revenue, it will not suffice to fund all the SDGs. **Concessional international public finance** will still be vital. We need to mobilise US$1 trillion extra a year from:

• all DAC donors recommitting to reach 0.7% of GNI in ODA, by 2020, which could mobilise an additional US$250 billion a year, bringing ODA to around US$400 billion;

• South-South cooperation providers accelerating increases in concessional flows. These rose by 300% during 2000-15, and a similar increase for the SDGs would raise them to US$80 billion;

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innovative financing of US$450-550 billion a year, including taxes on carbon, bunker fuels and air travel (US$250-300 billion), financial transactions and currency (US$100-150 billion), and issuance of IMF Special Drawing Rights (SDRs) (at least US$100 billion).

There is also a need to focus 90% of concessional flows on the countries with the greatest needs – low- and lower-middle income countries, including 50% on countries in “special situations” (fragile and conflict-affected, least developed, landlocked and small islands) – channelling international public financing for development where it is most needed because lower-income and “special needs” countries can least afford to fund the SDGs using their own revenue.

Public non-concessional finance and public-private partnerships will have a role in financing the SDGs. However, rising debt burdens diverting spending from the MDGs, and many current national debt restructurings (notably in high and middle income countries), limit the scope for non-concessional finance, and it will be vital that the FfD agreement include a dramatic strengthening of current measures to prevent and resolve debt crises. There are also major doubts about the scope for and potential impact of public-private blended finance on many SDG sectors, and especially on reducing poverty and inequality. To maximise their contribution to the SDGs, we must set effectiveness indicators for non-concessional public finance, blended and private finance.

Post-2015 needs a more rational accountability for sectoral aid allocation. This should involve:

- an overall target for allocating concessional funding to SDG sectors, of 60% or higher.
- targets for global sector allocations of concessional funding, similar to those agreed for spending by developing country governments but updated to reflect SDG funding needs.
- using “markers” for SDG spending in each sector in global and national aid databases; and
- screening all aid projects for positive impacts on the three pillars of the SDG agenda (eg increasing income and gender equality, and fighting environmental crises).

The report also makes recommendations to improve financing effectiveness in each sector.

Finally, the report stresses the need for dramatic improvement in effectiveness of financing, going beyond the 2011 agreement on a Global Partnership on Effective Development Cooperation, by:

- targeting 80% of aid to reach developing countries, and 85% of this to be in their budgets;
- tracking these trends automatically in global and national aid databases;
- monitoring the investment/recurrent spending within aid to ensure sustainable spending;
- putting a much higher share of aid through government systems (as agreed in Busan).

SPENDING TO FIGHT INEQUALITY

Section 4 examines how public spending can be used to fight inequality. Income inequality has increased sharply since 2000, undermining growth and poverty reduction. The SDGs therefore focus strongly on reducing inequality, with many goals designed to “leave no one behind” and help the most marginalised. Moreover, failing to tackle inequality will add hundreds of billions of dollars to the spending needed to end poverty: failure to tackle inequality will bring failure to deliver the SDGs.

In the search for policy measures to combat income inequality, many analysts have identified more equitable government spending and more progressive and redistributive tax systems as crucial interventions. Investment in public services - especially by covering their costs on education, health and social protection - can help by lifting the poorest out of poverty. Much
more analysis is needed to ensure that government spending tackles all forms of inequality simultaneously: it will require a laser-like focus on ensuring that all spending in government budgets (as well as all aid) addresses inequality issues, as well as rebalancing all spending to tackle specific forms of inequality, and the design of more specific and focused programmes to reach the marginalised.

Some of the key areas which GSW has identified through our research are:

• Increasing sector financing and spending envelopes to eliminate user fees, insurance systems and profit-making provisions which discriminate against the marginalised.
• Ending major inequities within sectors by increasing spending on pre-primary and primary education, maternal/child and reproductive health, sanitation, and smallholder agriculture; and
• Combating geographical/spatial inequality by allocating more to areas which are making less SDG progress, using “equitable spending formulas”, to overcome huge current inequities.

Finally, reducing inequality among beneficiary groups (by gender, age, ethnicity, disability or sexuality), will require a more comprehensive and integrated analysis of all intended beneficiaries of spending (building on gender-responsive and child-oriented budgeting experiences), and its impact on inequality, as a basis for targeting reallocation to more marginalized groups.

Overall, the world is woefully ill-prepared to use government spending to fight inequality. We need much higher spending levels; more detailed data and impact analysis; capacity-building and political buy-in to anti-inequality allocation formulas; leadership by governments and local stakeholders rather than donors in fighting inequality; and close national-level monitoring of implementation to combat diversion of spending to the needs of more powerful interest groups.

ACCOUNTABILITY FOR RESULTS

The final crucial element to ensure public spending fights inequality and reaches the SDGs will be citizens in developing and developed countries holding governments and donors accountable. This process begins with greater transparency, especially of data on spending and revenue/aid in budget-related documents, allowing them to track increases in “means of implementation” for the SDGs, which are in turn likely to accelerate SDG results.

The report makes many recommendations to increase transparency, but section 5 shows that:

• Current budget transparency is moderate but increasing rapidly, although it is lower for actual spending, types of spending and donor financing, and for spending on new SDGs;
• Transparency varies considerably by country, with 20% of 124 countries performing very well, 23% well, 25% moderately, and 32% relatively badly.
• Budget transparency makes tracking MDG spending and financing more feasible, by encouraging governments to improve the quality and details of their data;
• When accompanied by government will/capacity and parliamentary/civil society demand, and sustained across the whole planning and budgeting cycle, transparency brings accountability and leads to higher MDG spending allocations;
• With similar conditions, accompanied by efforts to improve spending effectiveness, higher allocations lead to higher actual spending, and in turn to better MDG results.

Based on this evidence, it suggests low-cost “quick wins” tailored to country circumstances, to increase accountability and results, as part of the data revolution needed to support the SDGs:

1. Publishing budget documents and data which governments already produce.
2. Improving data and documents on spending by making reporting gradually more disaggregated and moving towards programme budgets; publishing regionally-disaggregated spending; publishing preliminary actual data more rapidly; and publishing “budgets by beneficiary”.

3. Improving data and documents on revenue, by publishing breakdowns by tax, sector and size of enterprise; analysing revenue losses from exemptions and incentives, and publishing lists of companies granted exemptions; publishing and analysing national tax codes to prevent harmful tax competition; analysing tax “incidence” and progressivity to combat inequality; and publishing tax revenues mobilised/exemptions received by donor projects.

4. Improving and publishing data on aid and other budget financing, by making IATI and national budget aid systems compatible; reporting automatically via DAC/IATI and national systems about whether aid is on the national budget; enhancing efforts to collect data from non-DAC funders including South-South partners and CSOs/foundations; and publishing and tracking all loan agreements and “off budget” contingent liabilities such as PPPs.

However, transparency on its own will not suffice to ensure accountability. This also requires:

1. Dramatically scaling up capacity-building support to governments to improve budget data, through low-cost interventions designed to achieve the above quick wins; and to parliaments and civil society to demand more transparency and accountability.

2. Setting SDG monitoring goals and mandating relevant UN agencies to monitor budgets and means of implementation (spending, revenue and aid) for the SDGs within three months of the end of each calendar year, through processes similar to those used by GSW.

3. Agreeing national SDG-compatible development plans and financing compacts with their development partners, against which all can be held accountable by citizens for results.

The recommendations in this report set-out a detailed and ambitious Financing for Development agenda – bold enough to match the ambition contained in the SDGs. Without this level of ambition, many of the SDGs will be dead at birth, as countries fight over a stagnating pool of tax revenue and concessional resources, and stumble forward in semi-darkness as to how much is being spent on the SDGs. To reach the World We Want, the recommendations in this report must be adopted.

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