ODI Social Protection Series

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

Jessica Hagen-Zanker* & Anna McCord[1]

* Corresponding author: Overseas Development Institute, 111 Westminster Bridge Road, London SE1 7JD, UK, +44 (0)20 7922 0371, j.hagen-zanker@odi.org.uk

Abstract

The affordability of social protection has been the subject of intense interest in the development policy discourse. This paper explores the affordability of social protection and other development sectors by comparing target levels in international agreements to actual government expenditure in five African countries. Most targets are not met and on average only seven per cent of social protection target expenditure is reached. While sectoral targets may be individually 'affordable', the targets are not jointly affordable. Meeting any of the targets would require sectoral trade-offs, or major increases in donor and government expenditure, suggesting that affordability is ultimately a question of political preference.

[1] The authors are grateful to David Zerfu in Ethiopia, David Ongolo in Kenya, Mark Miller in Malawi, Mariam Umarji in Mozambique Robert Okudi in Uganda for help in accessing and interpreting the budget data. Many thanks to Tim Conway, Bruno Versailles, Karen Ellis, Ed Hedger, Sam Moon, Rohit Singh, Rachel Slater and Christina Behrendt for their comments on earlier drafts of this paper.All remaining errors are our own. This work has been funded by the UK Department for International Development (DFID). The conclusions are our own and do not necessarily represent those of DFID.

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 sectors its growing policy prominence nationally and internationally, has been accompanied by a rise in advocacy for the allocation of governmental resources to this sector. This has raised questions relating to the affordability of the provision of basic social protection in low income countries and has only been addressed partially in the existing literature (see for instance ILO, 2008). This paper offers an empirical analysis of social protection affordability, by examining social protection expenditure in relation to actual and target expenditure for a range of key development sectors, in the context of overall government and donor expenditure. This paper addresses the following research questions:

1. How does current government expenditure on social protection and other key development sectors relate to international sectoral targets and commitments?
2. How much does international aid contribute to achievement towards targets?
3. How does target expenditure on these sectors relate to total government expenditure?
4. What are the implications for social protection affordability and public finance management?

In order to address these questions this paper provides a detailed analysis of government expenditure in five sub-Saharan African (SSA) countries, Ethiopia, Kenya, Malawi, Mozambique and Uganda, including an analysis of off-budget aid expenditures[1]. This paper explores the affordability of basic social protection provision by means of an empirical analysis, using a unique dataset that was compiled for this study, as detailed government expenditure data is not difficult to access and not directly comparable across countries. This paper examines social protection expenditure in a broader fiscal context by considering it in conjunction

[1] Off budget aid is donor expenditure which is not reported in the national budget or voted on by parliament.

with expenditure on the other key development sectors[2] (health, education, water and sanitation, agriculture and infrastructure). Expenditure in each of the six sectors is reviewed in relation to international sectoral targets to which governments are signatories. Joint affordability of the targets is examined by assessing the total cost of the targets against total government expenditure. The role of on and off-budget expenditure is also analysed.

The analysis is not just valid for social protection and the conclusions hold true for the whole spectrum of development sectors. In this way the study illuminates the social protection affordability debate, but also locates it within a broader debate regarding the financing of a range of key sectors, examining broader questions relating to targets and affordability. Since Beattie's quote from 2000, little empirical research has been carried out on this topic.

This paper proceeds as follows, first the debate around 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, followed by a short description of the case study countries. The next section 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 public finance management overall.

2. THE DEBATE ON THE AFFORDABILITY OF SOCIAL PROTECTION

The literature on the affordability of social protection in LICs does not define 'affordability' clearly, but does imply that affordability may be in some sense objectively ascertained. This paper 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.

[2] 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.

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 due to its contribution to creating inclusive growth, reducing poverty, the cost of inaction being much higher and so forth. 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 provision, and derives affordability conclusions from these costs. The International Labour Office (ILO) has undertaken an influential series of studies (2005, 2008) that model the cost of the provision of a basic social protection package in LICs[3]. The package costed includes universal old age and disability pension, basic child grants (limited to two children per mother) and provision of support for the unemployed (100 day public works), as well as basic health access. The cost of the basic social protection package, excluding health provision, was modelled for seven SSA countries[4] and the results were found to range from 2.9-5.2 per cent of GDP in 2008 (ILO, 2008). The ILO (2008) argue 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 paper as a ‘silo-approach’ for the sake of brevity), rather than examining the affordability in the context of competing sectoral claims on the fiscus.

A UNICEF/ODI study on fiscal space for social protection in five countries in West and Central Africa based on various simulation studies, found that the cost of provision of a universal child benefit and social pension, would vary considerably across the countries, ranging from 1.1 per cent GDP in Equatorial Guinea to 11.3 per cent in Ghana (Hanley, 2009), considerably higher than the ILO estimates, despite the

---

[3] 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.
[4] Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya and Senegal.

more limited scale of provision[5]. 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 (Hanley, 2009).

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 might 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 Official Development Assistance (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 studies argue for an increase in government and donor financing, but argue that an appropriate set of linked incentives must also be in place.

Rather than addressing financing mechanisms, or attempting to cost provision, this paper 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, 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.

Policy initiatives

The costing work of the ILO has informed a number of policy initiatives, most prominently the UN Social Protection Floor initiative and the African Union (AU)

[5] Senegal is the only country in both studies. Hanley (2009) estimates a cost of 6.4% for just an universal child benefit, while ILO (2008) estimates a cost of 4.2% for the basic social protection package.

Social Policy Framework (SPF). The UN Floor promotes universal access to social transfers and social services, including housing, health, water and sanitation, representing a broader concept than the basic social protection package costed by the ILO. The African Union (AU) Social Policy Framework (SPF) for Africa outlined in 2008, is based on the ILO model of basic social protection provision. This agreement, also known as the Windhoek declaration, aspires to the provision of a minimum package of social protection provision, comprising of 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. This paper will assess the affordability of the core social protection components implied by this agreement, alongside targets in five other development sectors, set out in recent international agreements, set out in detail in the following section.

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 either include spending targets expressed in the form of percentage of government expenditure or GDP, as in the case of education, health, sanitation and agriculture, or include targets which are not associated with explicit expenditure levels, but rather a commitment to the provision of specified outcomes (as in the case of social protection, infrastructure and water). For the declarations which do not include specific expenditure targets, the objectives outlined in the declaration were matched with an appropriate costing study, adopting an identical or similar sector specification, and targets were derived accordingly, on the basis of the cost of achieving the anticipated outcomes. Each sectoral target is discussed below.

The main social protection sector target to which African governments are signatories is enshrined within the Windhoek Declaration of 2008, as discussed earlier. 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[6].

For the seven ILO case study countries, the average cost of the basic social protection package in 2008 was estimated at 4.5 per cent of GDP, ranging from 2.9-5.2 per cent 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 included in the ILO study which estimated the country-specific cost of social protection provision to be 5.2 per cent 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.

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 per cent 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)[7] at the World Education Forum in Dakar, Senegal, in 2000. On the basis of the EFA-FTI initiative governments agreed to increase education spending to at least 20 per cent 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 on in the eThekwini Declaration signed at the second African Conference on Sanitation and Hygiene in Durban, South Africa in 2008, where the African Ministers' Council on Water agreed to spend a minimum of 0.5 per cent of GDP on sanitation and hygiene. However, no similar spending target was agreed on 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

---

[6] 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. In this study the social insurance schemes and benefits to informal workers included in the SPF, are interpreted as broadly comparable in cost terms to the 100 day employment scheme included in the ILO costing.

[7] 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.

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 per cent of GDP required to meet the Millennium Development Goal (MDG) 7c[8] (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 per cent of GDP.

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

At the 12th AU Assembly in 2009 heads of states and governments agreed to 'increase public financing for infrastructure' in general and 'to speed up the development of transport and energy infrastructure' (AU, 2099) 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 per cent, with 9.6 per cent 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.

Based upon the discussion above, the actual or implicit targets that form the basis of the analysis presented in this paper are summarised in table 1 below.

[8] Target 7c is: Reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation

Table 1. Sectoral spending targets

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

4. METHODOLOGY

Definitions, the empirical approach adopted, and data sources are discussed in this section.

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 six key development sectors is examined in relation to the international sector-specific 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 and outturn 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 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

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

and donor funded sector expenditure and the relationship between budget allocations and sectoral targets.

The range of activities included under social protection vary considerably by country and institution. Social protection encompasses 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 paper and the associated target. The COFOG definition of social protection is also wider than the ILO's, 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 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 across the targets 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 was gathered from a number of official sources, primarily from Ministries of

Finance, ranging from published budgets to unpublished audited actual expenditures. Detailed government data was investigated further with line ministries to ensure the correct allocation of budget items according to the sectoral definitions adopted in this study. This paper uses data for the year 2006-07, 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. These are 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 about *all* aid spent in a country. AIMS data includes both ODA that is captured in the government budget and also other, off-budget flows, using alternative sources of data rather than relying on government reported aid flows.

Two key caveats should be noted in relation to the analysis and findings presented in this paper. Data on sectoral off-budget aid is not available for three of the five countries (Ethiopia, Kenya and Mozambique). Up to 89 per cent of total ODA is delivered off-budget in Malawi, and 51 per cent in Uganda, implying a massive additional resource flow equivalent to 120 and 26 per cent of total expenditure, outside the formal budget process in each country respectively. 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. It is salutary to note that this limitation highlights the difficulties experienced by governments in terms of their ability to accurately assess total sectoral spending, since the aid information available to the authors is the same as the information available to recipient governments. .

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 2006-07. For these sectors the analysis should not be read as a retrospective assessment of country performance against targets, but rather an assessment of the adequacy of sectoral financing levels, compared to the levels implied in the agreements to which the governments have become signatories.

5. BACKGROUND INFORMATION ON THE CASE STUDY COUNTRIES

The five case study countries, Ethiopia, Kenya, Malawi, Mozambique and Uganda vary greatly in terms of income levels and aid dependency, as shown in table 2.

Table 2. GDP and government expenditure (2006-07)

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

Source: Country budgets, World Development Indicators 2010, Christiansen et al. 2007, Warren-Rodriguez (2007)

Note: ODA=Official Development Assistance; [1]Excludes debt relief

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

All five countries are ODA recipients. While on budget ODA does not account for a significant share of government expenditure in Kenya (3%), it represents between 28 and 48 per cent of government expenditure in the other case study countries. As discussed above, 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 only provide rough estimates of total off-budget expenditure. In the case study countries total off-budget aid is significant, ranging from 26 to 89 per cent of total ODA. This lack of data and transparency compromises the ability of governments to manage resources effectively.

6. PERFORMANCE AGAINST TARGETS

This section compares actual sectoral expenditure to 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 carried out.

6.1 Meeting sectoral targets

Sector-specific expenditure was calculated for each country and compared with the target levels of expenditure by sector. For the targets which were not in existence in 2006/07, Table 3 measures the potential adequacy of sectoral financing to achieve targets. The sectoral targets which are met are shaded.

Table 3. Sector expenditure as a share of total government expenditure/GDP in 2006-07

Sector	Target	Ethiopia	Kenya	Malawi	Mozambique	Uganda
		% government expenditure/ % GDP				
Social Protection	4.5% GDP	0.7%	0.3%	0.4%	0.1%	0.1%
Health	15% Govt. 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%

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

None of the countries come close to the social protection target of 4.5 per cent of GDP, ranging from 0.1 per cent (Mozambique and Uganda) to 0.7 per cent (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. In many contexts civil service pension schemes (excluded from the current analysis) account for a large share of government social protection expenditure. For this reason the residual for core social protection provision in line with the Windhoek declaration presented here is lower than aggregate social protection expenditure figures cited elsewhere in the literature, which are closer to the sectoral target.

The health target (15% of government expenditure) is exceeded in Malawi, and Mozambique is close to achieving it, at almost 14 per cent. However, in the other countries less than 50 per cent of the target for health expenditure 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.

The education target of 20 per cent 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 per cent respectively. The shortfall is thus significantly lower than for the other targets. The EFA-FTI initiative is a high profile joint donor and recipient country partnership and is a potential source of ODA. These incentives may explain in part the relative success of progress against this target.

The water and sanitation target of 1.5 per cent of GDP is not attained by any of the countries, with countries 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 exceeded in Malawi by 50 per cent. This is largely due to the large scale AISP, which could potentially also be classified as a social protection programme in terms of its policy objective, as it forms is as a major plank of national anti-poverty policy in preference to investment in alternative forms of social protection. If expenditure on the AISP (conservatively estimated at 1.9 per cent of GDP in 2006-07[10]) were classified as social protection, this would increase social protection expenditure to 2.3% of GDP. In that case Malawi would be closer to meeting its social protection target, while still meeting its agriculture target.

The infrastructure target of 9.6 per cent of GDP was not met by any country, with spending levels at a third of the target or less[11].

This analysis shows that in 2006-07 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 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 per cent for education on average to an average shortfall of 93 per cent for social protection.

[10] The Logistics Unit estimate a final figure of Kwacha 8,696 million for 2006-07.
[11] The governments of Ethiopia, Kenya and Uganda have significantly increased infrastructure expenditures since 2006-07, although not sufficiently to meet the target.

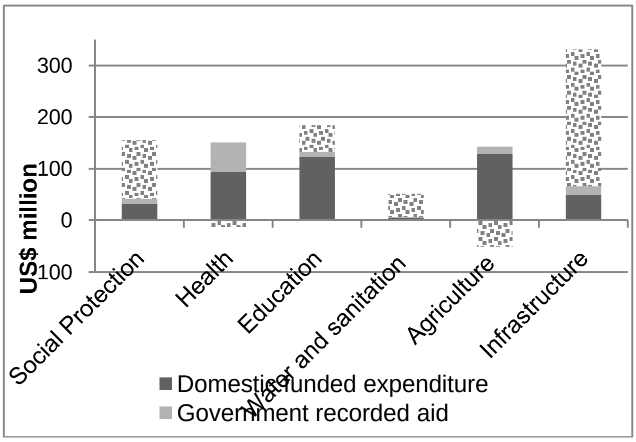
It is important to recall however, that this includes on budget donor spending only. As discussed previously, off-budget spending is not included because it is not possible to obtain reliable or consistent estimates of its value or composition for all five countries. Thus, depending on the scale of off-budget 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 dependant 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 extent to which off-budget aid affects performance against targets is calculated for Malawi and Uganda below as detailed off-budget data is available for these two countries from AIMS.

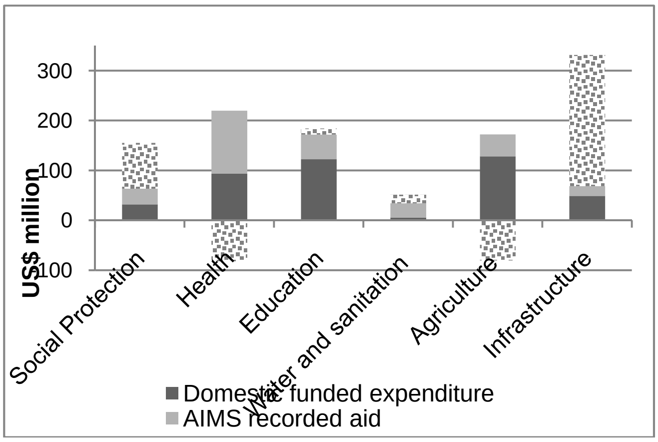
6.2 Donor allocations

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 per cent of total spending in the social protection sector in Malawi. AIMS data, which includes information on off-budget ODA, in addition to on budget flows is available for two of the countries in this study, Malawi and Uganda. The discrepancies between an analysis taking into account just on budget ODA, based on the information available to governments, and off-budget ODA, based on AIMS data, illustrates the critical importance of monitoring total sectoral ODA flows, when assessing total sectoral expenditure.

A comprehensive budget analysis was conducted for these two countries taking into account the role of off-budget aid. 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 in two separate analyses.

Figure 1. Sector funding required versus funding available – sensitivity analysis for Malawi

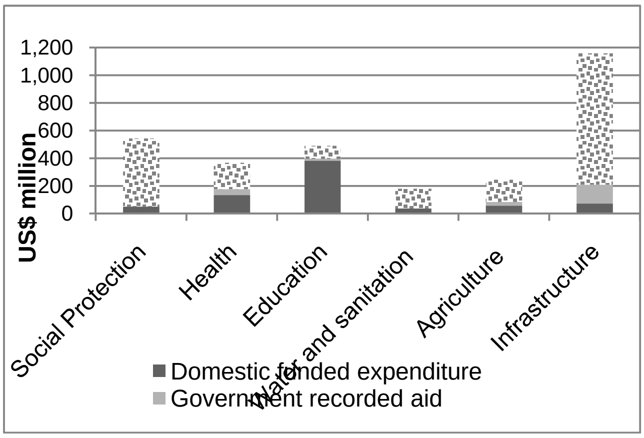


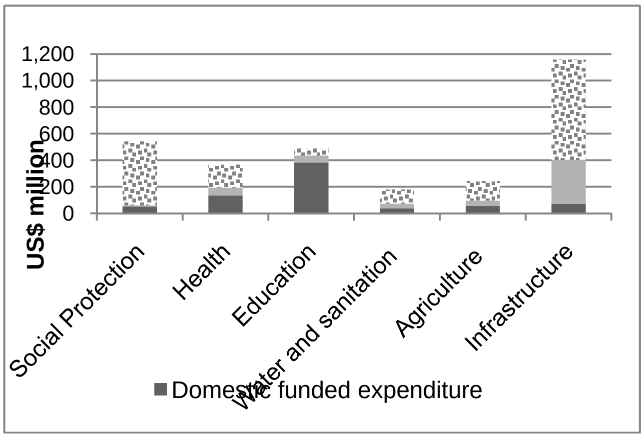


Source: Own calculations based on government budgets/ AIMS

As would be anticipated, 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. is used than when only government-recorded data on on-budget aid is 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, with off-budget aid comprising 95 per cent of total ODA in the water and sanitation sector.

Figure 2. Sector funding required versus funding available – sensitivity analysis for Uganda





Source: Own calculations based on government budgets/ AIMS

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 in these sectors.

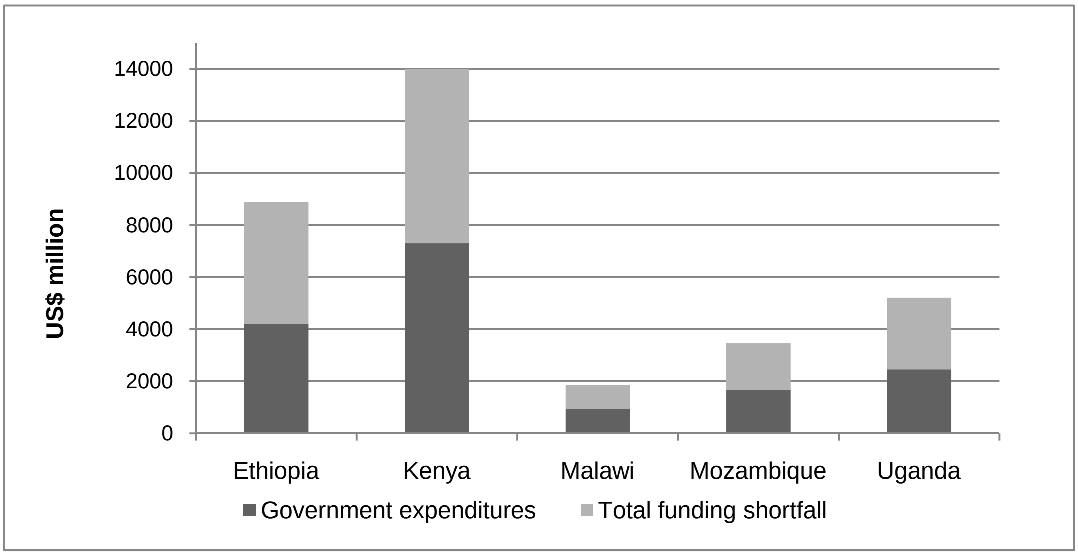
Hence, while it has a significant impact in some sectors, the inclusion of off-budget aid in the analysis does not change the findings of this study in terms of the inadequacy of financing in the social protection sector.

6.3 The feasibility of meeting targets simultaneously

While it has not been explicitly proposed in the international discourse that it would be feasible to simultaneously finance all six sectors in full, there is an implicit assumption that this is both desirable and feasible, in as much as governments have indicated their commitment to realising the outcomes in each of the six sectors. Hence it is instructive to assess the fiscal implications of these commitments in aggregate to assess 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 to actual government expenditure.

The feasibility of meeting all six sectoral spending targets is first assessed by aggregating the cost of the six targets in 2006-07 US dollars, and comparing the total commitment cost to total government expenditure in these six sectors. Figure 3 below depicts aggregate actual government expenditure on the six development sectors, and the total funding shortfall if this is compared to the aggregate target.

Figure 3. Aggregate funding required to meet all 6 sectoral targets and total actual expenditure in these sectors (2006-07)



Source: Own calculations based on government budgets

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)

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. 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.

Next the commitment cost is compared to 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 to total government expenditure in US$ millions in 2006-07

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

Source: Own calculations based on government budgets

Note: The per cent 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.

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 per cent of total government expenditure[12]. This illustrates the critical shortcoming in a sector-specific, or silo

[12] 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

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 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 per cent 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 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, reaching 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, it is important to note that 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 per cent (Malawi) and 154 per cent (Uganda) in order to meet the targets, whilst retaining constant levels of expenditure on other functions of government, if this approach alone were adopted.

6.4 Social protection sensitivity analysis

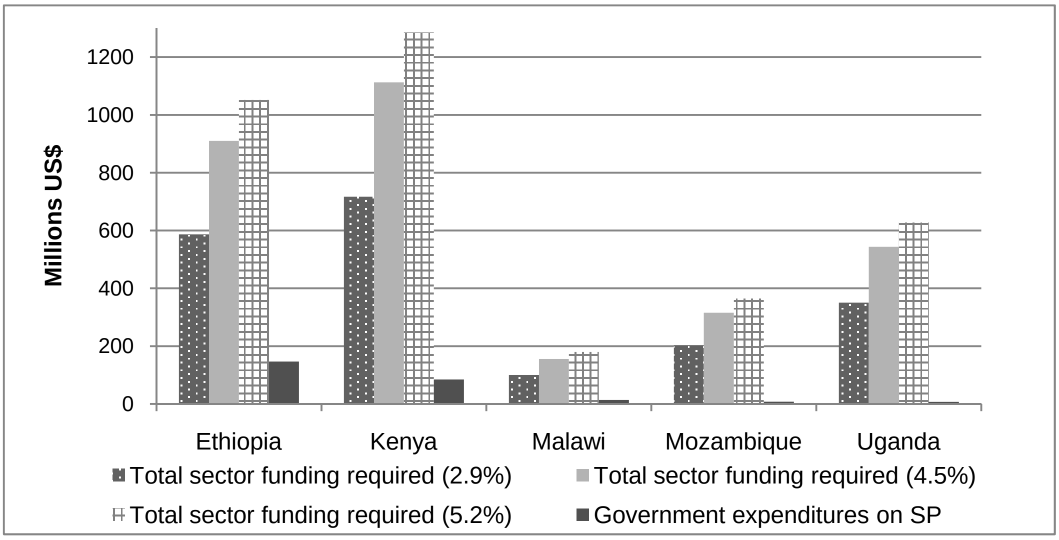
The social protection target of 4.5 per cent of GDP used so far is based on the average cost for all seven SSA countries included in the ILO study (ILO, 2008). Since this

---

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 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 due to the endogeneity loop described above, whereby three targets are expressed as a percentage of total spending, and thus increase as the other (GDP-based) targets rise.

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 per cent and 5.2 per cent 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.

Figure 4. Social protection commitment cost (three different targets) and actual government expenditure in 2006/ 2007



Source: Own calculations based on government budgets

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.

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 per cent of GDP, but these two countries are far from meeting this requirement. The issue is explored further in Table 5, 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.

Table 5. Social protection expenditure in 2006-07, as a percentage of target expenditure using different target levels

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

Source: Own calculations based on government budgets

The table shows that current social protection expenditure is a small fraction of target expenditure. As a share of the target actual expenditure ranges from 2 per cent for the lower and 1 per cent for the higher bound in Uganda, to 25 per cent for the lower and 14 per cent for the higher bound in Ethiopia. Expenditure on social protection alone would need to be increased by between 300 per cent (Ethiopia) and 4900 per cent (Uganda) for the 2.9 per cent target and 620 per cent and 8900 per cent respectively for the 5.2 per cent target. This analysis indicates that on the basis of 2006-07 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 per cent to finance the basic social protection package envisaged at Windhoek.

7. CONCLUSIONS AND POLICY IMPLICATIONS

This paper has shown that in the sub-Saharan African countries reviewed, spending in the six key development sectors 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 alone. The remaining sectoral targets (social protection, water and sanitation and infrastructure) are not met in any of the countries, with the social protection sector having an average funding shortfall of 93 per cent. 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 per cent of total government expenditure in the four of the five case study countries.

Some governments may intend to comply with targets through progressive rather than immediate realisation, but the level of the shortfall, particularly in the case of social protection, and the limited space for reallocation make it unlikely that most of the targets could be realised in the short or medium term. It is however 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 and Cooksey (2011) on agricultural marketing).

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 limited 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 the expense of each other.

The findings suggest that compared to an indicative cost for the provision of a basic social protection package, of between 2.9 and 5.2 per cent of GDP, current expenditure on social protection in the case study countries is between 0.1 and 0.7 per cent, 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, or from contributory schemes, 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 to need to increase by 87 to 154 per cent, 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. This findings in this paper raise questions relating to basic principles of public financial management, ODA management and to silo approaches 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 silo-based 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 the result of 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 however imply that claims on the fiscal 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.

Targets have a 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 paper has shown that the achievement of a set of key development targets simultaneously is not fiscally feasible. Striving to reach these targets 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 away from spending on items seen to lack developmental value (for example defence, security and general administration), 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 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 risk 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 paper, it becomes clear that there are no grounds for a realistic expectation that the six targets agreed can be realised in the medium term, due to 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 should 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.

REFERENCES

AfricaSan (2008) 'The eThekwini Declaration and AfricaSan Action Plan'. http://www.wsp.org/UserFiles/file/eThekwiniAfricaSan.pdf (Accessed 21 March 2011)

African Union (2001) 'Abuja Declaration on HIV/ Aids, Tuberculosis and Other Infectious Diseases' http://www.un.org/ga/aids/pdf/abuja_declaration.pdf (Accessed 21 March 2011)

African Union (2003) 'Conference of Ministers of Agriculture of the African Union Report of the Ministers of Agriculture' http://www.africa-union.org/News_Events/Calendar_of_%20Events/AGRICULTURE/Report-MinistersofAgri%20july%201-2%20%202003.pdf (Accessed 21 March 2011)

African Union (2008) 'Sharm El-Sheikh Commitments for Accelerating the Achievement of Water and Sanitation Goals in Africa' http://www.unsgab.org/news/docs/080701_AUDeclarationSeS.pdf (Accessed 21 March 2011)

African Union (2008) 'Social Policy Framework for Africa' http://www.un.org/esa/socdev/egms/docs/2009/Ghana/au2.pdf (Accessed 21 March 2011)

African Union (2009) 'Assembly of the African Union 12th Ordinary Session Decisions, Declarations, Message of Congratulations and Motion' http://www.africa-union.org/root/UA/Conferences/2009/Jan/Summit_Jan_2009/doc/CONFERENCE/ASSEMBAS%20AU%20DEC%20%20208-240%20%28XII%29.pdf (Accessed 21 March 2011)

Barrientos, A. (2007) 'Financing Social Protection', Brooks World Poverty Institute Working Paper, No. 05.

Beattie, R. (2000) 'Social protection for all: But how?' *International Labour Review*, 139(2): 129-148.

Christiansen, K et al (2007) 'Interim Report of the Uganda Donor Division of Labour Exercise'. London: Overseas Development Institute.

Cichon, M., W.Scholz, A. van de Meerendonk, K. Hagemejer, F. Bertranou and P. Plamondon (2004) *Financing social protection*. Geneva: International Labour Office).

Cooksey, B. (2011) 'Marketing Reform? The Rise and Fall of Agricultural Liberalisation in Tanzania', *Development Policy Review*, 29(1): 57-81.

Dijkstra, G. (2011) 'The PRSP Approach and the Illusion of Improved Aid Effectiveness'. *Development Policy Review*, 29(1): 111-133.

Education For All Fast pp130 Track Initiative (2009) Financing and FTI Trust Funds. Accessed at http://www.educationfasttrack.org/faqs/#faqSix (Accessed 21 March 2011)

Fukuda-Parr, S. (2010) 'Accelerating progress or achieving the targets: a human rights approach to using MDGs'. Paper presented at CPRC International Conference 2010 Ten Years of War Against Poverty, University of Manchester (8-10 September 2010).

Foster, V. and C. Briceño-Garmendia (2010) ‘Africa’s Infrastructure: A Time for Transformation’. (Washington DC: World Bank).

Hanley, J. (2009). ‘Fiscal Space for strengthened social protection in West and Central Africa’. London: Overseas Development Institute.

Holmqvist, G. (2010). ‘External Financing of Social Protection– Opportunities and Risks’. Paper presented at Promoting Resilience through Social Protection in sub-Saharan Africa conference, Dakar (28-30 June 2010).

Infrastructure Consortium for Africa (2010) Challenge Why More and Better Infrastructure. Accessed at: http://www.icafrica.org/en/infrastructure-issues/aims1/ (Accessed 21 March 2011)

International Labour Organization (2008) ‘Can low-income countries afford basic social security?’. Social security policy briefings Paper 3, Geneva: International Labour Office.

International Labour Organization (2010) ‘Extending social security to all A guide through challenges and options’. Geneva: International Labour Office.

Logistics Unit (2007) ‘Final Report Implementation of Agricultural Inputs Subsidy Programe 2007’. Lilongwe: Logistics Unit.

Pal, K., C. Behrendt, F. Leger, M. Cichon and K. Hagemejer (2005) ‘Can Low Income Countries Afford Basic Social Protection? First Results of a Modelling Exercise’. Issues in Social Protection Discussion Paper 13, Geneva: International Labour Office.

Schiavo-Campo, S. and D. Tommasi, (1999) ‘Managing Government Expenditure’, Manila: Asian Development Bank.

United Nations Development Programme (2006) *Human Development Report Beyond scarcity: Power, poverty and the global water crisis*. (New York: United Nations Development Programme).

Warren-Rodriguez, A. (2007) ‘Putting Aid on Budget: A Case study of Mozambique’. London: Mokoro Ltd.

World Bank (2003) ‘The Contribution of Social Protection to the Millennium Development Goals’. Washington DC: World Bank.