Thirty-two months remain to reach the Millennium Development Goals. This report is the first ever to track what developing countries are spending on the MDGs, and it finds that recent increases explain rapid progress. But the majority of countries are spending much less than they have promised, or is needed, to meet the MDGs or potential post-2015 goals. Falls in aid, low execution rates, and low recurrent spending all threaten to reverse existing progress.

This report suggests that countries need to make more data on MDG spending accessible to their citizens; to strengthen policies for revenue mobilization, debt and aid management; and to spend more on agriculture, WASH and social protection. Donors need to increase support via on-budget aid; to maximise budget and sector support; and to report planned disbursements to countries. The IMF needs sharply to increase sustainable spending in its programmes. The post-2015 framework should set targets for spending on social protection, gender and sustainable development. Only by implementing these measures can the global community finance the ‘World We Want’.

This summary is a draft, previewing the full report, which will be published in May 2013 together with a final executive summary.

Development Finance International and Oxfam International have collaborated on the Government Spending Watch initiative to share research results, contribute to public debate and invite feedback on development policy and practice. This report does not necessarily reflect Oxfam or DFI policy positions. The views expressed are those of the authors and not necessarily those of Oxfam.
1 ABOUT THIS REPORT AND THE DATA

The first ever report on MDG spending

Thirty-two months remain for the international community to reach the Millennium Development Goals. Astonishingly, this Government Spending Watch (GSW) report is the first ever to track how much developing countries are spending on the MDGs in their budgets. It is based on a new data set compiled by Development Finance International and Oxfam, which covers 52 low- and lower-middle-income countries and will be extended in 2013 to 34 more countries. The data, together with information on research and analysis, and especially on current campaigns on MDG spending, are being made available to the public at www.governmentspendingwatch.org as this report is launched.

Data sources and types

Based on country budget documents and other published data, these data have been compiled with the help of a network of country officials worldwide because they are often very hard to find or interpret correctly. The data cover seven sectors (agriculture/food, education, environment and climate change, gender, health, social protection and water/sanitation), from 2008 to 2015 (including medium-term forecasts). They examine planned and actual spending, disaggregated by types (recurrent and capital), and sources of funds (government revenue or donor funding).

Major data gaps need filling

GSW has managed to find virtually all data on total spending. It has been able to compile almost three-quarters of sector data for education and health, but only two-thirds for agriculture, half for social protection and environment, one-third for water and sanitation, and one-fifth for primary education and gender. There are major gaps in sector data broken down into recurrent/capital spending (55 per cent missing) and sources of funding (65 per cent missing). As shown in Map 1, GSW has been able to compile an excellent share of data for eight countries, good data for nine, but only moderate data for fifteen, and poor data for 14.

Map 1: Government Spending Watch – percentage of data accessible for each country

![Map 1: Government Spending Watch – percentage of data accessible for each country](image-url)
There is a need for countries to track and publish more data on their MDG spending, and to make the data more easily accessible to their citizens. Data is particularly lacking on water, sanitation and health (WASH), primary education and gender, and should also be more consistently broken down by the type of spending and source of funding. MDG spending should be integrated into campaigns for budget transparency. Donors have a role in providing support and resources for countries to compile data, and could also support global monitoring and analysis of spending trends. Vital decisions on future development goals affecting millions of lives should be informed by the best possible information.

2 FINDINGS OF THE ANALYSIS

Most countries have increased revenue and spending, but this is reversing

Poor countries lost US$140bn in budget revenues due to the global economic crisis. However, many have been growing rapidly in spite of global economic stagnation. They have increased their revenue by 2 per cent of 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) reducing their dependence on aid. However, a substantial minority of countries are being hit harder by global stagnation and other climate or conflict shocks, growing much more slowly, and having to cut spending. As Figure 1 shows, in 2013, countries will cut spending as a proportion of GDP.

- **Countries need to increase fiscal space to spend on the MDGs by mobilizing more revenue through progressive taxes, ending tax exemptions for investors, taxing extractive industries strictly, 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, and by encouraging corporations to pay tax in host countries.**

**Figure 1: Spending/GDP has risen, but will fall**
Aid too little, too late, is leading to increased debt burdens

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

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

The picture is less positive for countries with IMF programmes

The picture is less positive for countries with IMF programmes. They have raised less revenue, are cutting deficits faster and have seen less positive trends in MDG spending. Agriculture and health spending are now much higher as a percentage of GDP, and education and social protection spending rising faster, in non-programme countries. Other MDG sector spending is stagnating compared with GDP or total spending. This does not imply that IMF programmes are causing lower spending – many other factors may be responsible, including that countries with IMF programmes are likely by definition to be facing fiscal difficulties. However, it is worrying that countries which are following IMF programmes are seeing lower MDG spending, in spite of the IMF’s recent increased focus on these issues.

- Maximum flexibility from the IMF in adapting its programmes’ deficit targets to encourage higher MDG spending could help to narrow this gap, especially where this can be funded by revenue rises, grants or loans without compromising debt sustainability.²

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. In part it explains the rapid MDG progress 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. The IMF’s own monitoring of ‘anti-poverty spending floors’ also shows a fall as a percentage of GDP.

- The IMF, UNDG and World Bank could make efforts in all countries to improve and make consistent monitoring of total MDG spending – if necessary drawing on GSW data – and to incorporate analysis of these data in all progress reports on the MDGs. Floors could be set to ensure all countries are planning to increase MDG spending in relation to GDP and total spending, showing clear progress towards the MDG targets and costs estimates.

For all MDGs, spending falls way short of targets and estimated needs

Table 1 shows that for all the MDGs, the vast majority of developing countries are spending much less than they have promised or than international organizations have estimated is needed. Most sectors show increases in real spending, but these are woefully insufficient. No spending target is on track: only one-third of countries are meeting any education or health goals, and less than 30 per cent are meeting agriculture and WASH goals. Trends on each MDG target or needs estimate show stagnation or falls: 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 it expects to meet its spending commitments and targets; and the AU and various UN agencies should publish up-to-date data on whether countries are meeting targets and estimated 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 sanitation.

Trends are even less positive for gender and sustainable development

As also shown in Table 1, there is no progress on spending in areas which will be crucial to any post-2015 ‘sustainable development’ goals: social protection to reduce inequality; agriculture to reduce hunger and increase smallholder farmers’ income; and combating environmental degradation and climate change. In addition, there is no sign of increased spending on broader empowerment of women (beyond equal access to education). No spending targets have been set for gender or the environment; hardly any countries are tracking the degree to which spending is targeted to women; and no country is meeting goals for social protection spending.

- Post-2015 targets should be set for spending on gender and environment/climate change; gender-budgeting should become the norm in developing countries; and rapid scaling up of social protection spending is essential.

Table 1: Progress on MDG spending

<table>
<thead>
<tr>
<th>Sector</th>
<th>Targets</th>
<th>Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>28% meet Maputo/World Bank</td>
<td>Averages stagnant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Majority of countries falling</td>
</tr>
<tr>
<td>Education</td>
<td>35% meet EFA goals</td>
<td>Averages falling since 2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Slight majority of countries increasing</td>
</tr>
<tr>
<td>Environment</td>
<td>No target! Very low levels</td>
<td>Stagnant as percentage of GDP</td>
</tr>
<tr>
<td>Gender</td>
<td>No target! Very low levels</td>
<td>Stagnant/falling as percentage of GDP</td>
</tr>
<tr>
<td>Health</td>
<td>3% meet Abuja</td>
<td>Averages falling since 2009</td>
</tr>
<tr>
<td></td>
<td>39% meet WHO</td>
<td>Majority of countries cutting percentage of spending</td>
</tr>
<tr>
<td>Social Protection</td>
<td>0% meet ILO/Windhoek</td>
<td>Average stagnant since 2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No clear trend in number of countries</td>
</tr>
<tr>
<td>WASH</td>
<td>26% meet eThekwini/UNDP</td>
<td>Average stagnant since 2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No clear trend in number of countries</td>
</tr>
</tbody>
</table>

Recent spending increases could be threatened by aid falls

Some of the spending has been funded by rapidly growing aid – especially in the education, health, WASH and agriculture sectors. This is in spite of the fact that much aid (especially for
health and education) is provided ‘off-budget’, undermining accountability between developing country governments and their citizens. However, OECD aid flows are now declining in real terms,\(^1\) and are increasingly moving away from MDG sectors to infrastructure and growth. If budget revenue levels do not rise even more rapidly, MDG progress could stagnate or reverse, especially in sectors which are highly aid-dependent such as agriculture and WASH.

- **Donors could improve the cost-effectiveness of aid and its accountability to citizens by bringing it on budget; maintain aid flows in real terms even during the current economic stagnation; make aid more predictable; and target flows to countries which are furthest from the MDGs and vulnerable to shocks. Developing countries need strong aid management policies and mutual accountability agreements with donors, and need to continue to improve public financial management, to encourage donors to make aid on-budget and predictable.**

**Low execution rates are undermining progress**

In most countries, actual spending is also falling substantially short of plans. This is particularly true in the health, agriculture and WASH sectors, reflecting delays in donor funding, and absorptive capacity problems in sector ministries and decentralized government agencies. There is therefore a major need to increase execution rates and progress to the MDGs.

- **Donors and developing country governments need to analyse the factors which are delaying execution; to simplify or accelerate procedures for appraisal, procurement and disbursement of funds; and to provide greater support to line ministries and decentralized agencies to accelerate execution and delivery of results 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 investment, raising the need to increase recurrent spending dramatically to maintain buildings and equipment. Others (education, health and social protection) are dominated by recurrent spending on wages and supplies. Especially if donors reduce budget support which funds much recurrent spending in many countries, governments will need to make even greater revenue efforts to maintain recurrent spending and keep delivering progress.

- **Developing countries need to ensure that they present ‘programme budgets’ combining investment and recurrent spending to donors, showing why it is essential that donors fund both types of spending. Donors should maximize general and sector budget support funding for recurrent spending, and fund entire sector programmes rather than small projects.**

**Medium-term forecasts show declining spending**

The relatively few countries which publish medium-term spending forecasts show declining spending as a proportion of GDP for all MDG sectors. This partly continues recent stagnation or falls in the share of GDP and total spending going to these sectors. However, it also reflects poor reporting by donors of intended aid disbursements, and accelerating falls in OECD aid. These trends could end an age of rapid progress towards the Millennium Development Goals.

- **All developing countries need to prepare medium-term forecasts, and to ensure that they are compatible with spending needed to attain the MDGs (broadly defined to include 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 sustain current levels of development co-operation (including growing South–South and philanthropic flows); and to make sure they are targeted to MDGs and post-2015 goals.**
Unless current trends are reversed and MDG spending is accelerated dramatically, it is unlikely most poor countries will reach the MDGs by 2015. Nor will they be able to spend more on the new post-2015 goals – including for reducing inequality and combating climate change. As the UN ‘World We Want’ survey⁴ is showing clearly, citizens across the world are passionately committed to achieving these goals before and after 2015. This report is therefore only the first step in an effort to mobilize citizens across the world to monitor and increase spending on global and national development goals, and ensure that developing country governments and the international community deliver on their promises to finance the ‘World We Want’.

NOTES

1 Compared with the forecasts of revenue levels made by countries and the IMF before the crisis.
2 For far more details on this recommendation see Martin and Watts (2012) for Save the Children.
4 For more details see http://www.worldwewant2015.org/
Matthew Martin, principal author of the report, is Director of Development Finance International. The DFI team compiling the data for the Government Spending Watch database was headed by Richard Watts, Researcher at DFI, who also provided valuable comments on the report. The other members of the data team were David Waddock, Maria Holloway, Jeannette Laouadi and Lance Karani. Earlier data and research 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 the 51 developing countries for which GSW has compiled data.

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GSW

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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