Financing Millennium Development Goals - An Issues Note

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Introduction

Let me begin with some straightforward and simple numbers. Military spending in the world is about $800 billion and recently it was reported that the war in Iraq would cost about $75 billion for a month, or more than $2 billion a day. Agricultural subsidies in OECD countries amount to $327 billion a year. Total expenditures on alcoholic drinks and cigarettes in Europe are more than $150 billion. On the other hand, estimates have been made that achieving the Millennium Development Goals (MDGs) would require about $100-$120 billion a year, less than 0.5% of global GDP. So the world as a whole has the *resources* to finance the MDGs.

The issue is, however, does the world have the *commitment* and the *motivation* to do it. The *Monterrey Consensus* reached at the Financing for Development Conference in Monterrey, Mexico last year definitely reflects the commitment. The Consensus, among other things, envisaged a promising new development partnership between developed and developing countries based on a framework of *mutual accountability*. The international community committed to scaling up and intensifying its efforts, including resource mobilization, to help developing countries meet the MDGs.

On the issue of motivation, the international community better have the motivation of mobilizing necessary resources to finance the MDGs, so that human poverty is overcome all over the world. Time and again, it has been proved that continuation of human deprivation anywhere can result in threatening human security everywhere.

The world thus has the *resources*, has made the *commitment* and should have the *motivation* to finance the MDGs. The big question is : *how* to do it and it is related to the three major dimensions of the financing issues :

?? Estimating the costs of achieving the MDGs
?? Mobilization of necessary resources
?? Efficiency in resource use

Five initial observations

Before embarking on those critical issues, let me make seven observations which may be pertinent to have a better grasp of the financing issue :

?? MDGs represent time-bound quantitative goals for human development. Therefore, financing for MDGs should be seen in the broader context of financing for human development and should be related to the instruments for such financing.

?? In highlighting the financing issue, the resource issue should definitely be stressed, but not exclusively. Otherwise, it may give the impression that achievement of MDGs is a totally resource-dependent mechanical issue, which, of course, is not the case. An exclusive reference to resources may also create misunderstanding among various parties concerned with the MDGs. Achievement of MDGs critically hinges on policy structures as well as on institutional set-ups. Thus the issue of financing MDGs must be cast in this broader framework and should be related to policy and institutional issues.

?? Achievement of MDGs would also require, sufficient rate of pro-poor economic growth. Financing for MDGs should also be linked to strategies for sufficient pro-poor growth in relevant situations. Pro-

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poor growth is a critical requirement for achieving MDGs and financing cannot be divorced from it.

?? Financing issues – whether cost estimates or resource mobilization or efficiency in resource use – are highly country and situation specific. There will be significant country variations and it is absolutely unwise to take a straitjacket approach to these issues.

?? Cost estimates for MDGs represent an extremely complex exercise and there is a danger in attaching too much scientific beliefs in those. Any such estimates should not be looked upon as watertight precise figures required for achieving the MDGs. Rather these figures are only indicative and hence should be used for creating awareness and advocacy purposes. Two points may be highlighted with regard to these figures – first, it may not take a whole lot money to achieve the goals the world has set for itself and second, more than what is allocated now would be needed.

?? As highlighted in the Monterrey Consensus, financing for MDGs is also closely related to such trade issues as opening up of markets and removal of trade barriers, to the issue of debt relief. Therefore, mobilization of resources for MDGs should not be seen in isolation independent of these trade and debt issues.

?? Financing for MDGs would require a partnership between the developed and the developing world in mobilizing resources. Such a partnership is part of a mutual responsibility and accountability.

Current situation : an assessment

Addressing the issue of financing of MDGs issues would also require making a review of current situation in areas of estimated costs, resources required and efficiency in resource use in order to have a more realistic understanding of what exits, an assessment of what is required and an a guidance to how to do it.

Cost estimates are currently available – both at the global as well as at regional and country levels - for various goals. Thus in the area of education, for the developing world as a whole, one estimate maintains that it would cost approximately $9 billion every year through 2015 to achieve universal primary enrolment (rather than completion). Another estimate, which takes into account a variety of scenarios for input costs, estimates that universal primary enrolment (as distinct from completion) would cost $11 billion to $ 28 billion per year.

At a regional level, for example, in sub-Saharan Africa, even the external financing gap, not to speak of the domestic requirements, has been estimated to range from between $1.6 billion to $2.1 billion annually to ensure that all children have access to a complete cycle of primary schooling. In a country like Tanzania, the additional annualised expenditures to meet the health MDGs have been estimated to be about $100 million in 2002, rising to $134 million in 2015.

Estimates are also available for total resource requirements for the achievement of all MDGs. Taking the synergies of achievement of goals in various areas, one rough estimate is that it would take about $96 billion to $116 billion per year to achieve all the goals. It has been stated that it meant that each year an additional of $ 40 to $60 billion would be needed over and above what is being spent now.

A few observations should be made about these numbers :

?? the cost figures are quite sensitive to the scenarios assumed. A slight change in the assumptions may significantly change the estimates.

?? the figures estimated refer to a range, and not to one specific number

?? clarification must be made as to whether the estimates refer to absolute or additional requirements.

With regard to resource allocation for MDGs, the current situation is not encouraging at all. The share of public expenditures on basic social services has been found to be barely 12-14% for a sample of 30 countries in Asia, Africa and Latin America. And basic social services favour non-poor – in a sample of 20 countries, the top-quintile has been found to receive twice the level of public spending vis-à-vis the bottom quintile (29% of public expenditure on education going to the top quintile as opposed to 15% to the bottom quintile. The relevant figures for health are 27% and 14% respectively.

The donor record in financing various areas of MDGs is also not encouraging, either in terms of total official development assistance (ODA), nor in terms of its distribution. Total ODA has fallen substantially in recent years, from $60 billion in 1990 to $54 billion in 2000 (both figures in constant prices). There have been changes in the ODA distribution as well. For the countries in greatest need, the 49 Least Developed Countries (LDCs), with the farthest to go in achieving MDGs, the total flow (in constant prices) has fallen from $17 billion in 1990 to $12 billion in 2000. Moreover, the allocation of aid resources does not appear consistent with MDG priorities since only 14% of bilateral aid is allocated to basic social services.

Inefficiency in resource use is also a major concern. In Latin America, it has been estimated that 25% of expenditures on health is wasted. The drug bills for most health services are enormous – and wastage may be more than 50%. There are also significant scopes for enhancing efficiency in resource use in education and water and sanitation. Small diameter wells can be operated for costs that range from $5.00 to under $0.50 per user.

The assessment of the current situation, in fact, leads to some fundamental issues :

?? *Lack of resources* - Both the developing countries as well as the donor countries do not channel enough resources towards MDGs. Neither a domestic resource allocation of less than 15% of public expenditures to basic social services nor an ODA of less than 0.3% of GDP would help achieving the MDGs. Aid by NGOs from the developed world still accounts for less than 0.02% of their GDP. The private sector is yet to be a major actor in the nexus.

Efficiency in resource use or imposition of user fees may help the lack of resources, but only to a limited extent. Irrespective of the policy reforms that are eventually selected, they never substitute for adequate budgetary allocations. A minimum level of spending is always required to provide services of good quality. Those who focus the attention on inefficiencies seldom make the point that insufficiencies often aggravate inefficiencies.

?? *Lopsided priorities* – In many developing regions and countries, priorities with regard to public spending is quite lopsided. For example, in South Asia, the home of more than half of income poor of the world, public expenditure on health is about 0.9% of GDP, while the relevant figure for defence spending is about 2.4%. Burundi’s public expenditure on helath accounts for 0.7% of GDP, while the comparable figure for military expenditure is 5.4%.

The priorities of the donors can also be questioned. In 2000, total ODA to education amounted to $4.7 billion with basic education receiving only $1.4 billion. In the health area, bilateral assistance is roughly equivalent to one penny out of every $100 of the donors’ economies.

?? *Imposed priorities* – In many cases, for example, for indebted countries, priorities are imposed and they hardly have a choice. This is because these countries first and foremost will have to service their debts and in most cases they are forced to do so at the cost of overlooking basic social services.

In 1999, the Highly-Indebted Poor Countries (HIPCs) spent one-third of their tax revenues in servicing their debts. In some countries such as Angola (84%), Cote D’Ivoire (62%), Guyana (48%) and Sierra Leone (50%), this ratio was much higher. In Cameroon, debt servicing accounts for 40% of government budget as against less than 10% of basic social services. Even after it began to get debt relief, in 2002, Tanzania’s debt servicing was $144 million, two-thirds of the additional spending required to meet the basic social service goals. In Sub-Saharan Africa, governments spend twice as much on complying with their financial obligations vis-à-vis external creditors that on complying with their fundamental social obligations vis-à-vis their people.

?? *Efficiency in resource use* – Efficiency in resource use through optimal use of resources may reduce the total resource requirements for MDGs. It has been pointed out that, for example, in education, a feasible package of reforms could reduce the recurrent costs of education by 25%. The package consists of, among others, measures to reduce repetition, more efficient use of community resources, multiple shifts, selective increases in class sizes etc.

In health areas, efficiency in resource use may encompass lower-cost treatments, choice of more appropriate drugs and buying them more efficiently. Gravity-fed water supplies can decrease costs of drinking water and widen coverage in hilly areas. Water can be treated with slow sand filtration processes, which purify moderately polluted surface water more cheaply.

?? *User cost* – User cost is a sensitive issue and with so many pros and cons, it is a complex matter too. Furthermore, the evidence on this issue is mixed and as a result, it is difficult to provide some conclusive remarks on it. The experience so far on this issue makes a case for selective use of user charge, e.g. in areas of tertiary education. In some case, the use of cost sharing with users and communities may be contemplated in the short-run because of severe budgetary constraints.

It should be remembered that poor people are often ready to pay for services they get if they have access to it and if the services are good and if they are not unequally burdened. Thus the issue of user charges should be addressed and decided upon with regard to their implications on revenue, efficiency, equity and access with more emphasis on the last three aspects than the first one.

Financing MDGs – some proposals

The proposals for financing MDGs have been limited to the issue of mobilization of resources to achieve these gaols and no particular suggestion has been made with regard to efficiency in resource use or users' charges as most of the issues in those areas are generic. Thus those issues, which are well known and well documented, would apply to resources devoted to MDGs as well.

Reviving the 20:20 initiative

In order to channel enough resources to ensuring universal basic social services, in the mid 1990s, the notion of 20:20 was proposed. The basic idea was to channel 20% of domestic resources to basic social services and also devote 20% of ODA to the same cause. It was argued that such a critical mass of resources to basic social services would ensure significant progress towards universal access to these services. Empirical evidence suggested that countries (e.g. Malaysia, Mauritius, Sri Lanka), which were devoting more or nearly 20% of their domestic resources to basic social services were able to reduce their child mortality rate to less than 25 per thousand live births, compared to more than 150 deaths per thousand live births in countries (e.g. Guinea, Nepal, Tanzania), where less than 10% of domestic resources were directed towards basic social services.

With regard to ODA, even though aid to education and health together account for a relatively stable share of it (more than 15%), but basic education and basic health combined represent less than 5% of total ODA. It is sometimes suggested that the aggregate data from donors do not always capture all donor support to basic education and health. But even with recognition of it, the total percentage of ODA going to basic education and health is not more than 10% of the total development assistance.

Under such circumstances, it may be worthwhile to consider reviving the 20:20 initiative, which may ensure devotion of a critical amount of resources for achieving the MDGs.

Enhancing the absolute amount of ODA

Reviving the 20:20 initiative is, however, no substitute for increasing the absolute amount of ODA. This is critically important for the LDCs as well as countries in Sub-Saharan Africa. These countries will not be able to attract adequate private investments to their economies, not to speak of the MDGs. In such a situation, official assistance may be their only as well as last resort. For example, if trade protections were reduced by half, the developing countries would gain about $200 billion by 2015. But only $2.4 billion of this would go to Sub-Saharan Africa. Furthermore, who can deny the fact that in terms of progress towards the MDGs, these countries are either the farthest or simply off the track.

But while the importance has assumed a new dimension, unfortunately, the trend of ODA over the years has been quite disappointing. Net ODA as percentage of donors' GNP has declined from 0.33% in 1990 to 0.05% in 2001, not only far from the agreed 0.7% yardstick, but also highlighting a reverse trend. Between 1990 and 2000, the flow of per capita ODA to the LDCs has almost halved, from $36 to $19 (in constant prices).

Recent studies have shown that achieving MDGs would require doubling of ODA flows. For the 30 or so African countries judged to be in position to use external assistance effectively, it is estimated that an increase of between $20 billion to $25 billion in ODA – from the current $13 billion to $33 billion to $38 billion – would be required to enable them to reach the MDGs.

There is thus a strong case for enhancing the absolute amount of ODA. In fact, adherence to the agreed target of 0.7% of donor GDP going to ODA would enhance the absolute amount of ODA significantly. Today, only Denmark, Netherlands, Norway and Sweden meet that criterion. Thus a significant scope remains from other critical donors.

In recent times, the UK Chancellor of Exchequer has proposed a new scheme to double aid flows from $50 billion to $100 billion per annum to meet the resource requirements of MDGs. The proposed `International Financing Facility' would enable donor countries to borrow from the international capital markets in order to provide increases in aid flows between now and 2015. The money borrowed in this way would be paid back up to around 2032 by the donor country out of its long-term aid budget. this is proposal on which further discussion and dialogue are needed.

Debt relief for MDGs

In 2000, developing countries spent nearly $400 billion (6% of their GDP) for debt servicing. Among the developing countries, the situation is really severe, as indicated earlier, among the HIPCs. The debts of these HIPCs can be written off, provided the resultant resources released are directed towards MDGs.

Achievement of the MDGS in HIPCs, most of which are poor and LDCs, is of critical importance for various reasons. It has been estimated that for the 39 of the 42 HIPCs, even without taking debt service payments, total external financing needed for MDGs will amount to $30 billion to $46 billion per year. This means that even with total debt cancellation, the HIPCs will need between $17 billion and $31 billion in additional resources each year if the MDGs are to be met. All these imply two straight facts : first, the resource requirements in HIPCs for MDGs are quite large and two, debt cancellation can provide significant amount of resources to cover most of those requirements. With debt cancellation, these countries may need less than $30 billion every year to achieve the MDGs.

However, doubts have been raised on the ground that money saved will not be used for MDGs, rather it will be used for military expenditures or simply to balance the accounts. Evidence, however, point to the other direction. For 10 countries for which debt relief has been committed and some interim debt service relief has been provided, in 1998, education spending was only $929 million, less than the amount spent on debt service. By 2002, it was $1.4 billion – more than twice what was being spent on debt service. Similarly, in 1998, debt service took up twice as much, in terms of resources, as spending on health. By 2002, spending on health had risen by 70% and was one-third higher than debt repayments.

Debt relief thus has a huge potential for releasing extra resources, even more than aid, for MDGs. For one thing, the debt service payments from the developing countries as a whole are 7 times than what they receive in.

Developed world subsidies for MDGs

Today the total annual agricultural subsidies at $327 billion is more than the total GDP of $323 billion of Sub-Saharan Africa and 6 times more than the ODA going to the developing world.

The annual EU dairy subsidies per cow are $913 is nearly twice the average annual income in Sub-Saharan Africa and more than 100 times than the annual $8 annual per capita EU aid to that region. While the US domestic cotton subsidies per day are $10.7 billion, US aid to Sub-Saharan Africa per day is $3.1 million.

In recent times, there have been increased talks of removal of such perverse subsidies in the developed world. One of the greatest contributions of the developed world towards the MDGs would be to reduce such subsidies and channel it to the realization of MDGs. For example, the richer countries can decide to halve their agricultural subsidies and devote the resultant $164 billion to achievement of MDGs in the developing world.

Tariff reductions for MDGs

Every year, Bangladesh exports about $2.4 billion worth of textiles and pays 14% of it in tariffs. On the other hand, France exports to the US more than $30 billion worth of textiles and pays only 1% of it in tariffs. The developed world may consider reducing such unequal tariffs against developing countries provided they use the new resources for MDGs. For example, the US may halve the 14% tariff against Bangladesh, if it agrees to devote the resulting $168 million to realization of MDGs.

Similarly, if developing countries open up their economies to foster competition, the developed world may consider making up for lost revenues and also channel additional funds towards MDGs. Such a policy on one hand will contribute to competition as desired by the developed world, but also towards MDGs.

A global fund for MDGs

as mentioned earlier, with the money released from debt relief, generated through the developed world's subsidy and tariff reductions, a global fund can be created for channelling resources to the developing countries in helping them in their efforts to wards realization of MDGs. If agreed in principle, the structure and the modus operandi of such a fund can be detailed out later on.

One final point may be pertinent about all these proposals. They must not been seen in isolation. Rather they have to be supported by efficiency in resource use and user charges, points already made, and more importantly, be supplemented with necessary policy reforms, enhanced trade opportunities for developing countries and forging a better partnerships with various development partners.

Conclusions

Achievement of MDGs is not the sufficient condition for development, peace and security in the world, but it is definitely a necessary condition. The world has the resources, has made the commitment and should have the motivation to achieve these goals. Let us hope that it starts acting on it without any delay. Otherwise, time, instead of being the best healer, can be the best killer in this case.

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