



Paying for progress:

how will emerging post-2015 goals be financed in the new aid landscape?

Romilly Greenhill and Ahmed Ali

Working Paper 366

Results of ODI research presented
in preliminary form for discussion
and critical comment

Working Paper Number: 366

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April 2013

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ISBN 978-1-909464-19-3
Working Paper (Print) ISSN 1759 2909
ODI Working Papers (Online) ISSN 1759 2917

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Acknowledgements

This paper was generously supported by the UK Department for International Development. The authors would like to thank Claire Melamed, Annalisa Prizzon, Andrew Rogerson, Simon Gill, Rebecca Simson and Nathaniel Mason for valuable comments on the paper. The usual disclaimers apply.

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Acronyms

AGECC	Advisory Group on Energy and Climate Change
AICD	Africa Infrastructure Country Diagnostic
CAPE	Centre for Aid and Public Expenditure
CIGI	Centre for International Governance Innovation
DAC	Development Assistance Committee
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GLAAS	Global Analysis and Assessment of Sanitation and Drinking Water
HLTFGFC	High Level Task Force on the Global Food Crisis
IEA	International Energy Agency
IFD	Innovative Financing for Development
KDI	Korea Development Institute
MDG	Millennium Development Goal
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PFM	Public Financial Management
SDG	Sustainable Development Goal
SE4ALL	Sustainable Energy for All
SSC	South-South Cooperation
SUN	Scaling Up Nutrition
UHC	Universal Health Coverage
UNDESA	UN Department of Economic and Social Affairs
UPE	Universal Primary Education
WATSAN	Water and Sanitation
WHO	World Health Organization

Executive Summary

The aim of this paper is to explore options for financing some of the potential post-2015 goals within the changing development cooperation landscape. It focuses on five sectors which are likely to be included within any successor to the Millennium Development Goals (MDGs): education, health, water and sanitation (WATSAN), sustainable energy, and food security/nutrition/agriculture. In each sector, the paper reviews the literature to identify potential goals which may emerge. It then explores the role of development finance in making progress towards these goals; the orders of magnitude of finance that may be required; the role and effectiveness of different sources of finance; and the potential of these sources to be scaled up to fill identified financing gaps. This is intended to be a preliminary discussion paper rather than a definitive assessment of the debate. It does not introduce any new costings of proposed post-2015 goals, instead drawing on existing costings from secondary sources, which are indicative and tentative. The aim is to identify questions for further research rather than firm conclusions.

In summary, the paper finds that:

- Finance is a necessary but not sufficient condition for making progress towards potential post-2015 goals in all five sectors. Policy factors are also important.
- All sectors have financing gaps if likely post-2015 goals are to be met. Indicative analysis suggests that the additional funding required, over and above all existing spending, is in the region of \$26 billion to \$50 billion per year for each sector. This excludes spending on renewable energy which requires an additional \$400 billion to \$900 billion per year. These figures are tentative and are likely to be under-estimates.
- A number of potential sources of finance could be used to fill these gaps:
 - Households could contribute to sustainable energy and potentially WATSAN-related goals, but appear to be contributing too much to education and health already;
 - Governments could do more to meet their share of post-2015 goals, but their potential to do so should not be over-exaggerated. This is particularly true given the limited potential of low-income countries to increase domestic resource mobilisation;
 - There should be scope for official development assistance (ODA) to increase to fill the post-2015 financing gaps, although austerity in donor countries and recent downward trends in ODA makes this challenging;
 - Philanthropic assistance is a potential contributor, particularly in the health sector, but its role should not be over-estimated;
 - There is potential for South-South Cooperation (SSC) to provide some of the necessary finance and knowledge transfer, particularly in the water, energy and agriculture sectors, although current volumes of funding remain modest;
 - There is potential for more private investment in the energy sector, and to a lesser extent agriculture, WATSAN and health, but private flows are not a 'magic bullet' and cannot fully replace or substitute resources from governments or ODA;
 - Innovative finance for development will require significant scaling up if it is to meet the identified financing gaps;
 - Other Official Flows (OOFs) have the potential to finance a sub-section of the post-2015 goals, particularly in the water and energy sectors;
 - All sources of finance could be used more effectively in meeting development goals.

The paper concludes that:

- Governments and traditional donors are the only providers for whom mobilising additional finance is both relevant and potentially feasible across all sectors;

- Other forms of finance can contribute in some sectors, but often in smaller quantities and/or through untested mechanisms;
- The scope for low-income countries to collect additional domestic resources is quite limited;
- ODA will therefore continue to be important and necessary to fund progress in these sectors and countries.

The paper concludes by identifying a number of options for the international community when considering which goals should be included in the post-2015 framework and how they should be financed. These options are not mutually exclusive and could be combined in different ways:

1. Agree on a high level of ambition for the post-2015 goals, and discuss mechanisms for burden sharing between different providers, including countries, donors, non-Development Assistance Committee (DAC) donors, philanthropists and the private sector.
2. Agree on an ambitious set of goals, but place primary responsibility for financing them on developing countries.
3. Place primary responsibility on developing countries, but agree measures to support domestic resource mobilisation, particularly through curbing tax avoidance and evasion, and reducing illicit flows.
4. Limit the ambition of the goals to what is realistically feasible within the current financing climate.
5. Focus on more structural and/or environmental goals, rather than social sector and infrastructure goals.
6. Agree on an ambitious set of goals, but focus more on the effectiveness of current spending than on mobilising additional resources.
7. Focus on the contributions of different actors which go beyond development finance.
8. Focus more on options to leverage private-sector investment and/or economic growth.
9. Agree on ambitious goals, but focus more on innovative financing mechanisms to meet the goals.

1. Introduction

The debate on the set of development goals that will replace the current Millennium Development Goals (MDGs) is becoming increasingly intense, with frequent consultations, high-level meetings and discussions being held around the world. Financial considerations are becoming an increasingly important part of these discussions, and are likely to stay high on the agenda. Those signing up to goals are likely to have their own potential contribution in mind when agreeing to particular goals or targets, and may set their level of ambition accordingly. Financial considerations are also likely to be important in informing any new 'global compact' which replaces the current MDG 8.

This is the second paper by ODI's Centre for Aid and Public Expenditure (CAPE) exploring the options for financing the post-2015 goals within the changing development cooperation landscape. As our first paper (Greenhill and Prizzon, 2012) noted, the financing model underpinning the original MDGs focused largely on domestic resource mobilisation and official development assistance (ODA). The implicit assumption was that, when countries were unable to mobilise sufficient domestic resources to finance progress towards the MDGs, the gap would be filled by ODA or debt cancellation. Today's development cooperation landscape is very different. Countries are graduating to middle-income status, and domestic revenues are increasing rapidly, meaning that ODA is becoming less important. The rapid growth of less traditional sources of development assistance also means that countries are in a new 'age of choice' when it comes to options for financing their development strategies (Greenhill et al., 2013).

The aim of this second paper is to explore, more concretely, options for financing some of the potential post-2015 goals within this changing landscape. Given the early stage of the process, it is far from clear which areas will be included in the post-2015 framework or how these will interact with the proposed Sustainable Development Goals (SDGs). This paper does not aim to prejudge the on-going discussions, or make proposals for particular areas to be included. Instead, it focuses on five sectors: education, health, water and sanitation, sustainable energy, and food security/nutrition/agriculture, which seem likely to be included in any successor to the MDGs. We explore the role of development finance in making progress towards potential goals in these sectors; the orders of magnitude of finance that may be required; and the role and effectiveness of different sources of finance. These sectors are included to illustrate some of the important factors which will need to be considered as part of a post-2015 financing compact: more detailed work will be needed once the shape of the framework is clearer.

Despite the early stage of the process, we believe it is important that questions are asked now about the 'fitness for purpose' of today's development cooperation landscape in meeting tomorrow's agreed development goals. Not every dollar is equal; different sources of development finance are appropriate in meeting different needs. Traditional donors may wish to see the burden of paying for development goals taken up by the private sector or developing countries, but this depends on the effectiveness of different finance sources in meeting different needs, as well as whether the resources can realistically be channelled to where need is greatest. We explore these issues in more detail in the paper.

This is intended to be a preliminary discussion paper rather than a definitive assessment of the debate. We do not introduce any new costings of proposed post-2015 goals, instead drawing on existing costings from secondary sources. Our costings figures are quite tentative, given the early stages of the debate and the need to extrapolate from existing MDG costings. The paper therefore aims to identify questions for further research, rather than firm conclusions.

The paper proceeds as follows:

- In Section 2, we outline the five sectors that we have chosen to focus on for this paper (education, health, water and sanitation, sustainable energy and food security), and the goals within those sectors that seem to have the widest consensus;
- In Section 3, we ask how relevant finance is to meeting the proposed goals;
- In Section 4, we draw on secondary sources to identify broad ‘orders of magnitude’ of the amount of finance that is needed, from all sources;
- In Section 5, we discuss the potential sources and mechanisms which may be relevant for meeting each of these goals;
- In Section 6, we discuss the scope for enhancing effectiveness of current spending;
- In Section 7, we conclude by looking at options for the international community in agreeing the post-2015 goals, bearing in mind the financial implications identified in the paper.

2. Which goals do we focus on and why?

The number and scope of the goals being proposed as the successor to the MDGs are many and varied. From reviewing those proposals on post-2015 goals that have already been developed, there appears to be consensus that the post-2015 agreement should be anchored in the existing MDGs, but push the frontier further by including goals on sustainability. For purposes of this analysis, we have selected five areas likely to be included in any post-MDG or SDG framework: education, health, water and sanitation, sustainable energy, and food security/nutrition/agriculture. We selected these sectors according to two criteria:

- Whether developing countries have assessed them to be important priorities for inclusion in the SDGs, as indicated by responses to a recent survey by UNDESA (2013). The survey suggested education was fourth priority; health eleventh; water and sanitation sixth; sustainable energy second; and food security/nutrition/agriculture third out of a list of 22 sectors.
- Whether they have been included in the major cross-sectoral goal proposals produced to date, including those by Southern Voices on the Post-MDG International Goals (2013); Karver, Kenny and Sumner (2012); CIGI and KDI (2012); Save the Children (2012); Melamed (2012); and Aryeetey et al. (2012).

We are focusing on five sectors to keep the analysis to a manageable size. Other areas, including those more clearly rooted in the sustainability agenda, need to be considered as part of further work. Our selection of goals within these sectors is based on what we read as the emerging consensus in the literature, rather than a specific recommendation that these are the ideal goals.

The lens taken in this paper is a sectoral one. Undoubtedly, progress across these and other goals could be promoted by a focus on inclusive and sustainable growth, which would help raise incomes across the board, and hence help meet agreed goals. Other ODI work is looking at prospects for the post-2015 agenda in promoting inclusive growth.¹ We focus here on the *sectoral* level asking, by sector, how finance can directly contribute. In reality, goals are likely to be met through a mixture of broad-based growth and targeted investment in particular sectors, which should be borne in mind when reviewing financing options.

Proposals on **universal primary education (UPE) and access to secondary education** feature prominently in all the goal proposals outlined above. The emerging themes and debates centre on

¹ See Martins and Lucci (2013).

two points: what the MDGs failed to achieve, and therefore, should be rolled over and included in post-2015 goals; and new challenges which have come to the fore since 2000. In the primary sub-sector, the focus is mainly on improving **quality**, recognising that this is important for reducing dropout rates and ensuring those in school are actually learning (CIGI and KDI, 2012; Save the Children, 2012). There is also a focus on **equity**, with a recognition that girls and children from poor households, usually in rural areas, are less likely to attend school and more likely to drop out (Brookings Institution, 2011; Burnett and Felsman, 2012; Save the Children, 2012). It is recognised that the focus and progress made in universal access to primary education as a result of the first MDGs have overshadowed analysis and financing challenges of **secondary education**, while simultaneously massively increasing demand due to expansion in primary school enrolment and completion rates (Lewin, 2001; Brookings Institution, 2011). In summary, the proposed goals for education call for **finishing the job on access to UPE** by reaching the remaining out-of-school children and focusing on learning rather than enrolments as an indicator of progress; and **improving access to lower secondary education** to meet the growing demand spurred by the increased number of children completing primary education.

Health also features prominently in the post-2015 proposals published to date, although it is a lower priority for governments responding to the SDGs questionnaire (UNDESA, 2013). There is some debate around whether to focus on outcomes or on specific diseases, and whether to add non-communicable diseases, which are increasingly a global burden. Others, including WHO, are calling for a goal of universal health coverage and a shift away from focusing on particular diseases, which encourages vertical funding, at times at the expense of systems strengthening (Melamed, 2012). The proposals that are the focus of this paper are on **universal coverage of an expanded set of diseases, communicable and non-communicable, taking a systems approach to achieve improved health outcomes by 2025/30** (UN System Task Team, 2012).

In the **water and sanitation (WATSAN)** sector, the existing MDG on access to safe drinking water is on track, but almost half the population in developing regions is still without sanitation, meaning that the sanitation target will likely be missed. Water and sanitation is a common theme within existing goal proposals, although in some cases elements are combined with goals on food, health or infrastructure (Melamed, 2012). The development of goals on WATSAN is led by the WHO/UNICEF Joint Monitoring Programme, whose current proposal for post-2015 goals is: 'By 2030, everyone uses a basic drinking-water supply and hand-washing facilities when at home, and all schools and health centres provide all users with basic drinking-water supply and adequate sanitation, hand-washing facilities and menstrual hygiene facilities' (WHO and UNICEF, 2012). A further goal on 'adequate sanitation at home' is also proposed for 2040. Other proposals, for example by Aryeetey et al. (2012), also focus on ensuring universal access to safe/improved drinking water and sanitation. For the purposes of this paper, we therefore focus on **universal access to safe water supply and sanitation**. The proposed target date is 2025 or 2030.

Sustainable energy is important not only because it emerges as the second highest priority in the SDGs questionnaire, and is included in the cross-sectoral goal proposals reviewed, but also because it spans both the MDG-plus and SDG agendas. There appears to be consensus in the literature around the need to adopt goals similar to, or drawn from, those outlined in the UN's Sustainable Energy for All Initiative (SE4ALL, 2013; UNDESA, 2013), namely, **by 2030: providing universal access to modern energy services; doubling the global rate of improvement in energy efficiency; and doubling the share of renewable energy in the global energy mix**.

Finally, goals on **food security/nutrition/agriculture** are an obvious area to be included, both because the hunger elements of MDG 1 have tended to be over-looked, and because of the 2008/2009 and 2011 food crises, the second of which pushed 50 million more people below the

poverty line (UN, 2013). Food and hunger have been the focus of a number of recent initiatives to improve food security and nutrition, including UN Secretary General Ban Ki-moon's Zero Hunger Challenge and the 'Scaling Up Nutrition' initiative (SUN Movement strategy, 2012). In existing goal proposals, there seems to be consensus that the focus should be on a food security goal, targeting those sectors of society left behind in achieving the income targets of MDG 1 (Melamed, 2012). We therefore take as our starting point a goal on **the elimination² of hunger by 2025 by sustainably raising agricultural production and improving access to sufficient nutritious food, while providing safety nets for vulnerable communities.**

In summary, while recognising that these remain early proposals, and that more work needs to be done to identify concrete post-2015 goals, for the purposes of this paper we focus on the following, all of which are to be achieved by 2025 or 2030:

- Finish the job on access to UPE by reaching remaining out-of-school children and focusing on learning, rather than enrolments, as an indicator of progress; and improving access to lower secondary education.
- Universal health coverage for an expanded set of diseases, communicable and non-communicable, taking a systems approach to achieve improved health outcomes.
- Universal access to safe water supply and sanitation.
- Sustainable Energy for All: providing universal access to modern energy services; doubling the global rate of improvement in energy efficiency; and doubling the share of renewable energy in the global energy mix.
- Eliminating hunger by 2025 by sustainably raising agricultural production and improving access to sufficient nutritious food, while providing safety nets for vulnerable communities.

3. How relevant is finance in meeting the proposed goals?

Our understanding of development finance since the inception of the MDGs has changed in a number of significant ways. There is general acknowledgement that simplistic approaches, which assume that filling financing gaps will necessarily lead to better outcomes, are outdated. As Melamed and Sumner (2011) point out, while the MDGs did influence the level and allocation of aid spending, evidence of the impact of this spending on outcomes is more tenuous. Finance is just one of many contributing factors to development; without appropriate policies, strong public management, and good implementation capacity, finance is less effective and efficient in achieving agreed goals. Additional finance is no panacea for development, but rather an enabler/catalyst which can spur the development process.

Moreover, not every dollar of finance is equal; different sources of financing and different mechanisms for expenditure will have differential impacts on outcomes. Finance can be public or private, external or domestic, and can be spent on investment or consumption. Different sources will be appropriate to meet different needs. The distinction between public, private and household sources of finance is a particularly important one, as each is likely to have a different rationale and lead to a different set of policy recommendations. Private finance will, in general, follow the market, being allocated to areas in which the risk/return profile is highest. Household expenditures will be driven by household priorities, which will in turn be driven by the broader economic context, and to some extent, by public policy decisions. Allocation of public finance is determined by governments according to economic and political rationales. In economic terms, public finance should be spent in areas which are public goods, or in which there are market failures (e.g. externalities) which mean

² In practice, hunger is defined as being eliminated in a country when less than 3% of its population are chronically undernourished.

that private investment is unlikely to lead to socially optimal outcomes. Governments may also decide to prioritise public spending to meet agreed national or international goals, for example around poverty reduction or equality. All sources of finance can be spent more, or less, effectively: aid, for example, can be provided through effective, government-led programmes, in a way that is predictable, transparent and well-coordinated; or it can be tied, provided in a top-down, donor-driven way, without any predictability or transparency. One dollar of aid can therefore have very different impacts on outcomes, depending on how it is spent.

The first question to ask when examining the role of development finance in a post-2015 agenda is how significant a constraint finance is likely to be in making progress toward the goals outlined above, and which forms of finance are likely to be most relevant to that progress. While this varies by sector, as outlined below, **in general we found that the volume and effectiveness of finance (broadly understood) is an important contributing factor across all sectors, and is a necessary – but not sufficient – condition for progress.** Policy factors are also, unsurprisingly, found to be important in all sectors.

Education, like health, has been an important beneficiary of the MDGs and has received significant resources since 2000. This has led to important progress in school enrolment, although the impact on learning outcomes is less clear. Many countries on course to meet the MDG on primary completion still have a majority of children leaving school without reaching minimal competency levels (Filmer et al., 2006). A study of 55 low-income countries by Bruns and Mingat (2003) found that finance was a necessary, but not sufficient, condition for improving completion rates: other necessary conditions were reasonable unit costs (e.g. teachers' salaries) and the effectiveness and efficiency of education systems. Countries could therefore have similar levels of education spending but very different education outcomes, depending on their unit costs and policy framework. However, Bruns and Mingat did find finance to be important: a 'healthy' level of spending on education, defined as at least 3.8% of GDP, was found to be necessary to secure good educational outcomes when measured in terms of primary completion and repetition rates (Bruns and Mingat, 2003). To improve quality, additional resources should be targeted at reforms which have successfully improved educational quality in other parts of the world; and to reform inefficient and ineffective education systems.

The relationship between finance and outcomes is more straightforward when it comes to expanding secondary education. Existing school systems may not be able to absorb the rapidly growing secondary enrolment rates, placing significant pressure on ministers of education in the developing world (Burnett and Felsman, 2012). Lewin (2008) estimated that lower secondary school systems in Sub-Saharan Africa needed to expand by a factor of 5.6 to achieve 100% enrolment by 2015. This expansion requires investment in classrooms, teachers and textbooks etc., all of which require resources.

The relationship between finance and outcomes is more straightforward in the **health** sector. It is clear that a goal of universal access to health which expands coverage to more people, while expanding the number of diseases covered, including non-communicable diseases, will require an increased resource envelope. The UN System Task Team (2012) found that current investment levels in health are, in many countries, not sufficient, efficient or equitable. While using existing resources more efficiently is crucial for achieving health goals, increasing financial resources for training health workers and procuring medical and other supplies is also necessary for achieving universal health coverage (WHO, 2010a; WHO, 2012b). Additional resources will be needed to subsidise access for the poor and to reduce out-of-pocket expenses, which are much higher in low- and middle-income countries than in rich countries. Such expenses are highly inequitable (Schweitzer et al., 2012) and can contribute to financial catastrophe and impoverishment in poor households (WHO, 2012a).

Finance is important for achieving proposed goals on **water and sanitation**. In the water sub-sector, finance can lead to vicious or virtuous circles in terms of effectiveness: low levels of finance can lead to low investment and hence poor service delivery, leading to lower willingness to pay by households and businesses, resulting in inadequate levels of investment, and so on. The financial requirement for sanitation is slightly different in that it is much less capital-intensive and largely organised at household and local levels, potentially requiring more household and/or community-level spending, rather than large-scale infrastructure. The literature on water and sanitation generally agrees that finance is a necessary, but not sufficient, condition for progress towards universal access to water and sanitation services (UN, 2009; OECD, 2009; WHO and UN Water Report 2012; WHO, 2012c). Reforms and further improvements in governance and institutional frameworks at country level are also necessary.

The available evidence suggests that finance is likely to be a critical determinant of progress towards the **sustainable energy** goals. Investing in increasing access to energy and increasing the share of renewables are both very capital-intensive areas, and require significant on-going operation and maintenance. Intuitively, finance is therefore likely to be a critical 'necessary condition' for progress. There is also a clear 'market failure' argument in the renewables sector, with private investment in renewables likely to be lower than is socially optimal, given the existence of negative externalities generated by non-renewable energy generation, and the higher cost of renewables, making public policy intervention necessary (Griffiths-Jones et al., 2011). The existing literature indicates some scope for improving the efficiency of existing resource allocation, but continues to note a large financing gap. Case study evidence which reviews countries that have made progress towards universal access and renewables, and compares them with those making less progress, identifies finance as an important contributory factor (see e.g. UN-AGECC, 2010; IEA, 2010). Gualberti et al. (2012a) also found in their econometric modelling that official development finance for electricity production had a significant and positive impact on the installed electricity base.

The role of finance is somewhat more complex in the **food and agriculture** sector. Economic growth which benefits the poor is an important enabling factor for vulnerable communities working in agriculture (and related sectors) to escape the poverty trap, and hence growth, rather than direct expenditure, is likely to be the most effective way to reduce hunger and malnutrition (UN 2013). Public and private finance is required to promote growth, but also to provide safety nets for vulnerable individuals and communities left behind by growth, or for whom growth still does not lead to sufficient increases in income (FAO, 2012). Examples of growth-promoting investments include those in rural institutions, rural infrastructure (including roads) and research and development (Schmidhuber and Bruinsma, 2011). Some of this is likely to be private investment, funded privately. However, as with energy, market-failure arguments suggest some need for public investment, for example in funding research and development and rural roads, which have some 'public goods' elements. Public spending is also likely to be important in counteracting negative externalities, such as the loss of arable land through degradation³ and the impact of declining underground water resources (UN System Task Team, 2012).⁴ Spending on safety nets for vulnerable individuals is also likely to come from public resources.

In summary, reviews of the sector literature indicate that in all sectors, finance appears to be a necessary, but not sufficient, condition for progress. In the health, water and sanitation, secondary

³ It is estimated that developing countries lose between 5 and 12 million hectares of arable land each year due to degradation (UN System Task Team, 2012).

⁴ Although not the focus of this analysis, it should be noted that changes to the environment which agriculture relies on will likely complicate and increase the need for investment in adaptation and mitigation activities for communities affected by climate change.

education and sustainable energy sectors, finance is a critical factor. In the food and agriculture sector, growth will be the largest determinant of progress; however, directly funded investments are also needed to promote growth and protect the vulnerable. In the primary education sector, evidence suggests that the link between spending and outcomes has not been as clear, but a sufficient level of spending is certainly a necessary condition for better outcomes.

4. How much finance is needed?

In this section we summarise the existing literature on the likely cost of proposed post-2015 goals. We do not introduce any new costings, but summarise, and in some cases extrapolate, from other studies. We are not proposing this as the basis for costing out a new agreement, but rather to identify the orders of magnitude that may be required. As is well known, costing goals is challenging, and a large number of assumptions need to be made to arrive at a financing gap figure, meaning that the figures presented here should be treated as tentative or 'ballpark' only. The exercise is also challenging because there is not always a one-to-one relationship between emerging goal proposals as outlined in Section 2 and existing costings exercises, so in some cases we have needed to take the closest available existing costing to the goals proposed. Moreover, the costings presented here are, in general, aggregated across all countries. Further work would be needed to break these costings down by income and regional grouping in a way that would enable a more sophisticated analysis of the ability of different financing sources to meet needs at country or regional levels.

Costings from the various sectors should only be aggregated with great caution, as there is risk of double counting. Progress in the sectors will be inter-related: progress on water and sanitation, nutrition and education are all likely to improve health outcomes; better access to water will improve educational outcomes, as children have to spend less time collecting water, and so on. Detailed modelling, which is outside the scope of this paper, would be needed to quantify the costs in more detail ways which reflect these inter-sectoral linkages, and the inter-relationship between different financing sources. Moreover, the different costing exercises tend to have different time horizons, country coverage and so on, further adding to the challenges of aggregation. Where possible, we present the costing estimates in the text below as additional to current spending (of all forms), on an annual basis, and over a time period of 2010-2030. Where this is not possible due to different assumptions or timeframes used by the secondary sources, this is made clear.

In the **education** sector, additional finance will be important for putting the remaining out-of-school children into school and improving access to lower secondary. UNESCO (2013) estimates the total resource gap needed to achieve UPE, including improving equity and quality, and to expand access to lower secondary education by 2015, at \$42 billion dollars annually - \$29 billion dollars for primary and \$13 billion for lower secondary. **Taking into consideration how much donors are currently spending** (on average \$5.8 billion per year between 2008 and 2011, of which less than half was allocated to poor countries), **the annual financing gap is estimated at \$38 billion dollars** (UNESCO, 2013).

Universal health coverage (UHC) does mean coverage for everyone but not necessarily coverage for all health expenditure, and not necessarily free of charge. To our knowledge, no attempts have been made to estimate costings for universal health coverage for the post-2015 period. The closest available costings exercise was done by the Taskforce on Innovative International Financing for Health Systems (WHO, 2010b). It estimated the cost of tackling particular diseases (childhood illnesses, immunisation, maternal health, family planning, TB, malaria and HIV/AIDS) alongside investment in health system strengthening – which accounts for about 75% of the total cost. This does not include non-communicable diseases, however, which are an important element of the UHC approach. The exercise focuses only on the period up to 2015.

The WHO (2010b) financing gap estimate is calculated slightly differently from some of the other sectors in that it measures the gap against the 'business-as-usual' or 'no-change' scenario for spending by government, external actors (including donors) and the private sector, for the period 2009-2015. On average, the annual financing gap over the period is \$32 billion, increasing from \$18 billion in 2009 to \$37 billion in 2015. This increase is largely due to the increasing incremental cost projected. In the absence of any other projection, we assume a continued financing gap of **\$37 billion per year between 2015 and 2025**, over and above additional spending. Note that this is likely to be an under-estimate given that we have simply extrapolated from 2015, and do not include non-communicable diseases.

Estimates of the cost of achieving universal access to **water and sanitation** are easier to calculate as the links between inputs and outputs are clearer to quantify and measure. WHO (2012c) estimates the combined additional costs of achieving universal coverage of water supply (\$203 billion) and sanitation (\$332 billion) at \$535 billion between 2010 and 2015. They note that countries may not be able to absorb this level of financing within a five-year period, and therefore suggest that these costs could be spread over a longer time horizon, to 2030. Simply spreading the additional \$535 billion over 20 years (i.e. between 2010 and 2030) would result in an annual spending requirement of **\$26.75 billion per year**, (\$535billion/20 years) over and above existing spending. There are a number of caveats to this simple extrapolation, which is likely to be an underestimate given that we have simply expanded the time horizon without factoring in population growth, price increases above the rate of inflation, or the cost associated with maintaining the gains already made, which WHO estimates to be significant.

There is also a considerable financing gap in guaranteeing access to **sustainable energy** for all (SE4ALL). The cost of improving access to energy is significantly lower and different in nature to the cost of improving energy efficiency and funding for renewables. The International Energy Agency (IEA) (2011) estimates that guaranteeing access to SE4ALL, and hence meeting the SE4ALL goals as outlined above, is likely to require **an additional \$34 billion annually**, increasing total spending from \$14 billion to \$48 billion per year between 2010 and 2030. In contrast, financing renewables and improving energy efficiency is likely to require significantly more resources, an increase of **\$400 billion-\$900 billion** over and above the current spending of \$1.3 trillion annually. Although this is a significant increase, it will amount to a constant share of GDP by 2050, with the private sector estimated to contribute 75% of the cost.

In the **food security/nutrition/agriculture sector**, the most relevant costings exercise is a recent FAO study by Schmidhuber and Bruinsma (2011), which quantified the additional investment needed to eliminate hunger by 2025, defined as occurring when less than 3% of the population is chronically malnourished. Note the target date of 2025, rather than 2030 used for the other sectors. Schmidhuber and Bruinsma (2011) propose an **additional financial envelope of \$50.2 billion annually**, over and above existing spending. As noted above, improving food security can be done either by investing in increasing incomes through agricultural and other growth, or by direct transfers to poor households. The Schmidhuber and Bruinsma (2011) proposal focuses heavily on investment proposals for agriculture and rural areas, designed to increase incomes. These account for \$42.7 billion of the total, while direct expenditure on safety nets accounts for the remaining \$7.5 billion. The investment proposal focuses predominantly on public investment in areas such as rural infrastructure and market access (\$18.5 billion); developing and conserving natural resources (\$9.4 billion); research, development and extension (\$6.3 billion); and rural institutions (\$5.6 billion). Most of the additional resources would be allocated to Sub-Saharan Africa and South Asia, two regions lagging behind the rest of the world in eradicating hunger.

In summary, this section has shown that all sectors have financing gaps to meet the proposed post-2015 goals, and these are of relatively significant orders of magnitude. All sectors have gaps in the region of \$26-\$50 billion per year, over and above existing spending, leaving a total financing gap of \$186 billion, excluding the very large requirements for renewables of \$400-\$900 billion. However, as noted above, these figures are subject to considerable uncertainty and should be treated as ‘ballpark’ only at this stage. They are also likely to be something of an under-estimate, given that most of the individual sector requirements are under-estimated.

Table 1: Indicative Financing Gaps by Sector

Sector	Annual additional financing requirement (2010-2025 or 2030)
Education	\$38 billion
Universal health coverage	\$37 billion
Water and sanitation	\$26.8 billion
Sustainable energy	
Energy access	\$34 billion
Renewable energy	\$400-\$900 billion
Food security	\$50.2 billion
Total (excluding renewables)	\$186 billion
Total (including renewables)	\$586 billion - \$1,086 billion

5. Sources and mechanisms of financing the goals

As we saw in Sections 3 and 4, in all five sectors finance is needed to make further progress, and a financing gap remains. In this section, we explore the potential sources and mechanisms of finance that could be used to fill these gaps. As noted in the introduction, not all dollars are equal: different sources of finance will be most appropriate for different areas based on the required risk/return profile, level of concessionality, flexibility, macroeconomic impacts and so on. Moreover, not all providers of development finance are willing to invest in any country and any sector, further limiting financing options in some sectors.

As we saw in the introduction, countries are now in a new ‘age of choice’ when it comes to financing their development strategies, with a wider range of financing options (Greenhill et al., 2013). Decisions about how to share the burden of financing – for example between households and governments – are ultimately political ones. The analysis here is not intended to be prescriptive about the choices countries may choose to make; these will be determined by their own contexts and political orientation. We instead review the particular options countries may have, and summarise the available evidence on the availability, appropriateness and effectiveness of different sources of finance in meeting the proposed goals.

Also as noted in the introduction, there is now a wide array of financing options available to finance potential post-2015 goals, both public and private, domestic and external. In this section, we draw on our first paper (Greenhill and Prizzon, 2012) to review the major potential sources, as follows:

- Households
- Governments (local and national)
- Official Development Assistance (ODA)
- Philanthropy
- South-South Cooperation (SSC)
- Private flows (domestic and external)
- Innovative sources of finance for development
- Other official flows and less-concessional public financing
- Finance for global public goods, particularly climate change.

For each category of finance, we ask whether the form of finance is relevant and appropriate to meeting the goals as outlined above; the current and expected trend in the flow; and explore the potential to expand the source of finance to meet the financing gaps outlined above.

5.1 Households

While seldom discussed in literature on development finance, households are an important source of finance across all the sectors considered. Households contribute to the cost of providing water and sanitation and sustainable energy through tariffs; to health and education through user fees and other associated costs; and pay a substantial share of the cost of ensuring adequate food and nutrition. Households (and businesses) can also contribute to the costs involved in meeting other households' needs through cross-subsidies.

In the **education sector**, households in many parts of the world have historically contributed to educating their children through user fees. However there is consensus in the literature that user fees have restricted access to schooling for children from poor households. An Education for All (2004) working paper identified user fees as a 'pervasive obstacle to primary school enrolment and completion for millions of children worldwide' (Bentaouet, 2006). Since 2000, increasing numbers of countries have abolished user fees for primary education, resulting in rapid increases in enrolments. However, households continue to pay many other direct and informal costs to put their children through school, including expenditure on uniforms, books, transport cost and so on. Although these costs vary in different regions of the globe, they generally constitute a higher share of the incomes of the poor.

In the **health sector**, advocates for charging user fees to households have argued that fees would raise additional revenue for the health sector, potentially 15% to 20% of operating costs; reduce frivolous consumption and improve efficiency; and improve equity, as the additional revenues from urban areas could be used to subsidise rural areas.⁵ However, evidence since 2000 shows that in a majority of cases these envisioned benefits were not realised. In reality, user fees reduced usage and suppressed demand for healthcare by the poor (Yates, 2009). User fees proved ineffective at raising additional funds, contributing only 6.9% to government healthcare budgets in 19 African countries studied (Pearson, 2004). The same study found that there was little evidence that user fees improved efficiency by reducing inappropriate consumption. User fees have proved to be highly inequitable; evidence indicates that poor households have been affected most, with access to fewer health services and having to pay high healthcare expenses (Yates, 2009).⁶ Indeed, the literature suggests that the current level of household spending is often excessive and causes significant financial distress to some households. In a study of 89 countries, WHO estimated

⁵ These arguments gained favour in the 1980s when many developing countries had very limited fiscal space and falling health budgets (Yates, 2009).

⁶ A study by Save the Children (2005) reported that 70% of people in disadvantaged areas who did not seek health assistance when sick reported lack of funds as the reason (Yates, 2009).

that roughly 10% of the population in these countries suffer financial catastrophe, and up to 4% are pushed below the poverty line each year because of health-related expenditure (WHO, 2012a). The WHO recommends that there should be a limit of 15% of households' out-of-pocket expenditures going on healthcare: anything above this is likely to put people under financial stress. Its most recent review suggested that globally only 47 countries fall below this threshold, while in 36 countries such costs amount to more than 50%, and in Africa only eight countries are below 15%. In summary, the debate on the merits of charging user fees for access to healthcare is still very heated – unlike primary education – but the emerging consensus is that user fees are not the best mechanism for financing primary healthcare in developing countries (Lagarde and Palmer, 2008). However, it is possible that some insurance-based contributions to health could allow households to contribute without exposing them to significant financial risk.

A different story emerges in the WATSAN and sustainable energy sectors. In the **WATSAN** sector, the 2012 UN-Water Global Analysis and Assessment of Sanitation and Drinking Water (GLAAS) found that in the four countries where data was available, households contributed an average of 44% of all financing (WHO and UN Water Report, 2012). Household contributions can be important not just as a source of financing, but also as a way of regulating use: tariffs on water can help avoid wastage and the use of water for low-value purposes (UN, 2009), while cost-sharing by households can help ensure support for particular reforms.

However, while middle- and high-income households may be able to meet their own costs of water, there is consensus that low-income households will need support to ensure access to a basic level of water supply, and to fund the cost of the initial connection, which can often be substantial. The literature focuses on the concept of 'sustainable cost-recovery', meaning WATSAN systems should be sustainably financed through a combination of tariffs, taxes and transfers through ODA or other forms of development assistance (UN, 2009; OECD, 2009). The UN (2009) suggests that a common yardstick for assessing affordability is that payments should not exceed 3% of net household income. Studies show that average payments are currently 1%, although for poorer households this is likely to be higher. Households can end up paying higher charges if forced to rely on small-scale private water distributors, which can account for 3-11% of income (UN, 2009).

In the **sustainable energy** sector, there is general consensus in the literature that electricity tariffs charged to middle- and higher-income household and business users should aim at full cost recovery, either through direct charges to households or through cross-subsidy. This is because willingness to pay has been assessed as quite high, not least because households often pay higher costs to access traditional sources of fuel. However, one-off connection costs, which can often be high, may need support in the form of loans or other microfinance schemes. Lower-income households may also require subsidies to meet energy costs. Sources of government or private finance are mainly important in providing up-front investment costs which can then be repaid through tariffs, and in subsidising access for the poorest households (IEA, 2011).

In the **food/nutrition/agriculture sector**, the main sources of investment for farming households are their own savings and fixed capital, which they use as collateral for credit – indeed households with positive savings and clear property rights have a higher capital formation. Wherever farm investment is taking place, households are likely the main investors, usually from their own savings (FAO Policy note, 2011). However in countries with high levels of poverty and hunger – India and Bangladesh for example – the average farmer does not earn even half of what is needed to cross the poverty line, curtailing how much they can reasonably be expected to invest. For farmers with below-average holdings the situation is worse, in terms of their ability to save and invest, and secure their land rights.

In summary, **there may be scope for households to meet some share of the costs involved in meeting sustainable energy goals, and there may be potential for greater household contributions in water**, although this requires further analysis. Cross-subsidisation, through which higher-income households subsidise access for poorer households, is also an option in both sectors. However, this has implications for burden sharing, in that it effectively shifts the burden of financing the post-2015 goals onto richer households and businesses within the same country, rather than the international community. **Within the health and education sectors, by contrast, the evidence suggests that on balance, household expenditures are too high in many countries** and this is causing either barriers to access or considerable financial distress. In the **food and agriculture sector**, while households are major financial contributors, in countries with high levels of poverty and hunger there are limits to what households can be expected to invest.

5.2 Governments (national and local)

Like household spending, government expenditure funded by domestic resource mobilisation is important in all five sectors. In WATSAN, governments provide more than three quarters of all finance (excluding household contributions) (WHO and UN Water Report, 2012), while in the food and agriculture sector, FAO (2012) estimated that government expenditure is the second largest source of investment in agriculture, after direct investment by farmers.

Public spending by governments is also an obvious and potentially effective source of financing across all five sectors. In education and health, governments are often responsible for providing and directly financing public services. In water and energy, government funding is used either to: directly invest in utilities; provide subsidies to meet particular objectives (e.g. access for low-income households or increasing the share of renewables); or guarantee private-sector loans. In the sustainable energy sector, the IEA (2011) estimates that governments are the most effective sources of finance in areas where the private sector is unlikely to find investments sufficiently profitable, such as on-grid investments for lower consumption households and mini-grid solutions. In agriculture, sound government spending is the most direct and effective way of promoting agricultural growth (Fan and Rosegrant, 2008.) Across all sectors, provision of public services by government is often a key part of the state-citizen contract, and helps promote accountability between governments and citizens.

In principle, therefore, increased contributions from national and local governments should be an obvious source of finance to meet the proposed post-2015 goals. This could be done in four ways: through economic growth leading to higher GDP levels, while keeping revenue/GDP ratios constant; by increasing revenue/GDP ratios; increasing government borrowing; or by reallocating spending so that an increased share of expenditure is allocated to the particular sectors. Here we examine each of these options in turn to determine their scope to raise sufficient resources to meet the financing gaps identified in Section 4.

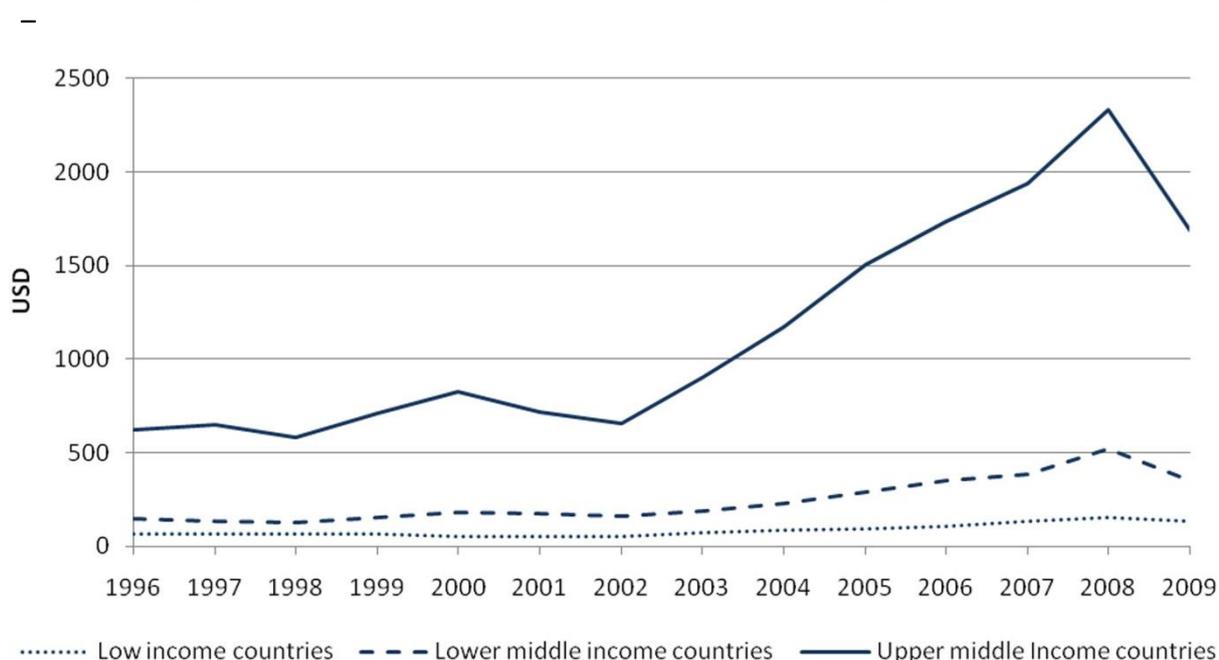
First, there should be some scope for governments to allocate an increasing amount to the post-2015 goals because of GDP growth. As noted in our first paper (Greenhill and Prizzon, 2012), GDP growth in developing countries has been impressive. Emerging and developing countries have been driving global growth in recent years; this trend is expected to continue over the next two decades. However, this potential should not be over-exaggerated. The IMF's World Economic Outlook (IMF, 2012) suggests that total GDP for low-income countries will almost double in nominal terms between 2010 and 2017, from \$426 billion to \$785 billion. They predict a roughly constant share of GDP being collected in revenues, leading to an increase in revenues from \$95 billion in 2010 to \$177 billion in 2017. Some of this growth could presumably be allocated to the post-2015 goals. However, caution should be exercised: even if the full \$82 billion in additional revenues were to be allocated to the five post-2015 sectors discussed here, it would not meet even half the funding gap identified. Governments are also likely to have other spending priorities, potentially including other post-2015

goals, which will absorb part of the funds. This is particularly true given that the GDP projections are in nominal terms, while our costings generally rely on constant estimates. Further work would be needed to ascertain how much of the gap could be filled by GDP growth in real terms. Moreover, GDP growth rates are notoriously volatile. The projection of an almost doubling of nominal GDP over seven years is merely a projection: growth rates may not remain so positive.

Second, in principle, there should be scope for countries to increase domestic resource mobilisation and to allocate some of the increasing resources mobilised to the post-2015 goals. As noted in our earlier paper (Greenhill and Prizzon, 2012), general government revenues expanded by more than four times between 2000 and 2011 across all developing and emerging economies, from \$1.5 trillion to \$7 trillion (in nominal terms). This positive trend is set to continue, with general government revenues across all emerging and developing economies expected by the IMF to reach \$10.7 trillion by 2017 (IMF, 2012). In addition, many countries are now discovering natural resource endowments which provide further scope for domestic resource mobilisation, providing that governments are able to use the resources well and avoid the so-called ‘resource curse’.

However, these positive overall trends need to be broken down by country grouping. The vast majority of the gains in domestic resource mobilisation are attributed to growth in middle-income countries. By contrast, in low-income countries, the IMF is predicting only a small increase in tax revenues as a share of GDP, from 22% in 2010 to 23% in 2017 (IMF, 2012). The evolution of tax revenues in Africa by income group over the past 13 years illustrates the divergent experiences of the different income groups in this region. Upper middle-income country tax ratios are converging on the OECD average of 35%, but for low-income countries, the tax ratio remains below 20% (Atisophon et al., 2011). Per capita tax collection figures also bear up this point, as shown in Figure 1 below: for African middle-income countries, per capita taxes have increased significantly since 2000, but for low-income countries the growth in tax collection has been modest at best. The divergence in tax intake is now dramatic, with countries like Burundi, DRC and Ethiopia collecting only \$35 per capita, while others such as Equatorial Guinea and Libya collected \$3,000 per capita in 2009 (Atisophon et al., 2011).

Figure 1: Taxes per capita for African countries by income group 1996-2009



Source: Atisophon et al., 2011

It is important to note that the fiscal space of middle-income countries in Africa is closely linked to international prices of natural resources, which are susceptible to price fluctuations, as occurred in 2008 when prices dropped because of the financial crisis. Moreover, not all countries have access to natural resource revenues (Atisophon et al., 2011).

Low-income countries may increase tax collection efforts in future through better governance and policies. However, again, the potential for them to do so should not be exaggerated. A study by Atisophon et al. (2011) calculated the potential to scale up domestic resource mobilisation in developing countries that had a financing gap, where tax data was available, in achieving MDGs 1 to 6. The study adopted the method used by Piancastelli (2001) and Bird et al. (2004; 2008), all cited in Atisophon et al. (2011), in their calculation of “tax effort” in developing countries.⁷ The potential tax rate increases as the share of GDP accounted for by agriculture falls, and it increases as GDP and foreign trade increase (AEO website, 2013). The study found that more than half the developing countries they reviewed were already collecting more taxes than expected, but others had room to collect more resources. However, **the majority of the countries that had potential to collect more domestic resources were countries that have already made significant progress in achieving the MDGs and are unlikely to have a significant financing gap in the future.**

The table below shows potential tax increases by income group identified by the Atisophon et al. (2011) study. Upper middle-income countries have the highest potential to mobilise more resources by increasing their tax effort – an extra US\$60 billion a year – while low-income countries have very limited potential, raising only \$3 billion. If countries with the largest financing gaps to meet the post-2015 goals are low-income countries, this analysis suggests that it is unlikely these countries will be able to mobilise significant additional resources and will probably continue to experience financing gaps in any future scenario.⁸

Table 2: Potential Tax Increase in Absolute and Percentage Terms by Income Group

Income Group	Average Potential Tax Increase as a Share of GDP	Total Potential Tax Increase
Low-income	2.5%	\$3 billion
Lower middle-income	4.7%	\$1 billion
Upper middle-income	3.1%	\$60 billion

Source: Atisophon et al., 2011

Third, governments may expand their domestic expenditures by increasing borrowing, either domestically or externally, a potentially good option when financing infrastructure or other investments expected to generate returns over a period of time.

Fourth, countries could increase their own contribution to the post-2015 goals by increasing the share of existing government expenditure allocated to the relevant sectors and goals. The sectoral literature does suggest that there is scope for many governments to reallocate funds in this way, although these recommendations may not always add up to a consistent picture, as discussed in more detail below.

In the **education** sector, UNESCO has suggested that governments should spend a benchmark of 2-3% of GDP on basic education, although adding goals to the post-2015 framework on secondary

⁷ The tax effort index is a measure of how well a country is doing in terms of tax collection, relative to what a country could potentially collect given the structural characteristic of the country.

⁸ As noted above, the limited scope of this study means that we have been unable to break down the financing requirements by country income categories. Further work would be needed to better match the ability of countries to mobilise funds with country-by-country financing requirements for the post-2015 goals.

education would presumably require additional contributions. Burnett and Felsman (2012) estimated that by 2010, government expenditure on education as a percentage of GDP had reached an average of 4.3%, up from 2.9% in 1999, suggesting that, on average, countries have already exceeded that benchmark. UNESCO also suggests that the actual range for education spending for most countries is 1-8%, suggesting that while some countries could increase their contributions, others are way ahead of the suggested benchmark.

In **health**, WHO (2010a) notes that African governments committed in 2001 to spending 15% of their budgets on healthcare, but only a few African countries have reached this target, while 19 of the countries who signed the Abuja Declaration allocate less than they did in 2001. WHO estimates that roughly **\$15 billion** for healthcare could be raised if governments met this target (WHO, 2010a).

In **WATSAN**, there is consensus that governments could increase their own allocations to the sector. The 2012 GLAAS survey notes that median government expenditure on WATSAN is only at one-third of the level of health spending, and one-sixth of education. They estimate that government expenditures (including those funded by transfers) could range from 0.37% to 3.5% of GDP (WHO and UN Water Report, 2012). The UN Secretary General's Advisory Board on Water and Sanitation (2010) has also urged governments to make additional funds from users and public budgets available for improving water and sanitation management and services, while WaterAid (2011) emphasises that current budget allocations are below agreed targets and cost estimates for the WATSAN sector, particularly in Africa. WaterAid instead suggests that African countries should spend 4.5% of GDP on WATSAN, in line with the Africa Infrastructure Country Diagnostic (AICD) assessments.

A similar story is found in the **agricultural sector**. Under the Comprehensive Agriculture for Africa Development Programme, African leaders aimed to achieve a growth rate of 6% in agriculture by allocating at least 10% of public resources to the sector. However, Lowder and Carisma (2011), using IFPRI data, found that expenditure on agriculture as a share of total government expenditure has actually decreased in all regions apart from Europe and Central Asia from 1980 to 2007. Over the period 2003-2007, the share of agriculture in government expenditure was only between 3% and 6%, significantly lower than the 10% commitment. FAO (2012) similarly found that while government expenditure in agriculture has been growing in real terms in 51 low- and middle-income countries, the share of agriculture in government expenditure as a whole has declined.

However, caution should be exercised when assessing the scope of governments to increase the share of expenditures to these sectors to meet the post-2015 goals, for three reasons. First, the goals considered here are only a sub-set of the likely overall post-2015 goals. While it may seem feasible to increase allocation to this narrow set of goals, governments will not be able to prioritise all sectors, by definition, and so the suggested allocations presented above may seem infeasible. Second, government expenditure allocations should be a domestic decision, based on domestic political priorities. An international policy framework which implicitly locks countries into spending commitments which take up a large share of government resources can undermine the process of domestic priority setting. Third, the recommendations agreed for the share of revenues being allocated to a particular sector may not be feasible when looked at in the round. Analysis by ODI has shown the challenges faced by countries in meeting different sectoral spending targets: using 2006/07 data, and reviewing five countries in Africa, the study showed that if all countries were to meet all agreed sectoral spending targets, in four out of the five cases even spending on those areas would exceed total government expenditure, while in the fifth country (Kenya), it would only leave 2% of the budget for other areas (Hagen-Zanker and McCord, 2011). While this assessment does include a target for 9.6% of GDP to be spent on infrastructure and 4.5% for social protection, both of which far exceed the levels of spending being discussed here, the point remains an important one.

Countries can only reallocate so far and are likely to have important spending priorities other than the post-2015 goals.

In summary, the analysis presented here suggests that, from a preliminary analysis, **there should be some scope for governments to meet their share of the costs for meeting post-2015 goals, but their potential to do so should not be over-exaggerated.** While developing countries are growing fast and revenue-to-GDP ratios are expanding rapidly, this progress is very uneven across countries, with low-income countries trailing far behind their middle-income neighbours. If the main financing gap to meet the post-2015 goals is in low-income countries, as seems likely, the scope for using government resources to fill funding gaps will be limited. Some scope for reallocation within existing budgets may be possible, but this depends on the breadth of the post-2015 agenda: by definition, not all sectors can be prioritised at once. There may be options to promote domestic resource mobilisation through international efforts to curb illicit outflows and tax evasion and avoidance, which we discuss in more detail in Section 7. But the potential for countries to meet the lion's share of the post-2015 financing requirements without such reforms appears limited. Further country-by-country analysis would be needed to confirm this finding.

5.3 Official Development Assistance (ODA)

Global ODA stood at almost \$130 billion in 2010 (Greenhill and Prizzon, 2012). As noted above, ODA has traditionally been considered an important source of finance for meeting the MDGs. Indeed, other analysis has suggested that one of the key achievements of the first round of MDGs appears to be the impact on aid volumes, with the MDGs coinciding with an increase in aid spending in social sectors such as health and education, and a trend for aid to be allocated to countries furthest from the MDGs (Melamed, 2011.) Aid allocated to education increased from \$6.38 billion in 2000 to \$13.34 billion in 2010 (although remaining at 8-9% of a growing ODA pot), while ODA to health increased from 3% of all ODA in 1995 to 7% in 2010 (Schweitzer et al., 2012), although there are now some falls in ODA budgets for health (IHME, 2012). In the water sector, there have been recent increases in both ODA and less-concessional financing, with aid increasing 3% between 2008 and 2010, to \$7.8 billion, while non-concessional lending has also increased, from \$2.5 billion to \$4.4 billion over the same period (WHO and UN Water Report, 2012). ODA to agriculture is at similar levels to the other sectors, standing at \$6 billion in 2008 (Lowder and Carisma, 2011).

There is now an emphasis on the use of ODA to catalyse and promote private sector investment. In the energy sector, for example, IEA (2011) noted that multilateral and bilateral sources of development finance can be particularly important where the private sector (domestic or foreign) is unwilling to invest because risk/return profiles are not sufficiently attractive. Across all sectors, aid can be used to guarantee private investment or to supplement returns which are not considered sufficiently attractive by the private sector, for example through blending.

ODA as a source of financing to meet post-2015 financing gaps has both advantages and disadvantages. On the positive side, most ODA providers are committed to the MDGs (see Greenhill and Prizzon, 2012), and might be expected to allocate aid, at least to some extent, in line with the post-2015 consensus. Aid can be critical in meeting financial needs; there is good evidence of aid contributing to developmental outcomes; and aid can often come alongside policy advice and technical assistance that can help overcome policy and governance bottlenecks. On the negative side, aid still faces effectiveness challenges, with recent efforts to improve the quality of aid through the Paris Declaration on Aid Effectiveness faltering somewhat (Wood et al., 2011). Excessive reliance on aid can undermine accountability of governments to their citizens in delivering development results. ODA is notoriously volatile, more so than government revenues, and can risk promoting unsustainable investments when donor-funded capital spending is not accompanied by commitments to fund recurrent costs.

In principle, there should be scope for ODA to increase to fill the post-2015 financing gaps, both through increasing global levels and increasing the share of spending allocated to the priority post-2015 sectors. If all donors were to allocate the committed 0.7% of GNI to ODA, the total would be roughly \$300 billion,⁹ with the increase being almost enough to meet the financing gap outlined above. Donors could also improve allocations, as discussed below, so that a greater share of ODA is allocated to the post-2015 sectors: although, as with governments, their scope to prioritise a potentially expanding set of global priorities will inevitably be limited. In reality, **fiscal austerity in the donor countries means that the scope to mobilise additional ODA is likely to be extremely limited:** ODA levels fell by nearly 3% in 2011 and are likely to fall, rather than rise, in the years to come (Greenhill and Prizzon, 2012). Nevertheless, any debate about post-2015 financing should consider the potential role of ODA in meeting financing gaps.

5.4 Philanthropy

As noted in our earlier paper, philanthropic flows to developing countries have been increasing rapidly in recent years, both in absolute and proportionate terms (Greenhill and Prizzon, 2012). US philanthropy alone was estimated by the Hudson Institute to be \$39 billion in 2010, or \$56 billion if contributions from other developed countries are included.¹⁰ Kharas (2007) estimated that support at the country level from philanthropists and other private and corporate providers, including NGOs, could be equal or comparable to Development Assistance Committee (DAC) Country Programmable Aid. In theory, if philanthropic assistance continues on a similar growth path, we could expect such flows to contribute a potentially significant share of financing for the post-2015 goals.

As our earlier paper showed, philanthropic organisations do not appear to use the MDGs as a guiding principle for their work and as such the scope for them to reallocate flows to the priority sectors included in the post-2015 framework is limited. A key question is therefore the extent to which philanthropists and corporate foundations already allocate funds in line with the sectoral goals being discussed here. The evidence suggests that philanthropic support is very relevant in the health sector, which is a big focus of many philanthropic organisations, accounting for an estimated 53% of philanthropic spending (EFA report, 2012). The share of total health development assistance provided by citizens, corporations and foundations increased from 8.5% in 1990 to 16.84% in 2000, and up to 18% in 2009 (Atun et al., 2012). There is also some philanthropy in the education sector, although at a much smaller scale, estimated in the region of \$700 million per year. Philanthropists are also active in the water sector. This tends to be at a much lower scale than support from bilaterals and multilaterals, although some foundations such as Gates can rival the scale of official donors (UN, 2009). In the WATSAN sector, philanthropic spending is reported to be particularly well targeted, as it focuses on sanitation, a relatively neglected area (UN, 2009).

However, caution needs to be exercised when considering the potential role of philanthropic organisations in funding a post-2015 framework. While the global estimates appear large, evidence from low-income countries is less encouraging. Other ODI research (Greenhill et al., 2013) which analysed trends in three countries found that philanthropic flows actually reaching the countries were of very small orders of magnitude. In Zambia, for example, such flows stood at less than \$1 million per year over the period 2003-2011, compared to Country Programmable Aid of close to \$1 billion per year over the same period. A similar story was observed in Cambodia and Ethiopia. This

⁹ Calculated on the basis of 2011 ODA/GNI data. All countries exceeding the 0.7% target are assumed to maintain ODA at current levels; all those below the target are assumed to reach it. See <http://www.oecd.org/dac/stats/50060310.pdf> for the original data source.

¹⁰ Note however that there is some risk of double counting between these figures and the ODA statistics presented above, as some ODA providers channel funds through foundations, as do some social impact investors.

lack of consistency with the global figures suggests that either there are data problems at global or national levels (which is very possible given the paucity of data on this topic), or that philanthropic flows are more heavily concentrated in middle-income countries, or spent on global public goods rather than reaching low-income countries. Evidence from the education sector suggests that the second option is most likely: Watkins (2011) found that support from philanthropists and corporate foundations tended to be skewed towards higher levels of education and be concentrated in middle-income countries, including those of strategic interest to the corporations involved. Watkins further notes that most philanthropic flows would probably fall short of OECD aid effectiveness principles.

In summary, **while philanthropic assistance looks like a potential contributor to financing the post-2015 goals, its role should not be over-estimated – at least without further data and analysis.** The exception is the health sector, with support from corporations and philanthropic organisations already providing almost 20% of development assistance. Philanthropic support may also be critical in helping meet the post-2015 goals in ways other than through direct financing, for example by funding research into vaccines or agricultural technologies, which may help meet the goals in other ways.

5.5 South-South Cooperation (SSC)/non-DAC donors

Like philanthropic assistance, SSC is one potential source of finance that is likely to have an increasing focus in the post-2015 debates. Many ‘traditional’ bilateral and multilateral donors will be looking to non-DAC donors to provide an increasing share of the financing gap (Greenhill and Prizzon, 2012). SSC is currently relatively limited, standing at only \$9.5 billion - \$15 billion in 2008 (ECOSOC, 2008; Park, 2011; Prada et al., 2010) but by some projections could provide over \$50 billion by 2025 (Kharas and Rogerson, 2012). These projections are likely to be under-estimates as they exclude flows which may not meet strict DAC concessionality thresholds. Within SSC, there is a division between a small number of countries providing substantial volumes of financial aid (notably China), and the much larger number of countries providing support largely through technical cooperation, which while critical, is unlikely to significantly contribute to meeting the financing gaps outlined above. Unlike philanthropy, assistance from non-DAC donors has been found, according to recent ODI research, to be having a relatively significant impact at country level. It has also been found, from preliminary analysis, to be popular with recipient governments because of strong ownership, alignment and speed in country-level operations (Greenhill et al., 2013).

Like philanthropists, our earlier paper suggests that non-DAC donors are unlikely to change their sectoral allocations in line with the post-2015 framework, at least in the short term (Greenhill and Prizzon, 2012). A key question is therefore also the extent to which SSC is currently allocated in line with the sectoral goals discussed here.¹¹

Unfortunately, detailed sectoral breakdowns for SSC providers are not publicly available, meaning that a detailed mapping between SSC and the sectors being reviewed here is difficult to come by. In general, the literature suggests that the predominant focus of SSC is in infrastructure and productive sectors. Non-DACs are reported to be important in the energy sector, including through non-concessional or less-concessional flows, and as such could be able to meet some of the financing gaps within this sector. There is also some SSC in the water sector, through involvement of providers such as Venezuela and the Arab Bank for Economic Development in Africa (BADEA). In the latter case, 19% of total support is allocated to this sector, while other providers are heavily involved in infrastructure, which may also include the water sector (ECOSOC, 2008.) There is active involvement of SSC providers in the agriculture sector, with countries including Brazil, China, Cuba, Egypt, India,

¹¹ This paper only covers a sub-set of the potential post-2015 goals. It is possible – indeed likely – that SSC may be less relevant for the social sector goals discussed here, but more relevant for other goals which may be included around private sector development, infrastructure or economic growth.

Indonesia, Malaysia, South Africa, Turkey and several Middle Eastern countries reported to be actively involved (HLTFGFC, 2010). The Secretary General's High Level Task Force on the Global Food Crisis (HLTFGFC) suggests such mechanisms could be developed further to increase the transfer of knowledge and spread appropriate technologies between countries (HLTFGFC, 2010). Education and health are reported to be less of a priority for most SSC providers.

In summary, there seems to be potential for SSC to provide some of the necessary financing and knowledge transfer likely to be needed to meet post-2015 goals, particularly in water, energy and agriculture sectors. Better information on sectoral breakdowns and priorities for SSC providers would help in assessing this further. It should also be noted that the scale of such flows is relatively limited at present, although projections suggest a rapid growth over the next decade.

5.6 Private flows

Discussions on post-2015 financing are likely to pay considerable attention to the potential role of the private sector. Private cross-border development finance flows have expanded rapidly over the past decade, growing approximately five times between 2000 and 2010 (World Bank, 2012, cited in Greenhill and Prizzon, 2012.) Research for our first paper further suggested that, in an age of austerity in donor countries, donors will be increasingly looking to private providers to fill financing gaps (Greenhill and Prizzon, 2012).

The private sector plays a crucial role in the **health systems** of both developed and developing countries. By some estimates more than half of all healthcare is provided by the private sector, although the majority of this is likely to be domestic rather than foreign. In Africa alone for example, nearly 50% of individuals who seek care outside the home opt for the private sector as their choice of provider. In many parts of the developing world, the private sector is the preferred choice because it responds better to patient needs and preferences. The World Bank estimated that about half of the \$16.7 billion spent on health in Sub-Saharan Africa was spent on the private sector (Harding, 2009). However, there are many conceptual and practical challenges to harnessing the private sector in achieving the proposed health goals, and private sector investment and growth usually requires public sector links to reach people in low-income households. Without public sector assistance through vouchers, subsidies or other funding mechanisms, which reduce the burden of health costs for the poor, much of the growth in the private sector will be driven by catering to better-off segments of society (Harding, 2009).

The scope for private investment in the **WATSAN sector** is quite uncertain. As the OECD (2009) noted, private sector flows can help to *bridge* financing gaps in this sector, but they cannot *close* them, as the private sector requires compensation, i.e. repayment at a future date plus remuneration for the costs of capital, in the form of interest or dividends. This needs to come from some combination of tariffs, taxes or transfers through ODA or other sources of development assistance. While a similar principle applies in the energy sector, it is much less challenging in energy given the greater scope for cost recovery in that sector.

The 2012 GLAAS survey estimates that private-sector financing appears to be relatively limited in the WATSAN sector, at around 7% of total spending (excluding households), or a similar level to ODA (WHO and UN Water Report, 2012). The WATSAN sector has been a particularly challenging one for mobilising private-sector capital (Baietti and Raymond, 2005), partly due to sector-specific risks. Moreover, the experience of using the private sector for operating, modernising and expanding WATSAN infrastructures has been mixed (OECD, 2009), and many concessions have failed to invest the amount of private sector funding originally committed (Marin, 2009). As a result, the focus has now shifted away from a focus on ownership (public or private) towards ensuring an appropriate financing mix, regardless of ownership. There is potential for innovative financing mechanisms to

help overcome some of the challenges faced by private sector investment, but many of these mechanisms remain unproven, as discussed in more detail below.

Private flows are likely to be much more important in meeting **sustainable energy** goals. The IEA (2011) estimated that the private sector should provide \$15 billion, or roughly one-third of the \$48 billion needed to meet access to energy goals,¹² while the private sector is also expected to provide 75% of the required investment in renewables. As noted above, there is scope for higher-income households to pay tariffs at or close to cost recovery levels in the energy sector, meaning that private investment on purely commercial terms is likely to be viable, especially for higher-income consumers and/or where governments provide guarantees to reduce risk or other financial incentives. Griffiths-Jones et al. (2011) further suggest that pension funds and Sovereign Wealth Funds could be important sources of investment in renewables, as they have sufficient size and time-horizons to provide the investments needed.

A somewhat less optimistic picture emerges in the **food and agriculture sector**. The HLTFGFC (2010) noted that the most significant source of finance for agricultural development is, and will probably remain, the domestic private sector, including small-holder farmers. FAO estimated that about 75% of the investments¹³ required to end hunger by 2025 will have to come from the developing country private sector, but investments by governments need to be scaled up. The HLTFGFC (2010) also notes that foreign direct investment (FDI) is an important source of both know-how and finance, and observes that FDI to the sector has increased from \$15 billion in 2002 to approximately \$60 billion in 2007. However, 90% of those investments were in food and beverage processing and marketing, whereas what is most important in improving food security and nutrition is investment in the primary sector (HLTFGFC, 2010). FAO (2012) concluded that the relatively low amounts of FDI going to the primary sector means that it is unlikely that FDI can contribute to the capital stock needed to increase production any significant way.

FDI in agriculture is, unsurprisingly, allocated predominantly to countries with high-income levels. Based on a study of 27 countries, FAO (2012) estimated that 69% of FDI to agriculture goes to upper middle-income countries, while only 5% goes to lower middle-income countries, and only 4% to lower-income countries. FAO does however assess that there is potential for increases in FDI to agriculture. It notes an increasing appetite from private equity funds to invest in agriculture-related SMEs, in large farms, food processing centres and warehouse companies in developing regions, with investment funds including various types – public, private and public-private partnership (PPP) – and with different investment structures and objectives (FAO, 2010). However, definitive development conclusions cannot be reached yet about the effectiveness or impact of these funds, given that this is a recent trend (FAO, 2010).

In summary, while evidence suggests that there is certainly potential for significant private investment in the energy sector, and to a lesser extent agriculture, WATSAN and health, private flows are not a ‘magic bullet’ and cannot fully replace or substitute resources from governments or development assistance. In sectors or segments of the population where full cost recovery is not possible (likely to be a significant share of the investments needed for post-2015 goals), private investment still needs to be repaid through a mix of domestic resources and foreign transfers. Moreover, private investment allocations tend, unsurprisingly, to follow markets and are more likely

¹² This includes the \$14 billion of current spending plus the \$34 billion financing gap.

¹³ This is 75% of the total investment requirement for the sector and not the additional \$50.2 billion per year we highlighted in the section on how much finance is needed.

to be focused on higher-income consumers, making them less likely to be focused on post-2015 goals.¹⁴

5.7 Innovative sources of finance for development

Considerable attention has been paid to innovative sources of finance for development in recent years, in the context of both fiscal austerity in donor countries and the evolution of thinking on development finance that potentially offers new opportunities to fund development in different ways. As noted in our earlier paper, innovative finance for development is divided into innovative *sources*, including airline ticket levies, financial transaction taxes etc., and innovative spending *mechanisms*, which involve spending development finance – from ODA or other sources – in new and different ways.

Most of the potential innovative *sources* of finance discussed in the literature could be applied across all potential post-2015 sectors, although some sectors, for example health, may be more easily ‘marketable’ than others. As noted in Greenhill and Prizzon (2012), potential volumes are significant, with a global currency transaction tax having potential to raise \$25-34 billion; shipping and aviation fuel taxes \$27-\$37 billion; and tobacco taxes \$11 billion. Implementing these three schemes could potentially close almost half the financing gap identified in Section 4. However, actual revenues raised to date from innovative sources remain small, standing at only \$57.1 billion between 2000 and 2008, or only 4.5% of ODA and IFI bond proceeds, so realising sufficient volumes to meet the post-2015 goals will require significant scaling up (Girishankar, 2009).

Innovative financing *mechanisms* tend to be more sector-specific. In the **water and energy sectors**, there is particular potential for mechanisms which use public finance to mobilise private sector investment, and overcome the sector-specific risks outlined above. In the water sector, potential mechanisms include blending, microfinance schemes, output-based aid mechanisms, guarantees, group financing vehicles, direct lending to sub-sovereigns, and project preparation facilities. In reviewing the potential of innovative financing for development (IFD) mechanisms, the OECD has noted that they ‘are not a panacea, but merely constitute one of the elements that can help to improve the financing of water and sanitation services.’ (OECD, 2010:15). However, they further note that such mechanisms have, to date, been under-utilised in the water sector by comparison with other infrastructure sectors.

Much greater use of IFD mechanisms has been apparent in the **health** sector. However, even in this sector, which potentially lends itself more than others to such mechanisms, Atun et al. (2012) conclude that many of the initiatives launched to date remain small, and that large-scale resources for health from these sources are yet to materialise in a significant way. They further conclude that there are high start-up costs associated with setting up new innovative financing schemes and that the revenues accrued are usually low.

In summary, **mobilising innovative financing sources could potentially go a long way towards meeting the identified post-2015 financing gaps across all sectors. However, this would require a significant scaling up compared to current revenues raised from such sources. Innovative financing mechanisms also have potential, particularly using public funding to leverage private sector investment**, which is particularly important in the energy and water sectors; there is a strong track record of using such mechanisms effectively in the health sector. However, **many such mechanisms remain untested.**

¹⁴ Of course, private investment is likely to be critical in promoting overall levels of growth and rising income levels, which is another way of meeting the post-2015 goals. Higher growth rates also mean more domestic resources. The argument here is more about direct investment by the private sector in some specific sectors likely to be covered by the post-2015 framework.

5.8 Other official flows (OOF) and less-concessional public financing

'Other official flows' (OOFs) are financial flows provided by the public sector in OECD-DAC countries, to countries on the DAC List of Aid Recipients, which do not meet ODA eligibility criteria, either because the flows are not primarily aimed at development, or because they have a grant element of less than 25%. This includes, for example, loans from the IBRD and similar windows from other multilateral donors. OOFs are a potentially significant source of financing for the post-2015 goals, especially in areas most likely to generate sufficient returns to make repayment of less concessional loans viable; and/or in middle-income countries, but where private investment may be unforthcoming because the perceived or actual risk/return ratio is not sufficiently high. This makes them particularly attractive in the water and energy sectors. OOFs have been growing rapidly in recent years: in 2002-2004, they stood at only \$12.3 billion, while by 2008-2010, they were an average of \$40.2 billion per year (Greenhill et al., 2013). One of the key potential benefits of OOFs is their potential to be more self-sustaining than ODA flows, with loan repayments being used to fund new loans. However, as OOFs are less concessional, the implications for debt sustainability need to be considered, particularly given their rapid scale up in recent years.

In summary, OOFs do have the potential to finance a sub-section of the post-2015 goals, particularly those with returns closer to the level required by private investors. The water and energy sectors, and support to middle-income countries, are particularly attractive options for OOFs.

5.9 Finance for global public goods, particularly climate change

Climate finance is a potentially important source of finance, particularly for the sustainable energy goals. In Cancun, developed countries committed \$100 billion of climate finance to be provided by 2020. However, it is important to note that most climate finance is likely to have already been considered in the discussion above. Much public climate finance is currently counted as ODA, and some of the remainder is likely to be included in the OOF estimates discussed in the last section. A large share of the \$100 billion commitment is likely to constitute private flows, also outlined above. The main source of climate finance that is truly additional is likely to be carbon finance, raised through mechanisms such as the European Emissions Trading Scheme and the Clean Development Mechanism. In 2010, energy projects received about \$7 billion from the Clean Development Mechanism alone, roughly equivalent to the amount of ODA such projects received (Bruggink, 2012). However, such mechanisms now face a rather uncertain future; it is questionable whether they will raise a substantial volume of new resources for the post-2015 goals. Moreover, funding for global public goods is not fully complementary to ODA: allocating a greater share of ODA and OOF to global public goods expenditure is likely to shift existing sectoral and geographical allocations, which could potentially have knock-on impacts on the availability of ODA to fund other post-2015 goals (Kharas and Rogerson, 2012).

6. Improving the effectiveness of development finance

The analysis so far has focused primarily on opportunities for mobilising additional sources of finance to meet the post-2015 goals. An alternative option in the current climate would be to focus on using current resources more effectively. In this section, we review the evidence both generally and by sector on how to promote more effective resource use.

It is clear that across the board resources could be used more effectively to meet development goals. Government resources could be used more effectively through public financial management (PFM) reforms and efforts to tackle corruption. Aid could be used more effectively by following

agreed Paris and Busan commitments on aid effectiveness, including focusing on value for money and results, and untying. All resources could be more effectively used by promoting greater transparency in both aid and budgets, although exact evidence on the magnitude of such effects remains unclear. A post-2015 financing agenda could consider giving additional impetus to such efforts, for example by supporting measures taken to improve transparency through the Open Government Partnership and International Aid Transparency Initiative, or to support anti-corruption initiatives.

A review of the sectoral literature also indicates that in all sectors resources could be targeted more effectively at post-2015 goals. Within the energy sector, for example, the funding gap for renewables of \$400 billion to \$900 billion is of a similar order of magnitude to current fossil fuel subsidies, standing at around \$300 billion per year (Griffiths-Jones et al., 2011). Reallocating those subsidies towards renewables would both fill needed funding gaps and also directly contribute to increasing the share of renewables in the global energy mix, one of the SE4ALL goals.

Across all sectors, it is also clear that aid could be allocated more effectively to meet post-2015 goals. In energy, for example, there is a weak correlation between access to energy by country and allocations of energy aid. More than 65% of Energy Sector Development Finance is committed to countries with an electrification level higher than 75% (Gualberti et al., 2012b). In water, only half of aid is targeted at regions where 70% of the global un-served populations live, i.e. Sub-Saharan Africa, southern Asia and South East Asia (WHO and UN Water Report, 2012). A similar issue is noted in food and agriculture. While two-thirds of ODA to agriculture goes to poor countries, mainly in Sub-Saharan Africa and South Asia, aid is not targeted towards countries with the highest rates of under-nutrition within these regions (HLTFGFC, 2010).

Inefficiencies in spending are also noted at the government level across sectors. In the health sector, WHO has estimated that 20-40% of resources are wasted, and these could be redirected towards universal coverage. Other options to achieve more with existing resources include reducing unnecessary expenditure on medicine by purchasing cheaper, but just as effective drugs, and improving quality control (WHO, 2010a). In the water sector, 75% of government expenditure is targeted at urban settings, even though 75% of the un-served populations live in rural areas (WHO and UN Water Report, 2012). A similar imbalance is noted in the allocation of spending between water and sanitation, with the sanitation sub-sector heavily underfunded in relation to need (ibid). Across both water and food/agriculture, there is scope to reallocate inefficient spending on subsidies into more productive uses, such as agricultural research, rural roads and education (FAO, 2012).

In summary, **across all goal areas, there appears to be scope to improve effectiveness of current spending**, particularly by allocating resources to the countries and sub-sectors with the greatest need. Cross-cutting reforms on both the government and donor sides could help improve effectiveness, with the scope potentially being substantial.

7. Who foots the bill? Implications for post-2015 debates and development finance providers

This paper has aimed to review, for illustrative purposes, the role of finance and the potential for different sources of financing to make progress towards some of the potential post-2015 goals. We have examined in detail the financing gaps identified for each sector, and the potential for gaps to be filled by a variety of different public and private sources of finance. Table 3 below summarises our main findings on the potential of the various sources of finance to meet the needs of the different sectors.

Table 3: **Financing requirements and relevance of particular financing sources by sector**

	Education	Health	Water and sanitation	Sustainable energy	Food and agriculture
Financing gap (2010 – 2030 or nearest available, annual, additional to all current spending)	\$38 billion	\$37 billion	\$26.75 billion	\$34 billion for energy access \$400-\$900 billion for renewables	\$50.2 billion
Households	No	No	Possibly	Yes	Possibly
Governments	Yes	Yes	Yes	Yes	Yes
ODA	Yes	Yes	Yes	Yes	Yes
Philanthropy	Unlikely	Yes	Possibly	Unlikely	Possibly
South-South Cooperation	Unlikely	Unlikely	Possibly	Yes	Possibly
Private flows	Unlikely	Possibly, with public-sector support	Possibly	Yes	Possibly
Innovative finance for development	Possibly	Possibly	Possibly	Possibly	Possibly
Other Official Flows	Possibly in middle-income countries	Possibly in middle-income countries	Yes	Yes	Possibly in middle-income countries
Finance for Global Public Goods	Unlikely apart from that included in the sections above, and may crowd out existing ODA spending to these sectors	Unlikely apart from that included in the sections above, and may crowd out existing ODA spending to these sectors	Unlikely apart from that included in the sections above	Possibly, although note potential for double counting with sections above	Unlikely apart from that included in sections above
Improve effectiveness?	Yes	Yes	Yes	Yes	Yes

As we identified in the introduction to this paper, the analysis here is preliminary and is aimed to stimulate further thought and discussion on the post-2015 goals. Further, more detailed analysis which breaks down the needs by sub-sector and country will be needed once the shape of the goals becomes clearer. However, the preliminary conclusion is that finance is relevant in all sectors, and that all sectors will have significant financing gaps if the goals identified here are to be met. Governments and traditional donors appear to be the only finance providers where additional finance is both relevant and potentially feasible across all sectors, although there is potentially significant scope for other forms of finance to contribute in different sectors (for example the private sector and SSC in the sustainable energy sector, and philanthropy in health).

These findings lead us to offer a set of options for the international community in considering which goals should be selected as part of the post-2015 framework, and how 'burden sharing' should work within the new development cooperation landscape. These options are not mutually exclusive and could be combined in different ways. The international community could:

1. **Agree on a high level of ambition for the post-2015 goals, and discuss mechanisms for burden sharing between providers of development finance, including all countries, non-DAC donors and philanthropists, and potentially also the private sector.** This would be the most similar model to that of the MDGs, but with a larger group at the table. Different providers could agree, at least implicitly or informally, to contribute in line with their particular comparative advantage, with philanthropists, for example, focusing more on health; the private sector on areas in which the risk/return profile more closely matches their needs; and governments committing to trying to increase domestic resource mobilisation and allocate aid to priority post-2015 sectors. Global forums, such as the Global Partnership for Effective Development Cooperation, could be used to discuss such a division of labour in the new development cooperation landscape. All providers within such a framework, including DAC donors, would likely have to agree on some increased resource contribution.
2. **Agree on an ambitious set of goals, but place primary responsibility for financing the goals on developing countries.** This would amount to a recognition that developing countries are now driving global growth, that revenues have increased substantially in recent years, and that there is potential to continue to further increase domestic resource mobilisation, particularly in countries which have recently discovered natural resources. It would also recognise that government spending can be critical across sectors, and chime with the stated aim of some countries to reduce aid dependency. Countries could consider either financing the goals directly by government expenditures; taking measures to increase private sector investment (both domestic and foreign); and/or placing an increasing burden on middle- and high-income households through cross-subsidies.

However, there are downsides to this approach. While many middle-income countries and some fast-growing low-income countries may be able to fund progress towards the post-2015 goals domestically, our preliminary analysis suggests this is unlikely to be true for many low-income countries, especially those where the need is greatest, such as fragile states. Scope for increasing domestic resource mobilisation in low-income countries has been put at as little as \$3 billion by one estimate. Moreover, such an approach would substantially change the nature of the current implicit 'MDG contract', in which responsibility for meeting the goals is both a country and an international responsibility.

3. **Place primary responsibility on developing countries, but agree measures to support domestic resource mobilisation, particularly through curbing tax avoidance and evasion, and reducing illicit flows.** This approach would have some of the advantages outlined in Option 2 above, but

with more responsibility being placed on northern countries to support domestic resource mobilisation, particularly by ensuring that rich country multinationals operating in developing countries pay their fair share of tax.

4. **Limit the ambition of the goals to what is realistically feasible within the current financing climate.** Unlike the relatively benign economic climate of the 2000s, this option would recognise that the global economy is in a very different situation in the run-up to 2015. It may be more realistic for goals which can be realised within existing budget constraints to be agreed. A particular focus could be on seeking goals in which policies, rather than financing, are the key constraint, and using an international agreement such as that on post-2015 to leverage better policies, including through peer learning and SSC.
5. **Focus more on structural and/or environmental goals, rather than social sector and infrastructure goals.** This could involve, for example, a stronger mutual agreement on reducing carbon emissions or changing trade rules, across both northern and southern countries. Such an approach certainly seems to have some traction among middle-income countries. However, this approach is unlikely to be cost-free: the costs will instead be borne by different groups. It is interesting to note that by far the largest resource requirement for the post-2015 goals discussed in this paper is for increasing the share of renewable energy, an environmental goal. Improving trade or investment rules will similarly have costs, although perhaps ones which are less amenable to direct quantification and less directly borne by governments, than the goals discussed here.
6. **Agree an ambitious set of goals, but focus more on effectiveness of current spending than on mobilising additional resources.** As we have seen, in all sectors spending could be more effective if allocative efficiency was improved. Other proposals to include effectiveness could include efforts to improve PFM at country level; greater transparency in aid and budgets; or wider governance reforms in-country. There could also be a renewed focus on improving the effectiveness of development cooperation spending, including through a greater focus on results and value for money. However, this may be a more challenging option politically, given the lack of current momentum around the aid effectiveness agenda and the lack of clear evidence of a link between the Paris Declaration approach to aid effectiveness and results.
7. **Focus on the contributions of different actors which go beyond development finance.** In all sectors, different actors may be able to make real and tangible contributions without necessarily contributing a substantial volume of resources. Sharing policy knowledge and expertise is likely to be relevant in some sectors, particularly for non-DAC donors. In other sectors, richer countries may be able to focus on non-development policies and their impacts, for example on migration or access to medicines through patent laws. In the sustainable energy sector, rich countries could make a contribution by increasing their own share of renewables. Some of these options may also have costs to richer countries, but may be more politically palatable than the direct provision of finance.
8. **Focus more on options to leverage private sector investment and/or economic growth.** This may require a focus on a slightly different set of goals to those proposed here. A focus on growth would help increase incomes and revenues, making both direct and indirect contributions to poverty reduction. Focusing more on goals which target the role of the private sector, for example on infrastructure, transportation etc., may enable all countries to demonstrate they are making a contribution without leading to additional budgetary requirements. Financing mechanisms such as blending, guarantees, and public-private partnerships could be exploited to meet these goals.

9. **Agree on ambitious goals, but focus more on innovative financing mechanisms to meet the goals.** There are a number of proposals for innovative sources of finance which, if fully realised, would be able to meet a substantial share of the financing gap identified here. Potential mechanisms include a financial transactions tax, airline tax and tobacco tax. The post-2015 framework could provide an ideal opportunity to take forward discussions on these mechanisms, most of which require international agreement.

The evidence reviewed for this paper suggests that whichever option or combination of options is considered, two areas should be considered:

1. **Better information is needed on the contribution and comparative advantage of different types of providers of development finance,** including philanthropists, SSC and the private sector. Better information on the volume of funding, concessionality levels, sectoral allocations, modalities and impacts of such spending would help ensure a better division of labour between different providers.
2. **The debt implications of the various forms of development finance discussed here need to be carefully considered.** A rapid scale-up of SSC, private investment and less concessional forms of public finance could lead to progress in the short-term which may be undermined by long-term debt sustainability problems. An analysis of the potential impacts is outside the scope of this paper, but needs careful consideration as part of further work.

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ISBN 978 1 909464 19 3

Working Paper (Print) ISSN 1759 2909

ODI Working Papers (Online) ISSN 1759 2917



This material has been funded by UK Aid from the UK Government, however the views expressed do not necessarily reflect the UK Government's official policies.