The MDGs' Financing Framework and its Implications for the Post-2015 Development Agenda: An African Perspective

Eberechukwu Uneze, Adeniran Adedeji


The SAIS Review of International Affairs

Sustaining the Millennium

SAIS Review of International Affairs, Volume 34, Number 2, Summer-Fall 2014, pp. 103-111 (Article)

Published by The Johns Hopkins University Press
DOI: 10.1353/sais.2014.0035

SAIS Review vol. XXXIV no. 2 (Summer–Fall 2014)

The MDGs' Financing Framework and its Implications for the Post-2015 Development Agenda: An African Perspective

Eberechukwu Uneze and Adeniran Adedeji

A clear and sustainable financing strategy is essential to achieving the post-2015 Sustainable Development Goals. This paper assesses the strengths and weaknesses of the financing strategy adopted under its predecessor, the MDGs, drawing out important lessons for the post-2015 development agenda. It argues that the post-2015 financing framework will need to deviate from the MDGs' financing model in some remarkable ways in order to achieve the proposed set of goals. A broad-based and multi-stakeholder approach, which deemphasizes the top-down approach adopted under the MDGs, must be implemented. Drawing on our recent study on the domestic revenue potential of some sub-Saharan African nations, we argue that by exploring existing and emerging domestic financing options including taxes, domestic saving, domestic philanthropy, remittances and diaspora support, African countries can significantly improve their domestic revenue potential for the post-2015 development agenda.

With less than a year until the Millennium Development Goals (MDGs) are set to expire, there have been intense consultations and discussions on the next development agenda. Parallel discussions are also taking place on financing frameworks for the ambitious goals and targets being proposed. In these discussions, it is imperative to critically assess the MDGs' financing framework, as this can help provide a guide towards a viable and sustainable financing framework for the post-2015 development agenda.

Although uniform goals were set for developing countries under the MDGs' framework, financing strategies varied markedly across countries, depending on their level of economic development. This paper examines the MDGs financing framework from an African perspective. Africa's experience is particularly important to the post-2015 agenda, given the slow pace of progress sub-Saharan African nations have made on MDGs, which in part, is due to a huge financing gap. Going forward, Africa faces more

Eberechukwu Uneze is the head of public financial management and governance research area at the Centre for the Study of Economies of Africa (CSEA) in Nigeria. He has widely researched public economics and development finance. His recent research interest focuses on development financing for Africa.

Adedeji Adeniran is a research associate at CSEA. His research interest focuses on development economics and public financial management.

uncertainty in development financing than other regions in the world, due to its heavy dependence on foreign aid. Thus, understanding the strengths and weaknesses of the MDGs' financing strategies in Africa will help develop a sustainable financing framework for post-2015.

Th[is] paper is structured into three main sections and a conclusion. The first section provides an overview of the MDGs' financing framework in Africa, and assesses its strengths and weaknesses. The second section examines the implications of MDG financing for the post-2015 development agenda. The third section presents various domestic policy options, which could be used by African countries to promote sustainable financing. Lastly, the concluding section offers an overview of the arguments presented in this paper.

Understanding the strengths and weaknesses of the MDGs' financing strategies in Africa will help develop a sustainable financing framework for post-2015.

An Overview of the MDGs' Financing Framework

Two years into the implementation of the MDGs, global efforts received a financing boost at the Monterrey Conference in 2002. Although the Monterrey Conference focused on broadly filling the financing gap in developing countries, the momentum it helped generate for the MDGs encouraged a mobilization of resources. The Monterrey Consensus, which contains the overarching financing strategy agreed upon by heads of state and governments, emphasized two financing options: domestic resources (taxes, financial markets, and private sector development) and external resources (aid, remittances, trade, and debt relief). The rationale for this financing model was to encourage developing countries to take a leading role in their development, with developed countries complementing their efforts by providing external financing.

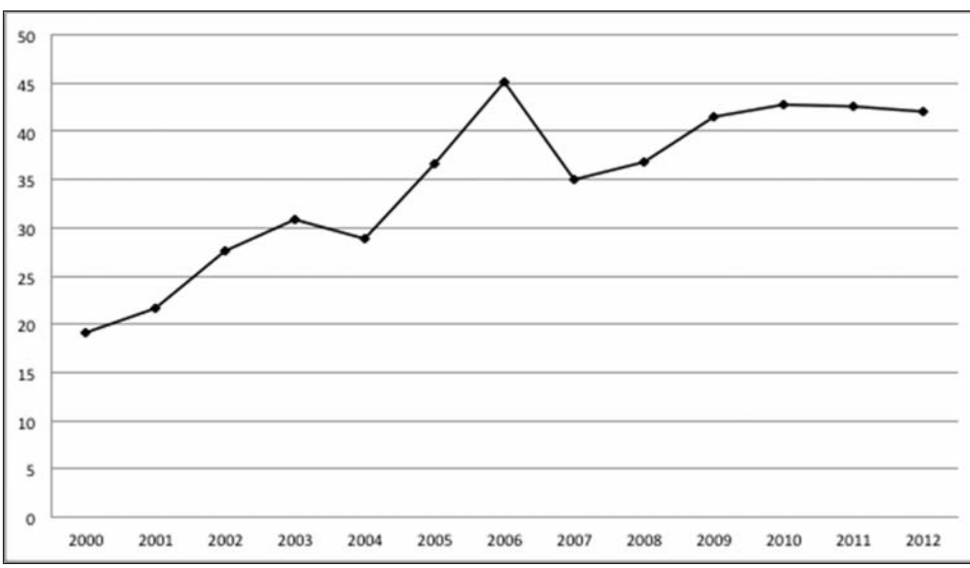
However, poor economic performance constrained domestic resource mobilization in many developing countries, thereby making external financing the dominant source of MDG financing to developing nations. For Africa, the millennium began in an uncertain economic environment. Debt-to-GDP ratios had reached elevated levels, with thirty-three of the fifty-five African nations classified as Highly Indebted Poor Countries (HIPCs). This meant that debt servicing took the largest share of budgets for many African nations. Additionally, weak and non-inclusive economic growth failed to reduce poverty and other socioeconomic challenges facing the region.

As a result, foreign aid has become the main financing source for the MDGs in African countries. This foreign aid has come largely in two forms: grants and debt relief. Grants have been provided to the education and health sectors, which are integral to the MDGs. Debt relief has been given to highly indebted countries on the condition that the savings that results from debt servicing was channelled towards MDG-related sectors.

Strengths of the MDGs' Financing Framework

Trends in official development assistance (ODA) since 2000 indicate that the MDGs may have contributed to increased aid flows to developing countries (see figure 1). Between 2000 and 2012, the total amount of ODA to sub-Saharan African nations increased by more than 115 percent, while debt relief programs reduced the current number of HIPCs in Africa to four. Additionally, the $50 billion that was promised as part of Gleneagles ODA Commitment in 2005 was largely based on the estimate of the financing gap for the MDGs first provided by the United Nations High-Level Panel, then chaired by Ernesto Zedillo. This shows the increasing reliance on the MDGs as a benchmark for evaluating the amount of official development assistance required by developing countries.

Figure 1. Net Official Development Assistance (ODA) (constant 2011 US$ billions)



Data source: World Development Indicators (2013)[1]

The MDGs' financing framework has also provided a compact structure and has aligned aid for developing countries. Before the MDGs, ODA was highly fragmented, with little coordination among the various donors. Aid programs, such as structural adjustment programs (SAPs) helped contribute to economic instability in many African countries. As a result of high levels of foreign aid with little development to show for it, aid flows to developing countries begin to decline in the 1990s. Since this time, the MDGs have helped to align resources from various donors towards specific goals and targets, and have thereby improved aid effectiveness. As evidenced in the Paris Declaration on Aid Effectiveness, aid alignment is now a priority for donors.

The MDGs have also helped promote an efficient use of limited financial resources. Lack of financial assistance for development in most

African countries is due, partly, to poor management of resources rather than the absence of them. The World Bank has estimated that of $200 million accrued to African countries through oil revenues between 2000 and 2010, most has been mismanaged or allocated to unproductive economic activities.[2] MDG financing frameworks have addressed some aspects of poor resource management by tying aid to improvement in specific aspects of governance that promote growth and development. For example, debt forgiveness conditioned on using the accrued income on priority domestic development challenges has also helped promote sound public management.

Improved governance coupled with a much improved investment climate has greatly impacted the performance of African economies. Economic growth in Africa is currently the highest globally and other macroeconomic indicators are improving at a fast pace.[3] Accountability and transparency have also been enhanced across the continent. Medium Term Expenditure Framework (MTEF) and broader public sector reforms have been introduced in many African countries.[4]

Lastly, the MDGs have also drawn attention to poor data management across Africa. In providing the funds necessary to finance the various goals, it is necessary to track various development indices at the country level. African countries with data on poverty rate have increased from twenty-eight in 1990–1999 period to thirty-eight in 2000–2012 period, while the frequency of data collection has increased across the region.[5] Better data has helped enhance the management of resources. Accurate estimates of financing gaps can be provided and regular performance evaluation of government activities can be conducted to determine the cost-effectiveness and cost-benefits of various programs.

Weaknesses of the MDGs Financing Framework

Despite having a number of strengths, the MDGs' financing framework has been too narrow. By focusing on aid, the financing strategy has neglected other important financing options such as South-South Cooperation, philanthropy, and private sector sources. The financing model adopted under the MDGs' reflects a North-South structure that fails to reflect a changing global environment.

Since the inception of the MDGs, many new actors have emerged in the global development financing architecture. While it is not possible for the MDGs' financing framework to anticipate these changes, lack of flexibility to capture these emerging global trends has been its major weakness. As of 2005, discussions on financing the MDGs were still restricted to the G-8 countries, with little input from developing nations. The financial crisis of 2007 further reduced the commitment of many developed countries to the MDGs. ODA from major donors to developed countries fell by nearly 3 percent in 2011, a reversal of long-term trend of annual increases.[6] Additionally, Foreign Direct Investment (FDI) in critical sectors, which can help to close the investment-savings gap, has also declined. Gross FDI to African countries dropped by more than 17 percent in 2010.[7] In essence, the lack of flexibility and narrowness of MDG financing has exposed African nations to external shocks from aid volatility. This has, to a large extent, affected the performance of the MDGs.

MDG financing has also lacked proper integration with domestic development plans. Many African countries have put in place a national development strategy tailored to domestic needs. But the MDG financing framework imposed on them a global development plan. In many instances, global development plans do not align with domestic agendas. For example, Nigeria's "Vision 2020" domestic development plan sets the goal of becoming one of the largest twenty economies in the world by 2020.[8] In both its goals and timing, "Vision 2020" deviates from the MDGs. Yet priority was given to the MDGs because it qualifies the country for debt relief. This top-down and one-size fits all approach clearly defeats the underlying purpose of the MDGs, which is to accelerate development.

Another weakness of the MDGs' financing framework is that it promotes aid dependency. As John Kwakye observed, African countries have become addicted to foreign aid, thereby reducing their incentive to mobilize domestic resources.[9] In addition, the MDGs have emphasized development outcomes, while neglecting the process that generates these outcomes. For example, in promoting primary education, school lunches and stipends were provided for students in many African countries with the effect that enrollment increased temporarily, but returned to the initial levels when these incentives were discontinued. The obvious problem with these programs is that they fail to address the root causes of low enrollment, which in many cases owe to social and cultural beliefs. Addressing social and cultural issues is undoubtedly a difficult task, but addressing these root causes remains key to achieving sustainable outcomes.

Important Lessons from the Post-2015 Development Agenda

The post-2015 development agenda is presently being discussed as a successor to the MDGs. Thus far, discussions have yielded a consensus that the post-2015 goals will include the unfinished MDGs plus goals focused on sustainability, such as objectives that seek to limit climate change and promote energy access for all.[10] A conservative estimate shows the post-2015 development agenda will require as much as seven times the resources used for the MDGs.[11] This underscores the need for broader and more innovative financing strategies to meet these huge financial requirements. It is clear from the emerging discussions that the post-2015 financing strategy will need to differ from the MDGs' financing strategy in many fundamental ways. However, it is important that key lessons learned from the MDGs are incorporated into the post-2015 development agenda.

> A conservative estimate shows that the post-2015 development agenda will require as much as seven times the resources used for the MDGs.

First, domestic resource mobilization is essential to developing a sustainable financing strategy. Foreign aid may have helped African countries to achieve growth, but this has come at a cost. Because aid flow relies on the economic performance of donor countries, it is pro-cyclical and unpredictable. Additionally, a large proportion of aid usually comes with counterproductive policy requirements such as the use of technical personnel or the purchase of goods produced in donor countries. This reduces aid effectiveness as recipients are restricted in their choice of policy and use of funds. Thus, African countries will need to develop domestic resource capacity for the post-2015 development agenda. Aid and other external financing options should be used to build the capacity of developing countries to mobilize and manage domestic revenue.

Second, a multi-stakeholder approach is required. A new structure needs to improve on the North-South arrangement promoted under the MDGs. This new structure must recognize every stakeholder as an important development partner, irrespective of their commitments and responsibilities. This will allow for better collaboration and help achieve the goal of aid alignment as emphasized in the Paris Declaration on Aid Effectiveness.

Third, a broad-based and flexible approach is needed to build a robust post-2015 financing framework. Global development financing landscapes are changing rapidly, and therefore financing frameworks must be flexible. Existing and emerging financing options need to be explored. More importantly, there is a need to develop new financing strategies to reflect the changing financing landscape. For example, sustained economic growth and development will open new financing options such as corporate saving, among others, which could be explored by African countries.

Fourth, post-2015 development goals and financing strategies need to emphasize the importance of domestic ownership. Domestic resource mobilization will likely play an increasingly important role, thus development goals must better align with domestic policies and programs so as to support governments and local stakeholders. In essence, flexibility is essential in designing not only the post-2015 financing framework, but also the goals and targets.

Fifth, the MDGs have been crucial in focusing attention on the role of good governance, accountability, and transparency in public management towards achieving development outcomes. Similarly, the post-2015 development agenda must embrace these features and strengthen them even further. For example, fiscal transparency and accountability should be included among the targets currently proposed for goals on governance. This is essential for promoting good governance as declining flows of foreign aid could reduce the current emphasis on good governance and institutional reform.

Domestic resource mobilization in Africa

It is clear from the foregoing discussion that priority needs to be given to domestic resource mobilization for post-2015 development financing frameworks in Africa. However, given the level of economic development and limited administrative capacity for tax collection, there are doubts about the viability of domestic resource options. Tax revenue has not been adequately explored in Africa because of the size of the shadow economy.[12] Other domestic options with huge revenue potential that should be explored for post-2015 financing include domestic savings, reverse capital flight, diaspora resources, domestic philanthropy, and financial transaction taxes (FTTs).

Domestic Savings

This comes from two sources: public sector savings (e.g., sovereign wealth funds, budget surplus) and private sector savings (e.g., household savings, pension funds, insurance funds, and companies' retained earnings). Presently, Africa has the lowest domestic saving to GDP across the world, at 14.4 percent.[13] In fact, a large proportion of domestic savings are found in the informal sector, which presents challenges to channeling funds towards needed development activities.[14]

Reverse Capital Flight

An estimated $23.5 billion per annum is lost in Africa due to capital flight, mostly caused by money laundering, tax evasion, and inaccurate trade invoicing by domestic and multinational firms.[15] Based on this estimate, Africa has lost more to capital flight than it has gained from FDI and ODA over the last three decades.[16] Thus, by strengthening the domestic laws and institutions, the incidence of capital flight can be eliminated, thereby reducing leakages of domestic resources.

Remittances and Diaspora Support

Africa currently accounts for 12 percent of global migration. This pool of migrants presents an important source of development financing for Africa, either through income transfers to loved ones (remittances) or government debt instrument (diaspora bonds). Diaspora bonds, which are debt instruments targeted at a country's migrants, remain unexplored, while remittances have become an important source of development finance in the continent. In fact, in some African countries remittance flows have already surpassed official development assistance levels.[17] Scholars [Delfin] Go and [John] Page estimate that about $28.5 billion could be raised in sub-Saharan Africa through the issuance of diaspora bonds.[18] Diaspora resources are therefore a huge potential revenue source for Africa. More importantly, unlike ODA and FDI, diaspora resources have been found to be more predictable and less volatile. [19]

Domestic Philanthropy

The economic growth witnessed in many African countries over the past decade, has increased the number of home-grown philanthropists. African industrialists, leaders, and firms operating within the domestic shore have recently established foundations dedicated to promoting global development. With sustained economic growth, the domestic philanthropy sector can and will play a more active role in post-2015 development financing.

Financial Transaction Tax (FTT)

A financial transaction tax (FTT) is a tax imposed on various classes of financial instruments ranging from financial securities (equities, stocks, and debts) to financial contract (derivatives), bank debits, and credits. South Africa has successfully explored FTTs as development financing sources. Between 2001 and 2008, South Africa realized $7 billion through FTTs, which was the highest relative to GDP across the world.[20] FTTs could be implemented in other African countries, however, the slow pace of financial development remains a major obstacle.

Conclusion

This paper has examined the MDGs' financing frameworks in Africa, and argued that they largely relied on foreign aid. It observed that while this framework has helped mobilize resources to finance development and promote governance, it remains grossly inadequate to meet the financial needs of Africa. This framework is too narrow and inflexible, and failed to adjust to rapid changes in the global development landscape. The post-2015 financing framework should leverage the strengths of its predecessor's financing framework, such as emphasizing the role of good governance, while avoiding the major drawbacks it encountered. Such an approach would promote country ownership instead of the North-South structures that characterized the MDGs. More importantly, the financing strategy for the post-2015 agenda will need to emphasize sustainability rather than dependency on foreign aid. Thus, domestic resources need to be the main financing sources for the post-2015 development agenda.

By exploring both existing and innovative financing options, African countries can harness a more viable and sustainable financing strategy for the next development agenda.

This paper has offered some of the domestic financing sources that could be used in Africa. By exploring both existing and innovative financing options, African countries can harness a more viable and sustainable financing strategy for the next development agenda.

Notes

1 World Bank, "World Development Indicators 2013," data retrieved September 2, 2014.

2 Delfin S. Go, Jorge Arbache, and John Page, "Is Africa's Economy at a Turning Point?" *World Bank Policy Research Working Paper 4519* (2008).

3 World Bank, "Global Economic Prospects," Washington DC: World Bank, last modified 2014, http://www.worldbank.org/en/publication/global-economic-prospects/data.

4 World Bank, "Public Sector Reform: What Works and Why? Washington: World Bank," last modified 2008, http://www.oecd.org/dataoecd/44/55/40677403.pdf.

5 World Bank, "World Development Indicators 2013," data retrieved September 2, 2014.

6 Organization for Economic Co-operation and Development, "Aid Statistics," last modified December 10, 2013, http://www.oecd-library.org/.

7 United Nations Conference on Trade and Development, "FDI Statistics," data retrieved December 10, 2012, from UNCTAD statistics database (2012).

[8] National Planning Commission, "Nigeria Vision 20:2020: Economic Transformation Blueprint," *Abuja FCT* (2009).
[9] John Kwakye, "Looking beyond Aid to Fund Africa's Development," *Southern Voice Occasional Paper 7* (2014).
[10] United Nations, "New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development," *The Report of the High-level Panel of Eminent Persons on the Post-2015 Development Agenda United Nations* (2013).
[11] Eberechukwu Uneze and Adedeji Adeniran, "Exploring Domestic Financing Options for Post-2015 Development Agenda in Selected Sub-Saharan African Countries," *Southern Voice Series* (forthcoming).
[12] Ibid.
[13] World Bank, "World Development Indicators 2013," data retrieved September 2, 2014.
[14] UNCTAD, "Economic Development in Africa: Reclaiming Policy Space: Domestic Resource Mobilization and Developmental States," UNCTAD/ALDC/Africa/1/ (2007).
[15] James Boyce and Léonce Ndikumana, "Capital Flight from Sub-Saharan African Countries: Updated Estimates, 1970-2010," *PERI Working Papers* (2012).
[16] Ibid.
[17] Andrea Gallina, "Human Mobility Report 2011. Migration and Human Development in African, Caribbean and Pacific Countries," The ACP Secretariat, Brussels (2010).
[18] Delfin S. Go and John M. Page, eds, "Africa at a Turning Point? Growth, Aid, and External Shocks," World Bank Publications (2008).
[19] Raju Jan Singh, Markus Haacker, Kyung-woo Lee and Maëlan Le Goff, "Determinants and macroeconomic impact of remittances in Sub-Saharan Africa," *Journal of African Economies* 20, No. 2 (2011); Suhas L. Ketkar and Dilip Ratha, "Development Finance via Diaspora Bonds: Track Record and Potential," *World Bank Policy Research Paper*, No. 3381 (2004).
[20] Daiana Beitler, "Raising Revenue: A Review of Financial Transaction Taxes throughout the World," *A Report for Health Poverty Action and Stamp Out* Poverty (2008).