Pro-poor national budgets

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Question

*What national budget spend (for Nigeria and comparable countries) has the most impact on poverty reduction and pro-poor growth?*

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1. Overview

This rapid review identifies literature on the impact of national budget spend on poverty reduction and pro-poor growth\(^1\). It considers evidence from Nigeria, and from other countries with similar governance, population or social development characteristics.

The allocation of government expenditures has been considered a key instrument for governments to promote growth and reduce poverty. Since the 1990s, donors have consistently encouraged increased “pro-poor” spending, as a condition of their support to heavily indebted countries debt relief and the implementation of national poverty reduction strategies (Paternostro et al 2007; Wilhelm and Fiestas 2005).

However, there are few attempts to evaluate whether the push to change the composition of the budget to favour pro-poor spending has been a driver of overall poverty reduction and pro-poor growth, with relatively few studies of the impact of national budget spend in specific individual countries (Simson 2012; Anderson et al 2007). This is complicated by the difficulty of tracing the impacts of budget allocations, which can be influenced by a complex network of conditions. These include the composition

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\(^1\) This report has searched for literature with relevant findings on budget allocations and budget expenditures. The literature uses various definitions of poverty reduction and pro-poor growth. This review has been guided by the literature and does not attempt to apply or limit the search to a particular definition.
of growth, policies and institutional capabilities, as well as the dynamic interrelationships, differential time lags in effects, and trade-offs between expenditure choices in different sectors (Paternostro et al 2007; Wilhelm & Fiestas 2005).

Looking at what type of spend is pro-poor, there is a wealth of evidence that **spending on basic social services** (health, nutrition, education) and **social protection** can be progressive and reach the poor. The literature highlights in particular the high potential returns from expenditures in these sectors reaching poor and vulnerable women and children. In recent years, empirical research has reinvigorated interest in the potential poverty outcomes from government spend in areas such as **agriculture, infrastructure and private sector development**.

The literature includes a number of recommendations for improving the impact of national budget spend on poverty reduction and pro-poor growth. Some of the key recommendations are:

- **Incorporating a focus on inclusive growth**: this requires a focus not only on the desirability of broad-based growth across various economic sectors, and the outcomes for poor people, but also on ensuring non-discriminatory participation in the growth process by large segments of the population (Alexander 2015). An inclusive focus may require policy reform to address exclusionary institutions alongside financial investments.

- **Helping the chronically poor, stopping impoverishment and sustaining poverty escapes**: understanding the complex and fluctuating paths people take in and out of poverty leads the Chronic Poverty Research Centre to call for financing for social assistance, education and ‘pro-poorest’ economic growth (Chronic Poverty Advisory Network 2014).

- **Refining the application of priority sectors and targets**: experience shows that these can help focus debate and lobby for resources. However, it is important that they do not detract from a poverty reduction strategy’s inter-sectoral complementarities and trade-offs.

- **Improving the transparency and accountability of public financial management**: strengthen the oversight of the budget process, and participation by beneficiaries, can improve the national budget’s poverty focus and application.

- **Strengthening analytical tools for allocating limited resources**: these include: assessing the alignment of the budget with a country’s growth and poverty reduction strategy; understanding the trade-offs and interrelationships between allocations; modelling the macroeconomic impact of alternative policy investment choices; and understanding how public expenditure is consistent with a structural transformation of the economy that overcomes binding constraints to growth.

### 2. Types of pro-poor spend

**Progressive social spending**

Calls in the 1990s for pro-poor expenditure tended to focus on progressive spending that reached the poor, in order to redress the previous decade’s exclusive focus on economic growth and its associated rise in inequality and marginalisation of the poor (Simson 2012). Targets for this investment have been institutionalised through the Millennium Development Goals.

A wealth of empirical evidence links spending on social services to better economic outcomes for the poor (Alexander 2015: Simson 2012). In his review of econometric evidence, Alexander (2015: 19) finds
that boosting social sector spending by about 1 percent of GDP is associated with about 0.5 percentage point decline in the poverty rate.

Health

Reports by the OECD and others summarise the evidence that investment in health systems provides a fundamental human right, and is central to poverty reduction and pro-poor economic growth. The OECD (2003: 16) sets out the essential elements of a pro-poor health approach. Their first recommendation is to scale up financial resources for health. Increased investment is needed in order to meet the health MDGs, through expenditures on vaccines and drugs; building and equipping facilities; adequate staffing; managing the health system; and increased investments in other sectors important for health. WHO (2002) sets out the evidence that, as well as improving the lives of poor people, such an investment can result in dynamic economic growth, with a more productive workforce and reduced risk of poverty traps. Recent reports by WHO (2013) and others look in more detail at the particular economic benefits from investing in the improved health of women and children, showing that healthy children become productive adults while healthy women are more able to work, and therefore to earn, invest and save more.

Nutrition

The Scaling Up Nutrition movement sets out the evidence for why investing in improved nutrition offers exceptionally high developmental returns (Scaling Up Nutrition 2011). The 2008 Lancet series on nutrition\(^2\) set out systematic evidence on the impact of under-nutrition on infant and child mortality and its largely irreversible long term effects on health and cognitive and physical development (ibid.). Studies have shown that interventions can address these problems, with the returns on cognitive development, individual earnings and economic growth (ibid.). The focus for financial investment is on maternal and child interventions that address the “window of opportunity” from minus 9 to 24 months (i.e. from pregnancy to two years old) for high impact in reducing death and disease and avoiding irreversible harm (ibid.).

Education

The annual editions of the UNESCO Education for All (EFA) Global Monitoring Report\(^3\) summarise the substantial evidence that providing human capital to the poor, particularly in the form of primary education, is one of the most pro-poor expenditures. An expert notes that this type of expenditure is more likely to remain relevant, with benefits that persist and cannot easily be lost (personal communication). The latest EFA report highlights that educating girls and women has “unmatched transformative power”, boosting their own employment and health chances as well as impacting positively on their children’s health and their countries’ transition to stable population growth (UNESCO 2014: 13).


\(^3\) The volumes are available from 2002 onwards and can be accessed from the UNESCO web-site [http://www.unesco.org/new/en/education/themes/leading-the-international-agenda/efareport/](http://www.unesco.org/new/en/education/themes/leading-the-international-agenda/efareport/).
Social protection

Another large body of literature sets out the case for how investment in social protection can support poverty reduction and pro-poor growth, especially where strong economic growth does not reach the poorest and where entire communities or large parts of a country’s population can be affected by shocks at the same time (Holmes et al 2012: v; Bastaglia 2014). Alexander (2015) notes that social protection can play two linked roles: protecting the poorest and most vulnerable from shocks and crises, and fuelling a cycle of consumption and enabling poor entrepreneurs to take more risks.

Long-term growth-enhancing investments

Another body of work looks at the importance of long-term growth-enhancing investments (e.g. on infrastructure, agriculture and private sector development), highlighting that this should not be crowded out by an excessive focus on the social sectors (Simson 2012; Paternostro et al 2007; OECD, 2006).

Agriculture

A synthesis by the International Food Policy Research Institute (IFPRI) of the evidence from developing countries reports mixed findings on the effect of aggregate agricultural expenditure on increasing welfare and development. However, it found much stronger and stable returns on poverty reduction when there is an investment in research and development, and on staple crops rather than export crops (due to farmers’ stronger linkages and employment effects) (Mogues et al 2012). The report also finds that the impact of agricultural expenditures on nutrition can be large, through improving access to own-produced food, lowering food prices, and raising incomes for people to buy more nutritious food and health services (ibid.).

Infrastructure and private sector development

Investment in infrastructure such as transportation and telecommunication, especially road development, has been found to contribute immensely to growth and poverty reduction, yet the development of the sector remains poor in Africa (Fan et al 2009: 3-4). Fan et al’s (2007) quantitative analysis of state-level data in India for 1970-93 finds that expenditure on rural roads (followed by agriculture research and development and extension) had the largest impact on poverty reduction and productivity growth. A study by the World Bank on pro-poor growth notes that the most successful experiences in pro-poor growth have occurred when government policy (combined with favourable exogenous events) supports the creation of attractive jobs accessible to poor households (Besley and Cord 2007: 12).

The Nigerian context

The Nigerian Vision 20:2020 sets out the government’s strategic focus and investment plans for poverty reduction and pro-poor growth (Government of Nigeria 2010). A number of other reports that focus on Nigeria also recommend where government spend would have a positive impact on poverty and growth. For example:

- The MDG Africa progress report highlights where Nigeria has had insufficient progress on some health indicators (such as the under 5 child mortality rate) and educational indicators (for example that Nigeria may not meet the MDG 2 on universal primary enrolment) (United Nations
Nigeria joined the Scaling Up Nutrition movement in 2011; challenges to date have included low public funding for nutrition interventions (Scaling Up Nutrition 2013).

Holmes et al (2012) map social protection programmes in Nigeria and the potential pathways for social protection interventions to impact on poverty and growth. Noting that national social protection spend is very low (at 1.4 percent of government expenditure), they recommend allocating resources to scale up social protection programmes.

A recent analysis of Nigerian public expenditures in agriculture highlights that agriculture is considered to be the sector with the greatest potential for pro-poor growth in the country, with rural and poorer households reliant on agriculture as their main source of income (Olomola et al 2012). Meanwhile at present the intensity of Nigerian investment in agriculture is among the lowest in the world (ibid.).

The African Development Bank infrastructure action plan identifies the very low participation and opportunities in the labour force for the youth, (because the female participation rate has been much lower than in many other lower middle income countries) and the qualitatively and quantitatively insufficient infrastructure as two of the constraints to achieving Nigeria’s Vision 20:2020 (African Development Bank 2010).

3. Recommendations for improving pro-poor budget spend

Improving allocative and technical efficiency

Budget re-allocations are not always sufficient to reach the poor and impact on poverty (Roy and Week 2004: 3; Roberts 2003). For example one econometric study finds a positive impact of health expenditure on the Health and Human Development Index (Olateju, Adeyemi and Okunnu 2009) while another finds a weak relationship between heath expenditures and productivity and poverty reduction (Eneji et al 2012).

In-depth qualitative research shows that supply- and demand- side governance factors have a critical influence by shaping the technical and allocative efficiency of investments, and therefore the impact on poverty reduction (Simson 2012). These factors come into play at all stages of the budget (preparation, execution, management and reporting) and programme implementation cycles, involving all actors within the state (from the legislature, ministries of finance and sectors down to field level service delivery units) and the beneficiary communities (Fozzard 2001; Simson 2012).

Reports highlight these challenges in Nigeria. There are examples of allocative inefficiencies. A benefit-incidence analysis study by Amakom (2012) finds that primary education and healthcare were more pro-poor in absolute terms than tertiary education and healthcare, but with a location bias in benefits from public spending in both sectors. UNESCO (2014: 24) finds that the shortage of trained teachers is likely to affect disadvantaged areas in particular, providing data from Nigeria’s northern state of Kano as an example.

There are also examples of technical inefficiencies: Olomola et al (2014) analysis of agricultural public expenditures in Nigeria highlight how technical inefficiencies arise from the particular challenges of allocating national revenue among the three tiers of government (federal, state, local) with responsibility
for agricultural development. Rasul and Rogger’s (2015) research shows how dysfunctional management practices by bureaucrats in Nigeria impact on the quantity and quality of public services delivered.

There are also examples from similar countries. For example del Granado et al’s (2007) study looks at public education spending in Indonesia and finds that although education budgets are increasing, outcomes are being negatively affected by the poor quality of education services. Aliber and Hall (2012) find that while there have been impressive increases in budgetary allocations to support smallholder farmers in South Africa in recent years, as a result of the distribution and use of these resources, few farmers benefit and the overall impact has been small.

### Inclusive growth

Much of the research using the terminology of “pro-poor budget allocations” and “pro-poor government expenditure” appears to be five to 10 years old. An associated current debate focuses on understanding the country-specific drivers of and constraints to inclusive growth. This has been sparked by research showing the need for a stronger public policy focus on tackling increasing inequity, as this can limit growth and the ability of growth to translate into human development outcomes (Haddad 2015).

The 2015 GSDRC Topic Guide on inclusive growth (Alexander 2015) summarises this concept as being concerned with an absolute reduction in poverty, associated with the creation of productive employment which takes into account both “the pace and pattern of growth” (ibid.: 2). A key point is that this agenda focuses not only on the desirability of broad-based growth across various economic sectors, and the outcomes for poor people, but also on ensuring non-discriminatory participation in the growth process by large segments of the population (ibid.).

An inclusive focus may require policy reform to address exclusionary institutions alongside financial investments. For example, OECD (2006) recommends that financial investment in basic social services, social protection, agriculture and other growth-enhancing investments has to be accompanied by policy reform to remove the obstacles for poor people to participate in the growth process, e.g. by increasing access to land, labour and capital markets.

Inclusive growth has been a common theme in countries similar to Nigeria. Amann and Barrientos (2014) conclude that Brazil’s growth and poverty reduction successes over the last two decades are the outcome of a new model of development that has strong inclusive growth at its core, and a unique combination of economic and social policies and institutions working together and reinforcing each other. de Haan and Thorat (2013) detail that in India, inclusive growth emerged as a major theme with the change in government in 2004, with an emphasis on “flagship” social programmes reaching out to the poorest and socially marginalised, for example in the National Rural Employment Guarantee Act.

### Helping the chronically poor, stopping impoverishment and sustaining poverty escapes

The Chronic Poverty Research Centre presents evidence on the complex and volatile movement of people escaping from and falling back into poverty, as well as the group of people who remain trapped in chronic poverty (Chronic Poverty Advisory Network 2014). They call for governments and international actors to respond to this in the post-MDG framework, with a series of policy recommendations that include investment in social assistance, education, and “pro-poorest” economic growth.
Priority sectors

One of the most common ways in which budgets have been linked explicitly to a country’s poverty reduction strategy is through the identification of priority sectors or programmes. These are then given priority in resource allocation during budget formulation, their implementation is tracked more closely, and they may also be given special protection against within-year cuts in budget disbursements (World Bank and GTZ 2007).

Experts caution against too formulaic or simplistic approach to sector prioritisation and associated sector financial targets (Simson 2012). A World Bank and GTZ report looking at six countries found that the use of priority sectors “helped to focus efforts on specific areas of expenditure, and to varying degrees it has facilitated shifts in resource allocations to those priorities” (World Bank and GTZ 2007: 19). However, the report cautions that “a preferential focus on priority sectors, or pro-poor expenditures, runs against the concept of the poverty reduction strategy as a comprehensive strategy paying attention to inter-sectoral complementarities and trade-offs” (ibid).

Looking at the role of sector spending targets, Hagen-Zanker and McCord (2011) find that financial targets have a role in stimulating debate and providing a useful focus for sectoral lobbying. However overall processes on sector budget spend allocation should take into account coherence across sectors, fiscal sustainability and domestic accountability, thereby avoiding silo-based sector spending decisions that challenge effective and efficient public finance management (ibid.).

Transparency and accountability

Research finds that budget allocation decision-making is a political process in which technical analysis is a factor but not the only or always the most important influence (Fozzard 2001; Anderson et al 2009). A substantial body of work calls for attention to the quality of expenditure systems more broadly, rather than solely expenditure composition (Simson 2012). This research provides evidence that poverty reduction is best served through general public expenditure management processes that are transparent and accountable, and thereby strengthen demand-side governance (Simson 2012; OECD 2006).

Fozzard (2001) finds useful recommendations in institutional economic approaches. These include using transparency to avoid information asymmetries that allow vested interests in government and the bureaucracy to divert public resources; strengthening independent oversight bodies (e.g. audit institutions) to ensure compliance in the executive; and ensuring citizens and beneficiaries of public services’ priorities and concerns are incorporated in the process.

Focusing on expenditures

One literature review notes that budget documents “are meaningless unless they are reflected in actual spending patterns” (Simson 2012: 9). Simson (2012) recommends a renewed focus on actual spending patterns rather than upstream processes, as well as collection and analysis of cross-country public expenditure data in order to evaluate the effectiveness of global poverty reduction efforts.

Ex ante analysis

This review has identified several reports that set out recommendations for tools and techniques for understanding what national budget spend will have an impact on poverty outcomes. Several reports highlight cost-benefit analysis as a rigorous method for assessing large-scale public investment projects
(Fozzard 2001; Anderson et al 2006). Understanding the impact of allocation across a budget is more complex. The literature includes some recommendations:

- **Alignment with growth and poverty reduction strategy**: Paternostro et al (2007) recommend examining expenditure allocations with respect to their alignment with a country’s growth strategy or Poverty Reduction Strategy Papers (PRSP). Empirical validation of their contribution over time to growth, equity and poverty reduction is also important.

- **Dynamic perspective**: Some authors recommend understanding the trade-offs between different allocations from a dynamic perspective that takes into account interrelationships; immediate, lagged and cumulative effects; complementarities and thresholds (Paternostro et al (2007); Wilhelm and Fiestas 2005). Undertaking institutional analysis can aid understanding of how institutional constraints and lags play out in a country and affect the impact of public spending (Wilhelm and Fiestas 2005). Paternostro et al (2007) provide an analytical framework for relating public policy to growth and poverty, taking account of some of the dynamics of poverty reduction. They highlight that the framework is based on “an explicit consideration of trade-offs between expenditure policy choices, as an aspect of the broader policy choices facing a government as part of its development strategy” (Paternostro et al 2007: 53).

- **Poverty profiling**: Wilhelm and Fiestas (2005) recommend undertaking policy oriented poverty expenditure reviews that are informed by poverty impact assessments and spatial poverty analysis.

- **Computable general equilibrium (CGE) model**: this quantitative macroeconomic model is considered a useful tool to assess the impact of alternative policy investments (Anderson et al). Researchers applying this model to the Nigerian context report positive impacts on economic growth and poverty reduction for government expenditures allocated to health (Odior 2011), education and agriculture (Diao et al 2010).

- **Understanding binding constraints**: the identification of binding constraints to growth and an assessment of the role of public spending in addressing those constraints is a popular approach to inform expenditure composition (Simson 2012; Paternostro et al 2007). This involves considering how public expenditure is consistent with a structural transformation of the economy that can sustain development and poverty reduction in the long run (Simson 2012). The World Bank carried out a binding constraints analysis for Nigeria in 2010, identifying a growth strategy aimed at increasing the employment intensity of growth (Treichel, 2010). Misch and Wolff (2006) set out an analytical framework that includes consideration of binding constraints to poverty reduction to guide resource allocation.

- **Measuring inclusive growth potential**: Alexander (2015: 2) notes that measuring inclusive growth will involve ex ante analyses that examine ways of increasing the pace of growth by involving underused sections of the labour force.

4. References


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