

# **INVESTMENTS TO END POVERTY**

Real money, real choices, real lives



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First printing September 2013

ISBN: 978–0-9926821–0-1

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Development Initiatives' work on Investments to End Poverty has been funded by a grant from the Bill & Melinda Gates Foundation. This is an independently drafted report and so all views expressed are those of Development Initiatives and do not necessarily represent the views of the Bill & Melinda Gates Foundation.

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Website: [www.devinit.org](http://www.devinit.org)

Graphic design, editing and production: Communications Development Incorporated, Washington DC  
Infographics and cover design: Soapbox, London

For a list of any errors or omissions found subsequent to printing, and the latest statistics, please visit our website:  
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# Foreword

If we agree on a set of global sustainable development goals as the centrepiece for a post-2015 agenda, we will surely also need to agree on how to finance them. How do we get better data to tell whether we are on track to achieve a broad range of material and non-material poverty indicators? How do we give member states the tools they need to define, own and implement the post-2015 agenda to really address the structural issues keeping their citizens in poverty and limiting sustainable development? How do we ensure they have the global knowledge and financial support that they need to address poverty on the ground? These are key questions to consider as the UN, its member states, civil society and the private sector build on the High Level-Panel report, *A New Global Partnership*, and on the Secretary-General's report, *A Life of Dignity for All*.

In the following pages and online, *Investments to End Poverty* starts to provide some of the data and analysis that can inform discussions and help everyone make evidence-based choices.

The report looks beyond rhetoric on whether aid works, and the right balance between promoting growth and direct assistance to the poor, and provides detailed information based on available facts and figures. In doing this, it also reveals areas where we need to know more – echoing the High-Level Panel call for a Data Revolution.

The authors have worked hard to get the data right, especially in terms of what is happening with aid flows – but as the post-2015 agenda moves beyond aid, there is a need for better information that can help us all move from a vision to a timetabled plan, with an adequate and realistic budget, to which every country and every company, every civil society organisation and community can contribute, so that we make a reality of ending poverty and sustained prosperity for all by 2030.



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Global Economy and Development Program  
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# Preface

*Dear Reader,*

Welcome to the *Investments to End Poverty* report. We hope that you find it useful and illuminating.

Most of you reading the report will be working in one way or another on getting the most out of the resources that are available to reduce and then end poverty. You may be making decisions about how aid or other finance should be spent. You may be campaigning to end poverty. Or you may be considering whether the resources you control – as a company or private individual – could contribute more. We suspect that many of you, like us, could use better data. So, we have tried to gather together here and online the best available information on all resources, especially aid, that can contribute to ending poverty. We hope this detailed picture will help inform people's choices on how to allocate resources to end poverty.

When we set up Development Initiatives 20 years ago, ending poverty was discussed as a far-off aspiration – seen by some as naive or unrealistic. 1995 was the first time that global leaders made a commitment to ending absolute poverty. Now, in 2013, following years of real progress, 'getting to zero' is not only on the table, it is being discussed as a feasible, timetabled reality.

The end of poverty in all its forms is at the centre of discussions on global goals post-2015. So, it is essential to mobilise all resources and to focus on those, like aid, that can make the strongest contributions to the poorest people, so that they deliver as much poverty reduction as possible for every dollar.

In this report, and online, you will find an overview of flows – of governments' own spending in developing countries, of commercial flows like foreign direct investment and other lending, of private giving through remittances or non-governmental organisations as well as official money, and of official development assistance and other investments that governments make in developing countries and for global public goods. We have tracked where this money goes (and how much comes back), and we hope to contribute to productive discussion about how all resources can contribute most to ending poverty.

You will also find a very detailed unbundling of aid. Too often aid is discussed as though it is a transfer of cash from a donor to a recipient country. In fact, it is made up of lots of things (money, people, commodities), and only some of it is actually transferred. The bundle differs by donor, sector and recipient country – and part 3 breaks down all this data to reveal a much fuller picture of how aid is currently spent and its potential in the context of other resources.

You may have read a strap line on the cover of this report, "Real Money, Real Choices, Real Lives." Too much of the debate about effective use of resources to reduce poverty rests on weak data that is not clear about the finance available or who is in poverty and how their circumstances are changing. We believe that whether you are investing globally, locally or nationally, you have to know who is likely to benefit – not just at the country level, but sub-nationally and for different

groups of people. You must also have a clear idea about when the benefit should be felt. To answer these questions, better data is needed both on people in poverty and on where resources are allocated. Without disaggregated data, ensuring that no one is left behind becomes a hollow notion.

The report contains lots of graphs and illustrations, which we have tried to render as clear and attractive as possible to make them easy to use. Online you will find many visualisations and opportunities to drill down into the information. Development Initiatives is always pleased to help, so if you would like more clarity on a particular point or to let us know how the data could be more useful, we would be really pleased to hear from you. Equally, if you have better or additional data or questions about methodology, we hope you will get in touch. We really welcome feedback, especially on how we can help people apply the data in their country or area of interest.

In writing the report, we have tried to keep at the front of our minds the way people in poverty invest their own resources and the opportunity for every dollar to contribute to a world without extreme poverty. We hope that some of the data here will help you support investments that can deliver the best returns.

With thanks for your interest.

A handwritten signature in black ink, appearing to read "Judith and Tony".

Judith Randel and Tony German  
Executive Directors  
Development Initiatives

# Acknowledgements

Many people have contributed to the Investments to End Poverty programme and even more to the thinking behind it.

First of all, Development Initiatives would like to thank the Bill & Melinda Gates Foundation for their generous support, without which Investments to End Poverty would not have been possible.

We have also been extremely fortunate to have had the collaboration of the Brookings Institution and in particular the advice and analytical contributions of Homi Kharas and Laurence Chandy.

Investments to End Poverty 2013 was co-authored by Dan Coppard, Tony German and Judith Randel. Development Initiatives' team of analysts was responsible for research, analysis and writing of this report: Mariella Di Ciommo (Chapter 9), Sarah Hénon (cross chapters), Daniele Malerba (cross chapters), Tim Strawson (Chapter 2 and coordination of profile analysis), Rob Tew (Chapter 4), and Ian Townsend (Chapter 1). Significant additional research was provided by Marcus Manuel and Andrew Rogerson (Overseas Development Institute); Ana Toni (Gestão de Interesse Públíco, Pesquisa e Consultoria); Tilman Brück, Jakob Hallgren and Samuel Perlo-Freeman (Stockholm International Peace Research Institute); Alison Johnson (Development Finance International); and Olly Buston.

Communication and engagement on Investments to End Poverty has been led by Harpinder Collacott at Development Initiatives, while Jenny Claydon coordinated editorial production. Communications Development Incorporated, led by Bruce Ross-Larson, provided content planning, editing, project coordination, creative direction, design and layout, and we would like to thank the whole team: Christopher Trott, Elaine Wilson, Diane Broadley, Joe Caponio, Rob Elson, Jack Harlow and Gerry Quinn. Megan Weston of Soapbox designed the report cover and infographics. Alexandra Silfverstolpe and Daniel Lapidus from Data Act Lab have developed the digital content and visualisations.

Many people and many publications have influenced the thinking behind Investments to End Poverty, and, we hope, enriched the analysis. Some of them are listed below, but we would particularly like to mention Charles Lwanga-Ntale and Myles Wickstead (Development Initiatives), Yasmin Ahmad, Julia Benn and Simon Scott (Organisation for Economic Co-operation and Development), Ben Leo (Center for Global Development), Richard Manning and Asma Zubairi for their reviews of our work.

In addition we have benefited greatly from a series of consultations and round tables and very much appreciate the time and thought that people have been willing to contribute.

Gregory Adams and Paul O'Brien (Oxfam America); KY Amoako (African Center for Economic Transformation); Joan Atherton, William McCormick, Tony Pipa, Kimberly Smith and Alex Thier (United States Agency for International Development); Brian Atwood; Oliver Babson, Gargee Ghosh, Jenny Lah, Geoff Lamb, Beatrice Nere, David Roodman, Mark Suzman and Carol Welch (Bill & Melinda Gates Foundation); Shaida Badiee, Grant Cameron, Shanta Devarajan, Indermit Gill, Gwen Hines, Tariq Khokhar, Peter Lanjouw, Dino Merotto, Soong Sup Lee, Hans Timmer, Marilou Uy, Jos Verbeek and Aleem Walji (World Bank); Pamela Baijal, Stefan Hirche, Bettina Horstmann, Almut Knop, Andreas Schaumayer (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung); Owen Barder, Alan Gelb, Justin Sandefur

and Sarah Jane Staats (Center for Global Development USA and Europe); Jennie Barugh, Cornelius Chikwama, Simon Dennison, Stefan Dercon, Liz Ditchburn, Nick Lea, Shaila Khan Leekha, Sally MacKenzie, Christoph Merdes, Morag Patrick, Clare Robathan, Hannah Ryder, Anthony Smith, Roy Trivedy, Alasdair Wardhaugh and Paul Williams (UK Department for International Development); Renato Baumann (Institute for Applied Economic Research); Filiz Bikmen; Reinhard Bodemeyer and Anselm Schneider (Deutsche Gesellschaft für Internationale Zusammenarbeit); Kevin Bohrer, Ruth Levine and Larry Nowels (William and Flora Hewlett Foundation); Ana Borges Pinho (Worldwide Initiatives for Grantmaker Support); Tom Cardamone (Global Financial Integrity); Sachin Chaturvedi (Research and Information System for Developing Countries); Steven Davenport (Development Gateway); Mary Deering, George Ingram, and Didier Trinh (Modernizing Foreign Assistance Network); Jamie Drummond, Alan Hudson and Adrian Lovett (ONE); Alison Evans (then Overseas Development Institute); Linda Frey and Joe Powell (Open Government Partnership); Ricardo Fuentes-Nieva and Duncan Green (Oxfam GB); Jonathan Glennie, Romilly Greenhill, Edward Hedger, Annalisa Prizzon, Gideon Rabinowitz and Kevin Watkins (Overseas Development Institute); Robert Goldberg (US Department of State); Jesse Griffiths, Jeroen Kwakkenbos and María José Romero (Eurodad); Brian Hammond; Gail Hurley, Eva Jespersen, Paul Ladd and Khalid Malik (United Nations Development Programme ); Johannes Jütting (PARIS21); Rajesh Khullar (Department of Economic Affairs, India); Anirudh Krishna (Duke University); Rajiv Kumar Mishra (Federation of Indian Chambers of Commerce and Industry); Natasha Ledlie, Jane Nelson, Veronika Penciakova and Steven Rocker (Brookings Institution); Maitland MacFarlan, Lynge Nielsen, Mark Plant, Arminda San Jose, Minouche Shafik and Alun Thomas (International Monetary Fund); Matthew Martin (Development Finance International); John McArthur (UN Foundation and Fung Global Institute); Santosh Mehrotra (Institute of Applied Manpower Research); Núria Molina (ActionAid UK); Akbar Noman (Columbia University); John Norris (Center for American Progress); Martin Ravallion (then World Bank, now Georgetown University); Fraser Reilly-King (Canadian Council for International Co-operation); Sevdalina Rukanova (European Foundation Centre); Dan Runde and Conor Savoy (Center for Strategic and International Studies); Shekhar Shah (National Council of Applied Economic Research, Delhi); Steven Smith (George Washington University); Danny Sriskandarajah (CIVICUS World Alliance for Citizen Participation); Emira Woods (Institute for Policy Studies); and Sam Worthington (InterAction USA).

Investments to End Poverty is an independent report. The analysis presented and views expressed are the responsibility of Development Initiatives and do not necessarily reflect those of the contributors or their organisations.

# Abbreviations

AfDB	African Development Bank	IFC	International Finance Corporation
AfDF	African Development Fund	IFFIm	International Finance Facility for Immunisation
AFESD	Arab Fund for Economic and Social Development	IMF	International Monetary Fund
AsDB	Asian Development Bank	IsDB	Islamic Development Bank
BADEA	Arab Bank for Economic Development in Africa	JBIC	Japan Bank for International Cooperation
BCIE	Central American Bank for Economic Integration	KFAED	Kuwait Fund for Arab Economic Development
CAF	Latin American Development Bank	MDGs	Millennium Development Goals
CPA	country programmable aid	Mercosul	Southern Common Market
CSOs	civil society organisations	NATO	North Atlantic Treaty Organization
DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development	NGOs	nongovernmental organisations
DBSA	Development Bank of Southern Africa	NNGOs	Northern non-governmental organisations
DEG	German Investment Corporation	ODA	official development assistance
DPKO	United Nations Department of Peacekeeping Operations	OECD	Organisation for Economic Co-operation and Development
EBRD	European Bank for Reconstruction and Development	OEEC	Organisation for European Economic Co-operation
EIB	European Investment Bank	OFID	OPEC Fund for International Development
EITI	Extractive Industries Transparency Initiative	OGP	Open Government Partnership
FAO	Food and Agricultural Organization	OPIC	US Overseas Private Investment Corporation
FDI	foreign direct investment	OSCE	Organization for Security and Co-operation in Europe
FMO	Netherlands Development Finance Company	PPP	purchasing power parity
GDP	gross domestic product	PRSP	Poverty Reduction Strategy Paper
GEF	Global Environment Facility	REDD	Reducing Emissions from Deforestation and Forest Degradation
Global Fund	Global Fund to Fight AIDS, Tuberculosis and Malaria	UNCTAD	United Nations Conference on Trade and Development
GNI	gross national income	UNDP	United Nations Development Programme
GPGs	global public goods	UNESCO	United Nations Educational, Scientific and Cultural Organization
IATI	International Aid Transparency Initiative	UNFPA	United Nations Population Fund
IBRD	International Bank for Reconstruction and Development	UNHCR	Office of the United Nations High Commissioner for Refugees
ICP	International Comparison Program	UNICEF	United Nations Children's Fund
IDA	International Development Association	UNPBF	United Nations Peacebuilding Fund
IDB	Inter-American Development Bank	UNRWA	United Nations Relief and Works Agency for Palestinian Refugees in the Near East
IFAD	International Fund for Agricultural Development	WFP	World Food Programme
		WHO	World Health Organization



# Highlights

## Ending poverty by 2030

**Extreme poverty can be ended by 2030.** The UN Secretary-General's High-Level Panel and subsequent reports have all called for eradicating extreme poverty from the face of the earth by 2030.

### Poverty has many dimensions – it is not just about income.

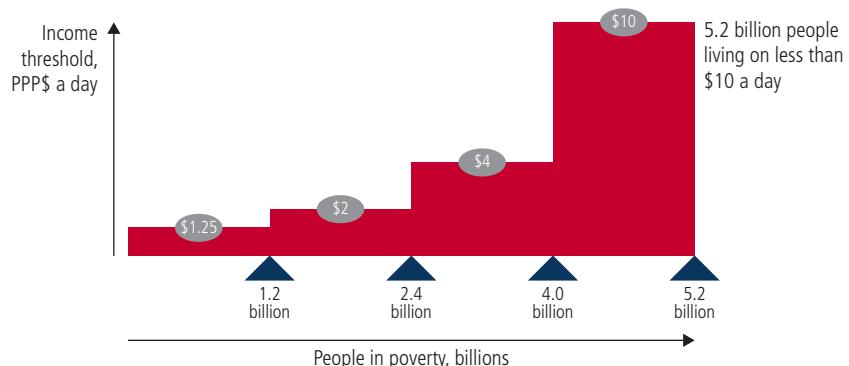
Ending poverty means ensuring that everyone has adequate nutrition, basic health, education and housing as well as the information and freedom from discrimination that enable them to take part in society.

**No one should live on less than \$1.25 a day in any country.** This must be the first step towards achieving global well-being.

**Economic growth alone is unlikely to get us to zero extreme poverty in time.** Growth will be critical for reducing poverty but will not be fast and inclusive enough – current best-case scenarios leave more than 100 million people living in extreme poverty in 2030.

FIGURE 1

### The extent of poverty depends on the income threshold

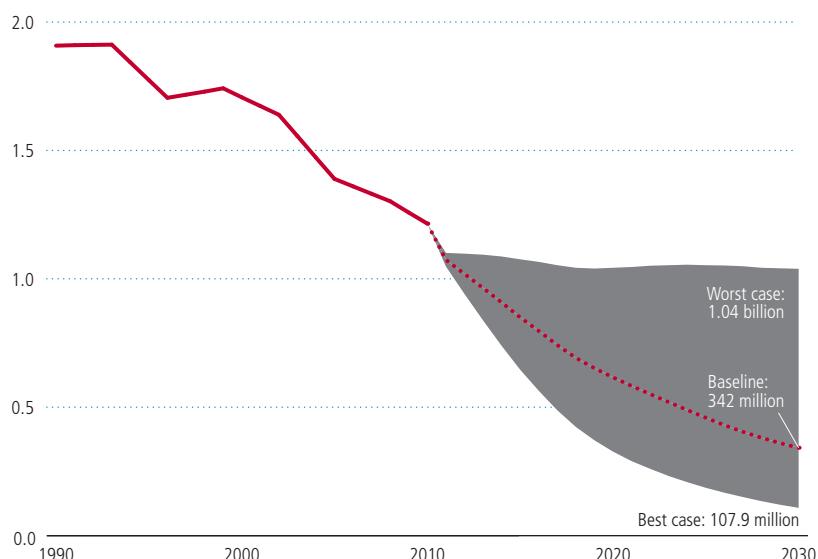


Source: Development Initiatives calculations based on data from World Bank Development Research Group's PovcalNet database (<http://iresearch.worldbank.org/PovcalNet/>).

FIGURE 2

### The number of people in extreme poverty in 2030 could be anywhere between 100 million and more than 1 billion

People in extreme poverty, billions, 1990–2030



Source: Chandy, Ledlie and Penciakova, 2013, Unpublished update to "The Final Countdown: Prospects for Ending Extreme Poverty by 2030," The Brookings Institution, Washington, DC.

**Targeted interventions are needed.** More than 400 million people in sub-Saharan Africa were living in extreme poverty in 2010. Many of them are so deep in poverty that only interventions that go beyond the broader benefits of growth can overcome the risks and structural barriers they face.

### Poverty eradication demands an international backstop.

To prevent people falling back into poverty, the international aid architecture must act as a backstop, providing a basic minimum when domestic governments cannot.

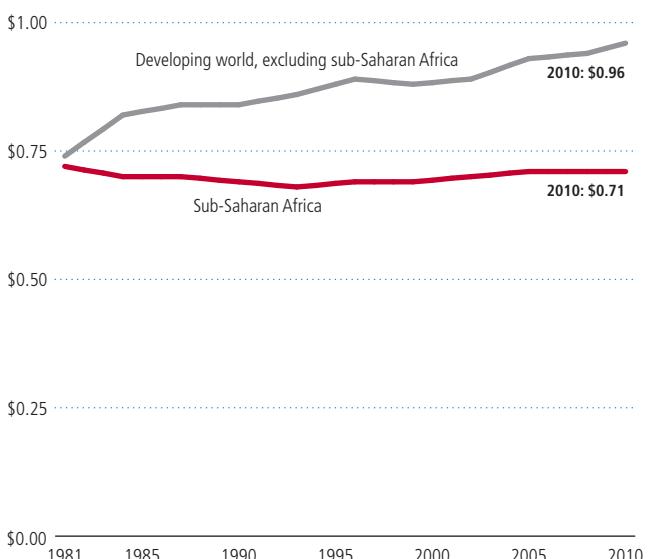
### Aid must be used in the context of other resources.

By focusing aid on people in poverty and leveraging other resource flows – such as investment and private giving alongside government spending – we can make progress towards ensuring that every person attains the most basic living standards by 2030.

FIGURE 3

### Average incomes of the extreme poor in sub-Saharan Africa are often far below the \$1.25 a day poverty line

Average daily consumption of individuals living on less than \$1.25 a day, 2005 PPP\$, 1981–2010

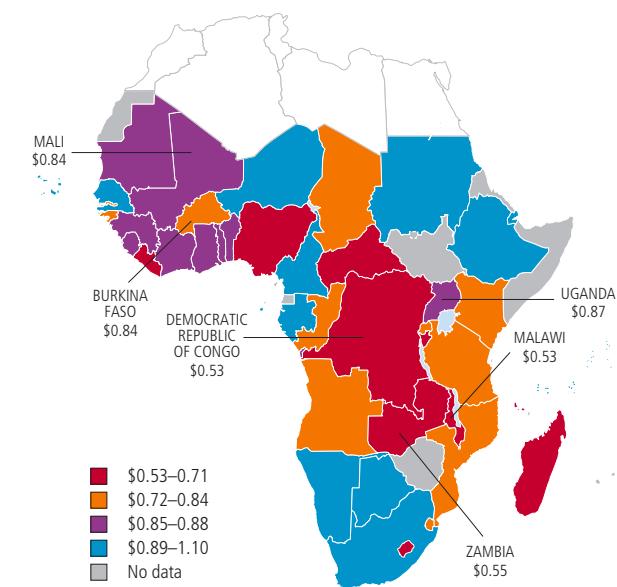


Source: World Bank, 2013, "The State of the Poor: Where Are the Poor and Where Are They Poorest?" Washington, DC.

MAP 1

### Poverty is very deep in parts of Africa, with many people living a long way below the poverty line

Average daily consumption of individuals living on less than \$1.25 a day, 2005 PPP\$, 2010



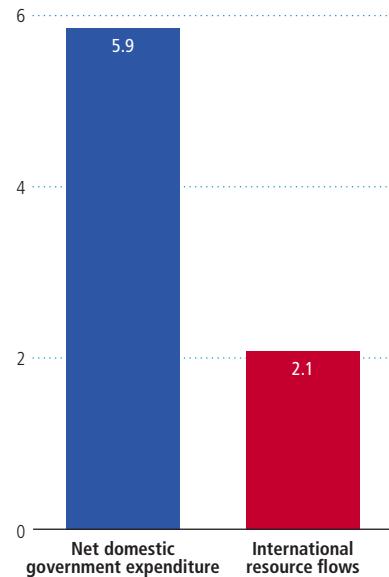
Source: Chandy, Ledlie and Penciakova, 2013, Unpublished update to "The Final Countdown: Prospects for Ending Extreme Poverty by 2030," The Brookings Institution, Washington, DC.

**All investments – domestic and international, public and private – can contribute to ending poverty.** Some will deliver immediate returns, others longer term impact. Those by developing countries and poor people themselves will contribute the most.

**Government spending in developing countries is now US\$5.9 trillion a year.** More than half of all developing countries have seen government spending grow at an average of over 5% a year between 2000 and 2011. For the remainder, average annual growth in government spending has been 2.5%.

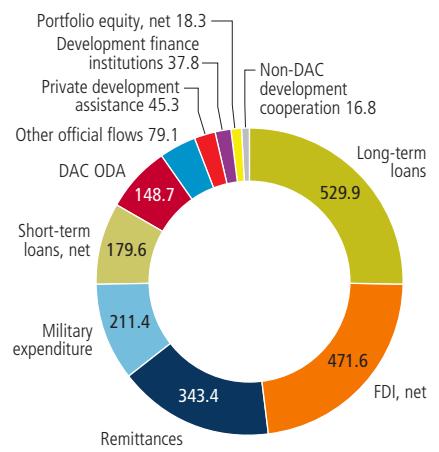
**The scale and diversity of resource flows to developing countries have increased rapidly.** The volume of international resources received by developing countries has more than doubled since 2000, reaching an estimated US\$2.1 trillion in 2011.

**FIGURE 4**  
**Domestic resources outweigh international resources for most developing countries**  
2011 US\$ trillions



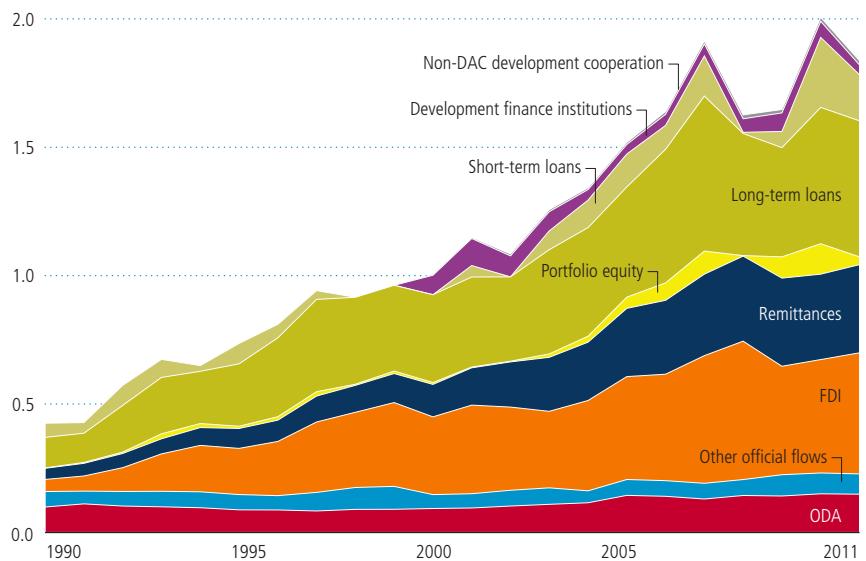
Source: Development Initiatives calculations based on data from a wide range of sources – see *Methodology*.

**FIGURE 5**  
**International flows include commercial, government and private resources**  
2011 US\$ billions



Note: All values are gross unless otherwise indicated.  
Source: Development Initiatives calculations based on data from a wide range of sources – see *Methodology*.

**FIGURE 6**  
**International resource flows to developing countries have grown rapidly**  
2011 US\$ trillions, 1990–2011



Note: Data for some flows does not cover the whole period – see *Methodology*. Excludes flows with no historic data, so headline figures are lower than the total US\$2.1 trillion inflows in 2011.  
Source: Based on data from a wide range of sources – see *Methodology*.

**Resources also flow out of developing countries.** Of the US\$472 billion in foreign direct investment into developing countries, US\$420 billion flowed out as repatriated profits.

### The poorest countries still face severe spending constraints that are likely to continue.

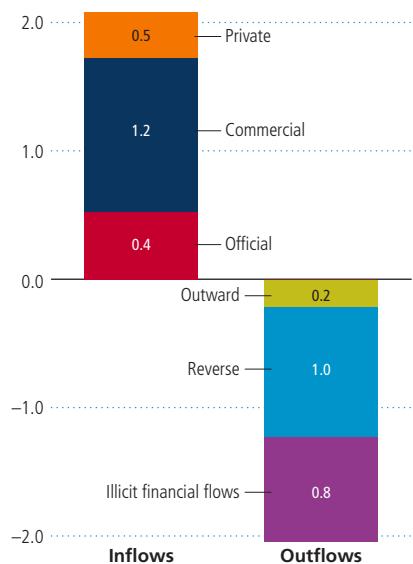
82% of the world's extreme poor live in countries where government spending is less than PPP\$1,000 per person per year, compared with PPP\$15,025 across DAC countries.

### Low government spending and poverty go together.

More than 100 million people in extreme poverty live in countries where government spending is less than PPP\$200 per person per year (55 cents a day), and in those countries more than half the population lives below the \$1.25 a day poverty line.

**FIGURE 7**  
**Resources flow both in and out of developing countries**

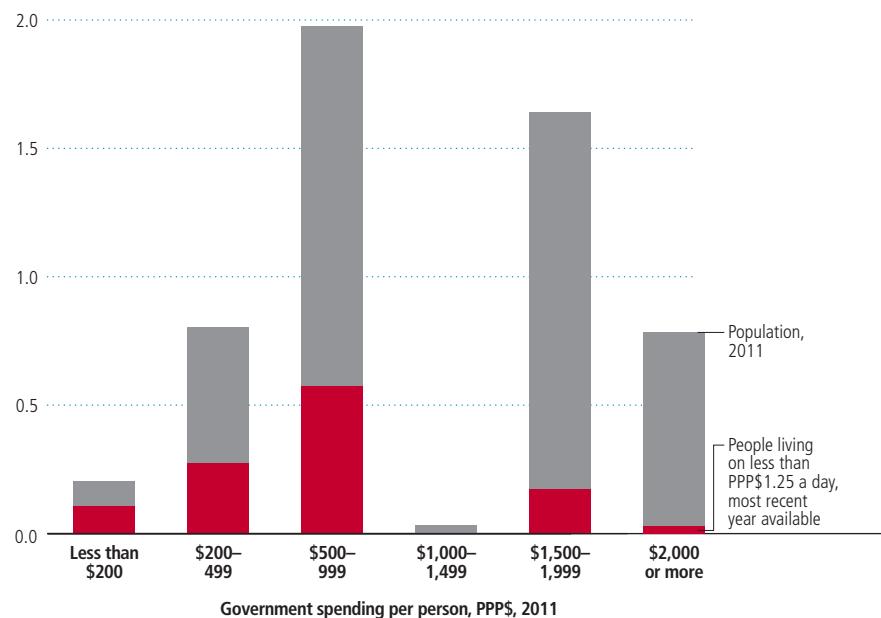
Inflows and outflows of resources from all developing countries, US\$ trillions, 2011



Source: Development Initiatives calculations based on data from a wide range of sources – see *Methodology*.

**FIGURE 8**  
**Some 82% of the world's poor live in countries with annual government spending of less than PPP\$1,000 per person**

Billions of people



Source: Development Initiatives calculations based on data from the IMF and World Bank.

**Official development assistance remains important.** ODA remains the main international resource for countries with government spending of less than PPP\$500 per person per year.

### Better information is needed to deliver better results.

Harnessing all resources for poverty reduction will be easier when we know more accurately who provides them, who controls them, and where and on what they are spent.

### Transparent data is needed.

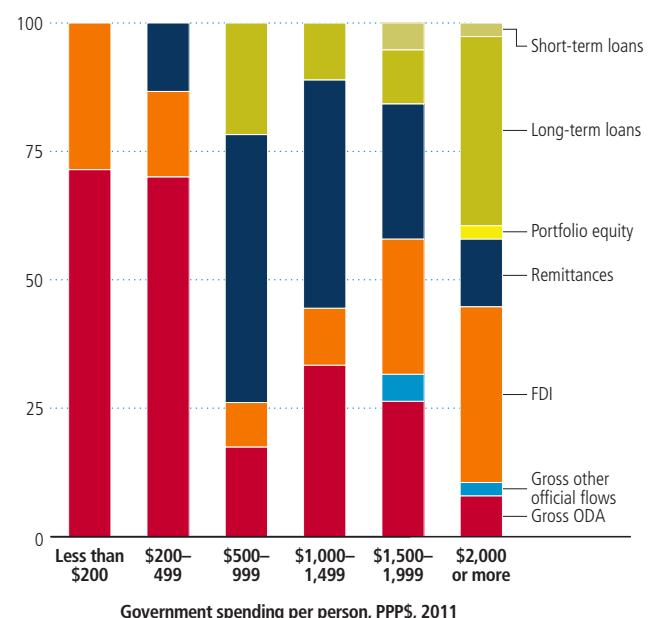
Greater transparency of international and domestic flows is essential for resource allocation and gives more control to people and governments in developing countries so they can actively address poverty.

**ODA is unique.** It is the only official international resource flow aimed explicitly at the economic development and welfare of developing countries.

**ODA has grown substantially since 2000.** ODA from DAC donors totalled US\$128 billion in 2012, having grown substantially in real terms since 2000. G8 countries provide two-thirds of ODA, with the USA accounting for a quarter of total ODA.

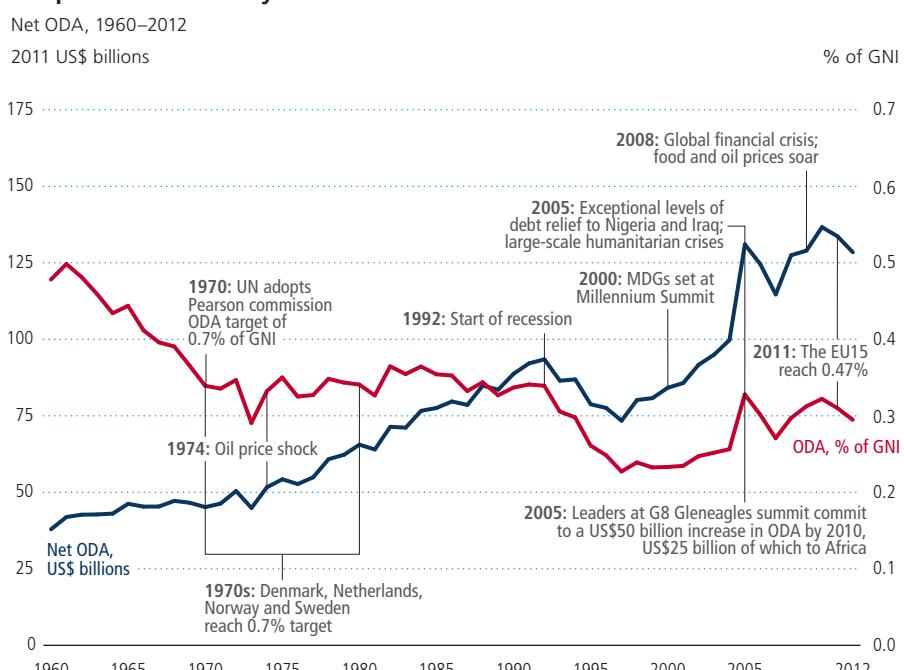
**FIGURE 9**  
**ODA dominates where government resources are lowest, while FDI is more important for countries with higher government resources**

% of countries for which each resource flow is the largest they received in 2011



Source: Based on data from a wide range of sources – see *Methodology*.

**FIGURE 10**  
**ODA has grown to record highs since the 1970s – but the path has not always been smooth**



Source: Development Initiatives calculations based on data from the DAC.

**Sub-Saharan Africa gets the largest share of ODA.** Sub-Saharan Africa receives about 35% of ODA, South and Central Asia about 17%. Thirteen of the twenty largest aid recipients are in sub-Saharan Africa, while the largest is Afghanistan, which receives 4.9% of total ODA disbursements.

**ODA can be targeted at priorities for poverty eradication.** Health receives the largest single share of ODA from bilateral and multilateral donors, followed by governance and security and then infrastructure. Despite the persistence of malnutrition and the fact that rural livelihoods are very important for the poorest, spending on agriculture remains well below that on humanitarian crises, which are often acute phases of chronic food insecurity.

FIGURE 11

**ODA to sub-Saharan Africa and South and Central Asia has risen in recent years; ODA to the Middle East and East Asia has fallen**

2011 US\$ billions, 2000–2011

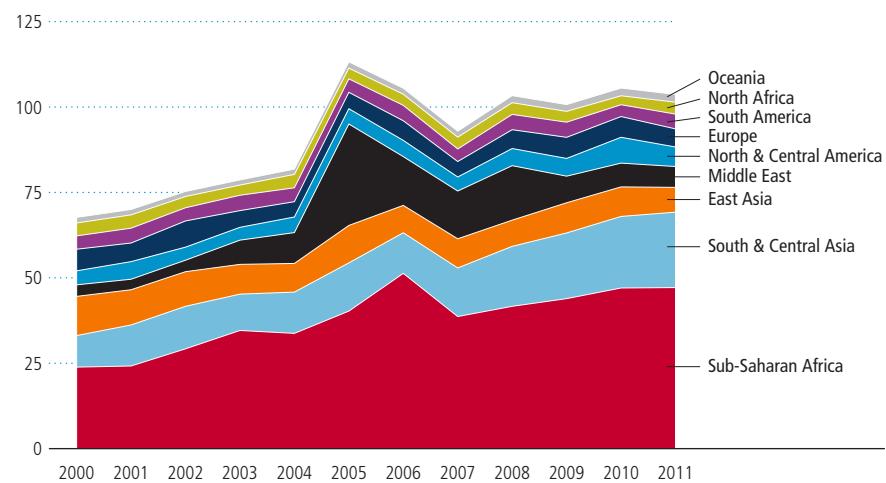
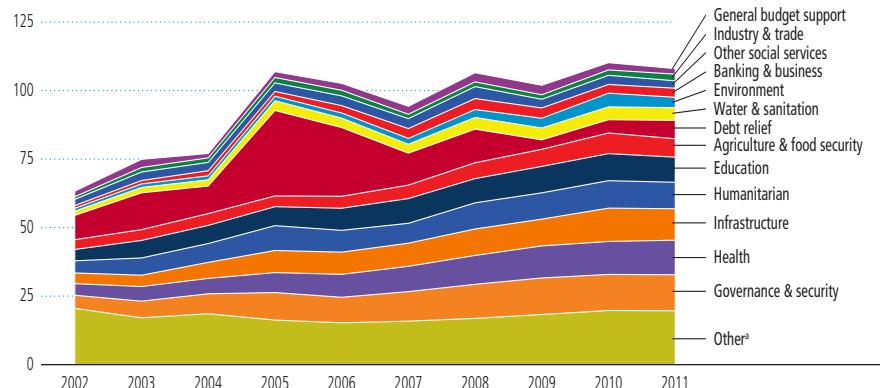


FIGURE 12

**Debt relief has fallen since 2005; ODA to most sectors has grown**

Gross bilateral ODA by sector, US\$ billions, 2002–2011



## Aid targets haven't been met.

Only five countries currently exceed the UN target for ODA of 0.7% of GNI, set in 1970. Together, DAC donors achieved only 0.29% of GNI in 2012.

## ODA and the architecture around aid need to be updated.

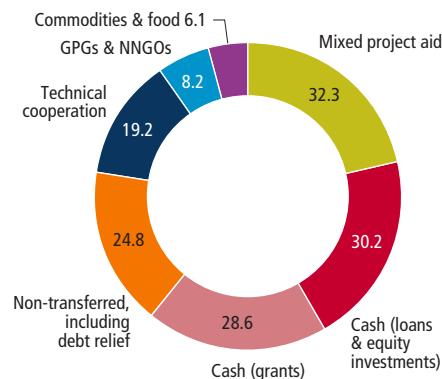
ODA has a clear and continuing part to play in ending poverty but need to be updated to meet the challenge of financing the post-2015 development goals.

**There is much misunderstanding about what aid is.** The debate around aid is very polarised. Large headline figures are presented as if aid were entirely a cash lump sum passed directly from donor to recipient.

**Aid is a bundle of different things.** Some of it is money. Some is food and other goods. Some is people: the costs of consultants and staff providing technical advice and training.

## FIGURE 15 Unbundling aid in 2011

US\$ billions, 2011



Source: Development Initiatives calculations based on DAC data.

FIGURE 13

## Achieving 0.7% of GNI as ODA by 2015 is the target for European donors

Net ODA, % of GNI, 2012, and 2015 national targets

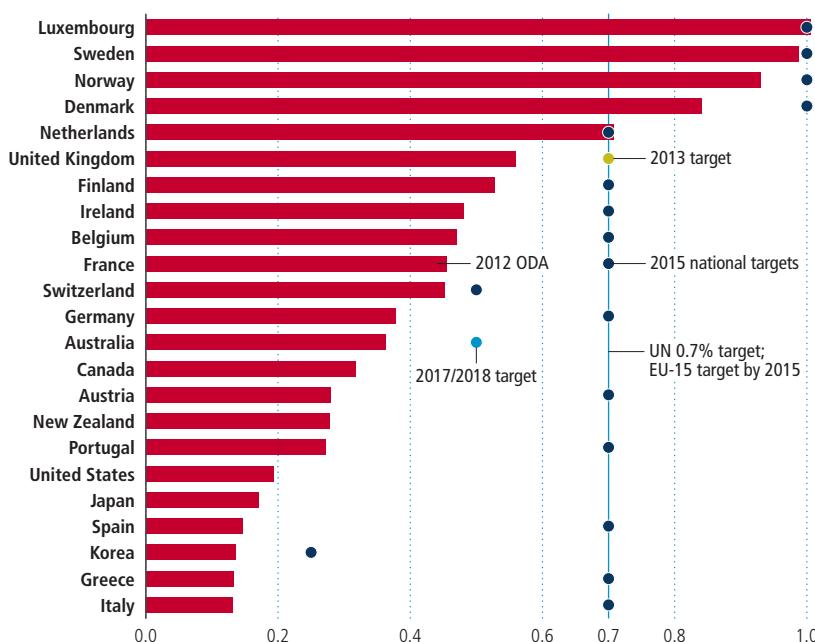
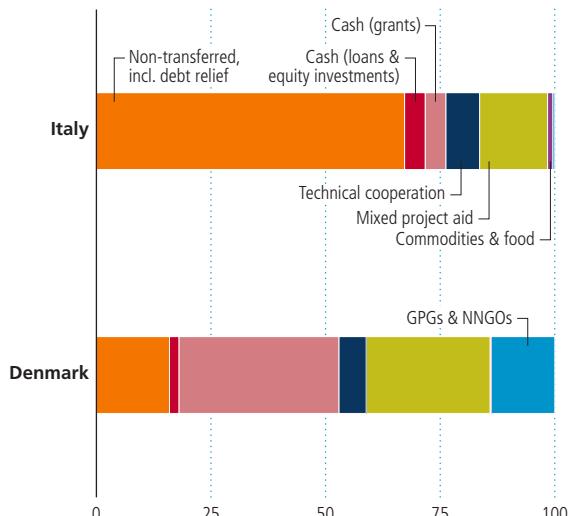


FIGURE 14

## Unbundling US\$2 billion of aid shows very different allocations between donors

% of ODA, 2011



Source: Development Initiatives calculations based on DAC data.

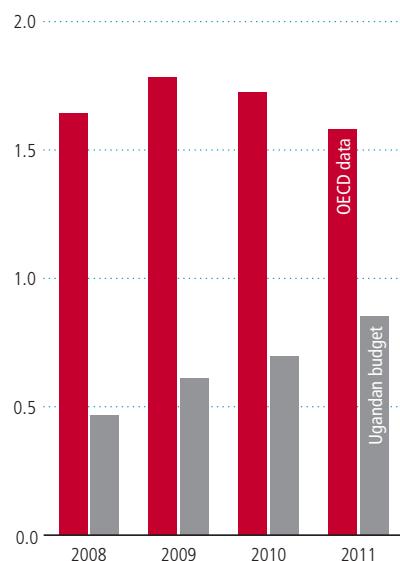
**Not all aid is transferred to developing countries.** Some parts of the aid bundle never leave the donor country – among them, debt relief, support for students and refugees in donor countries, and development awareness.

**Developing countries do not always receive what donors report as allocated.** The headline amount of aid reported as disbursed by donors (including investment in global public goods) is much bigger than the amount developing-country governments control and can directly administer.

**Aid is the main international flow that can be readily targeted on reaching the poor.** Vital to many low income countries, it is well suited to the targeted interventions to ensure that the poorest people share in the benefits of growth.

**Aid can play different roles.** Aid can deliver direct, immediate and measurable benefits. It can also invest in longer term impacts that may be transformational and benefit larger numbers of people. And it can provide catalytic funding, leveraging other resources.

**FIGURE 16**  
**Aid reported for Uganda greatly exceeds aid recorded as received**  
US\$ billions, 2008–2011

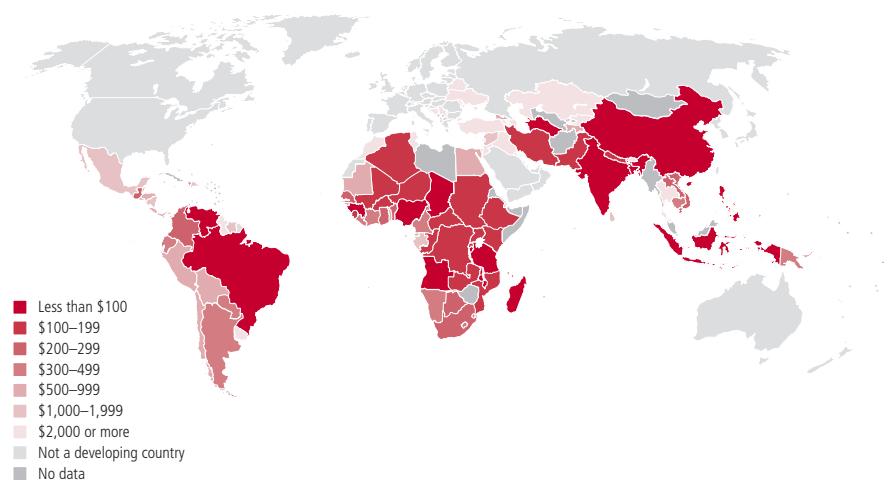


Source: Development Initiatives calculations based on DAC data and data from Ugandan budget documents.

#### MAP 2

#### Targeting aid on ending poverty: the darker the shading, the less ODA allocated per person in extreme poverty

ODA per poor person, PPP\$, 2011



Source: World Bank, 2013, *World Development Indicators 2013*, Washington, DC.

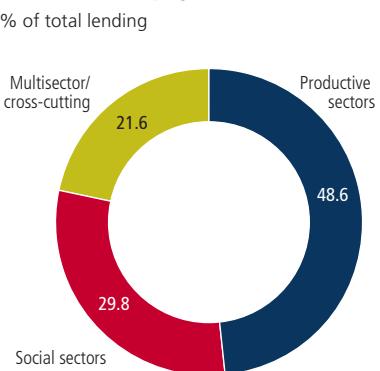
**The type of aid affects the impact it delivers.** A dollar spent on food aid will have markedly different economic effects from a dollar spent on debt relief or on a consultant based in a ministry. Getting the most value for poverty reduction from every aid dollar requires deploying different aid instruments for different contexts.

### Better information on aid will improve decisionmaking.

Deciding among the many competing calls on aid requires clear thinking on who will benefit, when the benefit will be felt and what the probability of impact is.

**Measuring poverty by averages will continue to leave people behind.** Disaggregated data on people in poverty and more timely, subnational, geocoded data on how aid and other resources are used can underpin more disciplined planning, resource allocation and evaluation.

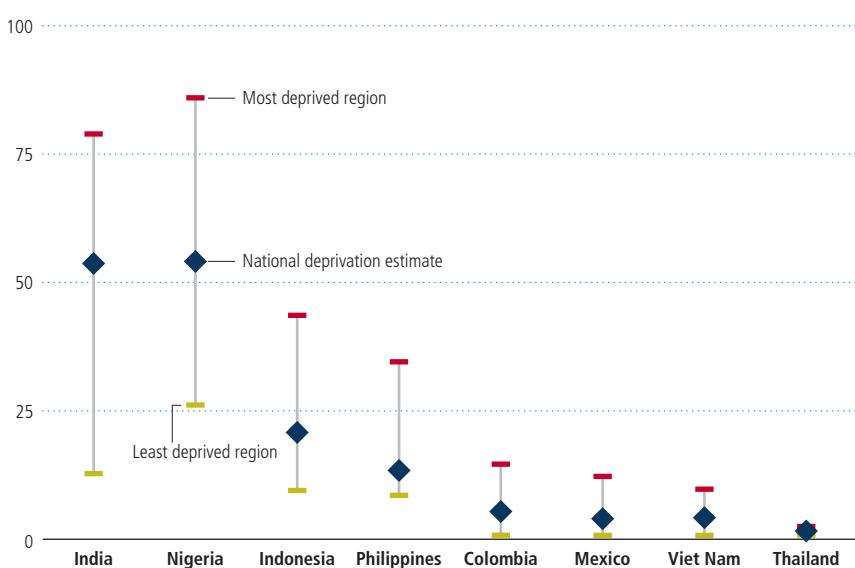
**FIGURE 17**  
**Substantial lending continues to go to social sectors, which may not generate direct financial returns for repayment**



Source: Development Initiatives calculations based on DAC data.

**FIGURE 18**  
**Differences between the least and most deprived parts of emerging economies vary widely**

Multidimensional poverty rate, %, most recent year available



Source: Oxford Poverty and Human Development Initiative Multidimensional Poverty Index Data Bank ([www.ophi.org.uk/multidimensional-poverty-index](http://www.ophi.org.uk/multidimensional-poverty-index)).

## **Estimates of poverty are unreliable and out of date.**

Global poverty estimates draw on five data sources, including household surveys and national accounts. The collection methods for surveys and the use of different data sources can change the estimates of the numbers of people in poverty by hundreds of millions.

## **Calculations are built on weak assumptions.**

Much of what is known about poverty rests on statistically demonstrated relationships that might not stand up to new price estimates or assumptions that data from different sources is compatible.

## **Traditional statistical approaches can be improved.**

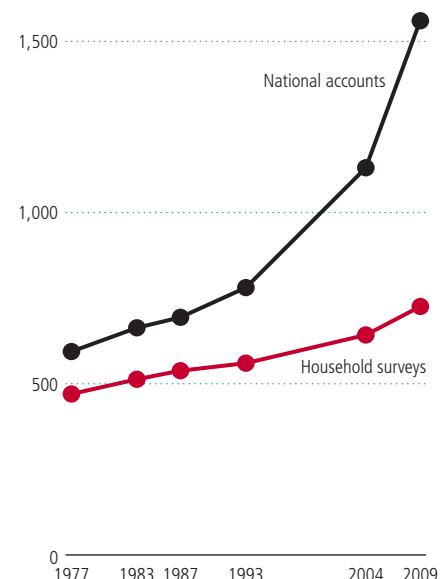
Current methodologies can be improved by harmonising survey design, publishing provisional 'real-time' poverty estimates and reforming the governance of country poverty data. Better statistics can be used alongside crowd-sourced data and feedback to improve information for decisionmaking and accountability.

## **A Development Data Revolution is needed to end poverty.**

With timely, forward looking, disaggregated data, resources can be allocated more optimally, progress can be properly monitored, and lessons can be learned about effective and efficient policies and programmes.

**FIGURE 19**  
**India's rapid economic growth since the early 1990s has barely registered in survey data**

Annual consumption per capita, PPP\$, 1977–2009

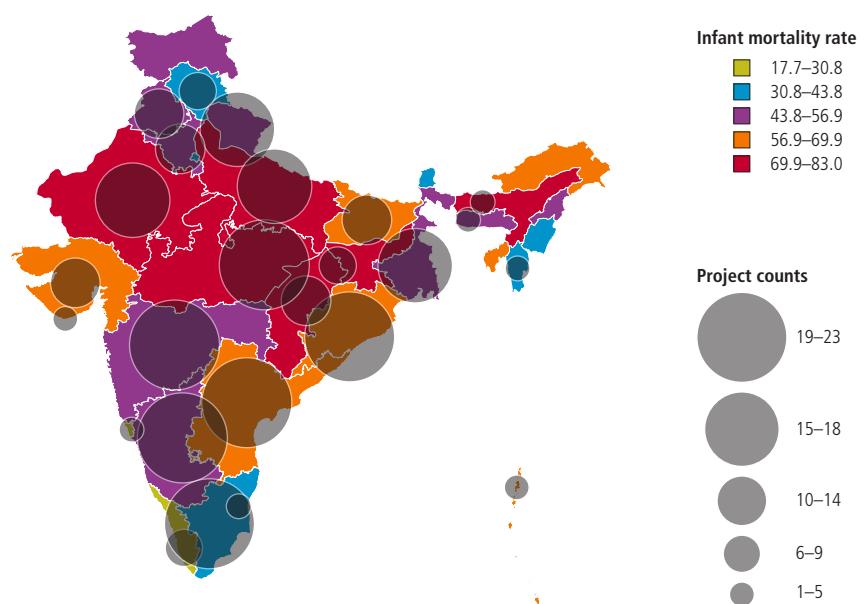


Source: World Bank, 2013, *World Development Indicators 2013*, Washington, DC.

**MAP 3**

## **Geocoded aid projects can be linked to deprivation data to improve targeting**

Infant mortality rate (deaths per 1,000 live births) and number of projects active as of 28 March 2012



Source: World Bank Mapping for Results database (<http://maps.worldbank.org>).

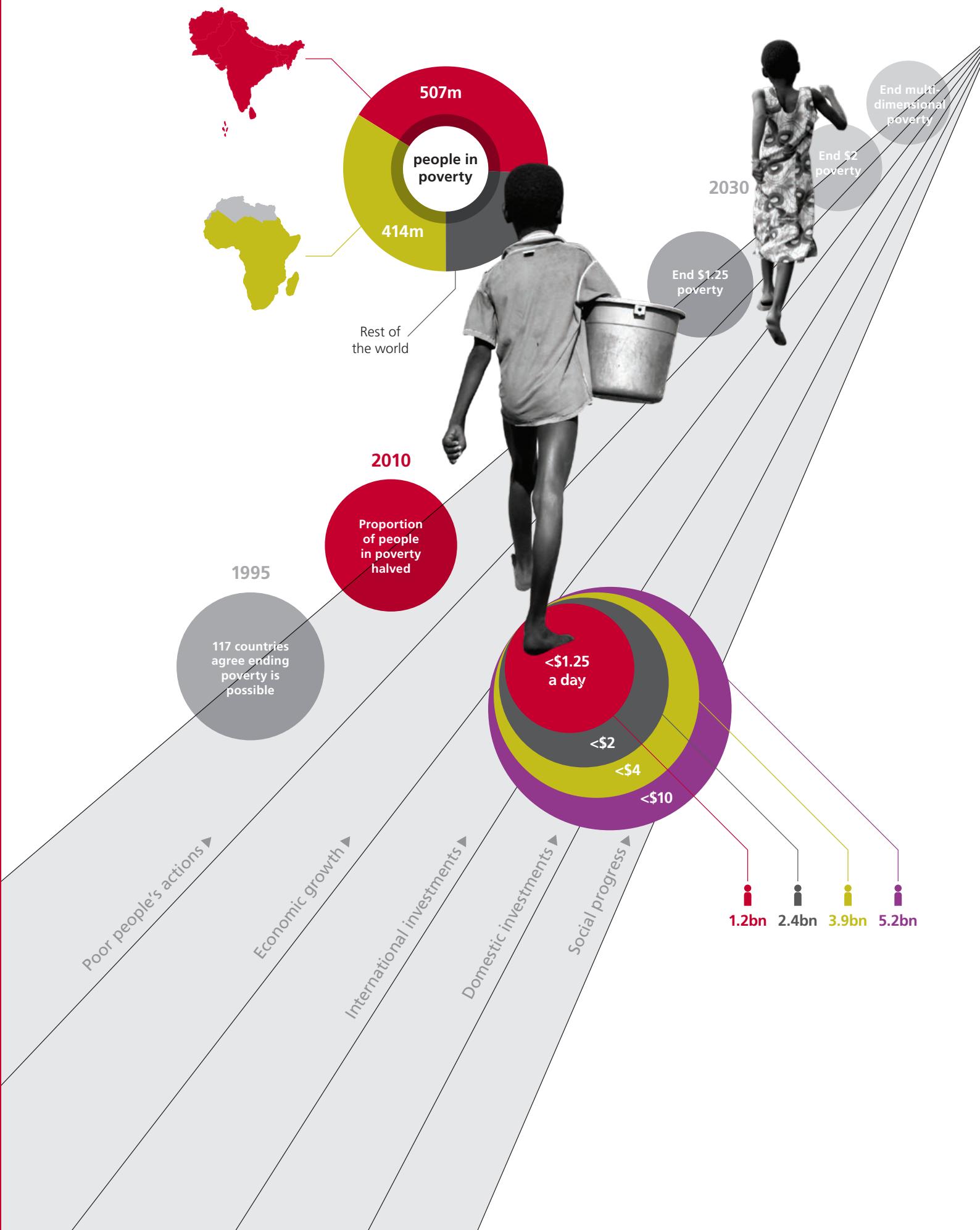


PART **1**

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**FROM VISION TO PLAN:**  
INVESTMENTS TO END  
EXTREME POVERTY BY 2030

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**"Our vision and our responsibility are to end extreme poverty in all its forms in the context of sustainable development and to have in place the building blocks of sustained prosperity for all."**

High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, February 2013<sup>1</sup>

**"We can be the generation that eradicates absolute poverty in our world."**

David Cameron, UK Prime Minister, January 2013<sup>2</sup>

**"Extreme poverty has been cut in half in the last 20 years, and the facts show that we can get it to virtually zero within a generation – but only if we act."**

Bono, musician and global activist, February 2013<sup>3</sup>

**"History and statistical analyses show that over the longer term, growth is the only abiding antidote to poverty. But the long-term may often be too long in coming and many of the poor may be needlessly dead by that time."**

Anirudh Krishna, professor, Duke University, Sanford School of Public Policy, December 2004<sup>4</sup>

**"Poverty used to be a reflection of scarcity. Now it is a problem of identification, targeting and distribution. And that is a problem that can be solved."**

*The Economist*, June 2013<sup>5</sup>

**"Unless we act intentionally to reduce inequity within and between our societies, we will not be able to eradicate poverty. ... Growth must be equitable. Women's participation in our economic, social and political life must become an integral part of our development agenda."**

Ellen Johnson Sirleaf, President of Liberia, November 2012<sup>6</sup>

**"Getting to zero means tackling the deep chronic poverty of disabled, elderly, indigenous, low caste and other marginalised groups, often in remote areas. That will require profound changes in government policy and social attitudes, rather than just business (and growth) as usual."**

Duncan Green, senior strategic adviser, Oxfam, June 2013<sup>7</sup>

**"The end of poverty is just the beginning."**

Dilma Rousseff, President of Brazil, slogan for changes to social programmes in 2013<sup>8</sup>

# Ending poverty by 2030

- Extreme poverty can and must be eradicated by 2030. The UN Secretary-General's High-Level Panel and subsequent reports have all called for eradicating extreme poverty from the face of the earth by 2030.
- Poverty has many dimensions – it is not just about income. Ending poverty means ensuring that everyone has access to adequate nutrition, basic health, education and housing as well as the information and freedom from discrimination that enable people to participate in society.
- No one should live on less than \$1.25 a day in any country. This is an important first step on the road towards ending all poverty.
- Economic growth alone will not get us there fast enough. It will play a critical role in reducing poverty, but growth alone is not fast and inclusive enough to get to zero – no one anywhere living in extreme poverty. Even current best-case scenarios leave more than 100 million living in extreme poverty in 2030.
- Targeted interventions are needed. In 2010 there were 400 million people in extreme poverty in sub-Saharan Africa. Many of them are so deep in poverty that only interventions beyond broader growth benefits can overcome the risks and structural barriers they face.
- Poverty eradication demands an international backstop. To prevent people falling back into poverty, the international aid architecture must act as a backstop, providing a basic minimum when domestic governments are unable to do so.

**E**nding poverty requires permanently lifting every person in the world out of extreme poverty, to above an income of \$1.25 a day. This is both a giant leap and a minimum milestone towards ending multidimensional poverty, which blights the lives of hundreds of

millions of people. It is also an essential step towards future expectations that ending \$2 a day poverty should become the global minimum standard by 2030.

The report of the UN High-Level Panel of Eminent Persons on the Post-2015 Development Agenda has

crystallised an emerging consensus that the number of poor people could almost get to zero by 2030.<sup>9</sup> This is supported by scenarios based on rapid economic growth and ensuring that poor people benefit from that growth. This will take resources and effective governance of those resources.

But even in the best-case scenarios growth will fail to lift millions of people out of extreme poverty by 2030 unless growth rates are implausibly high or growth becomes far more inclusive. And if growth slows, inequality rises, or climate change or increased conflict and insecurity affect their country's economy, poverty could be much more prevalent.

Neither growth nor the resources that drive it are well targeted at poor people. This must change. People who have a very low living standard or who are at high risk of personal, national or global crises must be the focus of future development policy.

Targeting poor people requires understanding and then harnessing all the resources available – both private and public flows, including aid. It also requires knowing who the poor are, where they are and how deep their poverty is. By bringing this information together we can expedite the end of

poverty and ensure that all people attain the most basic living standard by 2030. Better information on poverty and resources flows, as advocated in the High-Level Panel's proposed 'Data Revolution,' fundamentally underpins all efforts to end poverty.

## Ending extreme poverty: the first step

Millennium Development Goal (MDG) Target 1A – to halve the proportion of the world's population living in extreme poverty – was probably met in 2010, five years ahead of schedule, with great progress in East Asia, though much less in South Asia and sub-Saharan Africa. The success should be celebrated. But it leaves more than 1.2 billion people in extreme poverty in developing countries.<sup>10</sup> Lifting everyone above this most basic level should be the minimum goal – a first step towards improving living standards for all (Box 1.1).

The UN High-Level Panel, one of the bodies appointed by the UN Secretary-General in 2012 to look at development goals beyond 2015, has proposed a new goal of ending extreme poverty by 2030. The threshold for extreme poverty that it has proposed is an individual having an income equivalent to what \$1.25 a day – less than \$500 a year – could buy in the United States in 2005.<sup>11</sup> Revised over the years, this extreme poverty line was based on the average national poverty lines of the world's 15 poorest countries.<sup>12</sup> The High-Level Panel also expressed the hope that the higher \$2 a day threshold could become the global standard by 2030.

The \$1.25 a day threshold is a bare minimum baseline. Many more people live on an income slightly above it and are vulnerable to falling back into extreme poverty. Some 2.4 billion people, the 'moderately poor,'<sup>13</sup> live on less than \$2 a day, twice as many as live in extreme poverty. Including

### BOX 1.1

#### Getting to zero poor people: the first milestone for ending poverty must be no one living on less than \$1.25 a day by 2030

Some studies have interpreted ending poverty as reaching low poverty rates. But ending poverty must be about getting to zero, so that no one anywhere is living below the basic poverty line and all are prevented from falling back below that line. To get to zero, it is necessary to focus not on rates but on the absolute numbers of people in poverty.

Many countries have made real progress in reducing their poverty rate. Burkina Faso's extreme poverty rate fell from 71% in 1994 to 45% in 2009, but the number of people in poverty remained broadly unchanged, at more than 7 million. Ethiopia, often seen as an MDG 'trailblazer,' almost halved its poverty rate over 1995–2011, from 61% to 31%. While this took 8.6 million people out of extreme poverty, population growth means that

around 26 million Ethiopians still live on less than \$1.25 a day.<sup>1</sup>

World Bank President Jim Yong Kim has outlined what he called a "highly ambitious" vision for ending poverty by 2030 – bringing extreme poverty rates to 3% or less.<sup>2</sup> This would require faster and more-inclusive growth translated into poverty reduction to an extent not seen before in many low-income countries, as well as adding resources and addressing major shocks.<sup>3</sup>

But a 3% target would still leave more than 200 million people in developing countries in poverty in 2030.<sup>4</sup> Kim has said that below this level the poverty challenge will change fundamentally in most parts of the world – from broad structural measures to tackling sporadic poverty among specific vulnerable groups.<sup>5</sup> The World Bank states, "The

fight against poverty in its current form thus may need to continue well beyond a generation."<sup>6</sup> It highlights that fragile states and those affected by conflict may continue to experience poverty rates much higher than 3% after 2030.<sup>7</sup> Ending poverty by 2030 should mean ending poverty in these countries as well.

#### Notes

1. World Bank DataBank (<http://data.worldbank.org>).
2. Kim 2013b; World Bank 2013a,d.
3. World Bank 2013e.
4. Some 213.9 million, based on United Nations, Department of Economic and Social Affairs, Population Division (2013) estimate of 7.13 billion in 2030 for less developed countries (medium variant).
5. Kim 2013b.
6. World Bank 2013d, p. 16.
7. World Bank 2013d.

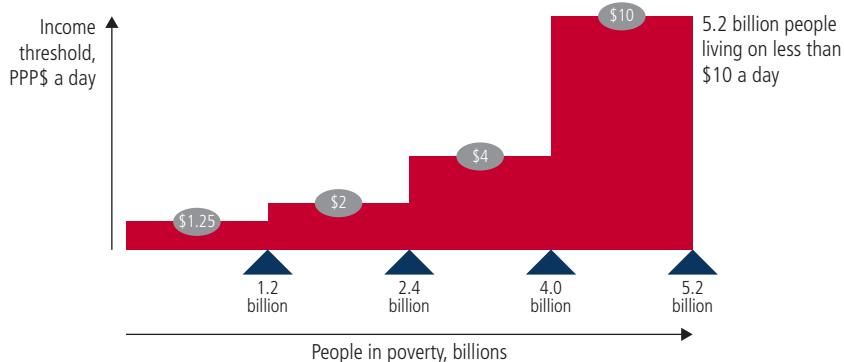
'vulnerable' populations with incomes of PPP\$4–10 a day brings the total to 5.2 billion people, or 88% of the 5.9 billion people in developing countries (Figure 1.1). While these are the best available figures today, the data to calculate them must be much more robust for poverty to be verifiably ended by 2030 (see Chapter 6).

The most common measures used to assess poverty are income and

consumption, which identify people whose well-being, or command over financial resources, meets a minimum standard. People whose income is above that standard are expected to have enough to secure the goods and services needed for that minimum. A monthly income of PPP\$38 may not be enough for a decent life, but it can be seen as an absolute global minimum for basic existence.

**FIGURE 1.1**

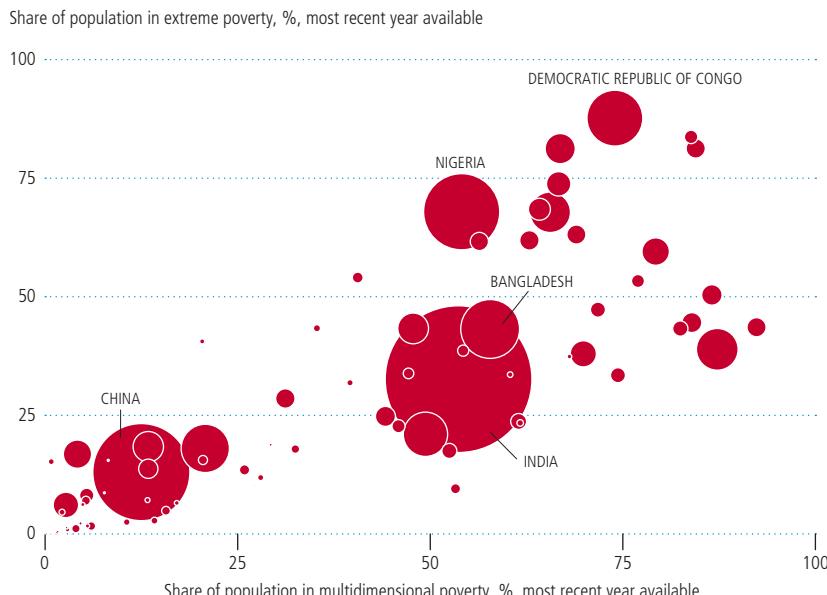
### The extent of poverty depends on the income threshold



Source: Development Initiatives calculations based on data from World Bank Development Research Group's PovcalNet database (<http://iresearch.worldbank.org/PovcalNet/>).

**FIGURE 1.2**

### Extreme poverty and multidimensional poverty are correlated but different



Note: Size of bubble shows number of people in extreme poverty in each country.

Source: Oxford Poverty and Human Development Initiative Multidimensional Poverty Index Data Bank ([www.ophi.org.uk/multidimensional-poverty-index](http://www.ophi.org.uk/multidimensional-poverty-index)).

This approach has its limitations, because poverty clearly is about more than income. While low consumption and low living standards are often at its core, poverty for most people also means lacking other assets: human, social, cultural, political and natural. Powerlessness, marginalisation and exclusion result in profound insecurity, prevent people from taking up opportunities and often force them into short-term choices that run counter to their longer term well-being.<sup>14</sup>

Multidimensional poverty seeks to capture these wider deprivations,<sup>15</sup> including health, education, empowerment, quality of work and security. While income and multidimensional poverty are correlated, their association is complex (Figure 1.2). They can be mutually reinforcing: better health and education can lead to higher income, while higher income offers personal control so that poor people can prioritise and address their needs. But there are instances where progress on income poverty has not been reflected in other dimensions of poverty, such as Uganda's lack of progress on wider goals even after meeting MDG Target 1A.

The escape from poverty is stepwise. For example, research has found that in Western Kenya, the sequence of being lifted out of poverty was having food, then clothes, shelter and money (to fund education of children) and finally animals. It was "only after households had crossed this particular stage that they were no longer considered to be poor."<sup>16</sup>

Different policies will therefore be required to support these transitional steps out of poverty. Three sets of policies and programmes can be complementary. One set would promote the escape from poverty, such as social assistance that builds human capital and enables people to

take up opportunities. Another set would prevent households from falling into poverty, such as risk management and social insurance. A final set would help households graduate to higher levels of well-being once basic security negates the need for low-risk, low-return behaviour, such as investment in livelihoods and jobs.

Some developing countries have begun to monitor multidimensional poverty. Mexico included it in its official poverty measure in 2009,<sup>17</sup> while Colombia's 2011 poverty reduction plan has binding targets using a multidimensional poverty index.<sup>18</sup>

#### BOX 1.2

#### How many people will be living in extreme poverty in 2030? The poverty prediction conundrum

Forecasts attempt to predict the unpredictable. Near-term forecasts are likely to be somewhat more accurate than those for the longer term. And while near-term growth forecasts can be extrapolated far into the future, rapid rates of economic growth in developing countries are difficult to sustain over time. The Commission on Growth and Development found that this was possible but rare, identifying only 13 cases of sustained growth since the Second World War.<sup>1</sup> The recent economic crisis also showed the sudden, dramatic, life-changing effects when risks are realised.

Poverty modelling develops possible scenarios for the future. This approach has real value for understanding the conditions needed to end poverty, providing the context for strategic policymaking.

Models rest by necessity on a range of simplifying assumptions and focus on the growth of either economies or private consumption and on possible income distribution trends that determine whether poor people benefit from growth.

While most models focus on central or 'baseline' scenarios, they also recognise the full range of potential futures.

## Assessing the prospects for an end to extreme poverty by 2030

Global poverty, once about scarce resources, is now about distributing sufficient resources among countries and people. For example, in 2010 the richest tenth of the population received 54.6% of global income, compared with 5.6% for the poorest two-fifths.<sup>19</sup>

Recent scenario modelling indicates that getting close to ending poverty by 2030 is a realistic prospect if the benefits of economic growth – the most powerful weapon against poverty – are shared more equally. But

if existing patterns continue, growth alone will not be enough.

The Brookings Institution has analysed possible trajectories for future levels of global poverty. Its baseline scenario has 342 million people still in extreme poverty by 2030, down two-thirds from 2010.<sup>20</sup> This is based on current projections of individuals' consumption, which generally rises with growth in the wider economy, and assumes that the current distribution of consumption across the population does not change. Consumption growth and how it is shared between richer and poorer people could both differ – in either direction – from this baseline scenario.

The Brookings Institution's consumption-based scenarios suggest that the number of people in poverty in 2030 could range from around 100 million to more than 1 billion, reflecting the inherent uncertainty. For growth, the scenarios use a 2 percentage point margin of error on each side of a baseline consumption growth projection, in line with differences observed between past forecasts and actual outcomes. The scenarios use different outlooks for inequality based on the shares of national consumption among the poorest 40% and the richest 10%. The analysis sees these shares moving up or down by 0.25 percentage points annually.

Much will need to be done to encourage growth that is both rapid and shared. But the Brookings Institution's research finds that even this is not enough in isolation to ensure that the number of people in extreme poverty gets to zero by 2030.

A 2012 World Bank study painted a broadly similar picture. It found that maintaining progress over the last two decades would bring the extreme poverty rate down to 9% by 2022, while an ambitious target could see 3% reached, requiring either slightly faster economic growth or the proceeds of growth shared more

widely with the poorest.<sup>2</sup> More recent World Bank analysis suggests that the number of people in extreme poverty globally will fall below 1 billion by 2015, to 970 million – or 15.5% of the population, down from 20.6% in 2010. The Bank is committing to monitoring the incomes of the poorest 40% every year and to reporting progress in reducing extreme poverty in all developing countries.<sup>3</sup>

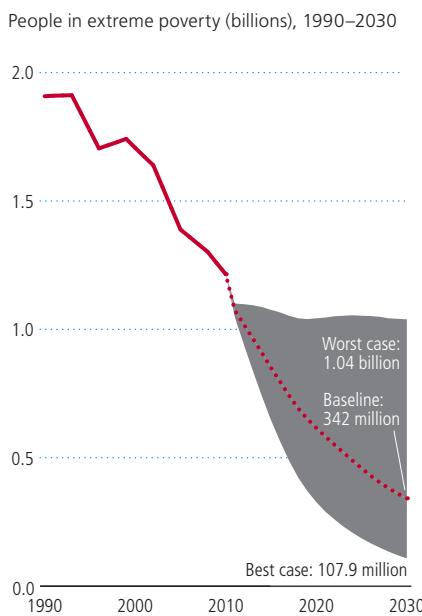
People living in extreme poverty are a diverse group. It is far easier to bring those immediately below a poverty line above it than to raise the incomes of all those much deeper in poverty. So, projecting poverty trends as a 'straight line' into the future is overly optimistic: The rate of poverty reduction – based on economic growth alone – is likely to slow as different policies and investments are needed to reach people far below the poverty line.

### Notes

1. Botswana; Brazil; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Malta; Oman; Singapore; Chinese Taipei; and Thailand. India and Viet Nam were identified as potentially on course to join this group (Commission on Growth and Development 2008).
2. Ravallion 2012a.
3. Kim 2013a.

FIGURE 1.3

**The number of people in extreme poverty in 2030 could be anywhere between 100 million and more than 1 billion**



Source: Chandy, Ledlie and Pociakova 2013c.

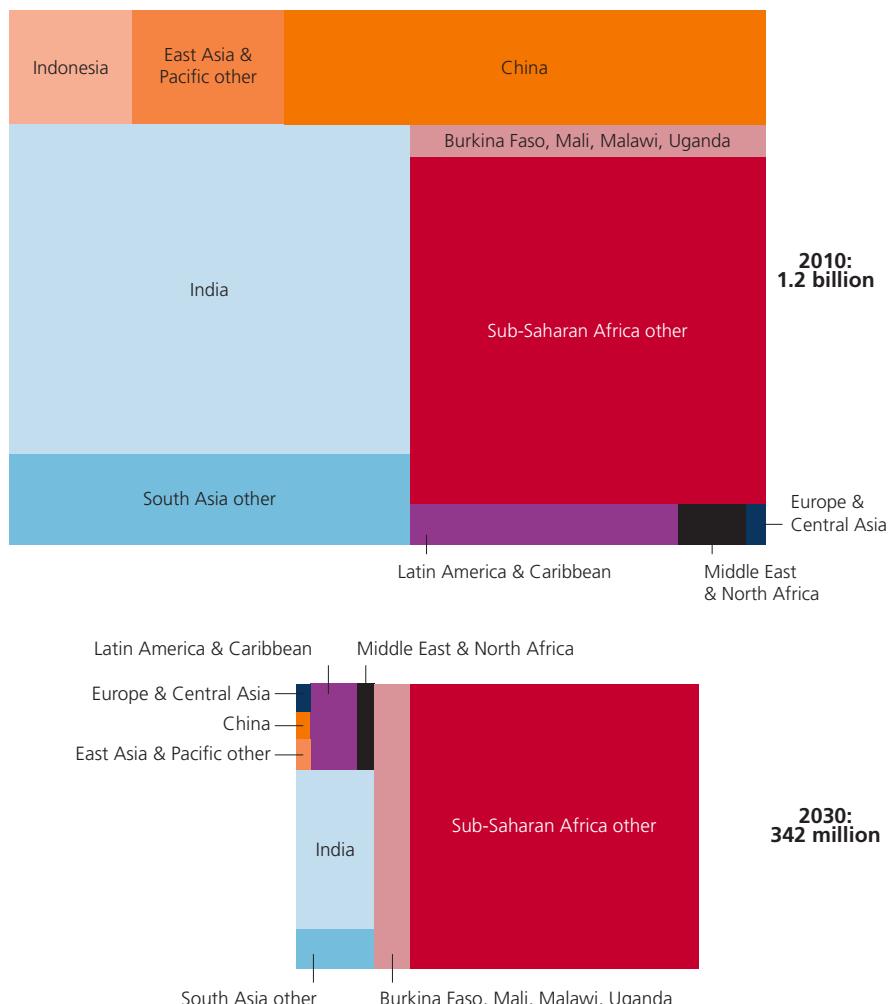
Applying optimistic and pessimistic outlooks for growth and inequality – based on differences between past predictions and observed growth trends and historical distribution trends – shows a breadth of possible outcomes (Box 1.2).

When the more optimistic scenarios are combined – faster growth more equally distributed – some 1.1 billion people could be lifted out of extreme poverty between 2010 and 2030, leaving around 100 million behind. By contrast, the pessimistic scenario – slower growth more unequally distributed – leaves more than 1 billion behind, with fewer than 200 million lifted from extreme poverty (Figure 1.3).

The global picture from Brookings' analysis will not be replicated across every region (Figure 1.4). None looks likely to end extreme poverty in any of these scenarios, though Europe and Central Asia and the Middle East and North Africa come close. Sub-Saharan Africa looks most likely to be farthest

FIGURE 1.4

**Extreme poverty levels are likely to fall by 2030 but the regional distribution will change radically**



Source: Development Initiatives calculations based on Chandy, Ledlie and Pociakova (2013c).

from zero, even though some countries in the region may see some of the biggest improvements.<sup>21</sup> The region was alone in seeing extreme poverty increase between 1990 and 2010, from 290 million to 414 million. Home to 15% of the world's extreme poor in 1990, it now accounts for more than 34%. But the region's prospects are improving: The World Bank projects that between 2010 and 2015 the number of poor people could fall to 408 million, with the poverty rate falling from 48.5% to 42.3%.<sup>22</sup>

The baseline scenario suggests that some 275 million people in sub-Saharan Africa could remain in extreme

poverty in 2030, making it home to more than 80% of the world's extreme poor (Table 1.1). Faster and more-equitable growth could reduce this to around 100 million. Slower and less-equitable growth could lead to an increase, leaving more than half a billion people in extreme poverty in 2030. As other regions make faster progress, the pessimistic outlook shows almost half (49%) the world's population in extreme poverty living in sub-Saharan Africa – while under the optimistic scenario almost all would be.

South Asia had more people in extreme poverty in 2010 (507 million) than sub-Saharan Africa (414 million).

But South Asia is likely to see much faster progress, overtaking sub-Saharan Africa well within this decade under the range of scenarios. The number of people in extreme poverty in South Asia could fall below 50 million by 2030.

This is largely because poor people in South Asia are not as poor as those in sub-Saharan Africa, with a large number of poor people just below the poverty line and more ready to cross it (see below).

Indeed, as Brookings summarises, the 40 years from 1990 to 2030 “resemble a relay race in which responsibility for leading the charge on global poverty reduction passes from China to India to sub-Saharan Africa. China has driven progress over the last 20 years, but with its poverty rate now in the single digits, the baton is being passed to India (Figure 1.5). India has the capacity to deliver sustained progress on global poverty reduction over the next decade, based on modest assumptions of equitable growth.”<sup>23</sup>

Indeed, recently released poverty data suggests that rapid progress has been made since 2004/2005.<sup>24</sup> Brookings notes that it will then be left to sub-Saharan Africa “to run the final relay leg and bring the baton home.”<sup>25</sup> This is because so many of the region’s extreme poor are starting a long way below the \$1.25 a day poverty line.<sup>26</sup>

## Minding the poverty gap

Ending poverty is more than a purely economic equation. The poorest people face structural barriers to escaping poverty that growth alone cannot overcome. Targeted interventions to ‘bend the curve’ down to zero poor people by 2030 are required on two fronts. First, poor people will need assistance to plug them into engines of growth. They are the greatest agents of change and can make the greatest advances if conditions are right and opportunities exist. Second, resources are required to provide basic services and incomes, both for those on trajectories out of poverty and for those who do not stand to benefit from the opportunities that growth can bring.

**TABLE 1.1**  
**South Asia’s prospects in reducing the number of people in extreme poverty far outstrip those of sub-Saharan Africa**

Number of people in extreme poverty in 2030, millions

	<b>Optimistic</b>	<b>Baseline</b>	<b>Pessimistic</b>
Sub-Saharan Africa	103.5	275.1	508.6
South Asia	1.1	46.3	365.6

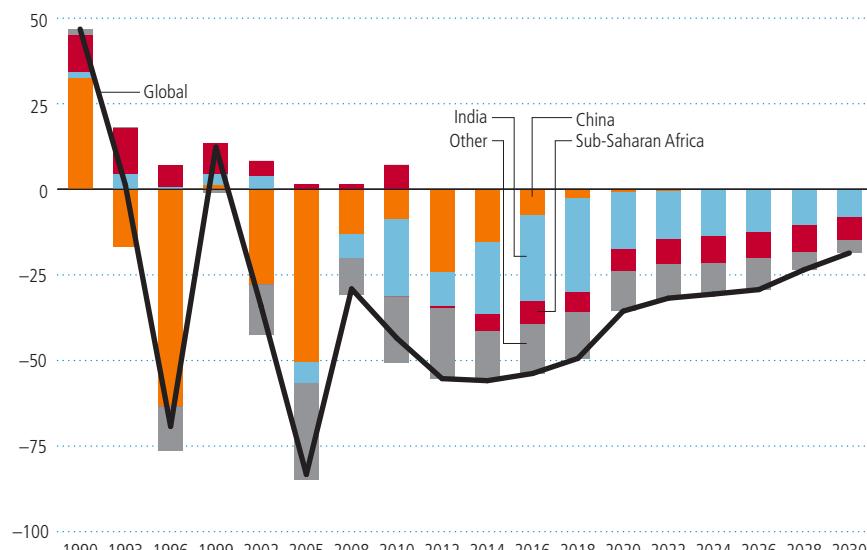
Share of global extreme poor in 2030, %

	<b>Optimistic</b>	<b>Baseline</b>	<b>Pessimistic</b>
Sub-Saharan Africa	95.9	80.5	48.9
South Asia	1.0	13.5	35.2

Source: Development Initiatives calculations based on Chandy, Ledlie and Penciakova (2013c).

**FIGURE 1.5**  
**India passes the baton for ending poverty to sub-Saharan Africa by 2030**

Change in number of people in extreme poverty, millions, 1990–2030



Note: Three-year periods up to 2008, then two-year periods.

Source: Chandy, Ledlie and Penciakova 2013c.

The depth of poverty, a key factor in driving poverty eradication trajectories, indicates the relative effort and resources needed to raise the poor from poverty. It is the sheer depth of poverty in sub-Saharan Africa and some countries in other regions that makes ending poverty by 2030 so challenging.<sup>27</sup>

One measure of poverty’s depth is the average consumption of people below the poverty line, expressed in dollars or as a proportion of the poverty line. The average daily income of people in extreme poverty has been mostly flat in sub-Saharan Africa since 1981, while in the rest of the developing world it has risen 20 cents (Figure 1.6).

The PPP\$0.71 regional average is low by developing countries standards, and

beneath this are several countries with much lower average incomes: PPP\$0.53 in Democratic Republic of Congo and PPP\$0.55 in Zambia (Map 1.1).

India has seen consumption below the \$1.25 a day threshold increase, such

that there is now a 'bulge' of poor people just below the line. The average poor person's daily consumption is PPP\$0.97 in rural areas and PPP\$0.93 in urban areas. Current patterns of growth and inequality could move millions above the \$1.25 a day line,

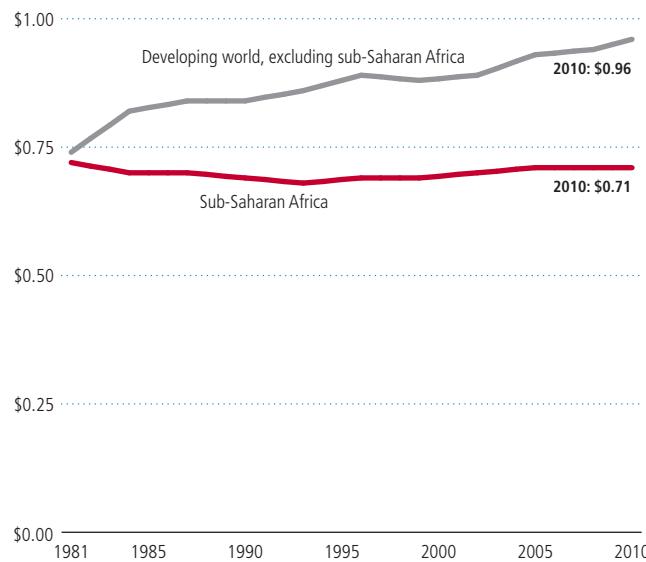
leaving about 37 million people in extreme poverty by 2030 (Figure 1.7). An optimistic scenario would see fewer than 1 million there.

But the depth of poverty in sub-Saharan Africa means that its extreme

**FIGURE 1.6**

### Average incomes of the extreme poor in sub-Saharan Africa have remained unchanged over three decades

Average daily consumption of individuals living on less than \$1.25 a day, 2005 PPP\$, 1981–2010

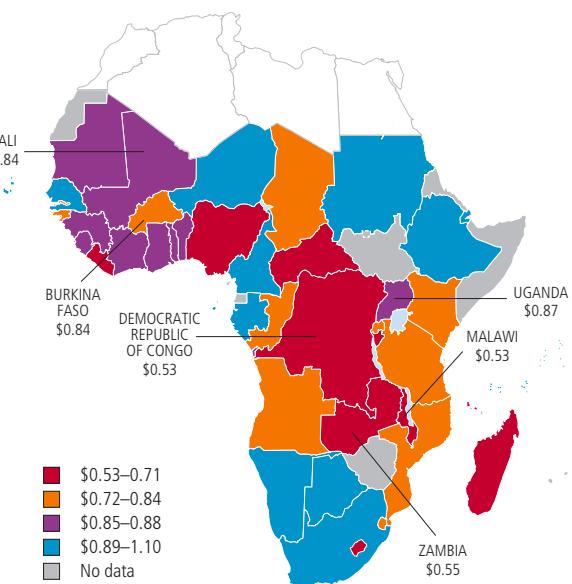


Source: World Bank 2013c.

**MAP 1.1**

### Average incomes of the extreme poor in Africa are often far below the \$1.25 a day poverty line

Average daily consumption of individuals living on less than \$1.25 a day, 2005 PPP\$, 2010

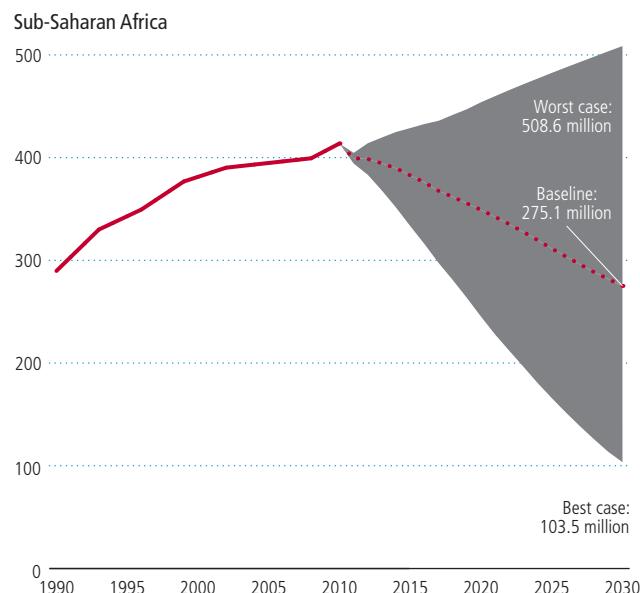


Source: Chandy, Ledlie and Penciakova 2013c.

**FIGURE 1.7**

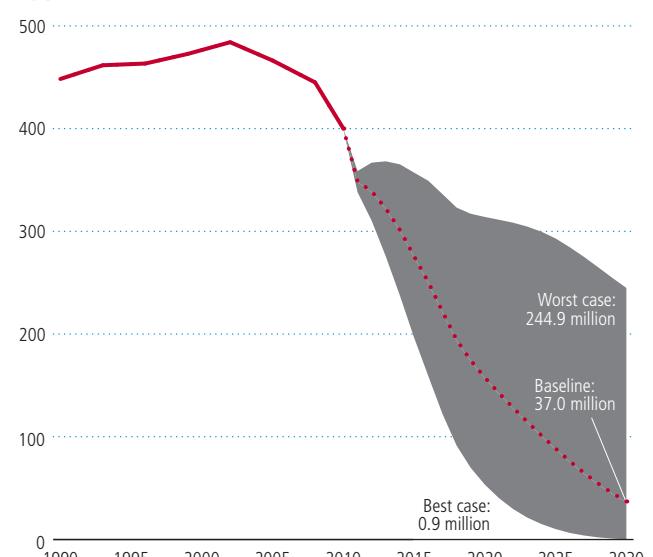
### Ending extreme poverty will be more challenging in sub-Saharan Africa than in India

People in extreme poverty, millions, 1990–2030



Source: Chandy, Ledlie and Penciakova 2013c.

**India**



poverty is likely to fall only slightly on current patterns. An optimistic scenario could see 300 million people rise above the poverty line, but the 100 million remaining are simply too far from the line to reach it by 2030 – even with fast and inclusive growth (see Figure 1.7). If the region's progress in reducing poverty in the best-case scenario in the years to 2030 were carried beyond, it would still take many decades to end poverty in the region. This supports the case for interventions.

Country trajectories show the link between poverty gaps and poverty

reduction. Limited data prevents detailed scenarios for all developing countries, particularly those in sub-Saharan Africa, but the underlying data is good enough for some. So, the focus here is on four small sub-Saharan countries – Burkina Faso, Mali, Malawi and Uganda – and three populous G20 countries – China, India and Indonesia (Figure 1.8).

Although growth projections are a major determinant of future poverty levels, shallower poverty in the three larger economies should help poverty fall dramatically. In Indonesia the

average person in poverty lives on PPP\$1.02 a day, and the number of poor people there could get down to around half a million by 2030. China (PPP\$0.95) could get to around 1.5 million people, and India (PPP\$0.96) to 37 million.<sup>28</sup> The average income of the extreme poor in India is PPP\$0.96. Poverty levels on the baseline (37 million) and best-case scenarios (1 million) are much closer than for sub-Saharan Africa because so many Indians are closer to the \$1.25 line (see Figure 1.7).

Burkina Faso (PPP\$0.84) and Uganda (PPP\$0.87) could see their numbers of extreme poor people steadily fall, slightly more quickly in Uganda due to better growth prospects. But in Malawi the average consumption of poor people (PPP\$0.70) is barely half the poverty line, which – combined with the prospect of slow growth – could mean that the number of people in extreme poverty there will rise by 5 million, to 14.6 million by 2030.

These conclusions are based on the baseline scenarios. Slower growth, less evenly spread, could increase extreme poverty in all four African countries – for example, by almost 5 million by 2030 in Uganda and by almost 10 million in Malawi. Faster or more-inclusive growth could lead to the opposite (Figure 1.9)

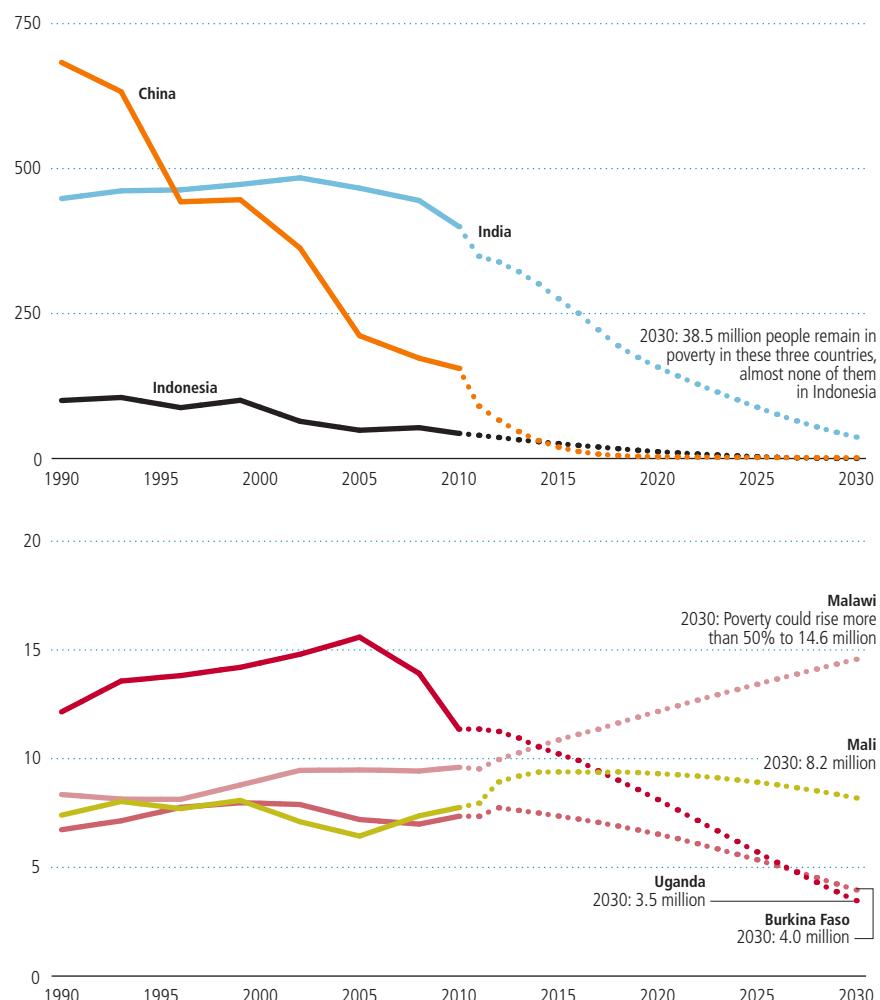
## Tackling poverty, wherever it persists, is a collective responsibility

To reduce the number of people in extreme poverty to zero by 2030, poor people must be targeted at every level – globally, regionally, nationally and sub-nationally – to ensure that every person enjoys this minimum living standard. And unless this effort is sustained, with no one allowed to fall below the minimum standard beyond 2030, extreme poverty will not have been genuinely ended.

**FIGURE 1.8**

### Prospects for ending poverty are brighter for China, India and Indonesia than for some African countries

People in extreme poverty, millions, baseline projection, 1990–2030

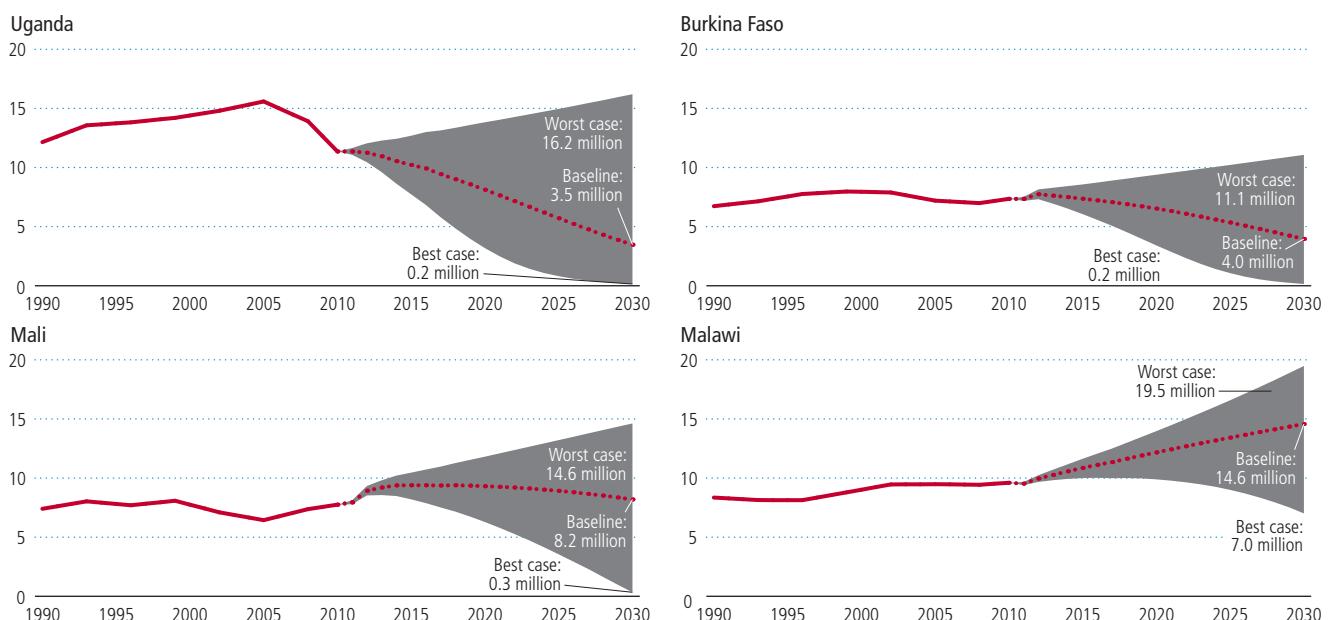


Source: Chandy, Ledlie and Penciakova 2013c.

FIGURE 1.9

### Best- and worst-case scenarios for ending extreme poverty in African countries vary widely

People in extreme poverty, millions, 1990–2030



Source: Chandy, Ledlie and Penciakova 2013c.

Because current growth patterns will not get the world to zero, developing countries at every level of economic development will need to lead additional efforts, underpinned financially and politically by the global community.

### Addressing extreme poverty in middle-income countries too

Ending poverty by 2030 must apply to poor people wherever they live, including people in middle-income countries.

India illustrates the fallacy of classifying countries by average income, an oversimplification that masks vastly different incomes within those classifications.

Since 2007 India has been considered a middle-income country.<sup>29</sup> This is an internal World Bank classification originally linked to civil works preference, which granted poor country-based contractors preference over others in international bids for projects. The middle-income threshold has stayed

broadly the same in real terms over its 40 years of use, updated only for inflation since 1988.<sup>30</sup> It is also based on market exchange rates, which are not adjusted for relative purchasing power (as the \$1.25 a day threshold is).<sup>31</sup> As a simple per capita figure, it takes no account of the distribution of national income or the domestic or international resources available for targeting poverty.

Despite India's economic success, it remains home to more than a third of the world's extreme poor. With gross national income (GNI) per capita of US\$1,530 in 2012, it is barely in the middle-income range (Figure 1.10). Fast-growing China has seen GNI per capita rise rapidly in recent years to reach US\$5,740, putting it well within the upper middle-income range, and almost halfway to upper middle-income status. Despite this, China still had 157 million people in extreme poverty in 2010.

In addition, many developing countries are not yet able to raise sufficient domestic resources to tackle poverty. Government expenditure per person

was PPP\$864 in 2010, compared with a developing country average of PPP\$1,360 (see Chapter 2 for more on domestic resources).

The taxation needed to raise resources domestically to bring all the extreme poor up to the extreme poverty line can be impractically high. In most cases countries with average consumption below PPP\$2,000 (including India) require tax rates above 100% – or more than the income available to be taxed.<sup>32</sup> Such analysis is based on surveys that do not always accurately capture the highest incomes, but this indicates that, while there is broad correlation between higher incomes and the ability to close poverty gaps domestically, great variability remains in developing countries' abilities to pursue the end of poverty without international support.

### Knowing who is poor and where they live

Targeting the poorest in every country will require accurate information

on the distribution and depth of poverty – in every district and every village. Average incomes mask widely varying distributions of poverty within countries, but available data does not allow the tracking of \$1.25 a day poverty below the national level in most countries. However, comparisons across and within developing countries are possible using wider multidimensional poverty measures.

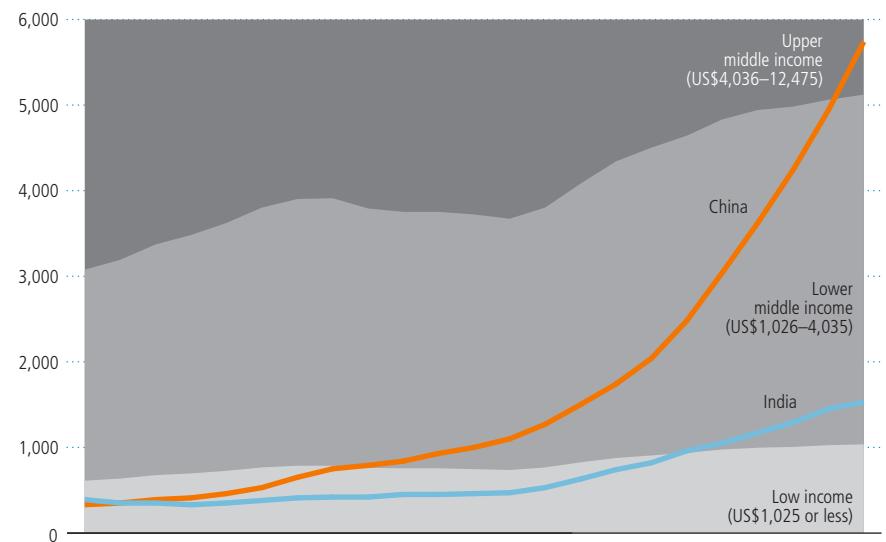
India has one of the widest ranges between its most and least deprived regions (based on 2005/2006 household survey data). While the country's average multidimensional poverty rate is 53.7%, the rate in Bihar in the northeast is 79.3%, and Delhi capital territory has the lowest rate (12.4%, followed closely by Kerala in the south at 12.7%; Figure 1.11).

Uttar Pradesh alone has 136 million people in multidimensional poverty, second only to China and more than all of Bangladesh.<sup>33</sup> Uttar Pradesh, Bihar, West Bengal and Madhya Pradesh would all rank among the world's 10 poorest countries, and 11 Indian states would be among the 20 poorest countries (Figure 1.12). Other poorer developing countries show similar within-country variation (Figure 1.13).

Information on the location and depth of extreme poverty within countries will be a central requirement for ending poverty by 2030. National statistics on \$1.25 a day are weak for many countries and non-existent for some. Analysing extreme poverty and multidimensional poverty sub-nationally is essential to be able to accurately target resources to need (Box 1.3; see also Chapter 5). Bringing together sub-national poverty data and details of finance (such as domestic investments or aid projects) that are geographically coded allows targeting and monitoring resources for poverty reduction at a local scale (Map 1.2).

**FIGURE 1.10**  
**India is just above the lower middle-income threshold, China far above**

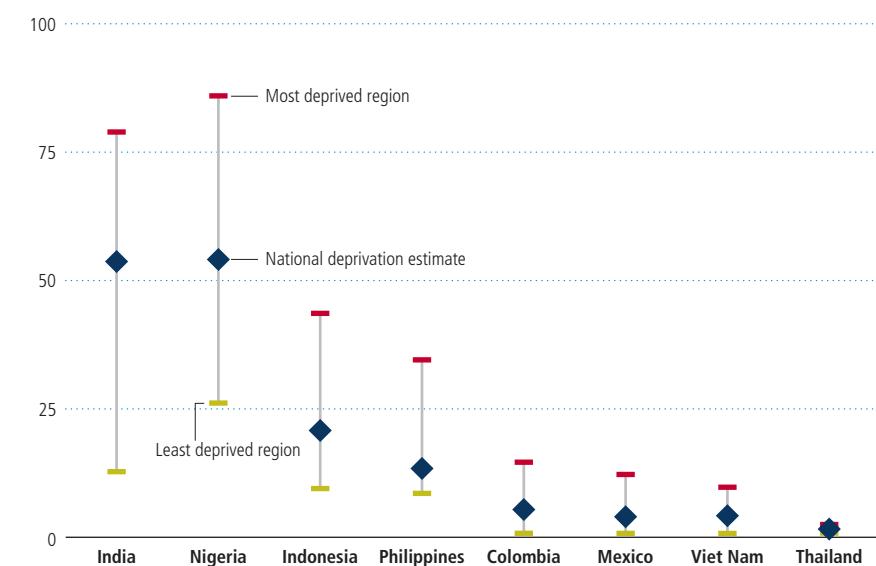
GNI per capita and World Bank income classifications, US\$, 1990–2012



Source: World Bank DataBank (<http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>).

**FIGURE 1.11**  
**Differences between the least and most deprived parts of emerging economies vary widely**

Multidimensional poverty rate, %, most recent year available



Source: Oxford Poverty and Human Development Initiative Multidimensional Poverty Index Data Bank ([www.ophi.org.uk/multidimensional-poverty-index](http://www.ophi.org.uk/multidimensional-poverty-index)).

## A global backstop to an enduring end to poverty

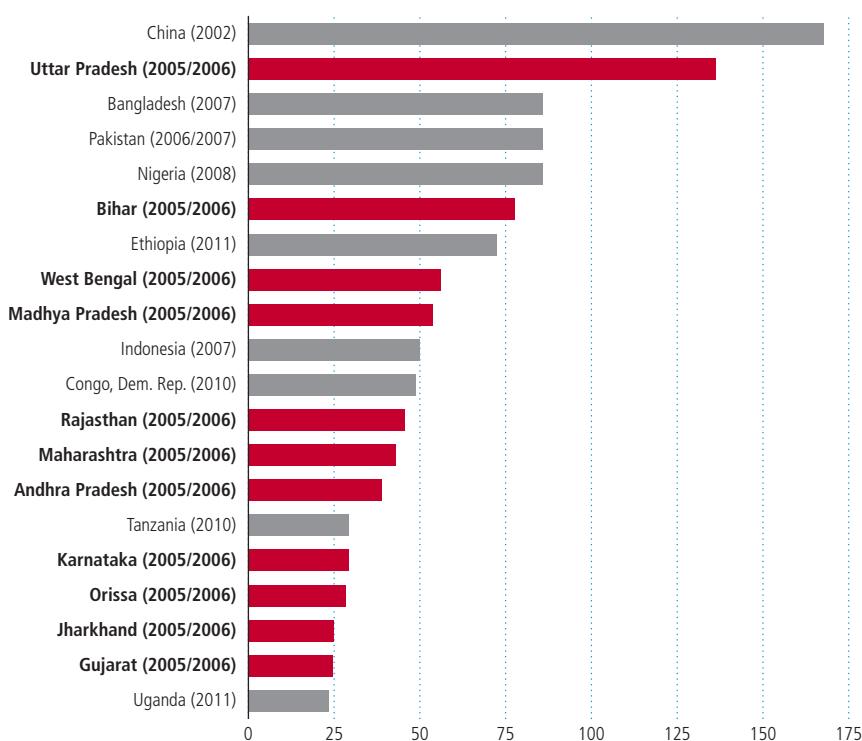
Today's growth patterns alone will not end extreme poverty by 2030. Nor will domestic resources be sufficient

in all countries, at least in the near future. So domestic efforts need to be backstopped by international commitments to ensure that no one is left behind. The end of poverty must also be sustained, lasting far

FIGURE 1.12

### Eleven Indian states would be among the world's 20 countries with the highest levels of multidimensional poverty

People in multidimensional poverty, millions, most recent year available



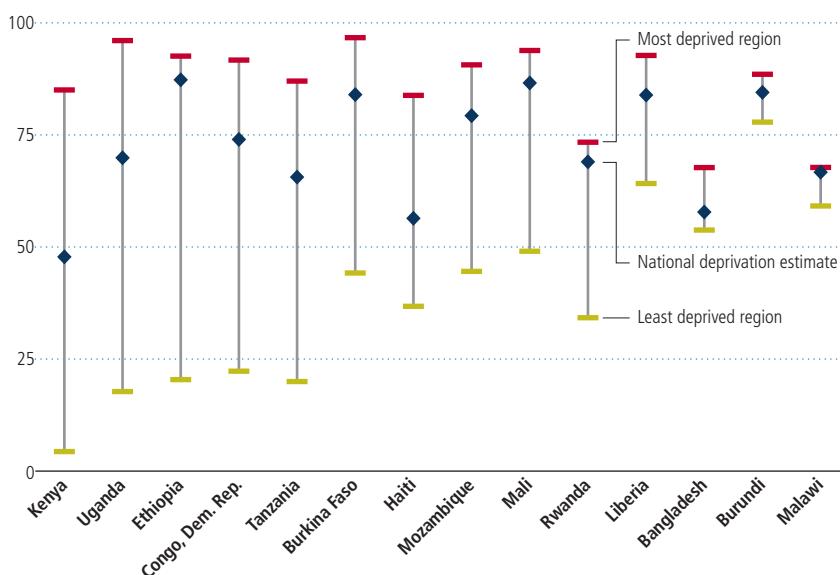
Note: Total for India (2005/2006) is 658 million. Data is multidimensional poverty rates from various survey years applied to 2010 population data to enable cross-country comparison.

Source: Oxford Poverty and Human Development Initiative Multidimensional Poverty Index Data Bank ([www.ophi.org.uk/multidimensional-poverty-index](http://www.ophi.org.uk/multidimensional-poverty-index)).

FIGURE 1.13

### There are widely variable poverty levels within poorer developing countries too

Multidimensional poverty rate, %, most recent year available



Source: Oxford Poverty and Human Development Initiative Multidimensional Poverty Index Data Bank ([www.ophi.org.uk/multidimensional-poverty-index](http://www.ophi.org.uk/multidimensional-poverty-index)).

beyond 2030. International efforts can build resilience and establish global mechanisms that help poor people and poor countries manage risk, protect them from shocks and prevent the most vulnerable from falling back into poverty.

### Internationally backstopped commitments

National poverty lines are based on country values, circumstances and available resources.

Just as developed countries accept a moral imperative to support the most vulnerable in their own societies, so the global poverty agenda must recognise the groups marginalised from growth if extreme poverty is to be eliminated by 2030.

The \$1.25 a day poverty line is based on the average of the very poorest countries, so the majority of developing countries' national poverty lines are already above it. The small number of countries with national lines below \$1.25 a day will be critical to ending poverty (Figure 1.14). They are likely to lack the domestic resources to achieve this minimum living standard, and they should be able to call on external assistance to do so.

The UN High-Level Panel's report argued for supplementing the goal to end extreme poverty by 2030 with a target to reduce the proportions of people below national poverty lines in 2015. It also expressed hope and expectation that countries will continually raise the bar on the living standards they deem minimally acceptable for their own citizens and adjust their poverty line upwards over time. The High-Level Panel proposed a target for the proportion of people living below national poverty lines in 2015 in order to facilitate the adoption of a \$2 a day global minimum threshold by 2030.<sup>34</sup>

**BOX 1.3****Brazil's cash transfers and political will**

Brazil had around 11.9 million people at or below the \$1.25 a day poverty line in 2009.

Its poverty reduction strategy builds on past political and economic reform, with a single system for social assistance that has several intertwined programmes, including Bolsa Família (introduced in 2003), Brasil Sem Miséria (introduced in 2011) and Brasil Carinhoso (introduced in 2012).

Perhaps the best known, Bolsa Família transfers cash directly to poor households.<sup>1</sup> The minimum transfer is R\$70 a month (around US\$35) for households with no children, but households with children receive more if they meet additional conditions (such as school attendance and health checks). In 2009 the average payment was R\$95 (US\$47.50). Brasil Sem Miséria targets poor people not already reached by Bolsa Família.<sup>2</sup> Brasil Carinhoso extends Bolsa Família by focusing on households with young children in extreme poverty, guaranteeing the R\$70 minimum income, but with payments linked to

the depth of poverty rather than to household composition.

In February 2013 President Dilma Rousseff declared the government's poverty target almost met. Some 28 million people have been raised from extreme poverty (based on the national poverty line) since 2003. The Instituto de Pesquisa Econômica Aplicada found Bolsa Família to be very effective, reducing poverty rates by 40% (Box Figure 1) and increasing the number of households that obtained enough food by 52%. It is also believed to have reduced under-five mortality.<sup>3</sup>

Brazil's focus on the poorest parts of society has reduced its high income inequality: The commonly used Gini index fell from 55.3% in 2002 to 50% in 2011, a fairly rapid drop.<sup>4</sup> The Organisation for Economic Co-operation and Development noted that without the income redistribution, Brazil's economy would need to have grown faster – 4 more percentage points a year – to achieve the same poverty reduction.<sup>5</sup>

Economic growth has provided increased domestic resources – total government expenditure per person increased to around PPP\$4,000 in 2011 from PPP\$2,730 in 2000 (see Chapter 2) – to invest in social programmes, which have given a boost to the economy as payments have been spent. Every R\$1 invested in Bolsa Família returned R\$1.44 to GDP.<sup>6</sup> Although the scheme contributed to poverty reduction in 2004–2009, the most important factor was economic growth's generating formal employment, together with the strengthening of minimum salary policies.<sup>7</sup> Fundação Getúlio Vargas estimated that around one-sixth of the poverty reduction from 2003 to 2009 could be attributed directly to Bolsa Família alone, with a similar share to (more expensive) state pensions.

Bolsa Família also operates at relatively low cost: Its R\$24 billion (around US\$12 billion) budget accounted for less than 1% of the 2013 federal budget, while spending was 0.46% of national income in 2012.

More than 48 million people, a quarter of Brazil's population, are now registered for government social programmes. Brazil's Cadastro Único, or single registry, gives detailed information on who the majority of poor people are and where they live. Census records suggest that up to 700,000 households, by some estimates 2.5 million people, are still in poverty, though not yet officially registered as such.

**Notes**

1. *The Economist* 2010.
2. Boadle 2013.
3. See Rasella and others (2013).
4. Studart 2013 (see World Bank n.d. b for information on the Gini coefficient).
5. Arnold 2011; OECD 2011.
6. Brazil Ministry of Social Development 2012.
7. IPEA 2012b.

Source: Brazil Ministry of Social Development 2012; UNDP International Policy Centre for Inclusive Growth 2013; *The Economist* 2013; IPEA 2010; Soares 2012; Burton 2013; IPEA 2012a; Rodrigues de Oliveira and Kassouf 2013.

**BOX FIGURE 1****Extreme poverty in Brazil has fallen quickly in recent years**

People in extreme poverty, millions, 1990–2009



Source: World Bank DataBank (<http://data.worldbank.org>).

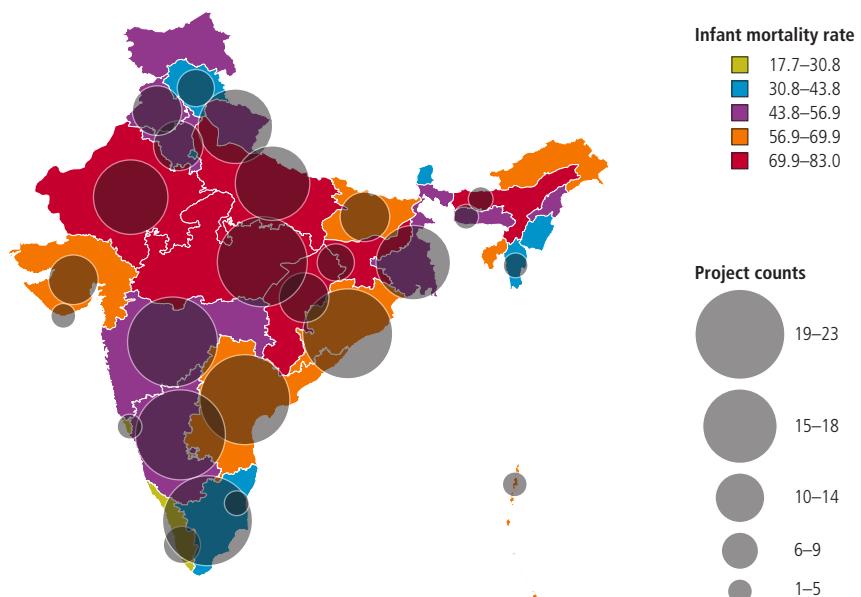
A shared global responsibility for the world's poorest people also means that developing-country governments must commit to lift their citizens above their own national poverty lines. And it means

that this effort is backstopped by an international aid architecture committed to providing a basic minimum when domestic governments are unable to do so – wherever that need may be.

**MAP 1.2**

### Geocoded aid projects can be linked to deprivation data to improve targeting

Infant mortality rate (deaths per 1,000 live births) and number of projects active as of 28 March 2012



Source: World Bank Mapping for Results database (<http://maps.worldbank.org>).

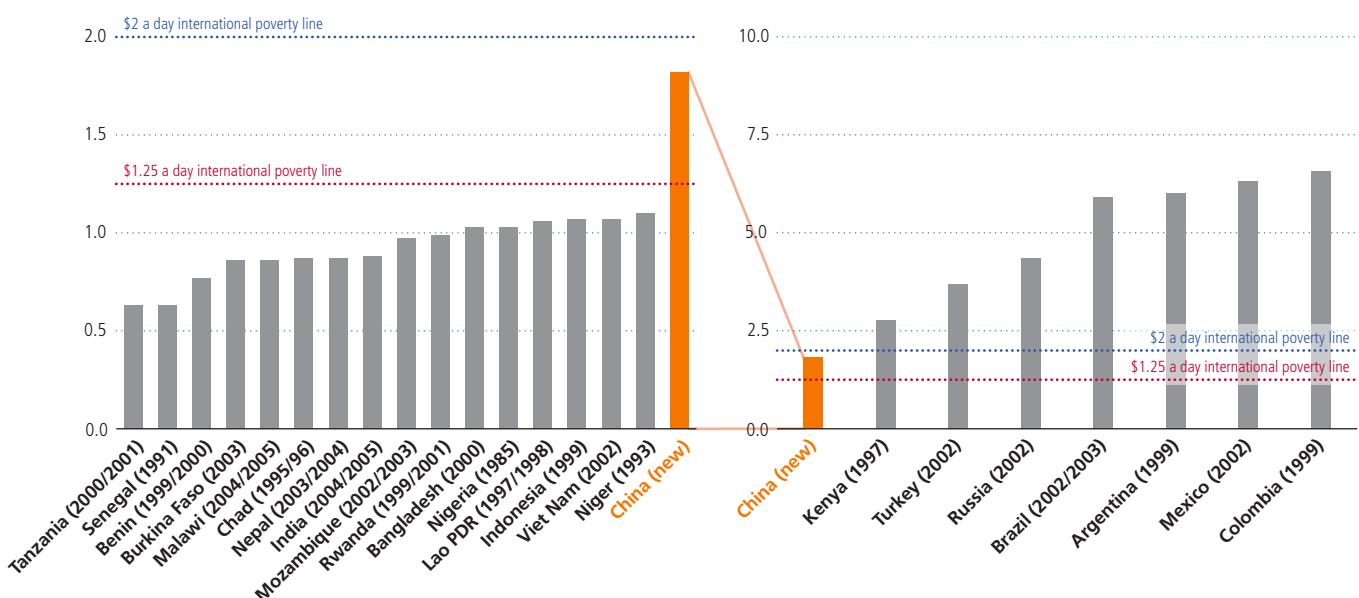
### An enduring end to poverty, not just in 2030

People move in and out of poverty. Some 30% of the non-poor in Senegal fell into poverty between 2006 and 2008, based on national poverty definitions. Kenya saw similar movements into poverty between 1997 and 2007, as did 22% of rural Indians between 1994 and 2005.<sup>35</sup> There are also substantial fluctuations in well-being within single years, as hundreds of millions of poor people with rural livelihoods cope with the impact of seasons on their income and consumption. For them, it is not conflict or disaster that most commonly drives hunger, disease and cycles of poverty – it is annually recurring periods when harvest stocks have been depleted and local food prices soar. And as weather patterns become more unpredictable with a changing climate, 'normal' vulnerabilities – of unequal access to resources – will instigate tip-overs into more entrenched crises.

**FIGURE 1.14**

### Aid can support countries with national poverty lines below \$1.25 a day to attain this basic standard; several countries' national poverty lines are already above \$2 a day

National poverty line, 2005 PPP\$ a day, various years



Note: Reflects the revised national poverty line for China but does not include revised national poverty lines for India and Viet Nam.

Source: Ravallion, Chen and Sangraula 2008.

Poor people face a wide range of risks, from the personal, or idiosyncratic, such as losing a job or being unable to work because of illness – to the wider, or covariant, such as conflict, natural disasters, or food or economic crises. Each can strike at any time and undermine years or even decades of progress. The Haiti earthquake in 2010 drove poverty back to levels witnessed a decade earlier, wiping out an 8 percentage point gain over 2001–2010. And following the 2011 drought in Djibouti, poverty rates rose again to the 2002 level of 42%.<sup>36</sup>

Just as ending extreme poverty means more than ‘most people,’ so it means more than ‘most years.’ A single setback can have long-term effects. Unable to draw on savings or private insurance, the poorest face a different set of choices in the face of shocks – taking children out of school, reducing meals or selling assets vital for recovery. Poverty traps can result from such setbacks, which reduce employment prospects and economic progress.

Vulnerable people, districts and countries must build resilience at all levels to protect themselves from falling into extreme poverty. Building local, national, regional and international structures can prepare and protect poor people, with governments helping manage their risk and respond to crises and changing circumstances. These structures must have the requisite funding to mitigate risk. They must also have the flexibility to manage and adapt to the changing risks that the future will inevitably bring.

These structures should not be focused exclusively on the currently poor. Protecting the assets and capabilities of the 3.9 billion acutely vulnerable people who live on less than PPP\$4 a day – and possibly higher thresholds, such as the PPP\$10 a day threshold the

World Bank has used to separate the global ‘vulnerable’ and ‘middle’ classes – will also be vital to sustain progress towards ending extreme poverty and beyond.<sup>37</sup>

## Harnessing all resources for ending poverty

The September 2013 UN General Assembly will be a turning point in defining post-2015 development goals. As other processes take centre stage, attention will turn to how to achieve them and how to finance the investments needed to end poverty by 2030.

Some international resources are vital for growth; others, combined with good policy, can encourage this growth to be inclusive of poor people. But even this is not likely to be sufficient to end extreme poverty by 2030. Therefore, direct, targeted interventions will be needed.

Aid will remain an indispensable intervention. While it may seem small compared with other international flows, it can and should be focused on directly helping those in extreme poverty. Aid also has real potential to catalyse and leverage the best of those other flows, to help countries lead their own fight against poverty. This suggests a strong agenda of policy coherence for development.

## Notes

1. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013.
2. Cameron 2013.
3. ONE 2013.
4. Krishna 2004.
5. *The Economist* 2013.
6. Sirleaf 2012.
7. Green 2013.
8. Government of Brazil 2013.
9. UN 2013.
10. World Bank Development Research Group’s PovcalNet database (<http://iresearch.worldbank.org/PovcalNet/>). World Bank (2013f) gives a 2010 provisional figure of 1.215 billion people.
11. The \$1.25 a day and \$2 a day income thresholds are measured in 2005 purchasing power parity (PPP) international dollars, in practice a mixture of income- and consumption-based measures. Throughout the report, all instances of \$1.25 a day and \$2 a day refer to PPP rates; other dollar values that use PPP rates are indicated by PPP\$ and dollar values that use market-based exchange rates are indicated by US\$.
12. The \$1.25 a day (2005 PPP) international poverty line replaced the previous \$1.08 a day (1993 PPP) line. It was the average of poverty lines for a reference group of 15 countries: Malawi, Mali, Ethiopia, Sierra Leone, Niger, Uganda, Gambia, Rwanda, Guinea-Bissau, Tanzania, Tajikistan, Mozambique, Chad, Nepal and Ghana.
13. See Kapsos and Bourmpoula (2013): extreme poor (below \$1.25 a day), moderately poor (\$1.25 to under \$2), near poor (\$2 to under PPP\$4), the developing middle class (PPP\$4 to under PPP\$13), and the developed middle class and above (PPP\$13 and above).
14. See, for example, Mehta and others (2011).
15. Thorbecke 2005.
16. Krishna and others 2004, p. 216.
17. See OPHI (2013b).
18. OPHI 2013a.
19. Watkins 2013
20. Chandy, Ledlie and Penciakova (2013c) based on their methodology and including 40 updated surveys.
21. Poverty data and projections are for World Bank regions, which do not match the OECD regions used elsewhere in this report. The

- sub-Saharan Africa region is similar for the two organisations, but the OECD includes Djibouti, which the World Bank classes as Middle East and North Africa. (<http://data.worldbank.org/about/country-classifications/country-and-lending-groups>). The countries in the World Bank South Asia region are a subset of those in the OECD South and Central Asia region (which also includes Myanmar and the five Central Asian republics of the former Soviet Union). The World Bank combines Central Asia and Europe into a single region.
22. World Bank 2013b.
  23. Chandy, Ledlie and Penciakova 2013d.
  24. New estimates of poverty in India were published in July 2013. While based on national poverty lines, rather than the \$1.25 a day measure, these suggest that rapid progress has been made in reducing poverty (Government of India, Planning Commission 2013).
  25. Chandy, Ledlie and Penciakova 2013d.
  26. Chandy, Ledlie and Penciakova 2013a.
  27. See also Chandy, Ledlie and Penciakova 2013a.
  28. Averages weighted by poverty headcounts in rural and urban areas: China, PPP\$0.95 rural and PPP\$0.84 urban; India, PPP\$0.97 rural and PPP\$0.93 urban; Indonesia, PPP\$1.04 rural and PPP\$1.00 urban (based on data from Chandy, Ledlie and Penciakova 2013b).
  29. World Bank historical classification spreadsheet from World Bank (n.d. a).
  30. Ravallion (2012b) suggests that this threshold was set at a GNI per capita of US\$200 in 1971.
  31. *The Economist* 2012.
  32. A marginal tax rate of 25% means a tax set at US\$1 for each US\$4 of income above PPP\$13 a day would generate enough revenue to close the \$1.25 a day poverty gap. PPP\$13 a day in 2005 is the US poverty line (assuming that it is unreasonable to tax those considered poor in developed countries). Marginal tax rates to end poverty average 1% of countries' consumption above PPP\$4,000 per capita (Ravallion 2010, 2012b).
  33. World Bank President Jim Yong Kim has stated that Uttar Pradesh accounts for 8% of the world's extreme poor (Kim 2013b).
  34. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013.
  35. Shepherd and Lenhardt (2012); see also the update Lenhardt and Shepherd (2013).
  36. Government of the Republic of Haiti 2010; Government of the Republic of Djibouti 2011. Cited in Mitchell and others (2013). The Djibouti figure of 42% is based on a national government figure of US\$1.80 a day poverty.
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# Mapping resources to end poverty

- All investments – domestic and international, public, private and commercial– can contribute to ending poverty. Some will deliver immediate returns, other investments will deliver longer term impact.
- Total financial flows are increasing. The scale and diversity of resource flows to developing countries have increased rapidly, and resources flow out as well as in. For instance, while US\$472 billion in FDI flowed into developing countries, US\$420 billion flowed out again as repatriated profits.
- Domestic government spending in developing countries is growing. Half of developing countries averaged growth of over 5% a year from 2000–2011. The other half averaged 2.5% over the same period.
- However, the poorest countries still face severe domestic resource constraints, and that is likely to continue. Some 82% of the world's extreme poor live in countries where government spending is less than PPP\$1,000 per person per year, compared with PPP\$15,025 across DAC countries. More than 100 million people in extreme poverty live in countries where it is less than PPP\$200.
- Better information is needed to deliver better results. Harnessing these resources for poverty reduction will be easier when we know more accurately who provides them, who controls them, and where and on what they are spent.
- ODA remains important for the poorest countries. It is the most important international resource for countries with government expenditure of less than PPP\$500 a year.

**E**nding poverty by 2030 will require investment from a wide range of domestic and international institutions – and from aid. Alongside developing country governments at the national and

local levels and the investments of poor people themselves, commercial finance from business, social impact investment, private philanthropy and remittances are all part of the diverse resource mix

that can be better harnessed to deliver sustainable development and end poverty.

Government spending in developing countries has more than tripled since

2000, to US\$5.9 trillion in 2011. International flows have also risen, to US\$2.1 trillion. But the poorest countries still face severe domestic resource constraints and limited ability to attract international flows. Some 376 million of the world's poorest people live in countries where government spending per person is less than PPP\$500 per year. The number of countries where ODA is the largest inflow has been halved since 1990. But in 43 countries ODA remains the largest source of international finance.

So while aid is a niche resource in terms of sheer volume globally, it is considerable in countries with the lowest levels of government spending per capita and plays a catalytic role alongside other forms of international finance. It is the main external resource flow intended explicitly to promote both development and welfare.

Mapping what is known about the volume, purpose and distribution of all resources to developing countries reveals how different resources can

work together and how aid can increase the contribution of other investments to ending poverty. Aid is a small proportion of investment in infrastructure, but it can have impact by ensuring that larger flows take the needs of poorer groups into account. It can encourage innovative use of finance to promote nutrition or climate change mitigation, and at the local level aid can complement the private sector – for instance, where it faces challenges in delivering financial services for the poorest. All of this is hard to do without good information on the resources available and how they are being deployed.

For the poorest countries, the data in this chapter make it clear that their best efforts to secure inward investment and raise domestic revenues will not be enough to go beyond the Millennium Development Goals (MDGs), so it is critical to look at aid from external partners alongside other domestic and international resource flows, to ensure that each is harnessed optimally to end poverty and deliver sustained prosperity for all.

## What resources are available to end poverty?

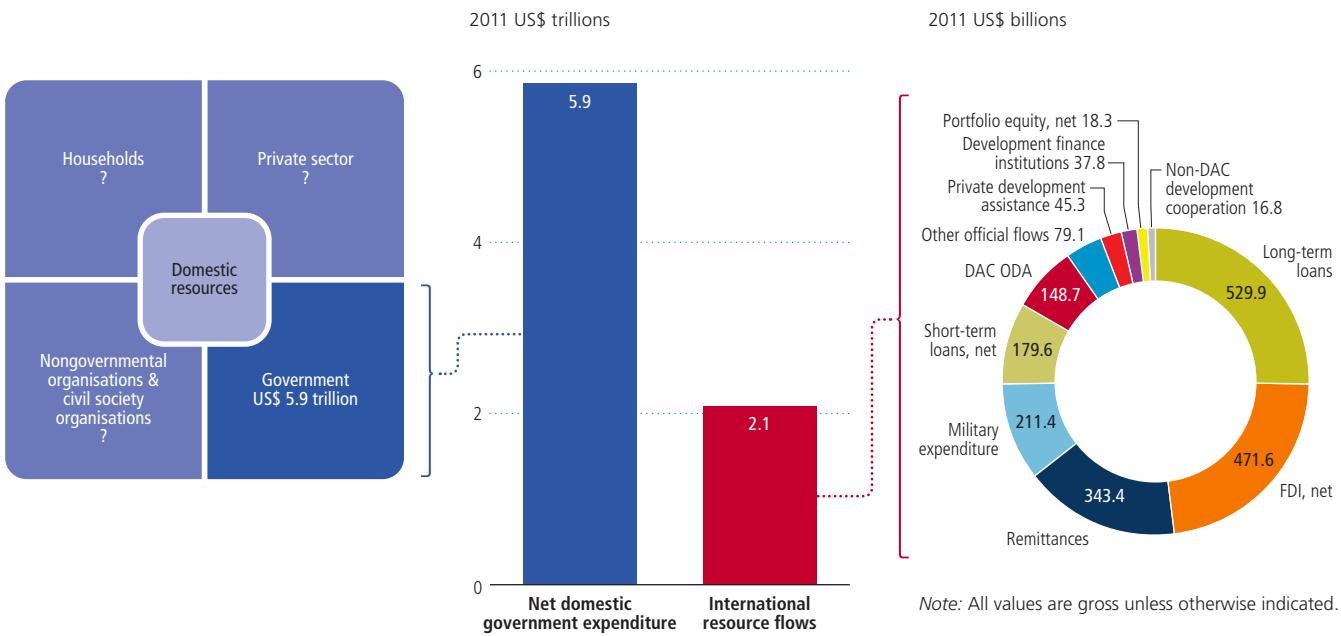
### Domestic and international resources

In 2011 government spending across all developing countries totalled \$5.9 trillion, almost three times the estimated \$2.1 trillion in international resources that developing countries received. While the balance of domestic and international resources varies widely, domestic resources considerably outweigh international resources in most countries (Figure 2.1). In more than two-thirds of developing countries, government spending alone exceeds total international resource flows.

Despite the centrality of domestic resources, it is difficult to quantify the contributions of domestic actors beyond studies in individual countries. The nature of spending by households, the private sector, NGOs and CSOs, and their roles in poverty reduction, varies in different contexts and is poorly understood across countries.

**FIGURE 2.1**

#### Domestic resources outweigh international resources for most developing countries



Source: Development Initiatives calculations based on data from a wide range of sources – see *Methodology*.

The public sector may be slightly better understood because most countries report government spending figures, though for many countries there is scant information on how public funds are used.

## Domestic government spending

Annual growth in government spending averaged 8.6% a year across the developing world over 2000–2011 (Figure 2.2). While China alone accounted for more than a third of the growth, many other governments also increased expenditure, with real spending growth exceeding 5% a year on average in more than 70 developing countries.

Government spending has also grown, from 25% of GDP in 2000 to 29% in 2011 (the median across developing countries), but as a proportion of national wealth it remains much lower than the 46% for Development Assistance Committee (DAC) donors in

2011. In five Pacific countries spending exceeds 50% of GDP. At the other end of the scale, it is less than 20% of GDP in 18 developing countries, many with large numbers or proportions of people in extreme poverty, such as Ethiopia, Indonesia, Pakistan and the Philippines.

Information on how governments fund their spending is far from comprehensive. The available data suggests that tax revenue has grown as a proportion of GDP but more slowly than overall expenditure.<sup>1</sup> Revenue in some countries depends heavily on particular types of tax. For example, revenue generated from natural resources accounted for 40% of all tax revenue in Africa over 2008–2011.<sup>2</sup> Dependence on natural resources ties government revenue to international commodity prices, and African tax revenue from such resources halved in 2009 with the global economic crisis. Direct and indirect taxes account for a smaller portion of revenue in Africa, and trade taxes have contracted since 2000.

## How much do governments spend per person?

Government spending per person is one of the most pertinent indicators of a government's potential capacity to serve its citizens. The amount of money a government has per citizen is only one factor in harnessing government resources to end poverty. Also clearly important are a government's policies and capacity, wider domestic resources, and the nature and distribution of poverty.

Half the world's extreme poor, 575 million people, live in countries with annual government spending of PPP\$500–999 per person, 270 million live in countries with annual government spending of PPP\$200–499 and 107 million live in countries with annual government spending of less than PPP\$200 per person (Figure 2.3).

In countries that fall into this lowest expenditure bracket, more than half the population lives below the \$1.25 poverty line.

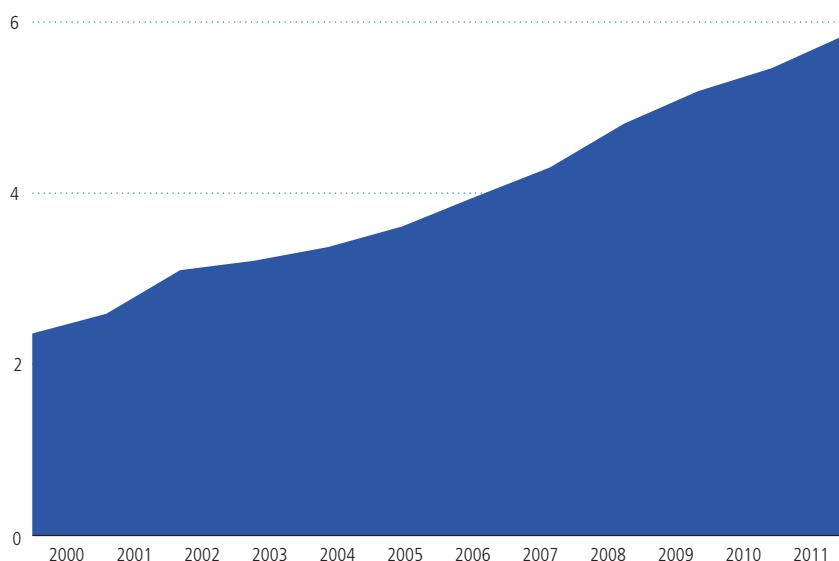
Average annual government spending is PPP\$1,360 per person across developing countries, compared with PPP\$15,025 across DAC countries (Map 2.1). Almost 3 billion people live in countries with annual government spending of less than PPP\$1,000 per person, 1 billion of them – more than the population of Western Europe and the United States combined – live where it is less than PPP\$500 per person and 200 million people live where it is less than PPP\$200 per person – a little over 1% of the DAC average.

Not surprising, countries with low domestic spending are also home to the world's poorest people (Table 2.1).

Such low spending barely covers the costs of providing some of the

**FIGURE 2.2**  
**Government spending in developing countries has grown since 2000, to US\$5.9 trillion in 2011**

Total government spending across all developing countries, US\$ trillions, 2000–2011



Source: Development Initiatives calculations based on data from the IMF's *World Economic Outlook*.

most basic services that are normally considered the responsibility of the state. The World Health Organization estimates that low-income countries need to spend an average of \$60 per person a year on health by 2015

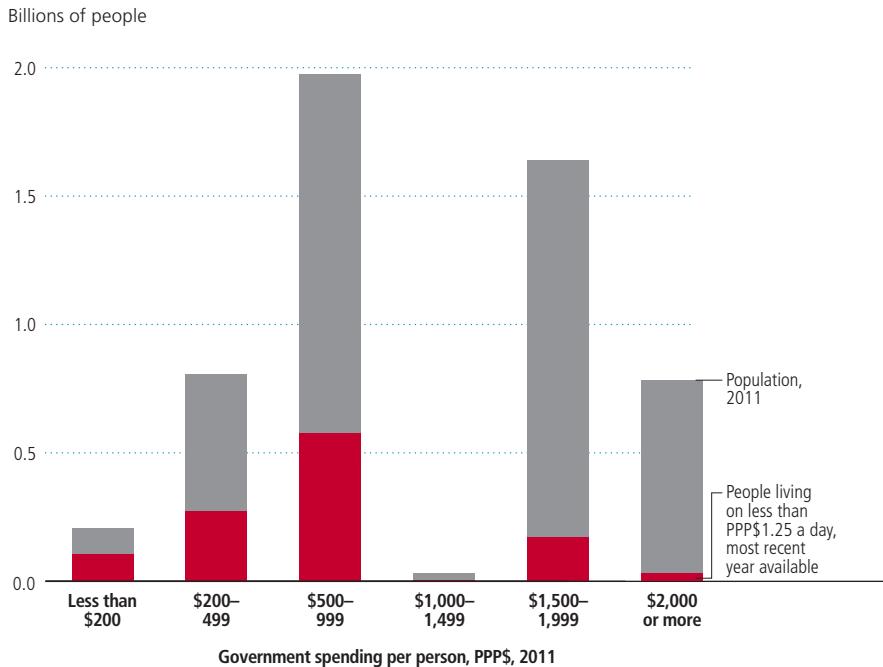
to provide the most basic health care coverage, though the range is from less than \$40 per person to more than \$80.<sup>3</sup> Primary education costs US\$50–100 per pupil a year on average, and secondary education

US\$100–200, according to estimates from the UN Millennium Project.<sup>4</sup>

Governments are also expected to facilitate security and the rule of law; supply infrastructure for water, sanitation, energy and transportation; protect the environment; provide social safety nets; conduct foreign policy; formulate policies for growth; regulate the private sector – and reduce poverty. Economic growth may be the engine that drives poverty reduction, but poor people need to be plugged into this engine so that the opportunities and wealth created by the expansion of productive activities are broad-based and accessible to the poor. The government has a critical role here, by stimulating and regulating growth that has stronger links to poor people, investing in poor people so that they are in a better position to take up opportunities and ensuring that the benefits of growth are not limited to a small minority. These responsibilities cannot be costed very easily, but even the most efficient and benevolent governments in many developing countries will face

**FIGURE 2.3**

### Some 82% of the world's poor live in countries with annual government spending of less than PPP\$1,000 per person

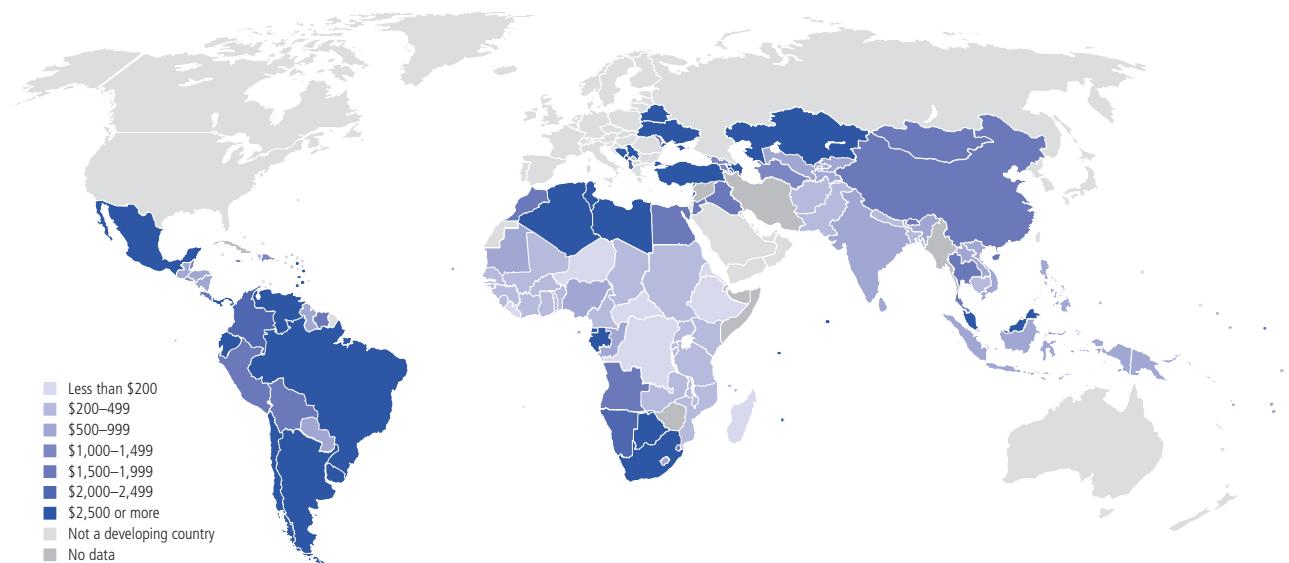


Source: Development Initiatives calculations based on data from the IMF and World Bank.

**MAP 2.1**

### Annual government spending per person varies widely

Government spending per person, PPP\$, 2011



Source: Development Initiatives calculations based on data from the IMF's *World Economic Outlook* and World Bank (2013).

TABLE 2.1

**Key indicators for countries in each government spending per person bracket, most recent year available**

Government spending per person, PPP\$	Number of countries	Poverty			Number of countries with no data from the last five years (since 2008)	Countries with the largest numbers living in poverty		
		People on less than \$1.25 a day, millions	Share of the world's poor population, %	Share of people in the bracket who live on less than \$1.25 a day, %		Largest	Second largest	Third largest
Less than 200	7	106.52	9	52.2	2	Democratic Republic of Congo (52 million)	Ethiopia (26 million)	Madagascar (17 million)
200–499	30	272.88	24	33.9	12	Bangladesh (64 million)	Pakistan (35 million)	Tanzania (28 million)
500–999	23	575.92	50	29.1	8	India (400 million)	Nigeria (88 million)	Indonesia (39 million)
1,000–1,499	9	2.85	0	8.5	2	Turkmenistan (1 million)	Georgia (1 million)	El Salvador (1 million)
1,500–1,999	19	172.05	15	10.5	7	China (157 million)	Angola (8 million)	Bolivia (2 million)
2,000 or more	38	30.91	3	3.9	10	Brazil (12 million)	South Africa (7 million)	Colombia (7 million)

Note: Twenty-two developing countries have no data.

Source: Development Initiatives calculations based on data from the IMF's *World Economic Outlook* and World Bank (2013).

substantial financial constraints in realising them in the short term, and for many the longer term.

Brazil and China, two countries that have made great progress in reducing poverty, highlight the severity of the resource constraints in many other developing countries. During periods of rapid and sustained economic growth both have dramatically reduced the number of people in extreme poverty. Government resources have also grown rapidly, to PPP\$4,000 per person in Brazil and PPP\$1,760 per person in China.

The prospects for Brazil and China to end poverty are good – but that they have not already done so, despite relatively abundant resources in the context of sustained economic growth, highlights the task for many countries less well resourced.

Although government resources per person are expected to grow in almost all developing countries, rates will vary. Some will rapidly expand the resources they can spend on

each of their citizens, others only very slowly. But even the fastest expanding governments are likely to face constraints in the short to medium term. Starting from a very low resource base, many face the challenges of rapidly scaling up service provision to meet large unmet demands and of lifting large numbers of people above the poverty line.

Estimates suggest that the countries with the lowest government spending will see spending grow the slowest (Figure 2.4). Countries that spend less than PPP\$200 per person may grow from an average PPP\$130 per person in 2011 to around PPP\$200 per person by 2030. Even the fastest growing country in this group, Ethiopia, is expected to reach expenditure in the region of only around PPP\$300 per person. Countries with spending of PPP\$200–499 per person are also expected to grow slowly, although more diversely, with the average across the group expected to rise to around PPP\$600 per person by 2030. Some in the group, such as Cambodia and Zambia, may see spending grow as much as 6.5%

a year, while others such as Chad, Malawi and Tanzania are likely to see much lower rates.

Spending per person is expected to more than double in real terms in India, Indonesia, the Philippines and Viet Nam between now and 2030, from PPP\$600–1,000 to PPP\$1,400–2,400. China's spending per person has tripled since the early 2000s and may triple again over the next decade. But Nigeria is expected to experience only very slow growth in government resources per person, due largely to continuing rapid population growth.

The severe resource constraints facing many governments restrict the domestic capacity to lift people out of poverty. The World Health Organization has found that only 8 of the 49 low-income countries reviewed 'have any chance of financing the required levels [for basic health care] from domestic resources in 2015.'<sup>5</sup>

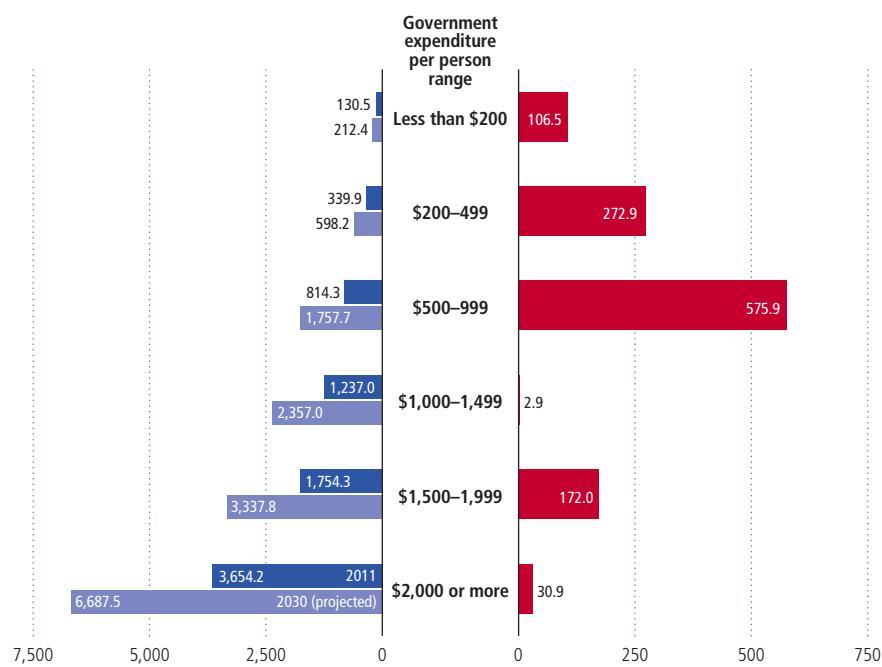
Economic growth can provide the space for governments to increase their revenue and reduce resource

FIGURE 2.4

### For low spenders, slow growth in spending is expected

Population-weighted government expenditure per person, PPP\$, 2011

People living on less than \$1.25 a day, millions, most recent year available



Source: Based on data from the IMF, World Bank and Oxford Economics.

constraints. But the poorest countries are caught in a vicious circle: projections of low growth in income per capita reduce the potential for increasing tax revenue.

The likely continuation of severe resource constraints in many countries provides a strong justification for international support, and aid will be an important part of it. The international community can provide valuable assistance by offering essential goods and services beyond the capacity of constrained countries and through assistance that helps countries boost their capacity. The international focus around two key areas, domestic resource mobilisation and tax justice, has grown in recent years.

There is also a strong argument for continuing to support many less resource-constrained countries, even where resources are expected to grow rapidly. The majority of these

countries are starting from a low resource base and have to rapidly scale up service provision. They have to expand and deepen the reach of existing services, offer new services in areas where the state has been absent and do this at pace, using resources efficiently. Even as the need for external resources in these countries diminishes – and the experience of some countries suggests that this is slower than generally expected – the international community can support the government and other domestic institutions as they expand their capacity and establish and refine programmes and policies to end poverty.

### International resources

International resources, totalling US\$2.1 trillion in 2011, fall into three broad categories and include flows both to and from developing countries (Table 2.2).

The largest inflows are commercial (US\$1.2 trillion, 58% of total in 2011), followed by official flows (US\$522.4 billion, 25%) and private flows (US\$355.7 billion, 17% in 2011; Figure 2.5).

Outward flows from developing countries include investments and development cooperation. They also include reverse flows in the form of repayments and returns on foreign investments, which account for 50% of outflows from developing countries (US\$1.0 trillion). Illicit flows are a third type of outflow, covering the proceeds of corruption and other illegal activities, as well as practices of international corporations such as trade mispricing.

These groups cover a diverse mix of resource flows that move for a range of objectives (Table 2.3). To harness all resources to maximise their contribution to eradicating poverty, we need to first understand their scale, their characteristics and where and how they are spent. The mix of resources varies enormously across countries and sectors, offering opportunities to combine and sequence different sources of finance to increase the overall impact on poverty. Chapter 7 provides detailed data on resource flows.

### Official financing

**Gross ODA.** Gross ODA from DAC donors totalled US\$148.7 billion in 2011, including concessional finance from 25 DAC donors and multilaterals for welfare and development purposes. The bundle of ODA includes grants and loans, provision of personnel and know-how, commodities such as food, investments in global public goods, and research and expenditure within the donor country (see Chapter 4). The qualifying criteria for ODA require that these flows be concessional and improve welfare and development.

TABLE 2.2

**Three types of inflows and outflows**

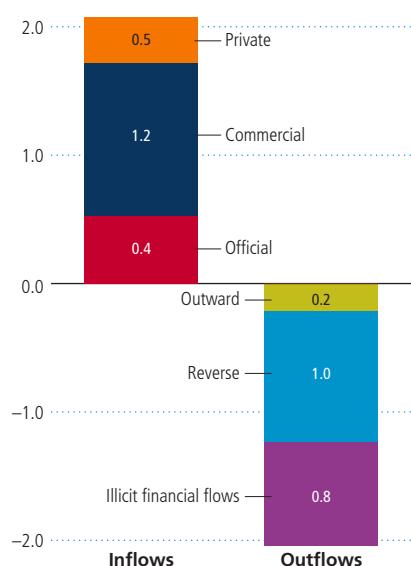
<b>Inflows</b>		<b>Outflows</b>	
Official	ODA Other official flows Development cooperation from non-DAC providers Development finance institutions Long-term loans (official sources) Climate finance Innovative finance Military and security expenditure	Outward	Development cooperation from non-DAC providers Outward foreign direct investment Outward remittances
Commercial	Foreign direct investment Portfolio equity Long-term loans (commercial sources) Short-term loans	Reverse	Capital and interest payments on ODA, other financial flows and long-term debt Profits on FDI Interest payments on short-term debt
Private	Remittances Non-governmental organisations and civil society organisations Individuals Foundations	Illicit	Capital flight Trade mispricing

Source: Development Initiatives.

FIGURE 2.5

**International resources flow both in and out of developing countries**

Inflows and outflows of resources from all developing countries, US\$ trillions, 2011

Source: Development Initiatives calculations based on data from a wide range of sources – see *Methodology*.

Poverty reduction has become an increasingly important concern, with evident focus on MDG objectives.

ODA is not, by definition, a transfer of resources to a developing country. In addition, some forms of ODA such as

loans and equity investments generate reverse flows; capital repayments from developing countries to DAC donors totalled US\$20.1 billion in 2011, and interest payments totalled US\$5.3 billion.

*Development cooperation.*

Development cooperation from governments outside the DAC, estimated at US\$16.8 billion in 2011, captures aid-like flows from 25 countries including the BRICs (Brazil, Russia, India and China); Middle Eastern, Eastern European and Latin American countries; and developing countries themselves. These flows are increasingly important, and their emergence highlights a shift in the geopolitics of development cooperation. Such cooperation may have similar objectives to ODA, although activities are less standardised and different countries conceptualise this cooperation in different ways. As with ODA, some of these financing instruments generate reverse flows, but data is not available.

*Other official flows.* Gross other official flows totalled US\$79.1 billion in 2011. Other official flows are typically loans

made by donor countries to the private and public sectors in developing countries. They are distinguished from ODA because they do not meet the concessionality criteria for classification as ODA. Repayments on other official flows are considerable: capital repayments and amounts received on export credits totalled US\$53.8 billion in 2011 and interest repayments totalled US\$11.2 billion.

*Development finance institutions.*

Development finance institutions committed around US\$153.1 billion in 2011 and disbursed US\$104.0 billion. But much of this is recorded as ODA or other official flows, so approvals net of ODA and other official flows are estimated at around US\$69.9 billion and disbursements at US\$37.8 billion. These figures include both the concessional and non-concessional arms of international and regional development banks as well as bilateral development finance institutions such as the US Overseas Private Investment Corporation. Bilateral development finance institutions operate under a spectrum of mandates, often balancing development objectives alongside

TABLE 2.3

**Key characteristics of international resource flows**

<b>Resource</b>	<b>Source</b>	<b>Destination</b>	<b>Objective</b>	<b>Channels to reduce poverty (direct and indirect)</b>
ODA	Public sector	<ul style="list-style-type: none"> <li>• Public sector and multilateral agencies</li> <li>• Non-governmental organisations</li> <li>• Donors' own projects</li> </ul>	<ul style="list-style-type: none"> <li>• Welfare and development</li> <li>• Poverty reduction</li> <li>• Mutual interest</li> </ul>	Numerous, including: <ul style="list-style-type: none"> <li>• Provision of health, education, water, sanitation, nutrition</li> <li>• Humanitarian assistance</li> <li>• Support to economic sectors</li> </ul>
Other official flows	Public sector	Private and public sector	Development	<ul style="list-style-type: none"> <li>• Finance for private sector development</li> <li>• Trade promotion</li> <li>• Support to state institutions</li> </ul>
Military and security expenditure	Public sector	Multilateral, regional and bilateral peacekeeping operations	Increased security	<ul style="list-style-type: none"> <li>• Promoting stabilisation and security</li> <li>• Humanitarian assistance</li> </ul>
Foreign investment	Private sector	Private sector	Return on investment	<ul style="list-style-type: none"> <li>• Job creation</li> <li>• Provision of goods and services</li> <li>• Payment of taxes</li> <li>• Corporate social responsibility</li> <li>• Upstream and downstream links</li> </ul>
Remittances	Households	Households	<ul style="list-style-type: none"> <li>• Support for family and friends</li> <li>• Private small-scale investment</li> </ul>	<ul style="list-style-type: none"> <li>• Increased consumption and security for recipient households</li> <li>• Investments in human capital and enterprise</li> <li>• Safety net in crisis</li> </ul>
Development finance institutions	Bilateral/multilateral development finance institutions	Public sector	<ul style="list-style-type: none"> <li>• Economic development</li> <li>• Poverty reduction</li> <li>• National interest—supporting enterprises from the source country</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure and longer term investments</li> <li>• Support to state institutions</li> <li>• Finance for private sector development</li> <li>• Regional development issues</li> </ul>
NGOs, CSOs and foundations	<ul style="list-style-type: none"> <li>• Private giving and fundraising by individuals and groups</li> <li>• Foundation resources</li> <li>• High net worth individuals</li> <li>• Official sources</li> </ul>	<ul style="list-style-type: none"> <li>• Own projects</li> <li>• Non-governmental organisations</li> <li>• Social enterprises</li> <li>• One to one</li> </ul>	<ul style="list-style-type: none"> <li>• Poverty reduction</li> <li>• Broader development</li> <li>• Humanitarian</li> <li>• Solidarity</li> <li>• Global public goods</li> </ul>	Numerous, including: <ul style="list-style-type: none"> <li>• Provision of health, education, water, sanitation, nutrition and so on</li> <li>• Humanitarian assistance</li> <li>• Investments in research and innovation</li> <li>• Public awareness and engagement</li> </ul>
Long- and short-term loans	<ul style="list-style-type: none"> <li>• Financial sector</li> <li>• Public sources</li> </ul>	Public and private sector	Private return	<ul style="list-style-type: none"> <li>• Through public and private sectors</li> </ul>
Climate finance	<ul style="list-style-type: none"> <li>• Public sector</li> <li>• Private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Public sector</li> <li>• Private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Prevention, mitigation, adaptation</li> <li>• Mutual interest</li> </ul>	<ul style="list-style-type: none"> <li>• Prevention, mitigation and adaptation of climate change impacts</li> </ul>
Innovative finance	<ul style="list-style-type: none"> <li>• Public sector</li> <li>• Private sector</li> </ul>	Multilaterals	Poverty reduction	Numerous, including: <ul style="list-style-type: none"> <li>• Health, nutrition, innovation</li> </ul>
Other providers of development cooperation	Public sector	<ul style="list-style-type: none"> <li>• Public sector</li> <li>• Donors' own projects</li> </ul>	<ul style="list-style-type: none"> <li>• Poverty reduction</li> <li>• Broader development</li> <li>• Mutual interest</li> </ul>	Numerous, including: <ul style="list-style-type: none"> <li>• Provision of health, education, water, sanitation, nutrition</li> <li>• Humanitarian assistance</li> <li>• Support to economic sectors</li> </ul>
Illicit financial flows	Private sector	<ul style="list-style-type: none"> <li>• Private sector</li> <li>• Individuals</li> </ul>	<ul style="list-style-type: none"> <li>• Tax avoidance</li> <li>• Capital flight</li> </ul>	Illicit financial flows reduce the resources available for poverty reduction initiatives

Source: Development Initiatives.

national interests. Development finance institutions provide a range of finance to public and private institutions in developing countries,

with loans forming a central part of the portfolio (although some development finance institutions also take up equity and offer grants

and technical assistance). As major providers of loans, the operations of development finance institutions result in outflows from developing

countries, but data on these reverse flows is not available.

**Innovative finance.** Innovative finance covers initiatives that either raise revenue or expend funds through innovative mechanisms. Nine innovative finance mechanisms totalled US\$1.2 billion in 2011, although the majority is either classified as ODA or private development assistance so they are captured elsewhere and not added into aggregate figures. Many of these mechanisms are designed for specific purposes, such as immunisation or nutrition. The financing mechanisms include debt instruments, pooled funds and mandatory or voluntary contributions linked to transactions. Many leverage funds from diverse actors, drawing together contributions from public, commercial and official sources.

**Climate change finance.** Climate change finance commitments are estimated at US\$112 billion in 2010/2011, having grown around 15% from the previous year. The majority of these flows are controlled by the private sector and are likely to be recorded elsewhere as FDI or other flows. Mitigation accounts for the majority of climate change finance flows, with smaller amounts going to adaptation. A large proportion of such mitigation investments are made in China and other emerging economies.

**Military and security flows.** Military and security flows from developed to developing countries are estimated at US\$211.4 billion in 2011. This series estimates the cost of foreign military and peacekeeping operations in developing countries and excludes military expenditure within donor countries (total world military expenditure was estimated at US\$1.7 trillion in 2011). Foreign military aid and other non-ODA security support to developing countries is estimated at around US\$15 billion (see Chapter 7).

## Commercial financing

**FDI.** FDI in developing countries totalled US\$471.6 billion in 2011. This net figure subtracts disinvestment by foreign investors (but not profit remittances), so gross FDI may be higher. FDI captures longer term investments in which the investor takes some control over the recipient enterprise, typically defined as 10% management control or more. Foreign investments are motivated by private return, and the reverse flow of profits on FDI leaving developing countries were estimated at US\$419.7 billion in 2011.

**Portfolio equity.** Portfolio equity flows to developing countries totalled US\$18.3 billion in 2011. They are typically short term and are defined as investments in which less than 10% ownership of the recipient entity is taken up. They are relatively volatile, and net flows likely mask considerable inflows and outflows. As with FDI, portfolio equity is motivated by profit, but data on returns leaving developing countries is not available.

**Long-term loans.** Disbursements of long-term loans totalled US\$529.9 billion in 2011, making it the largest single resource flow to developing countries. These loans have terms exceeding one year and flow to institutions in both the public and private sectors. They carry a repayment burden, and capital repayments from developing countries totalled US\$357.9 billion while interest payments were an additional US\$111.1 billion.

**Short-term loans.** Short-term loans totalled US\$180.0 billion in 2011. They are defined as loans with a term of less than one year. This net figure likely masks considerably higher gross inflows and repayments on capital, but disaggregated data is not available. Interest payments on short-term loans,

distinct from the net calculation, totalled US\$43.6 billion in 2011.

## Private financing

**Remittances.** Remittances received by developing countries totalled US\$343.4 billion in 2011. These flows capture funds transferred by migrant workers from the country they are working in. The true value of remittances is thought to be much higher because large volumes of remittances may flow through informal channels.

**Private development assistance.** Private development assistance is a combination of three resource flows, each given voluntarily from private sources for international development. These flows combined were estimated at US\$45.4 billion for 23 DAC donor countries in 2011. NGOs account for the largest portion, US\$26.3 billion, exclusive of expenditure funded by ODA. International giving by foundations is estimated at US\$7.1 billion. Corporate giving is estimated at US\$8.2 billion. And mixed sources of private development assistance such as partnerships between NGOs and foundations are estimated at US\$3.9 billion.

## Other flows

Illicit financial flows capture unrecorded outflows from developing countries and were estimated at US\$816 billion in 2011. These estimates, from Global Financial Integrity,<sup>6</sup> incorporate two types of illicit finance. Capital flight is an estimate of illicit outward transfers from developing countries

**A fluid mix of resources flows into and out of developing countries**

from activities such as bribery, theft, kickbacks and smuggling. Trade mispricing is an estimate of funds moved around the world, typically to reduce tax burden in the country of origin, through transfer mispricing, where goods or services are sold at manipulated prices. Trade mispricing accounts for the majority of illicit finance, an estimated US\$645.0 billion in 2011.

## International flows from developing countries

### Aggregate figures and trends

A fluid mix of resources flows into and out of developing countries. While the data is imperfect on both sides of the equation, the outflow of resources is clearly a large issue for many developing countries (Figure 2.6).

For developing countries in aggregate, the bulk of outflows are not productive investments in other countries. Instead, they are reverse flows, such as repayments on loans or returns to international investments leaving the country. The scale of such reverse

flows relative to inward investments can be startling. Gross disbursements of long-term loans to developing countries totalled US\$529.9 billion in 2011. But capital repayments by developing countries on such loans totalled US\$357.9 billion – two thirds of all loans received.

A ‘net’ figure of US\$172.0 billion of lending masks the scale of such repayments. It also masks the US\$111.1 billion developing countries paid in interest on long-term loans in addition to the capital repayments. Similarly, for FDI: Despite having data for fewer than half of developing countries, the outflow of profits on foreign investments from these countries was almost 90% of the value of new investments to all developing countries.

Such large outflows are not necessarily detrimental to developing countries, for it is the way resources are put to use that determines their true value. Loans and FDI may contribute much through job creation, higher incomes, growing demand, tax payments and other mechanisms. But the scale of outflows from developing countries

is substantial, and it is important to understand the resource flows both to and from developing countries. And greater understanding of the value added of such flows for development generally and poverty reduction specifically is required to assess the true significance of the scale of such reverse flows.

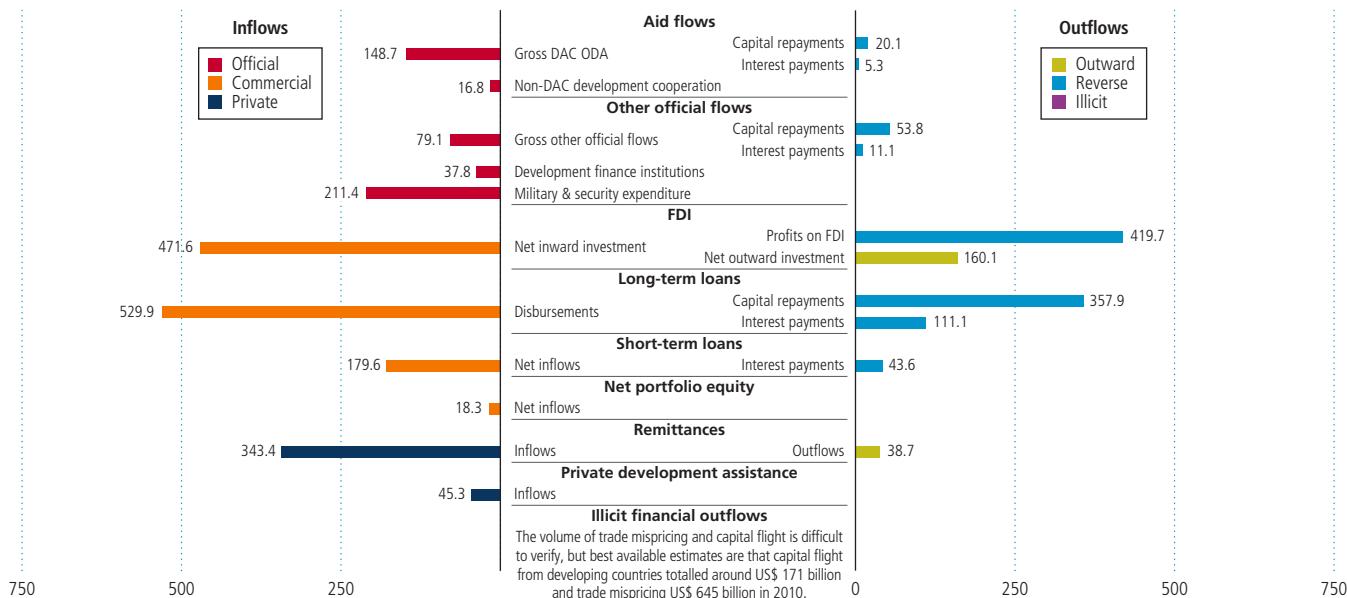
Illicit financial flows leaving developing countries are also substantial. Trade mispricing – the value of resources moved out of developing countries by underinvoicing or overinvoicing trade – is the largest single outflow. While not a ‘resource’ in the same way as other flows, it does represent resources lost from developing countries and reduces the benefits of trade to developing countries. Because the usual motive is tax avoidance, the cost to developing countries is considerable, conservatively estimated at some US\$160 billion in lost tax revenue each year.<sup>7</sup>

Including trade mispricing and capital flight, outflows exceed inflows for around a quarter of developing countries, though the aggregate difference is so large that it roughly

FIGURE 2.6

### A fluid mix of resources flows into and out of developing countries

US\$ billions, 2011



Source: Based on data from a wide range of sources – see *Methodology*.

equals the surplus of inflows over outflows in the remaining three-quarters of developing countries. China has the largest negative balance, due mainly to trade mispricing. Outflows also outweigh inflows in other countries with large numbers of people in extreme poverty, such as Ethiopia, Indonesia, Nigeria and South Africa. However, data is missing on both sides of the equation, with the gaps perhaps more severe on the outflows (see Chapter 6).

There is considerable disparity in resource inflows and outflows across developing countries. Outflows are generally larger than inflows in countries with higher government spending per person, due to large illicit and reverse flows (Figure 2.7).

Outflows exceed inflows in only a few countries with the lowest government spending per person. In Ethiopia and Sudan this is driven by large volumes of trade mispricing and capital flight, while in Nigeria large volumes of profits on FDI leave the country. But data quality is worse in these countries, particularly for outflows, and this may skew the picture for some countries.

### Trends and the changing mix of international resources

Total international resource flows to developing countries grew steadily over 2000–2011, rising from an estimated US\$1.0 trillion to US\$2.1 trillion (Figure 2.8).

FDI has seen the largest increases, growing from US\$47.0 billion in 1990 to US\$471.6 billion in 2011, an average of 11.6% a year. Remittances (10.4% a year) and long-term loans (7.4% a year) have also grown rapidly.

Disbursements of long-term loans account for the largest resource flows to developing countries, totalling US\$529.9 billion in 2011, followed by

FDI at US\$471.6 billion and remittances at US\$343.4 billion. Net short-term debt flows, highly volatile over the period, totalled US\$179.6 billion in 2011. Gross disbursements of ODA from DAC donors totalled

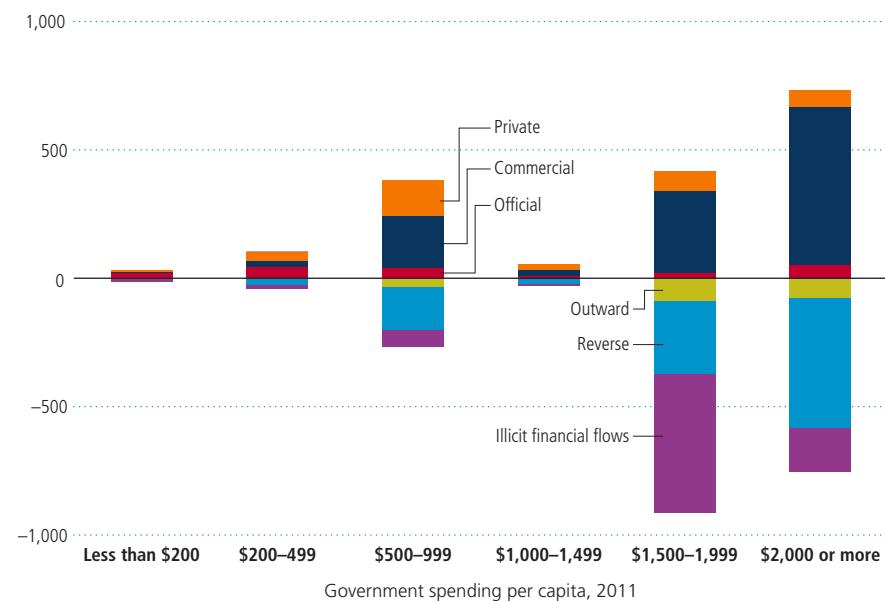
US\$148.7 billion in 2011, up from US\$93.1 billion in 2000.

The changes in the mix and increasing diversity of resource flows over time are illustrated by looking at

**FIGURE 2.7**

### Outflows are generally larger than inflows in countries with higher government spending per person

Inflows and outflows, US\$ billions, 2011

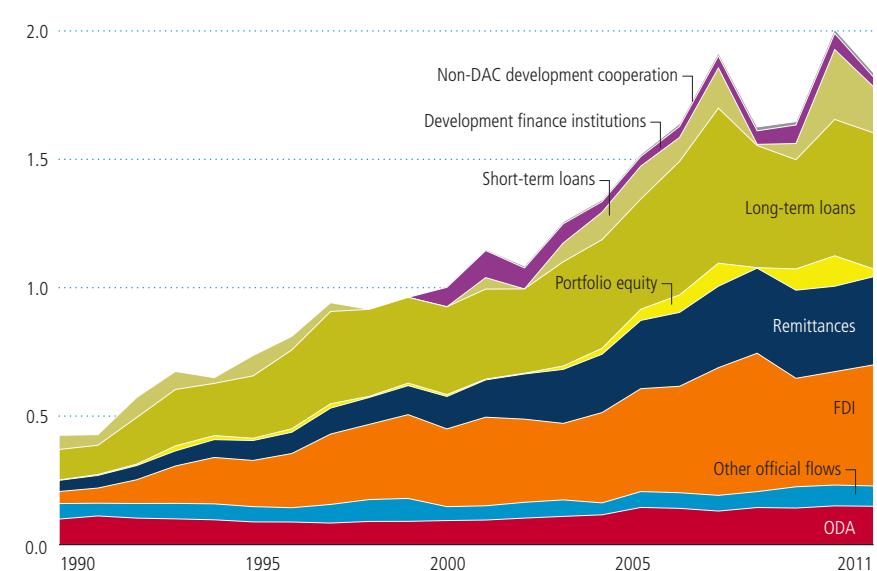


Source: Based on data from a wide range of sources – see *Methodology*.

**FIGURE 2.8**

### International resource flows to developing countries have grown rapidly

2011 US\$ trillions, 1990–2011



Note: Data for some flows does not cover the whole period – see *Methodology*. Excludes flows with no historic data, so headline figures are lower than the total US\$2.1 trillion inflows in 2011.

Source: Based on data from a wide range of sources – see *Methodology*.

the largest flow received by each developing country in each year (Figure 2.9).

This is important not only in terms of the investments that might be available, but also because different financial flows drive different relationships and carry different risks. Countries with ODA as the largest international resource inflow will be affected more by changes in the nature or delivery of aid, and partnerships with donors will be an important part of their foreign relations. Countries with FDI or loans as the largest resource flows will be affected more by changes in the international investment climate or in risk ratings.

In 1990 gross ODA from all donors was the largest resource flow for 95 developing countries, but by 2011 this had been more than halved to just 43. An estimated 221 million people

live on less than \$1.25 a day in these countries. For the majority of countries with spending less than PPP\$500 per person, ODA is the largest inflow.

The shifts in international flows to developing countries have been driven largely by growth in FDI and remittances. In 1990 FDI was the largest flow for 17 countries, and remittances for 13 countries, but this grew to 40 and 31 countries by 2011. Countries with FDI as the largest resource flow are primarily in the higher government spending groups (Figure 2.10). Countries with remittances as the largest flow are primarily in the PPP\$500–999 and PPP\$1,000–1,499 spending brackets, and more than half the world's extreme poor – 640 million people – live in these countries. But just because a resource is no longer the largest flow does not necessarily diminish its contribution to ending poverty.

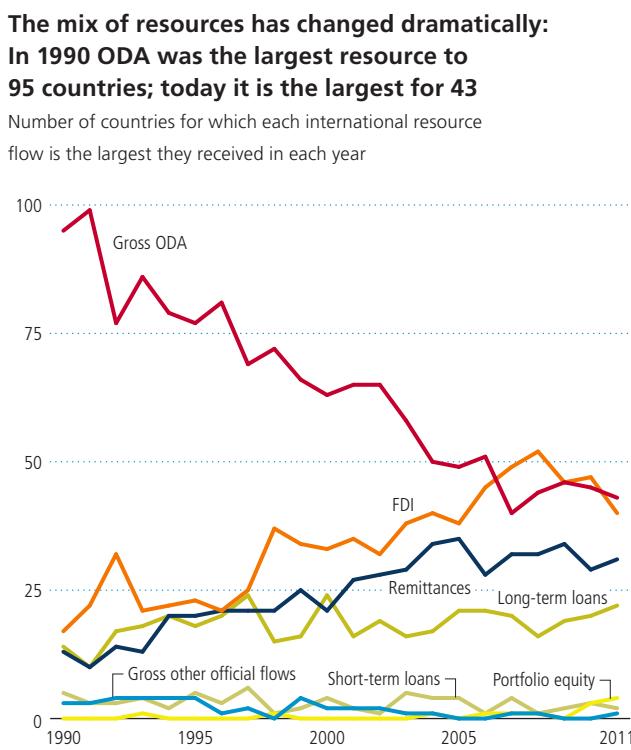
Resource flows perform different functions, and in most cases it is not appropriate to think of resources as displacing one another.

Most countries with ODA as the largest resource flow in 2011 are in sub-Saharan Africa, where it is the largest flow for more than half the countries in the region (Map 2.2). ODA is also the largest flow for most countries in Oceania and for several countries in Asia.

## Resource flows and the distribution of poverty

Countries with low government spending per person are home to the majority of people living on less than \$1.25 a day. To understand how international flows map across the global distribution of poverty, it is necessary to look at both the absolute numbers and the proportion of the

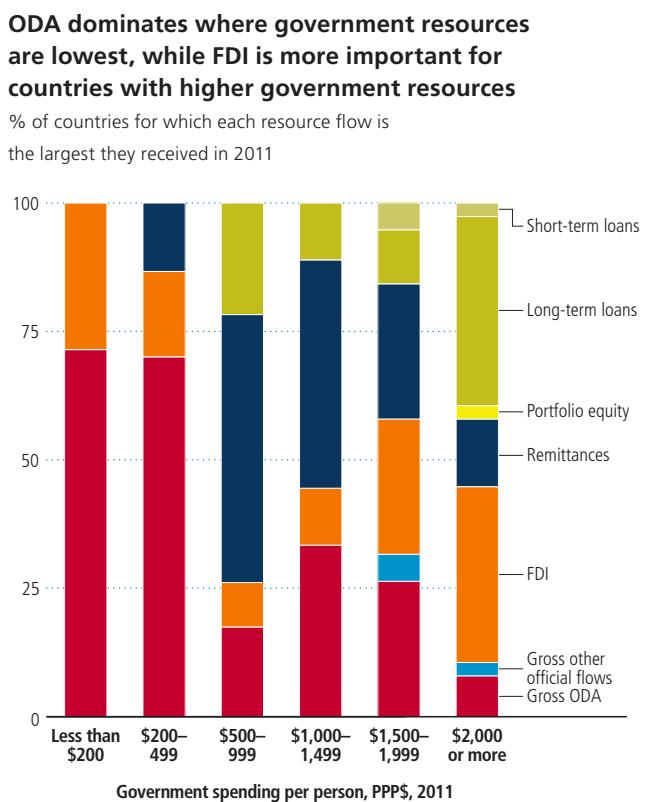
**FIGURE 2.9**



Note: Includes all countries classified as developing countries in 1990 (unlike the rest of the chapter, which considers only countries that are on the DAC 2012 list of ODA recipients). Excludes countries without data for at least two of three key resources (ODA, remittances and FDI).

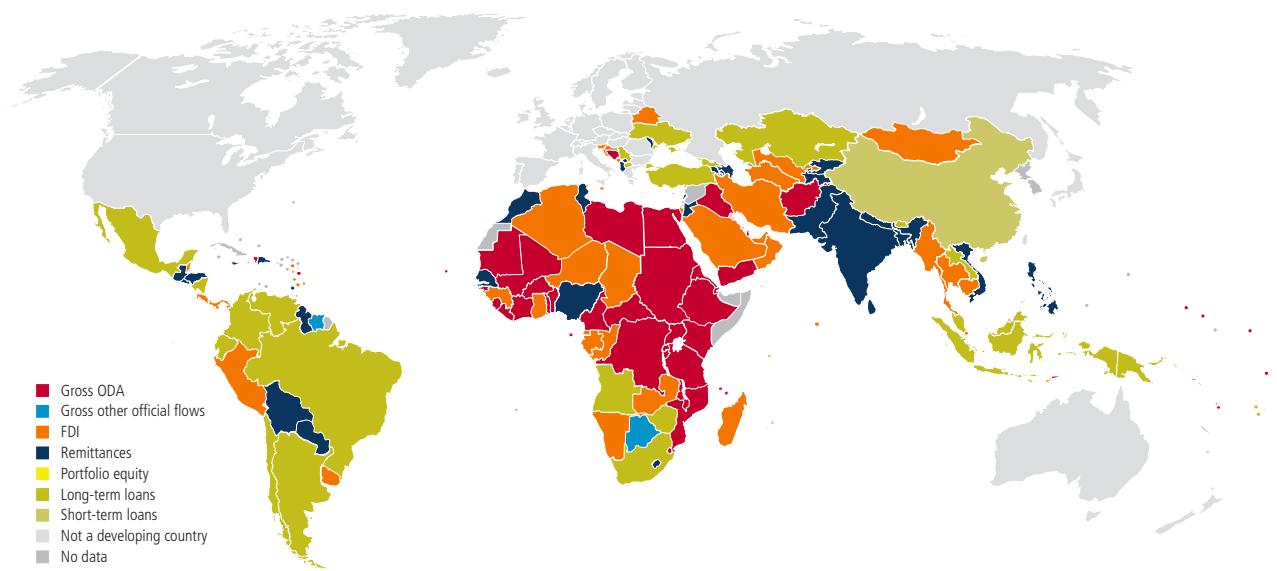
Source: Based on data from a wide range of sources – see *Methodology*.

**FIGURE 2.10**



Source: Based on data from a wide range of sources – see *Methodology*.

MAP 2.2

**Largest resource flows for each developing country, 2011**

Source: Based on data from a wide range of sources – see *Methodology*.

FIGURE 2.11

**ODA volumes are larger for most countries with the most severe resource constraints**

Millions of people in extreme poverty (log scale), most recent year available



Note: Bubble size shows the proportion of each resource flowing to each developing country in 2011. Volumes are not comparable across figures.

Source: Based on data from a wide range of sources – see *Methodology*.

population living in extreme poverty (the poverty rate).

Figure 2.11 shows how different resources are spent and whether they go to countries with large numbers of poor people or an above-average poverty rate. The size of the bubble reflects the volume of resources, and its position shows whether the resources are spent in countries with larger numbers or high proportions of people in poverty.

The top right quadrant includes countries with both large numbers of people in poverty and high proportions; countries in the bottom left quadrant have smaller numbers and lower proportions.

More and larger bubbles in the top half of Figure 2.11, and especially in the top right, indicate that more spending is going to countries with large numbers and high proportions of people in poverty. However, absolute numbers are important, so resources also need to be harnessed in countries with low poverty rates but large numbers of people living below the line.

FDI is highly concentrated, and the majority of flows are received by countries with lower poverty rates. Some 87% of FDI went to countries with poverty rates below the average of 21% across all developing countries in 2011.

Unsurprisingly, domestic government spending is also highest in countries with low proportional poverty rates.

Remittances are slightly less concentrated overall, and a larger proportion of remittances are received by countries with higher proportional poverty rates.

Although FDI, remittances and long-term debt are larger than ODA across all developing countries, ODA volumes

are larger for most countries with the most severe resource constraints (see Figures 2.10 and 2.12). ODA is the only resource flow in which poverty rates are a criteria for resource allocation across countries. Overall volumes of ODA are lower than other resources, but 50% of ODA was allocated to countries with above-average poverty rates, though there is considerable variation across donors (see Chapter 8).

All four resources flow in larger volumes to countries with more than 1 million poor people, highlighting the potential for these resources to make considerable contributions towards ending poverty.

\* \* \*

The final report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda argues, “Most of the money to finance sustainable development will come from domestic sources ... but developing countries will also need substantial external funding.”<sup>8</sup> Domestic government spending has grown rapidly since the MDGs were agreed, and more than 70 developing countries have experienced annual growth in government spending of 5% or more. Government spending per person, a key measure of a country’s capacity to serve its citizens, has also grown; however, 82% of the world’s poor still live in countries with annual government spending of less than PPP\$1,000 per person. More than 370 million people living on less than \$1.25 a day are in countries where annual government spending averages less than PPP\$500 per person.

The poorest countries can expect the slowest growth in domestic spending, and many countries will likely continue to face severe domestic resource constraints to realising the end of poverty.

While other developing countries are experiencing rapid growth in domestic resources – India, Indonesia, the Philippines and Viet Nam are expected to double government expenditure per capita by 2030 – they face a different challenge: rapidly scaling up service provision and lifting large numbers of people out of poverty.

There is a strong argument for continuing international support to developing countries facing both contexts. The international community can backstop the severe resource constraints felt by many developing countries and look for innovative ways to harness wider resources flows to this end. The international community can also support countries with rapidly growing domestic resources, as they overcome capacity constraints and aim to scale up service provision at rapid pace. As the resource flow most directly targeted at ending poverty, ODA will have an important role in this mix.

## Notes

1. Data on tax revenue is from the World Bank and covers ‘compulsory transfers to the central government for public purposes.’ It excludes social security contributions.
2. AfDB and others 2013.
3. WHO 2010.
4. UN Millennium Project 2004. The estimates are averages over 2003–2015 in 2000 US\$ per student, based on assessments in five developing countries (Bangladesh, Cambodia, Ghana, Tanzania and Uganda).
5. WHO 2010, p. 23.
6. Kar and Curcio 2012.
7. Christian Aid 2008.
8. United Nations 2013, p. 12.

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TABLE 2.4

## Mapping resources and poverty in developing countries

Country	Government spending per person (PPP\$)	International resource flows						
		Inflows per person, US\$						
		Gross ODA	Gross other official flows	Remittances	FDI (net)	Portfolio equity (net)	Long-term loans	Short-term loans (net)
Afghanistan	229.99	190.14	3.44	13.07	2.36	0.00	0.00	1.74
Albania	2,216.17	126.67	82.89	361.25	320.70	0.76	147.19	98.48
Algeria	3,089.38	8.65	..	53.98	71.46	0.00	0.46	-17.69
Angola	1,892.73	13.17	1.78	0.01	-284.71	0.00	239.41	-12.13
Anguilla		..	..	..	..	..	..	..
Antigua and Barbuda	3,941.65	179.78	402.40	269.51	662.76	0.00	..	0.00
Argentina	5,268.32	2.97	54.88	16.93	177.68	-4.27	209.09	52.15
Armenia	1,215.64	137.82	68.01	417.75	169.22	0.08	414.43	80.25
Azerbaijan	3,010.24	38.82	74.69	208.75	159.71	0.01	141.05	1.42
Bangladesh	251.46	15.21	1.94	80.19	7.55	-0.06	1.61	3.14
Belarus	4,503.75	13.80	12.47	73.55	420.75	-0.01	324.72	165.31
Belize	1,726.39	100.79	48.63	217.30	263.04	0.00	87.35	0.00
Benin	301.23	77.17	0.12	20.29	13.02	0.00	2.88	2.09
Bhutan	1,941.57	204.61	20.44	14.15	18.79	0.00	271.17	-1.35
Bolivia	1,579.64	74.50	0.46	103.98	85.14	0.00	53.17	0.74
Bosnia and Herzegovina	3,736.11	178.69	51.00	..	115.95	0.00	47.54	71.96
Botswana	4,134.70	67.65	297.64	30.84	289.12	0.00	0.00	26.59
Brazil	3,977.28	5.11	31.20	24.37	338.97	36.48	551.37	-118.75
Burkina Faso	255.63	62.12	0.14	8.23	0.44	0.00	0.00	6.25
Burundi	201.83	68.92	0.00	5.30	0.19	0.00	0.00	-1.75
Cambodia	408.74	61.18	2.59	17.13	62.33	0.00	12.60	8.67
Cameroon	449.99	34.79	3.51	5.73	17.97	0.00	0.23	3.39
Cape Verde	1,102.73	559.90	189.08	355.80	186.07	0.00	51.22	0.00
Central African Rep.	112.32	62.31	0.70	..	24.33	0.00	3.95	6.91
Chad	342.01	46.05	1.82	0.00	160.95	0.00	0.00	0.95
Chile	3,389.71	10.59	58.32	0.19	1,001.71	259.23	1,501.75	132.89
China	1,762.80	2.02	3.90	45.65	92.24	3.95	22.62	96.26
Colombia	2,480.20	22.74	25.98	89.61	282.02	41.95	317.92	55.55
Comoros	212.90	81.40	0.00	0.00	9.04	0.00	0.00	0.00
Congo, Dem. Rep.	92.18	110.47	4.15	0.00	24.90	0.00	0.00	-0.55
Congo, Rep.	992.04	85.00	0.00	0.00	707.99	0.00	40.98	-5.56
Cook Islands		..	..	..	..	..	..	..
Costa Rica	1,843.90	15.83	66.86	114.36	445.17	0.00	323.84	-1.96
Côte d'Ivoire	356.25	77.13	0.99	..	17.08	0.00	3.43	24.91
Cuba		7.64	0.24	..	..	..	..	..
Djibouti		177.81	18.44	35.73	86.13	0.00	10.34	-32.02
Dominica	4,057.45	492.35	81.86	394.20	368.50	0.00	51.94	-73.88
Dominican Republic	1,234.02	31.45	67.25	366.16	235.79	0.00	134.11	37.59
Ecuador	3,371.50	17.81	33.73	182.78	38.71	0.13	194.55	-4.61
Egypt	1,763.91	14.97	13.00	..	-5.85	-8.62	0.65	-1.50
El Salvador	1,311.87	56.99	60.44	588.81	61.90	0.00	68.83	18.86
Equatorial Guinea	11,289.72	40.43	53.33	0.00	1,023.47	0.00	..	0.00
Eritrea	173.66	26.54	0.00	0.00	3.42	0.00	0.00	0.18
Ethiopia	159.63	42.27	2.08	6.06	2.43	0.00	10.10	-1.64
Fiji	904.38	88.56	32.93	181.89	235.29	0.00	329.82	173.88
Gabon	3,194.76	69.14	113.18	0.00	474.50	0.00	271.55	9.12
Gambia	408.19	81.46	8.37	..	20.27	0.00	0.00	-23.65
Georgia	1,236.63	144.84	109.35	247.38	217.25	-1.60	321.45	112.58
Ghana	350.37	74.87	14.68	6.07	129.07	0.03	20.45	17.78
Grenada	2,671.70	184.76	20.78	523.62	377.07	0.00	0.00	-57.20
Guatemala	636.60	30.30	19.31	305.48	66.72	0.00	46.52	46.08

International resource flows (continued)						\$1.25 a day poverty			
Outflows per person, US\$									
ODA: capital + interest repayments	Other official flows: capital + interest repayments	Long-term debt: capital + interest repayments	Short- term debt interest repayments	Illicit financial flows <sup>a</sup>	Population (millions of people)	Millions of people	% of population	Year of estimate	
0.41	0.86	0.28	0.02	..	3.31	35.32	..	..	
21.98	33.26	111.92	3.22	0.00	54.14	3.22	0.02	1 2008	
3.78	..	16.96	0.60	42.20	41.43	35.98	1.92	7 1995	
3.69	0.14	144.03	1.65	11.19	..	19.62	8.05	43 2009	
..	..	..	..	..	..	..	..	..	
17.97	51.33	..	..	81.61	..	0.09	..	..	
1.17	56.30	376.69	4.03	28.24	133.18	40.76	0.37	1 2010	
21.20	38.99	277.79	9.36	0.67	401.93	3.10	0.08	2 2010	
7.95	25.39	200.19	2.03	132.03	..	9.17	0.04	0 2008	
6.30	1.21	8.69	0.33	0.38	15.46	150.49	64.31	43 2010	
0.55	6.61	190.37	23.50	17.71	..	9.47	0.01	0 2011	
20.92	62.00	369.91	0.00	15.74	212.93	0.36	0.03	12 1999	
3.26	0.48	4.14	0.03	0.66	0.00	9.10	3.39	47 2003	
14.55	4.96	114.48	0.17	234.24	..	0.74	0.07	10 2007	
3.76	16.89	43.15	1.99	92.18	0.00	10.09	1.50	16 2008	
17.89	69.75	207.85	21.72	19.44	257.59	3.75	0.00	0 2007	
9.76	10.39	32.91	2.94	0.00	118.04	2.03	0.48	31 1994	
1.25	55.84	296.92	3.42	18.96	5.72	196.66	11.87	6 2009	
3.20	0.30	3.71	0.22	0.73	24.43	16.97	7.13	45 2009	
1.27	0.07	0.70	0.00	1.81	4.81	8.58	6.08	81 2006	
7.07	1.49	5.23	0.13	2.20	76.79	14.31	2.60	19 2009	
4.62	5.38	15.94	0.01	0.00	19.52	20.03	1.75	10 2007	
75.45	3.96	73.99	0.00	147.17	..	0.50	0.10	21 2002	
0.41	0.58	0.07	0.06	..	8.17	4.49	2.66	63 2008	
5.81	0.70	6.07	0.00	..	..	11.53	5.67	62 2003	
1.47	40.70	871.73	22.57	35.23	89.05	17.27	0.23	1 2009	
2.89	3.12	35.14	22.92	44.49	308.80	1,344.13	157.09	12 2009	
1.01	29.12	204.30	10.83	3.33	1.17	46.93	3.78	8 2010	
8.79	0.57	5.21	0.00	..	16.12	0.75	0.29	46 2004	
2.14	13.21	3.69	0.04	3.13	4.28	67.76	51.83	88 2006	
8.84	26.08	24.28	0.40	64.65	493.80	4.14	1.91	54 2005	
..	..	..	..	..	..	..	..	..	
9.23	37.70	322.78	14.12	45.23	3,966.25	4.73	0.14	3 2009	
5.48	3.92	25.74	0.35	1.36	4.15	20.15	4.51	24 2008	
0.17	0.34	..	..	..	..	11.25	..	..	
20.71	17.50	37.59	1.17	135.27	422.13	0.91	0.14	19 2002	
149.39	43.74	200.93	5.26	83.99	1,763.38	0.07	..	..	
10.93	37.59	126.63	3.25	98.43	416.47	10.06	0.22	2 2010	
8.16	24.00	161.64	2.48	10.09	44.18	14.67	0.67	5 2010	
12.53	9.41	40.94	1.47	27.54	13.69	82.54	1.32	2 2008	
14.82	44.70	197.23	1.98	91.99	154.23	6.23	0.55	9 2009	
5.80	20.15	..	..	..	5,272.64	0.72	..	..	
1.93	0.00	4.05	0.03	..	..	5.42	..	..	
0.85	0.34	4.14	0.03	36.07	30.11	84.73	25.97	31 2011	
2.44	9.27	217.24	3.80	104.22	368.92	0.87	0.05	6 2009	
23.35	73.65	261.69	1.79	..	0.00	1.53	0.07	5 2005	
5.53	4.36	13.55	0.21	47.68	26.10	1.78	0.48	34 2003	
17.39	44.14	335.65	5.07	5.28	125.98	4.49	0.80	18 2010	
3.72	10.00	11.89	1.23	60.75	0.00	24.97	6.34	29 2006	
84.18	85.42	238.11	2.50	0.00	..	0.10	..	..	
4.83	25.07	137.37	2.03	26.55	166.91	14.76	1.76	14 2006	

TABLE 2.4

## Mapping resources and poverty in developing countries (continued)

Country	Government spending per person (PPP\$)	International resource flows					
		Inflows per person, US\$					
		Gross ODA	Gross other official flows	Remittances	FDI (net)	Portfolio equity (net)	Long-term loans
Guinea	208.66	36.04	0.00	7.66	118.46	0.00	0.37
Guinea-Bissau	227.98	231.30	0.00	29.66	12.52	0.00	0.00
Guyana	1,023.56	230.95	2.10	493.49	218.68	0.00	167.86
Haiti	339.86	169.85	3.05	153.24	17.88	0.00	22.66
Honduras	925.11	87.32	19.41	370.70	130.81	0.00	115.34
India	864.06	4.34	3.59	50.75	25.42	-3.33	29.17
Indonesia	739.82	10.98	15.28	28.57	78.02	-1.35	136.05
Iran		1.78	3.11	..	55.48	0.00	2.48
Iraq	1,521.96	57.99	..	11.72	49.05	2.86	..
Jamaica	1,722.33	45.53	181.41	784.31	89.49	0.00	291.90
Jordan	1,713.50	200.84	29.94	558.62	237.67	17.71	40.45
Kazakhstan	2,583.95	16.43	105.46	14.50	779.68	2.38	1,921.69
Kenya	424.03	66.40	11.72	22.45	8.06	0.48	0.57
Kiribati	1,894.60	636.74	8.90	0.00	38.25	0.00	..
Korea, Dem. Rep.		4.98	1.75	..	..	..	..
Kosovo		364.91	0.00	633.02	..	0.00	103.16
Kyrgyz Republic	761.99	106.62	12.38	312.57	125.76	0.99	100.13
Lao PDR	516.64	74.92	2.20	..	71.56	1.82	97.78
Lebanon	2,508.33	138.16	15.46	1,768.05	751.28	56.45	932.79
Lesotho	929.87	132.60	13.62	295.98	23.70	0.01	0.00
Liberia	147.87	242.72	30.37	87.20	123.04	0.00	0.00
Libya	8,583.10	99.98	..	0.00	0.00	0.00	..
Macedonia, FYR	2,748.88	114.17	65.79	210.15	204.42	-3.93	375.98
Madagascar	136.51	22.37	10.78	0.00	42.57	0.00	0.28
Malawi	276.87	53.62	0.00	1.13	3.66	-0.07	9.67
Malaysia	3,882.97	8.67	27.49	41.50	414.63	0.00	445.19
Maldives	3,262.47	177.89	85.98	9.36	879.63	0.11	227.36
Mali	221.90	83.63	0.70	29.85	11.23	0.00	0.00
Marshall Islands		1,541.34	0.00	0.00	134.52	0.00	..
Mauritania	617.26	121.44	20.78	0.00	12.76	0.00	0.00
Mauritius	3,052.07	163.64	80.48	193.64	212.58	7,298.78	96.05
Mexico	3,075.21	9.61	51.99	205.49	170.34	-54.39	480.81
Micronesia, Fed. States	1,966.72	1,213.09	23.31	..	70.25	0.00	..
Moldova	1,102.61	136.53	33.00	452.84	76.99	1.42	126.47
Mongolia	1,884.76	142.09	32.37	99.79	1,683.71	3.31	14.29
Montenegro	4,315.05	209.50	109.91	542.71	882.63	-23.89	420.07
Montserrat		..	..	..	..	..	..
Morocco	1,524.19	59.11	47.41	224.84	78.06	5.15	58.84
Mozambique	255.05	89.56	4.71	6.55	87.48	0.01	6.36
Myanmar		8.36	0.02	2.63	17.58	0.00	0.00
Namibia	2,224.34	130.43	5.16	6.90	387.14	1.90	..
Nauru		..	..	..	..	..	..
Nepal	206.02	34.41	0.01	138.32	3.13	0.00	4.94
Nicaragua	863.83	120.63	12.69	155.64	164.89	0.00	185.87
Niger	116.18	42.31	0.00	8.36	63.08	0.00	4.29
Nigeria	648.06	11.92	4.37	126.91	54.87	15.82	6.15
Niue		..	..	..	..	..	..
Pakistan	479.34	24.76	5.16	69.38	7.51	-0.21	4.17
Palau		1,339.71	310.54	..	..	..	..
Panama	3,437.46	36.25	178.88	107.56	781.20	0.00	258.97
Papua New Guinea	676.40	93.98	235.32	1.55	-44.08	0.00	1,149.76

International resource flows (continued)						\$1.25 a day poverty			
Outflows per person, US\$									
ODA: capital + interest repayments	Other official flows: capital + interest repayments	Long-term debt: capital + interest repayments	Short- term debt interest repayments	Illicit financial flows <sup>a</sup>	Population (millions of people)	Millions of people	% of population	Year of estimate	
17.31	0.73	16.02	0.06	0.25	37.03	10.22	4.06	43	2007
5.02	2.97	3.28	0.01	3.04	49.34	1.55	0.63	49	2002
30.66	3.97	43.78	6.68	253.12	328.76	0.76	0.06	9	1998
0.65	0.22	0.50	0.00	5.14	6.52	10.12	5.43	62	2001
8.81	19.36	128.80	0.48	50.23	480.77	7.75	1.34	18	2009
2.22	1.97	22.82	0.68	1.37	24.73	1,241.49	400.20	33	2010
11.68	17.71	127.36	1.54	6.84	17.25	242.33	39.26	16	2011
0.52	21.83	19.54	2.32	..	0.00	74.80	1.01	1	2005
0.43	..	..	..	296.12	531.22	32.96	0.83	3	2007
34.14	72.53	599.69	4.79	142.30	10.39	2.71	0.01	0	2004
47.36	33.64	124.76	26.05	49.83	24.65	6.18	0.01	0	2010
4.82	40.38	1,966.37	18.16	65.09	40.91	16.56	0.02	0	2009
8.03	1.44	9.11	0.60	6.73	1.26	41.61	15.45	43	2005
9.00	0.00	..	..	..	..	0.10	..	..	..
0.11	0.09	..	..	..	..	24.45	..	..	..
0.50	17.53	82.19	0.00	0.00	..	1.80	..	..	..
14.62	4.73	69.65	0.35	15.80	..	5.51	0.28	5	2011
15.21	3.67	43.92	0.00	71.71	15.40	6.29	2.04	34	2008
25.03	55.11	1,230.38	12.10	740.33	233.24	4.26	..	..	..
16.57	0.92	14.87	0.00	69.31	30.18	2.19	0.88	43	2003
1.44	33.26	0.77	0.00	28.39	168.82	4.13	2.91	84	2007
0.00	..	..	..	407.04	0.00	6.42	..	..	..
26.71	38.32	419.93	38.29	0.22	336.27	2.06	0.01	1	2010
2.40	1.41	1.62	0.18	..	1.68	21.32	16.84	81	2010
1.35	0.76	1.33	0.02	3.58	44.34	15.38	9.18	62	2010
9.26	13.26	364.79	11.32	833.33	1,643.29	28.86	0.00	0	2007
34.55	137.84	265.66	27.00	0.00	13.44	0.32	0.00	1	2004
2.96	0.31	4.14	0.09	5.11	25.91	15.84	7.75	50	2010
55.46	8.03	..	..	..	..	0.05	..	..	..
14.80	5.77	30.86	0.52	..	..	3.54	0.77	23	2008
22.81	32.67	125.88	0.11	0.00	367.18	1.29	..	..	..
1.43	29.36	344.86	21.76	166.56	313.87	114.79	0.82	1	2010
18.11	0.45	..	..	..	..	0.11	0.03	31	2000
6.20	25.91	119.71	9.79	0.00	72.41	3.56	0.01	0	2010
25.19	22.38	37.19	1.05	348.20	0.00	2.80	..	..	..
19.60	103.96	327.91	11.20	..	1,500.09	0.63	0.00	0	2009
..	..	..	..	..	..	..	..	..	..
15.64	24.38	99.02	1.17	5.15	26.47	32.27	0.78	3	2007
3.79	3.26	2.23	0.08	0.00	6.26	23.93	13.31	60	2008
0.16	0.04	0.15	0.00	47.42	0.00	48.34	..	..	..
15.93	17.96	..	..	149.16	91.24	2.32	0.65	32	2004
..	..	..	..	..	..	..	..	..	..
6.15	0.31	6.48	0.04	6.80	63.95	30.49	7.44	25	2010
5.25	8.97	109.85	1.92	54.44	227.71	5.87	0.65	12	2005
1.91	1.32	1.72	0.14	0.34	37.42	16.07	6.30	44	2008
1.21	1.68	2.28	0.28	93.91	26.34	162.47	88.34	54	2011
..	..	..	..	..	..	..	..	..	..
6.61	4.48	13.97	0.22	4.77	2.05	176.75	35.23	21	2008
0.00	0.00	..	..	..	..	0.02	..	..	..
9.53	76.52	260.34	0.00	154.29	1,562.34	3.57	0.23	7	2010
8.51	21.34	168.32	0.46	15.55	153.56	7.01	1.73	36	1996

TABLE 2.4

## Mapping resources and poverty in developing countries (continued)

Country	Government spending per person (PPP\$)	International resource flows						
		Gross ODA	Gross other official flows	Remittances	FDI (net)	Portfolio equity (net)	Long-term loans	Short-term loans (net)
Paraguay	928.06	24.80	34.96	135.90	46.13	0.00	68.36	113.58
Peru	1,721.81	27.31	29.28	91.73	280.02	5.00	81.03	4.46
Philippines	598.66	9.97	20.20	243.17	13.30	10.94	77.81	7.57
Rwanda	274.93	117.24	2.25	15.66	9.69	0.00	0.00	-1.28
Samoa	1,734.18	590.08	6.80	756.75	65.32	0.00	107.37	0.00
São Tomé & Príncipe	899.27	454.65	0.00	..	106.81	0.00	155.03	35.60
Senegal	427.71	87.96	4.51	115.74	22.41	0.00	45.53	0.00
Serbia	4,128.90	198.17	160.56	450.83	373.24	9.57	708.42	-221.45
Seychelles	8,012.68	277.44	43.14	296.66	1,673.02	0.00	14.34	3,488.37
Sierra Leone	201.29	72.93	1.63	12.89	8.12	0.00	0.59	5.17
Solomon Islands	1,292.52	613.20	31.42	3.46	265.05	0.00	49.41	3.62
Somalia		114.77	0.01	..	..	..	..	..
South Africa	2,994.55	29.00	29.52	23.96	114.80	-74.50	149.18	-56.69
South Sudan		105.56	..	..	..	0.00	..	0.00
Sri Lanka	959.74	54.18	11.66	248.85	14.38	-29.86	95.81	2.25
St. Helena		..	..	..	..	..	..	..
St. Kitts-Nevis	5,030.39	390.38	369.64	..	2,676.66	0.00	..	0.00
St. Lucia	3,514.69	261.59	11.25	182.10	430.65	0.00	32.79	-721.59
St. Vincent & Grenadines	2,799.63	221.46	36.30	..	1,235.59	0.00	130.54	0.00
Sudan	479.18	34.95	2.88	12.88	..	0.00	15.42	4.57
Suriname	1,984.42	182.52	208.62	7.35	-1,105.36	0.01	..	0.00
Swaziland	1,665.55	129.88	2.13	51.22	88.74	0.00	0.00	-39.33
Syria		26.39	5.38	..	..	..	..	..
Tajikistan	548.24	54.09	4.18	438.57	1.60	0.00	89.17	1.05
Tanzania	309.86	54.42	0.85	1.64	23.70	0.07	13.22	2.57
Thailand	1,786.21	7.70	11.45	57.46	137.69	12.58	43.84	-27.34
Timor-Leste	340.41	241.39	1.58	0.00	17.01	0.00	..	0.00
Togo	216.54	206.38	3.62	54.69	8.74	0.00	0.00	-4.22
Tokelau		..	..	..	..	..	..	..
Tonga	1,175.38	920.97	7.46	684.21	99.62	0.00	341.39	0.00
Tunisia	2,837.31	118.37	123.71	187.80	107.08	-4.10	19.26	-1.07
Turkey	4,573.78	50.14	55.20	14.76	215.59	-13.39	682.43	77.09
Turkmenistan	1,266.86	8.33	65.87	0.00	624.06	0.00	6.10	-3.13
Tuvalu		4,366.81	0.00	0.00	182.31	0.00	..	0.00
Uganda	239.65	47.14	2.00	27.49	22.96	3.06	0.00	9.07
Ukraine	2,797.04	17.82	28.78	146.94	157.68	11.36	653.01	155.80
Uruguay	3,849.14	12.09	123.97	30.14	650.47	0.00	631.50	-198.90
Uzbekistan	906.69	8.98	10.38	0.00	47.82	0.00	17.51	4.36
Vanuatu	954.89	387.31	5.21	88.62	236.95	0.00	0.00	118.07
Venezuela	4,255.40	1.63	36.13	..	181.09	0.00	280.36	-3.04
Viet Nam	911.81	48.00	16.16	97.91	84.59	12.11	31.53	34.32
Wallis & Futuna		..	..	..	..	..	..	..
West Bank & Gaza		616.29	3.63	..	..	..	..	..
Yemen	595.42	26.51	0.41	..	-28.74	0.00	0.00	-7.62
Zambia	329.43	81.25	3.59	3.44	147.07	0.83	6.89	-64.22
Zimbabwe		56.39	0.08	0.00	30.34	0.00	110.10	3.84

.. is unavailable.

a. Illicit finance flows are best estimates from the most recent year for which data is available.

Note: Highlighted cells indicate the largest flow for each country.

Source: Based on data from a wide range of sources – see *Methodology*.

**International resource flows (continued)**

**\$1.25 a day poverty**

<b>Outflows per person, US\$</b>						<b>Population (millions of people)</b>	<b>Millions of people</b>	<b>% of population</b>	<b>Year of estimate</b>
<b>ODA: capital + interest repayments</b>	<b>Other official flows: capital + interest repayments</b>	<b>Long-term debt: capital + interest repayments</b>	<b>Short- term debt interest repayments</b>	<b>Illicit financial flows<sup>a</sup></b>	<b>Capital flight</b>				
13.86	28.09	66.42	2.89	46.35	239.21	6.57	0.46	7	2010
7.54	40.79	108.27	4.28	24.51	64.84	29.40	1.43	5	2010
14.76	14.09	114.82	0.21	22.72	167.17	94.85	16.89	18	2009
2.13	0.62	1.71	0.01	0.56	46.86	10.94	6.91	63	2011
60.53	0.00	64.47	0.00	281.29	635.08	0.18	..	..	..
13.35	2.08	8.57	1.26	69.35	..	0.17	0.04	28	2001
5.84	9.21	27.72	0.00	0.00	0.00	12.77	3.78	30	2011
13.17	98.70	711.14	2.38	11.00	440.32	7.26	0.02	0	2010
38.49	40.00	196.69	200.10	0.00	40.10	0.09	0.00	0	2007
2.26	0.53	2.50	0.05	0.71	3.12	6.00	3.10	52	2011
9.81	22.63	27.61	0.03	25.86	319.65	0.55	..	..	..
0.06	0.00	..	..	..	..	9.56	..	..	..
1.51	12.95	116.68	11.84	21.02	76.51	50.59	6.79	14	2009
0.18	..	..	..	..	..	10.31	..	..	..
32.39	3.05	59.63	1.59	46.55	0.00	20.87	0.85	4	2010
..	..	..	..	..	..	..	..	..	..
104.43	166.07	..	..	361.53	..	0.05	..	..	..
65.63	91.31	242.98	12.44	50.84	..	0.18	0.03	21	1995
63.91	100.31	277.09	0.00	4.64	..	0.11	..	..	..
1.44	0.40	15.04	0.23	26.04	233.51	34.32	6.53	20	2009
4.44	18.06	..	..	298.83	102.17	0.53	0.07	16	1999
16.35	23.38	37.51	2.67	67.51	67.22	1.07	0.43	41	2010
8.46	6.68	..	..	..	..	20.82	0.31	2	2004
4.13	3.37	82.68	0.28	2.81	..	6.98	0.44	7	2009
2.29	2.11	2.79	0.41	10.15	0.84	46.22	27.87	68	2007
11.32	8.39	143.73	6.99	59.77	132.96	69.52	0.26	0	2010
0.07	11.74	..	..	5.75	..	1.18	..	..	..
2.64	6.51	2.35	0.04	0.00	21.68	6.15	1.74	28	2011
..	..	..	..	..	..	..	..	..	..
31.86	0.00	56.12	0.00	327.23	52.47	0.10	..	..	..
37.65	70.75	243.21	6.10	3.77	0.00	10.67	0.11	1	2010
10.20	35.02	688.26	39.38	0.00	47.15	73.64	0.97	1	2010
1.05	14.36	25.24	0.23	..	..	5.11	1.09	25	1998
59.92	0.00	..	..	..	..	0.01	..	..	..
2.01	1.46	1.78	0.16	4.57	35.51	34.51	12.30	38	2009
0.23	27.97	583.78	9.31	12.02	31.23	45.71	0.01	0	2010
8.06	106.30	429.92	4.15	187.95	335.59	3.37	0.01	0	2010
2.20	14.95	21.00	0.25	..	..	29.34	..	..	..
20.07	0.00	19.20	6.57	190.22	..	0.25	..	..	..
0.12	11.64	202.10	8.86	60.94	0.00	29.28	1.79	7	2006
9.91	5.64	37.08	1.20	47.01	0.00	87.84	14.34	17	2008
..	..	..	..	..	..	..	..	..	..
1.09	2.28	..	..	..	..	3.93	0.00	0	2009
6.88	1.72	10.05	0.00	0.00	96.49	24.80	3.62	18	2005
4.26	5.07	13.24	0.33	5.37	28.14	13.47	9.62	74	2010
0.30	0.00	88.94	0.20	..	9.62	12.75	..	..	..

PART  
**2**

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**BETTER DATA,  
BETTER AID,  
BETTER RESULTS**

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GOVERNMENT SPENDING

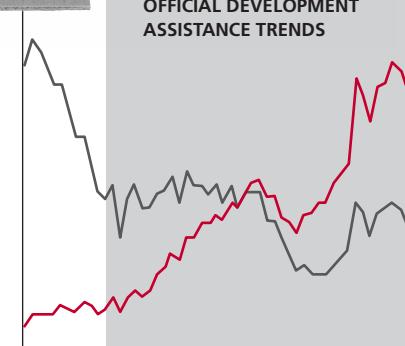
# UNBUNDLING AID

OTHER INTERNATIONAL RESOURCES

- Cash (grants)
- Cash (loans & equity investments)
- Mixed project aid
- Commodities & food
- Technical cooperation
- Support to third parties and global public goods
- Non-transferred

All resources can play a role in getting poverty to zero

OFFICIAL DEVELOPMENT ASSISTANCE TRENDS



Aid can be targeted directly at ending poverty

INVESTMENTS TO END POVERTY



# Global aid trends

- ODA is unique. ODA is the main official international resource flow aimed primarily at the economic development and welfare of developing countries.
- ODA totalled US\$128 billion in 2012, having grown substantially in real terms since 2000. G8 countries provide two-thirds of ODA, with the US accounting for almost a quarter of total ODA.
- Aid targets have not been met. Five countries exceed the UN target of 0.7% of GNI for ODA set in 1970. But as a whole, DAC donors achieved only 0.29% of GNI in 2012.
- Sub-Saharan Africa gets the largest share of aid from DAC donors. Sub-Saharan Africa receives about 35% of total ODA, South and Central Asia about 17%. Five of the twenty largest aid recipients are in sub-Saharan Africa. The largest ODA recipient is Afghanistan, which receives 4.9% of total ODA disbursements. The next largest recipient is the Democratic Republic of Congo.
- Governance and security receives the most ODA (12%), followed by health and infrastructure. Despite the persistence of malnutrition and the fact that rural livelihoods are very important for the poorest, spending on agriculture remains well below spending on humanitarian crises, which are often acute phases of chronic food insecurity.
- ODA and the architecture around aid need to be updated to meet the challenge of financing the post-2015 development goals.

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## The history of official development assistance

2015 marks the 70th anniversary of the end of the Second World War, when Europe was crippled by war debt and economically bankrupt, with millions homeless and much of its industrial

infrastructure destroyed. The origins of official development assistance (ODA) go back to the Marshall Plan, a US-funded scheme to support post-war reconstruction in Europe, managed from 1948 to 1961 by the Organisation for European Economic Co-operation (OEEC). In each of the plan's four

years the United States committed US\$13 billion in economic and technical assistance, equivalent to more than 1.25% of its national income. In 1961 the OEEC became the Organisation for Economic Co-operation and Development (OECD), and the United States and Canada joined and the focus

expanded from European reconstruction to broader international cooperation. The same year, the OECD's Development Assistance Group agreed on a resolution for a common aid effort and the first meeting of its Development Assistance Committee (DAC) was held.

Aid can be provided in many forms, but ODA has strict eligibility criteria enforced by the DAC. The 'official' bilateral financing by sovereign governments must have as its primary objective the welfare and economic development of developing countries. This assistance must also be concessional, through the provision of either grants or soft loans.<sup>1</sup>

In 1970 the international community, under the auspices of the UN, first set the target of 0.7% of GNI as ODA. It has since repeatedly been re-endorsed at the highest level at international aid and development conferences:

- In 2005 the 15 countries that were members of the European Union by 2004 agreed to reach the target by 2015.
- The 0.7% target served as a reference for 2005 political commitments to increase ODA from the EU, the G8 Gleneagles Summit and the UN World Summit.

To date, sixteen donors reporting to the DAC have met – or have set a timetable to meet – the commitment to spend at least 0.7% of their gross national income (GNI) on ODA. Any funding that meets the ODA criteria can be counted towards this target. Funding that comes from governments and falls outside these criteria – such as the enforcement aspects of peacekeeping – cannot

### ***Today some of the countries that once received aid are now significant donors***

be counted, nor can aid outside the official sector – such as contributions to nongovernmental organisations (NGOs) by the public or funding from philanthropic foundations.

The objectives of ODA have changed over time, complicating any rigorous long-term assessment of its impact on poverty. Historically, allocations have been influenced by past colonial ties, Cold War era allegiances and commercial interest. High volumes of ODA to Afghanistan and Iraq today show the continuing influence of security interests. Assistance has also been caught up in ongoing tensions between economic growth and poverty reduction.

Through the 1960s a priority for economic growth involving large-scale infrastructure did not have the expected impacts on social welfare, such as literacy, life expectancy and infant mortality. In response, a more human development focus on basic needs emerged in the 1970s. But that was short-lived as oil, debt and balance of payment crises led to the International Monetary Fund and World Bank's macroeconomic structural adjustment programmes of the 1980s, to be followed again by an explicit focus on human development – 'adjustment with a human face.' Two decades later, under the Millennium Development Goals (MDGs) agenda, governments again united around specific poverty and deprivation objectives, backed by financial commitments set under the auspices of the UN at Monterrey in 2002 and again at Gleneagles by the G8 in 2005.

The landscape for aid has also changed – in the 1950s a handful of rich donors provided assistance to a larger number of poor countries. Today some of the countries that once received aid are now significant donors. An example is Korea, which has seen a threefold increase in its disbursements over the last decade.

The line between donor and recipient has also blurred, with many countries both giving and receiving aid. For example, 125 countries have contributed to the UN Central Emergency Response Fund since 2006, including Bangladesh, Ghana, Mozambique and Nigeria. More than 80 countries reported providing aid on the UN Financial Tracking System in 2011, of which 50 are on the list of ODA recipients.

Meanwhile, Brazil, China, India and countries in the Middle East provide large amounts of both investment and assistance to developing countries. Similarly, the rapid growth of philanthropy and private flows, particularly through foundations and international NGOs, reflects the growing role of private capital in a landscape traditionally dominated by nation states.

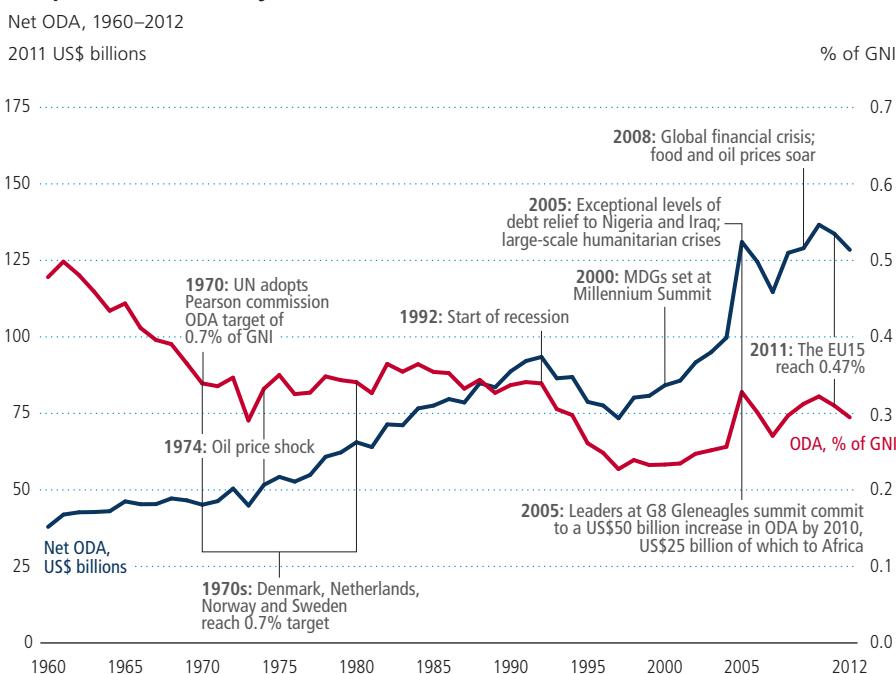
Against this changing landscape, this chapter answers some basic questions about ODA. How much of it is there? Who provides it? Who implements it? Where does it go? What is it spent on? And what is its future? Knowing the what, where and how of aid is the first step towards understanding how to improve its allocation.

### **Global trends**

Global ODA has grown from around US\$40 billion a year in the 1960s to more than US\$128 billion in 2012 (Figure 3.1). Despite this rise, disbursements have not kept pace with donors' own economic growth. In 1970 the international community, under the auspices of the UN, set 0.7% of a country's national income as the benchmark for foreign aid, derived from a tradeoff between what was considered to be needed and what was politically and economically feasible. In 2000 the volume of aid required for developing countries to meet the MDGs and needs arising from conflict and humanitarian crises was also estimated

FIGURE 3.1

### ODA has grown to record highs since the 1970s – but the path has not always been smooth



Source: Development Initiatives calculations based on data from the DAC.

around this level. The 0.7% target has endured, with EU-15 member states setting timebound targets for reaching it by 2015. Despite these commitments, DAC donors as a whole have so far failed to reach half this level, though five countries have consistently contributed more than 0.7% of their GNI.

Net ODA increased steadily for more than a decade, growing 62% between 2000 and 2010 to a peak of US\$136.6 billion. Spikes in 2005 and 2006 were due to periods of exceptional debt relief (notably for Iraq and Nigeria; under DAC rules, the full value of the debt cancelled can be recorded as ODA; see Chapter 4).

This continued growth was interrupted in 2011, when net ODA from DAC donors fell 2.2% in real terms (US\$2.9 billion). Preliminary data reveals that this was followed by a further fall of 3.9% (US\$5.2 billion) to US\$128.4 billion in 2012, partly due to reductions in debt relief and a drop in humanitarian assistance. These are the

first decreases since 1997 (disregarding the period of exceptional debt relief).

### Who provides ODA, and who delivers it?

In 2012, 23 country members of the DAC and the European Union reported ODA volumes – referred to as DAC ODA. Two more countries, the Czech Republic and Iceland, joined in 2013.

### Which donors provide the most money?

Nearly two-thirds of ODA comes from five G8 countries that are consistently the largest donors by volume – the United States, the United Kingdom, Germany, France and Japan, in that order. The United States tops the list with ODA of US\$30 billion in 2012, more than twice the next largest donor. The United Kingdom, Germany, France and Japan each provided more than US\$10 billion in 2012. The 15 largest donors account for 95% of ODA.

Almost all donors have increased ODA disbursements since 2000. Australia, Finland, Ireland, Korea, the United Kingdom and the United States drove aggregate ODA growth, with increases of more than 100% (Figure 3.2).

Canada, France, Germany, Luxembourg, New Zealand, Sweden and Switzerland have witnessed growth of more than 60%. Japan saw ODA decline 32.4% between 2000 and 2012, as did Greece (22.3%), Spain (15.1%) and Denmark (11%) – much of this the results of reductions in the last few years. Despite this fall in absolute volume, Denmark still contributes 0.84% of its GNI – more than all but three other DAC donors. ODA from Japan is 0.17% of GNI.

Four of the five largest donors – the United States, the United Kingdom, France and Japan – saw ODA volumes fall between 2010 and 2012 (Japan by 10.8%, France by 6.1%). Large drops were also reported by Spain (66.7%), Greece (34.5%), Belgium (24.1%), the Netherlands (12.3%) and Italy (11.4%).

### Which donor countries give most per capita or as a share of their national income?

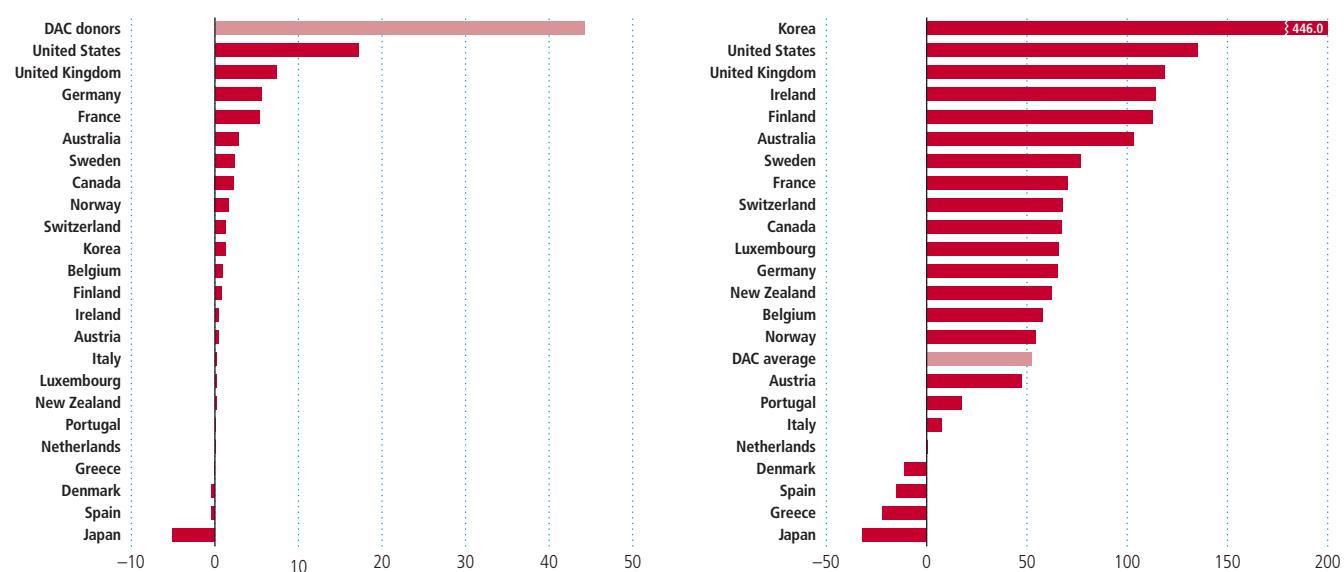
Absolute volumes of ODA highlight the major players in the aid landscape but reveal less about the priority that each donor government places on ODA or whether they are contributing their ‘fair share.’ To do this, aid volumes need to be compared with overall national wealth (GNI) or government spending. For example, Canada and Sweden gave comparable volumes of ODA in 2011 (about US\$5.5 billion each). But because of its smaller economy and domestic budget, ODA as a share of GNI and as a proportion of government spending is three times higher in Sweden than in Canada.

Aid targets, both national and international, are commonly expressed as a proportion of GNI. Five countries – Sweden, Norway, Luxembourg, Denmark

FIGURE 3.2

**Six country donors more than doubled ODA disbursements in real terms over 2000–2012, and ten more increased it by at least half**

Change in ODA, US\$ billions



Source: Development Initiatives calculations based on data from the DAC.

and the Netherlands – have met the long-standing UN target of 0.7%.<sup>2</sup> And except for Luxembourg, they have maintained aid between 0.7% and 1.2% of GNI for at least the last two decades.

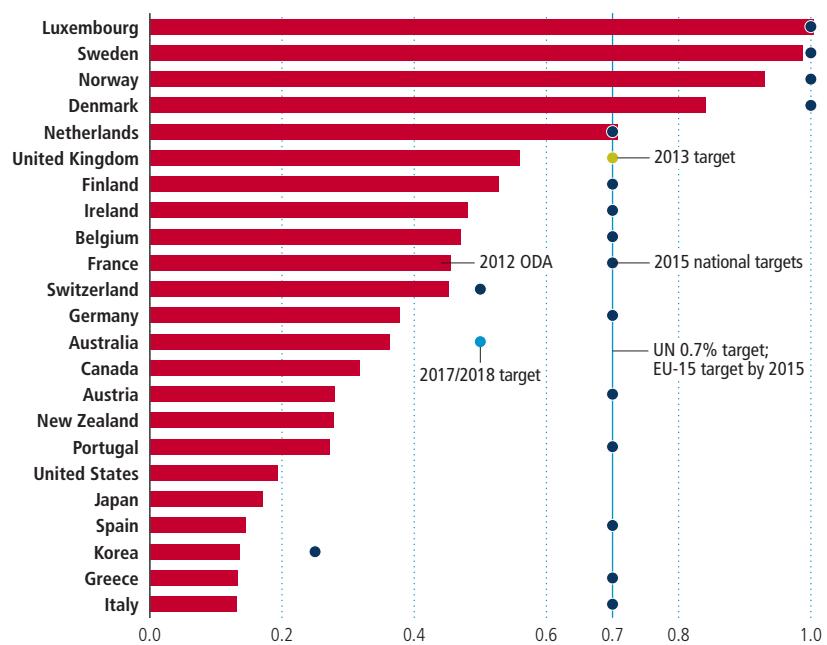
In 2005 EU-15 member states committed to reach ODA as 0.7% of their collective GNI by 2015, with targets set for countries already at this level. A separate target of 0.33% was agreed for new EU accession countries. The only country to have made budgetary provision to reach this target is the United Kingdom, and if it delivers, it will be the first G8 member to meet this pledge. Some donors outside the EU have also set targets. Notably absent are Japan and the United States, which, despite being among the largest donors by volume, are among the smallest donors relative to the size of their economies, with ODA at 0.17% of GNI for Japan in 2011 and 0.19% for the United States (Figure 3.3).

ODA as a share of total public expenditure is another measure of ODA as a priority within government. As

FIGURE 3.3

**DAC ODA by donor GNI and donors' national targets**

Net ODA, % of GNI, 2012, and 2015 national targets



Source: Development Initiatives calculations based on data from the DAC.

a whole DAC donors allocate 0.72% of public spending to ODA, but with considerable differences: the 5 donors that have already achieved the 0.7% target allocate 1.5–2.2% of public

spending to ODA, while 14 allocate less than 1%. The 0.7% target is sometimes criticised for a bias against donors with large economies and comparatively small public spending. But the data

shows that countries with low GNI ratios, such as Japan and the United States, also allocate smaller proportions of public expenditure to ODA.

## Which organisations does ODA flow through on the journey from donor to recipient?

The path of ODA to its final delivery can be complicated, involving numerous actors, and it is currently difficult to track the flow of financing at each point along the chain (Figure 3.4). Donors have recognised this problem, and the implementation of the International Aid Transparency Initiative should greatly improve aid traceability.

The bulk of ODA from DAC donors – around 80% – is managed either by governments or by multilateral agencies. Around 40% is channelled

through projects and investments controlled directly by donors or allocated to governments of recipient countries ('public sector'). Another 40% is channelled through multilateral agencies, with a third of that controlled by the donor in the sense that it is earmarked for a specific purpose or project or country and the rest given as core contributions, which the multilateral agencies decide where and how to spend (Figure 3.5).

Some 12% of ODA is channelled through NGOs, and a further 9% through 'other' organisations such as universities and think tanks.

The EU Institutions and the World Bank Group are the largest multilateral recipients of gross ODA (combined core and earmarked contributions).

The profile of disbursements to multilateral agencies differs

substantially across institutions. For example, almost all ODA to EU Institutions is core contributions from EU member states, through budgetary contributions to the EU Multiannual Finance Framework and contributions to the European Development Fund. By contrast, three-fifths of contributions to UN agencies are earmarked for specific purposes or places.

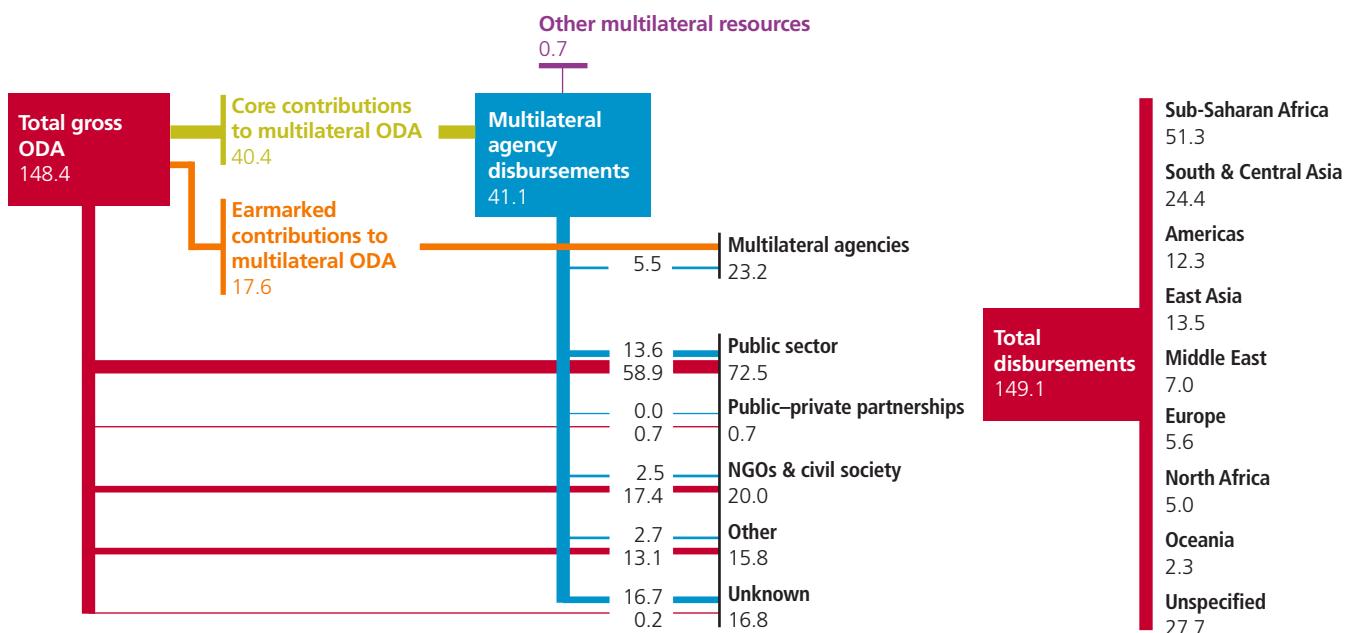
The five largest donors by volume are the same donors that provide the largest core contributions to multilateral agencies: together, France, Germany, Japan, the United Kingdom and the United States accounted for 60% of the total (Figure 3.6).

The EU Institutions have consistently been the largest recipient of core multilateral ODA (US\$13.1 billion in 2011; Figure 3.7). Between 2000 and 2011 contributions to multilateral agencies grew substantially: IDA by

FIGURE 3.4

### The flow of ODA in 2011

2011 US\$ billions



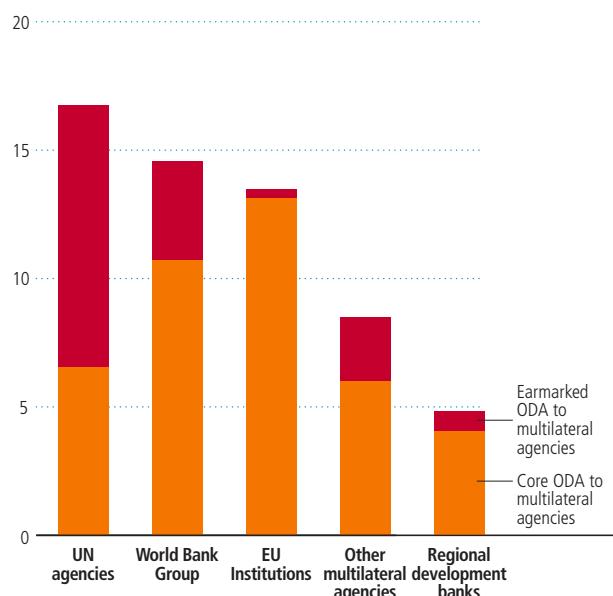
Note: The OECD classifies ODA going to countries and regions. The latter includes individual sub-regions (North Africa, Sub-Saharan Africa, East Asia, South and Central Asia, Middle East, North America, South and Central America, Europe, Oceania) and multiregional ODA (Africa, Asia, Americas, Europe, Oceania). Regional ODA in the figure includes ODA to each sub-region plus a proportionate share of multiregional ODA. See *Methodology*.

Source: Development Initiatives calculations based on data from the DAC's Creditor Reporting System.

FIGURE 3.5

### Most ODA received by multilateral organisations is not earmarked

US\$ billions, 2011

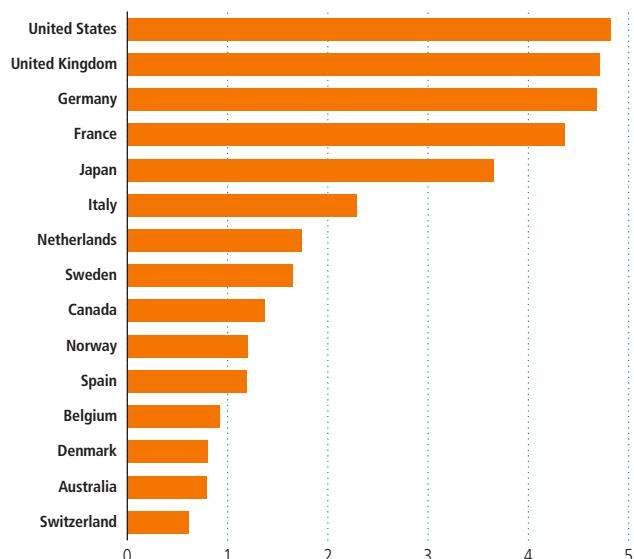


Source: Development Initiatives based on data from the DAC's Creditor Reporting System.

FIGURE 3.6

### Five donors each disburse on average more than US\$3 billion a year as core contributions to multilateral agencies – more than 60% of the total

Core ODA to multilateral agencies, 2011 US\$ billions, 2012

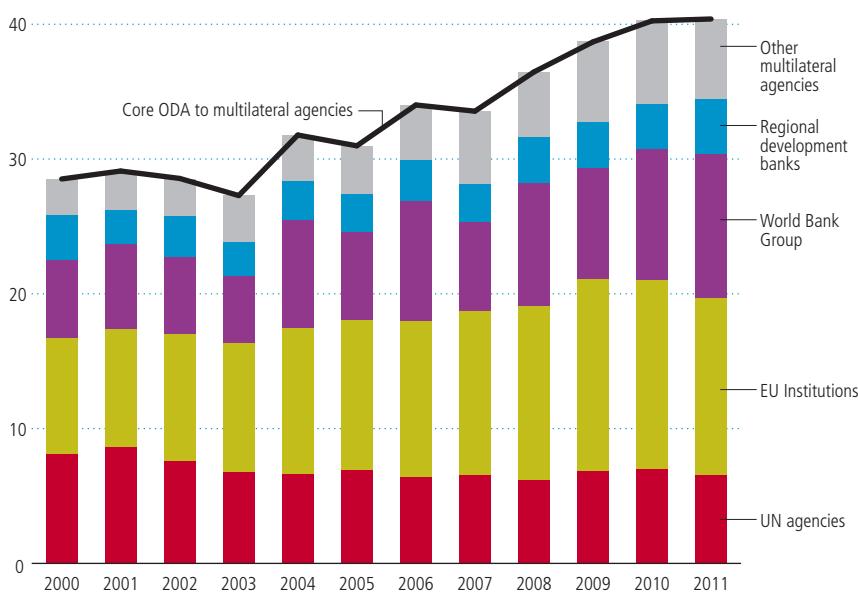


Source: Development Initiatives calculations based on data from the DAC.

FIGURE 3.7

### The EU and World Bank receive 60% of core contributions to multilateral agencies

2011 US\$ billions, 2000–2011



Source: Development Initiatives calculations based on data from the DAC.

71% and the Global Environment Facility by 37% (driven by a contribution of more than US\$1 billion in 2011). Core contributions to UN agencies as a whole fell 19.3% (due to

long-term drops in core contributions to the World Food Programme since the 1990s and by donors recording more contributions as 'earmarked' rather than core). The World Bank's

share of multilateral ODA increased from 20% to 26% over 2000–2011.

## Where does aid go?

### How much ODA is allocated to specific countries?

Most ODA – 70% in 2011 – is allocated to individual developing countries. On top of this, donors allocate small proportions of aid to cross-border and regional initiatives, such as aid supporting the African regional economic communities. While the volumes of regional aid remain small – around 6% in 2011 – they have more than doubled since 2000, more than the 66% increase in aid allocated to individual countries.

Nearly a fifth of net ODA is not allocated to a specific region. Such aid consists of project-type interventions and core contributions to international NGOs, research institutions, multilateral organisations and pooled funds. Some

ODA finances donor administrative costs and the costs of supporting refugees in donor countries. ODA not allocated to a specific region almost doubled over the decade.

### Which regions receive the most ODA?

Sub-Saharan Africa receives the most ODA, US\$47.2 billion in 2011 or 35% of net ODA, followed by South and Central Asia with US\$22.1 billion or 17% of the total.

Over the last decade the Middle East has seen the largest ODA growth rates, driven by aid to Iraq, which peaked at US\$29.7 billion in 2005 and fell to US\$7.0 billion in 2010. ODA to the region increased 112% between 2000–2002 and 2009–2011, compared with 85% for South and Central Asia (driven mainly by aid to Afghanistan) and 79% for sub-Saharan Africa.

Knowing where the poor are, both nationally and sub-nationally, is a fundamental requirement if aid is to be most effective at ending poverty. The geography of aid looks very different when viewed through a lens of the global distribution of absolute numbers of people in poverty (see Chapter 5 for analysis of where aid is allocated in relation to where people are living below the poverty line).

### Which individual countries receive the most ODA?

Afghanistan was the largest recipient of net ODA in 2011, with disbursements of US\$6.5 billion, around 6.9% of total net ODA, followed by the Democratic Republic of Congo (US\$5.4 billion, 5.7%). Ethiopia, India, Pakistan and Viet Nam each received more than US\$3 billion. The top 20 countries accounted for 55% of net ODA disbursed to individual countries. Twelve of the twenty top recipient countries were in sub-Saharan

Africa, though India is the third largest recipient of net ODA.

### What is ODA spent on?

ODA supports many purposes, from social development and economic production to governance, conflict prevention and emergency assistance. Aid commitments to the governance and security sector received the most bilateral funding in 2011, 13% of the total, followed by health and infrastructure, which each received 12%.<sup>3</sup> Health (the largest sector if bilateral and multilateral disbursements are considered) was also one of the fastest growing sectors, increasing 118% over 2002–2011, surpassed only by water and sanitation (137% growth) and banking and business (139%). However, the latter two sectors accounted for a relatively small share of total ODA in 2011 (5% for water and sanitation and 4% for banking and business).

Governance and security is a major area of investment in most regions,

but other sectors show large regional differences. In sub-Saharan Africa the share of ODA to health has grown to more than double the share to governance and security. Infrastructure is the largest sector in South and Central Asia (25% in 2011), while governance and security (40%) is the largest in the Middle East, reflecting transition-related activities in Iraq.

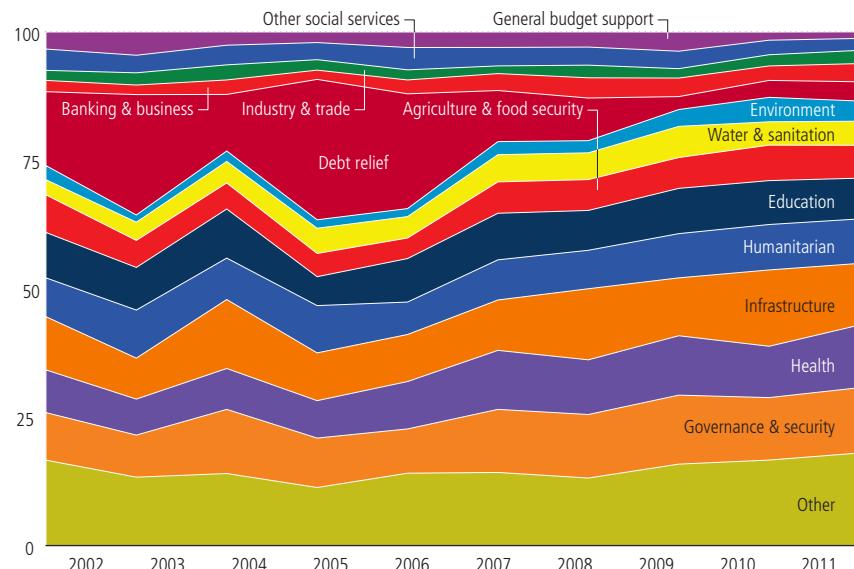
Sub-Saharan Africa received 93% of debt relief, more than 80% of general budget support and almost 50% of ODA to health. Europe received 11% of aid to the banking and business sector, compared with 5% of total ODA. East Asia received 27% of aid to the environment, compared with 11% of total ODA. And North and Central America received 18% of aid to the environment, compared with 6% of ODA.

### How does the composition and delivery of ODA differ by sector?

Aid can be delivered in different modalities. The appropriateness of

**FIGURE 3.8**  
**The largest sectors – health, governance and infrastructure – are also among the fastest growing**

Gross bilateral ODA commitments, 2002–2011



Source: Development Initiatives calculations based on data from the DAC Creditor Reporting System.

each modality varies greatly depending on where and how it is used (see Chapters 4 and 5). ODA to sectors with large capital costs, such as infrastructure and water and sanitation, relies substantially more on loans for financing (57% for infrastructure and 46% for water and sanitation) than does ODA to other sectors. ODA to health, education, other social services, agriculture and food security, and humanitarian purposes is delivered almost completely as grants. Equity investments are directed largely to productive sectors (agriculture and food security and industry).

Technical cooperation – delivering ODA through technical expertise and training rather than through finance – accounted for almost 20% of aid to education and 43% when including support to foreign students in donor countries. Technical cooperation is also high in agriculture and food security, at almost 20% of ODA to the sector.

The public sector and multilateral organisations are the primary channels for disbursing most sectoral ODA. ODA to water and sanitation, environment and infrastructure is channelled mainly through donor and recipient governments directly. Core contributions to multilateral agencies provide substantial funding to the health sector, while multilateral agencies and NGOs are the main channels for the disbursement of humanitarian assistance.

Multilateral agencies and NGOs channel most humanitarian assistance, and NGOs are also important for health, agriculture and food security, and governance and security.

## Important donors to sectors

The United States is by far the largest donor to health, disbursing more than US\$7 billion in 2011 (including aid to reproductive health), 25% of its bilateral

aid.<sup>4</sup> Volumes are even larger if its contributions to vertical health funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the GAVI Alliance, are included. Such funds are substantial disbursers of ODA to health, as is IDA. The United Kingdom was the second largest bilateral donor to health, with disbursements of US\$1.5 billion in 2011 (including aid to reproductive health), 17% of its bilateral aid.

France and Germany make the largest disbursements to education, with more than half supporting international students in their countries with ODA (imputed student costs). IDA, the United Kingdom and Japan were also substantial donors to education in 2011.

The United States was the largest donor to the agriculture and food security sector, with disbursements of US\$2.2 billion in 2011. And Japan, EU Institutions and IDA each contributed more than US\$1 billion to the sector.

***It is abundantly clear that aid will continue to be needed to both achieve and sustain the end of poverty***

Aid continues to be of great significance to some of the poorest people and the countries – as the High Level Panel noted, aid dollars “are vital to many low-income countries.”<sup>5</sup> Total reported ODA to Liberia exceeded government expenditure in 2011; in Rwanda the value of ODA was equivalent to 80% of total government spending. In these countries, ODA continues to fund investments to get girls into school; increase access to treatment for HIV/AIDS, malaria and TB; provide water and sanitation; and support social protection schemes. Overall, ODA remains the largest international resource flow for 43 countries, with 250 million people living on less than \$1.25 a day, the majority of which have very low government spending per person.

## The future of ODA

### Purpose and vision

The growth of domestic resources and the expansion of other international resource flows mean that ODA now accounts for a decreasing proportion of the total resources available for both promoting development and ending poverty. This changing resource mix, combined with arguments about the effectiveness of aid in promoting these two linked, but distinct, objectives, has led to a popular perception that aid will soon become redundant. However, it is abundantly clear that aid will continue to be needed to both achieve and sustain the end of poverty. The time to make aid history is when we have made poverty history. It is also abundantly clear that aid needs to change and the particular role and contribution of ODA clarified to maximise its contribution to ending poverty in the context of other resources.

Aid cannot substitute for the growth that can increase the prosperity of all. The vastly greater resources of the private sector and government are needed to provide the energy, investment and policy environment for broad-based growth. Maximising the impact of these non-aid resources on growth that increasingly benefits the poor – reducing inequality as well as extreme poverty – will be key in the post-2015 financing agenda. While there is evidence that aid can also contribute to growth,<sup>6</sup> the scale of other resources and the evidence on what aid can realistically best deliver suggest that aid should use its comparative advantages for investments that target and benefit the poorest people.

This does not mean spending all aid directly on things that bring

immediate benefits to poor people. Aid can be invested locally, nationally or globally but, regardless of where funds are invested, the product must be maximising improvements in the lives of people known to be living in extreme poverty.

Aid can offer support for people to meet their immediate needs, but it can also be transformational. These are not necessarily different poles – with support for fundamental needs, increased security and access to information, people may be able to take on a lot of the transformational work for themselves – education for women and girls would be an example. And innovation often needs to be matched with work on application and implementation if it is to have an impact. Finding the appropriate balance means taking account of the potential of the other resources available and wider political and economic forces. We know that aid can save lives in the short term to a very high degree of certainty. Given this knowledge, those people allocating aid funds face the challenge of explicitly balancing such proximate, probable and short-term poverty benefits against longer term and less certain impacts and need to develop methods to do this (see Chapter 5).

All this suggests that there are opportunities for focusing aid, often in coordination with other sources of finance, on measures designed to ensure that poor people share fully in the benefits of growth and are able to take up the opportunities it creates. Aid has a major role in supporting those who are unable to benefit from such opportunities and whose governments are unable or unwilling to assist. Just as many governments ensure that the most vulnerable people in their own societies are protected from extreme poverty, so the international community should provide a backstop to guarantee the

basic well-being of the world's poorest citizens.

True, in the context of other resources, aid has made and will continue to make only a modest contribution to poverty reduction and overall development. But for many of the poorest people reached, this contribution will be life-saving and life-changing. This is the opportunity cost of aid, which – in the context of getting to zero poor people – can provide a frame of reference for aid investment.

### Changing the architecture of aid

Aid in general and ODA in particular do not represent only a flow of resources. Their architecture and institutions shape how aid is used and the role that aid plays.

- ODA is an agreement to set aside official funds for development and poverty reduction.
- It is a target for the amount of aid to be provided by each donor.
- It is a set of rules about what can be counted as ODA.

But it is also much more than that. It has become a benchmark to measure a country's contribution to global well-being, poverty reduction and international cooperation. And it often provides the place in government and international institutions for those issues to be raised and discussed.

Of course, ODA is also the product of its history and its institutions. Because of its origins in the Marshall Plan and OECD, it excludes countries that are not DAC members and lacks the inclusiveness and legitimacy of the UN. It is not divorced from national interest; rather, geopolitical interests are clearly very evident in allocations. And while national priorities may be rational for

each donor individually, they do not add up to a rational global response. Neither has the aid regime entirely escaped its colonial past, and today many developing countries, even while accepting aid, resent the relationships and inequalities it is seen to embody.

The rules that govern ODA are set by the members of the DAC themselves. They are slow to change, and they err on the side of allowing reported ODA to exceed the effort required by the donor to provide it. But there are also successes – the goal of ratcheting up both quality and quantity has resulted in serious reductions in commercial interests and a sharper focus on poverty and MDG sectors, results and effectiveness. The DAC Peer Review mechanism may exercise only limited influence on donor policy and practice – but that is better than assistance being assessed only by the provider or not at all.

These internal dynamics are small in relation to the massive changes in the external context.

- The volume of other resources for development has roughly quintupled over the past 20 years. Some of these other resources are similarly concessional and often relevant for poverty and development.
- There is a much wider group of providers at the domestic and international levels – official donors from many countries, private organisations, corporations, philanthropists and NGOs. Ending

***Aid has become a benchmark to measure a country's contribution to global well-being, poverty reduction and international cooperation***

poverty is not the preserve only of providers of ODA.

- The division between ‘donor’ and ‘recipient’ is blurred as many countries are both at the same time. The division between ‘developed’ and ‘developing’ countries is also blurred as many countries now have a burgeoning middle class living alongside very large numbers of people in extreme poverty.

As the number of countries engaged in international cooperation has increased, so has the value of their giving. Debate is inevitable about whether this assistance should be counted as ODA and how ODA relates to other aid flows. Vocal campaigning on the integrity of ODA has questioned whether some of the items allowed within the current eligibility criteria should continue to be counted as ODA, given their questionable impact on poverty. And austerity measures in several DAC countries have encouraged debate about whether the current ODA definition should be extended to include items now excluded, so that they can be counted towards the 0.7% target.

As a result, both the definition of ODA and the 0.7% target are under

greater scrutiny than ever before. For supporters, the debate can be viewed as an opportunity to renew the vision for ODA. But for ODA to remain relevant, its definition needs to go beyond the DAC to include assistance from non-traditional donors. Any new targets should be based on the unique contribution of ODA to the overall financing framework for the post-2015 development goals. And these targets must be relevant to countries at different stages in their own economic and social development.

Several changes could help accelerate progress.

First, existing promises are based largely on the ODA definition, which needs to be reformed. ODA could be explicitly defined in terms of its contribution to ending poverty by adding value to the scale and diversity of other resources and focusing specifically on benefits to people in extreme poverty. The rules for what can count as ODA need to be reformed, to deal with the most egregious issues blamed for overstating the value or concessionality of funding.

Second, the 0.7% target, while crude and in need of updating, is an unusual example of an agreed goal to measure

country performance and to hold politicians to account. It continues to be important as a recognition of the profound inequalities in wealth between countries. Although most countries have not achieved it, the target has stood the test of time. It is an asset for the post-2015 discussions on mobilising resources to end extreme poverty (Box 3.1).

Third, the role of other forms of official financing in reducing poverty needs to be recognised alongside ODA. Getting clear, visible evidence on the role of official financing in poverty reduction is the first step.

The drive to meet ODA targets can create incentives to channel activities through mechanisms that count as ODA at the expense of other financing instruments that while not falling within the ODA definition, may be of substantial value to recipient countries. The starting point of any allocation decision should be the impact that is desired in response to an identified need. There are now a wide range of finance instruments within the arsenal of donor governments, including those that blend public and private capital. ‘Instrument neutrality,’ where the selection of a finance instrument is based on its ability to achieve that

#### BOX 3.1

#### **Measuring a country’s contribution to ending poverty**

It is important to measure the contribution of every country to ending poverty, but the complexities of doing so – taking into account measurement and attribution issues – make this unrealistic. A measurement of each country’s proportionate contribution to the inputs required is imperfect but better than nothing. Children are still dying of preventable disease, women still die in childbirth everyday, girls are growing up illiterate and children are growing up stunted – all factors resulting in the loss of dignity and the productive

potential of a nation, not to mention intergenerational impact on people and their communities.

Given the unmet need and the challenge of getting to zero poor people, it does not make sense to abandon a target that has widespread public recognition. But rather than a target that applies only to DAC members, in the context of the post-2015 agenda, an effort could be made to build on the 0.7% target to develop a simple but meaningful measure of performance that could

apply to all countries as the basis for their contributions towards financing global poverty eradication goals. To do that, the measure will need to be based not just on the size of an economy (as at present), but also on the wealth of a country’s citizens – contributions to the UN are already calculated on this basis. China and the United States have similar size economies, but it would not be fair to expect China to contribute the same proportion of GNI as the United States when per capita income for the average US citizen is nine times that in China.

impact, not domestic incentives, needs to be encouraged. Overcoming such political pressures will require greater recognition, both by donors and by civil society, of the use of other forms of official financing, and that requires an evidence base of how such instruments can end poverty.

Fourth, wider resources not currently counted as ODA need to be recognised. The first step here is to make them visible. These include official flows of all sorts: finance related to climate and security, commercial investments and all of the national effort outside government, by NGOs, foundations and private contributions and initiatives. The

role of the private sector is likely to be increasingly important, so better measures of the contribution that private sector companies are making to end poverty are important. Publishing information on these resource flows in line with the common, open standard developed by the International Aid Transparency Initiative would enable widespread access to the information. Whether targets are set for some of these flows, greater visibility and transparency will increase scrutiny of both the pledges and the performance of politicians, governments, business leaders and businesses and enable different resources to be used together to

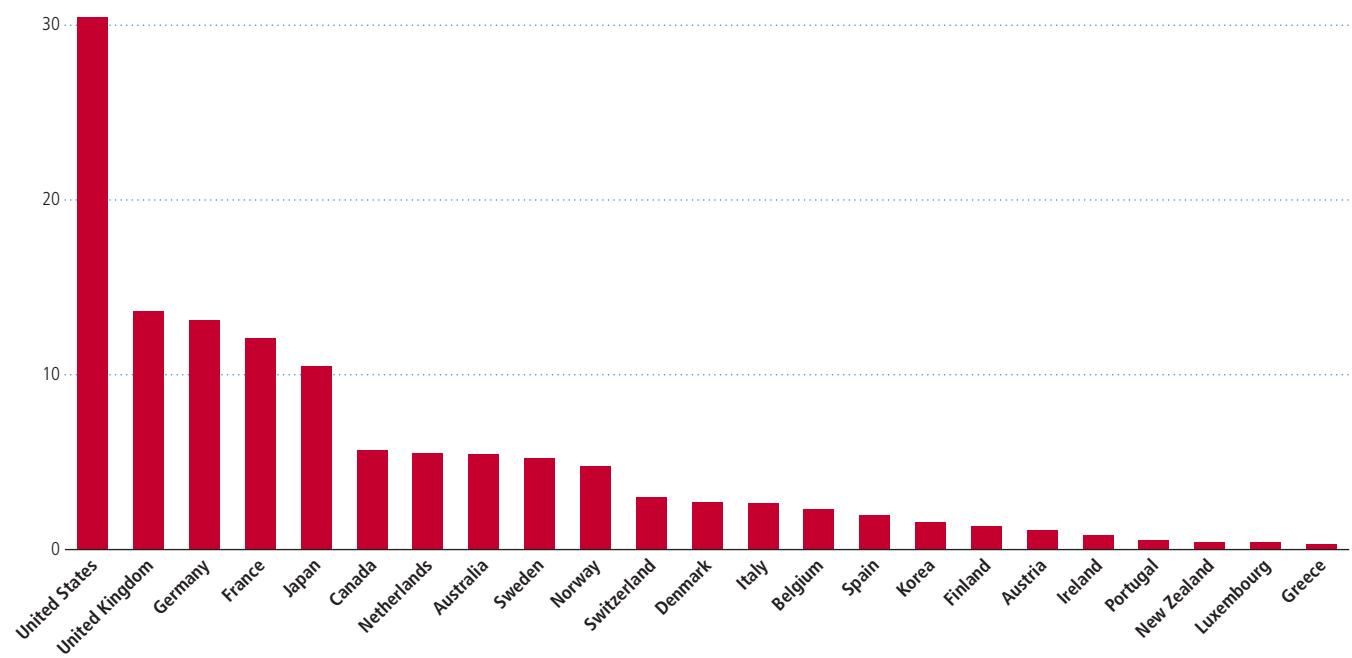
achieve faster progress towards the end of poverty.

For all its shortcomings, ODA can justifiably be described as an unusual example of ‘moral vision in international politics,’<sup>7</sup> a concrete instance of international cooperation. It is a global public good, albeit with an architecture that needs to be modernised and practices that need to become more inclusive and transparent. But we also need to capitalise on its place in government and the international community as a focus for attention and shared action on global well-being and the drive to achieve, and then sustain, the end of poverty.

# How much ODA do DAC donors provide?

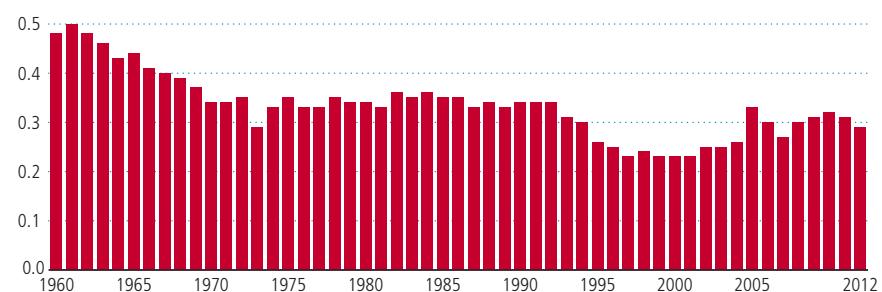
The five largest donors, all members of the G8, accounted for more than 60% of ODA in 2012

Net ODA, current US\$ billions, 2012



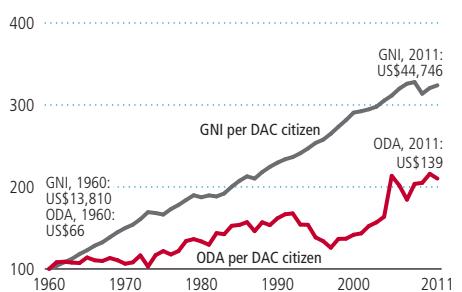
Total ODA as a share of GNI has fallen since the 1960s

% of GNI, 1960–2012



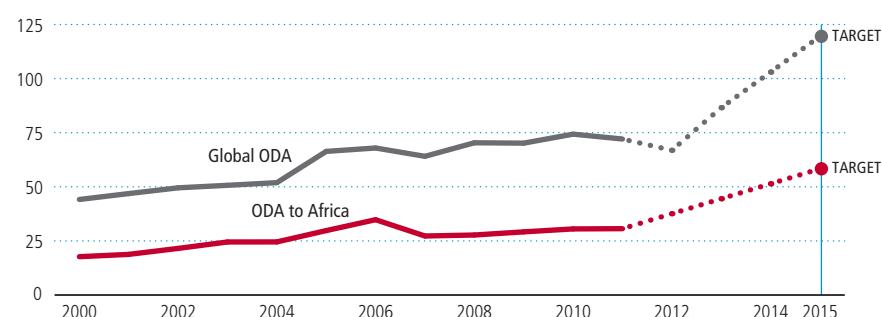
The gap between ODA from DAC countries and their economic growth continues to widen

Index, 1960 = 100



EU donors need to rapidly increase ODA if they are to meet their global targets

2011 US\$ billions, 2000–2015

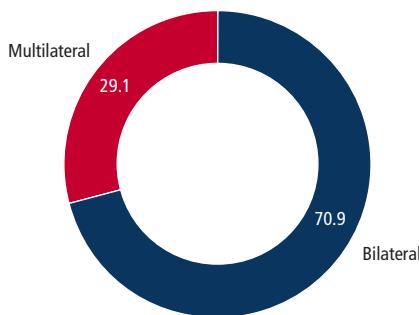


Some donors have not set targets for ODA. Some of those who have are a long way from meeting them

# Bilateral and multilateral ODA

**Bilateral donors decide how most ODA is used; multilateral agencies determine a smaller proportion**

% of net ODA, 2012



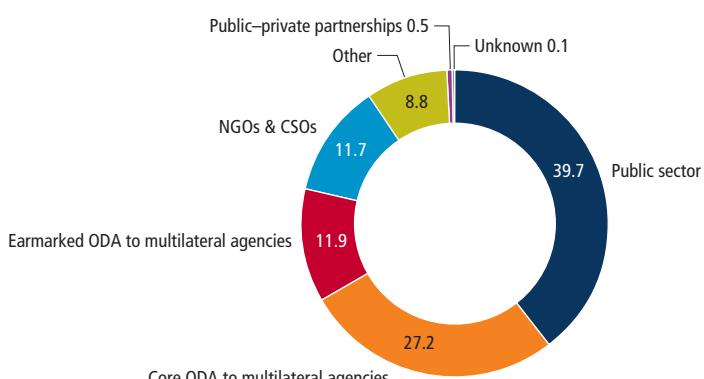
The five largest donors – the US, the UK, Germany, France and Japan – collectively give much more ODA than the other 18 DAC members combined. Although the US and Japan are among the largest donors, they are some of the least generous in terms of aid as a proportion of GNI. Most countries have set targets for ODA spending, with EU countries committing to 0.7% of national income as ODA by 2015. However, only a handful of countries have achieved their goals, and many countries face a wide gap between current ODA and the amount they have committed to give by 2015.

Multilateral ODA – ODA given as unearmarked contributions to international bodies – accounts for almost 30% of ODA spending by DAC members. However, the split between bilateral and multilateral aid varies widely across donors. EU members tend to give a larger proportion of multilateral aid, because a proportion of their contributions to the EU is used for developmental purposes and is thus included in ODA. Italy and Greece, two EU members with relatively small bilateral aid programmes, give mostly multilateral ODA. ODA to multilateral agencies that is earmarked for specific projects or activities is not classified as multilateral ODA but as bilateral ODA channelled through multilateral implementation partners.

Most ODA spending is implemented by public bodies (government agencies of either the donor or recipient country) or by multilateral bodies. NGOs, CSOs and other actors (including academic and research organisations and the private sector) implement a much smaller share of ODA spending.

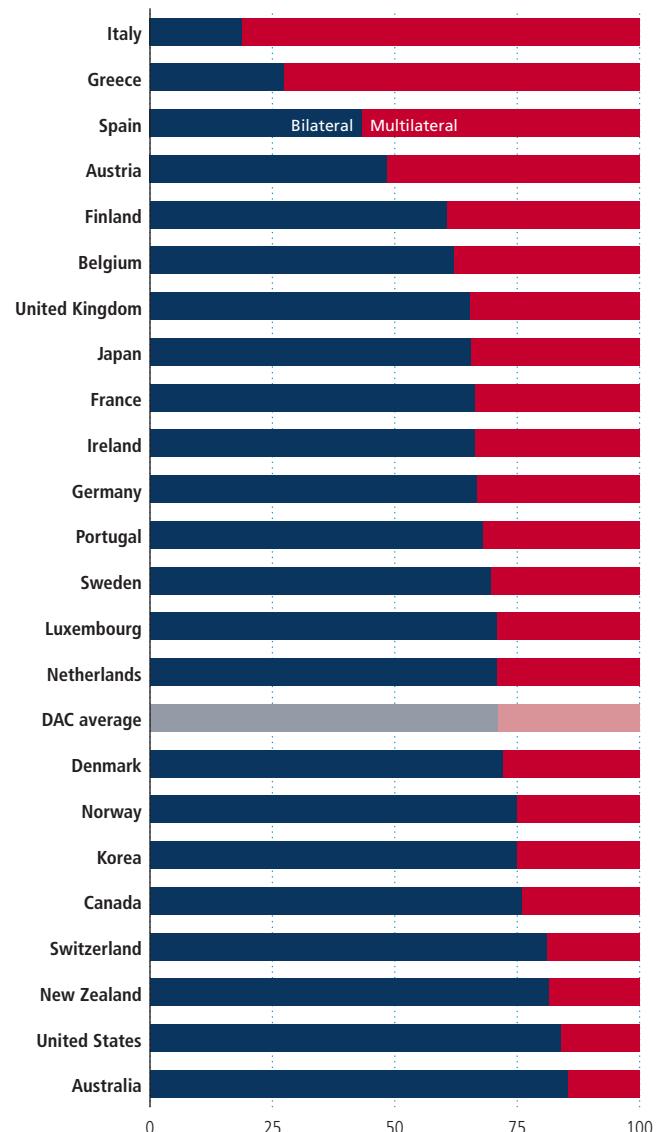
**Multilateral agencies control about the same amount of ODA as government agencies**

% of gross ODA, 2011



**There are wide variations in the proportion of ODA given via multilateral agencies by different donors**

% of net ODA, 2012



**Almost 80% of ODA is channelled through the public sector or through multilateral bodies**

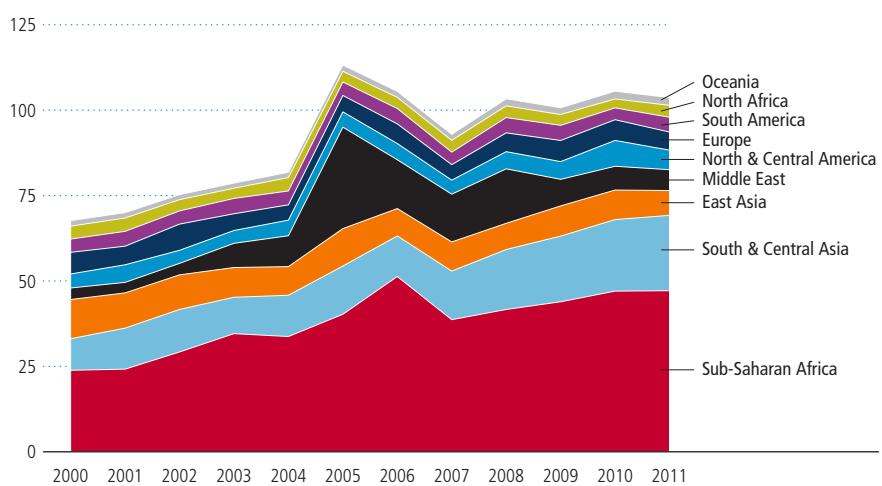
# Where is aid spent?

Sub-Saharan Africa receives more ODA than any other region. South and Central Asia is the second largest recipient, though the Middle East and North Africa received the second largest share in 2005 due to debt relief for Iraq.

Substantial amounts of aid go to countries with large numbers of people living in poverty. However, a sizeable amount of aid goes to countries with very little poverty.

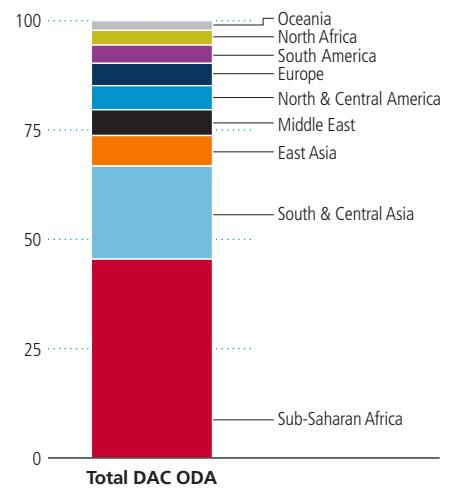
## ODA to sub-Saharan Africa and South and Central Asia has risen in recent years; ODA to the Middle East and East Asia has fallen

2011 US\$ billions, 2000–2011



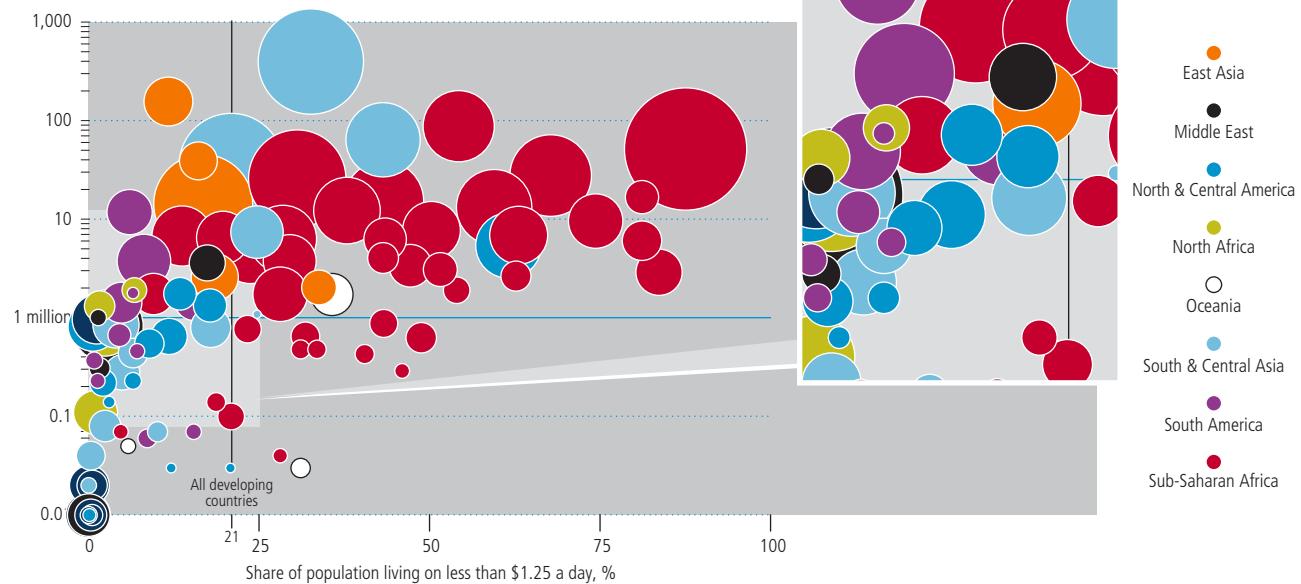
**Sub-Saharan Africa is the largest regional recipient of ODA, receiving more than twice as much as South and Central Asia, the second largest, in 2011**

% of net ODA, 2011



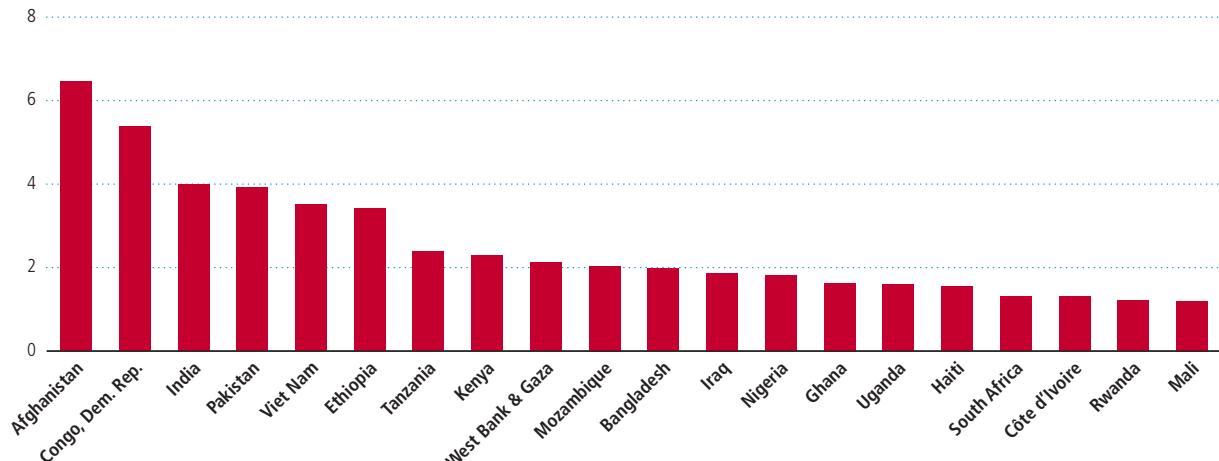
## Some large recipients of ODA have relatively small proportions of their population living in poverty

Number of people living on less than \$1.25 a day, millions (log scale), 2011



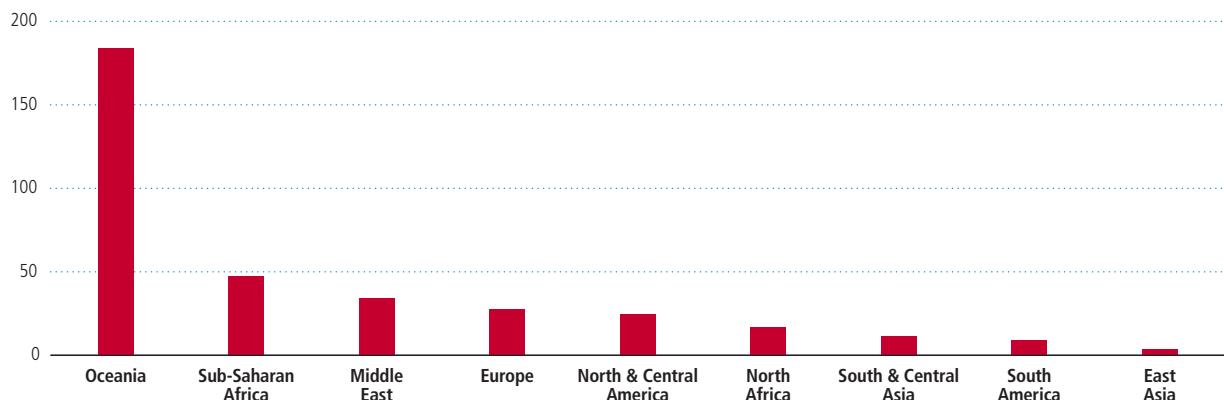
**Afghanistan was the largest recipient of net ODA in 2011; more than half of the 20 largest recipients were in sub-Saharan Africa**

US\$ billions, 2011



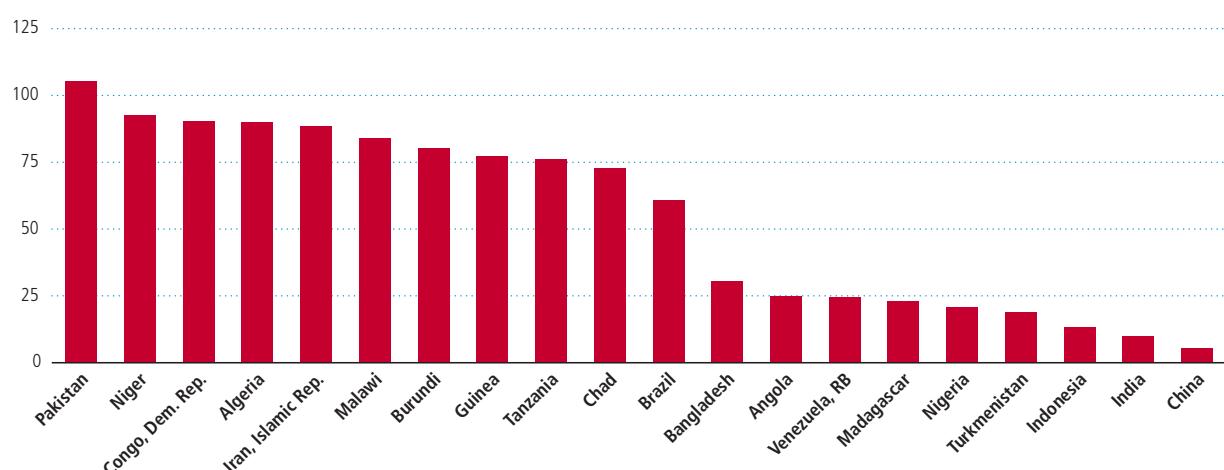
**Developing countries in Oceania receive more than US\$180 per person in net ODA**

US\$, 2011



**China and India receive the lowest amount of net ODA per poor person**

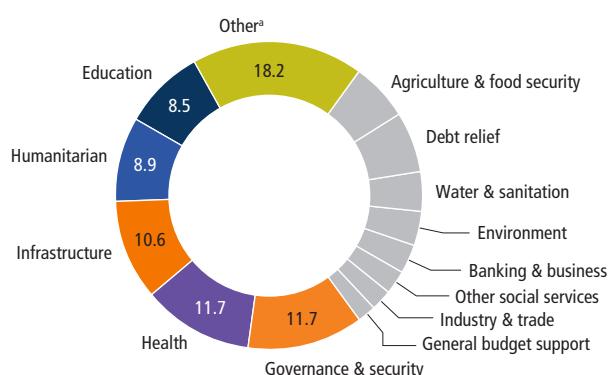
US\$, 2011



# How is aid spent in each sector?

**Health, infrastructure, and governance and security received the most funding in 2011, each accounting for more than 10% of the total**

Gross bilateral ODA by sector, % of total, 2011

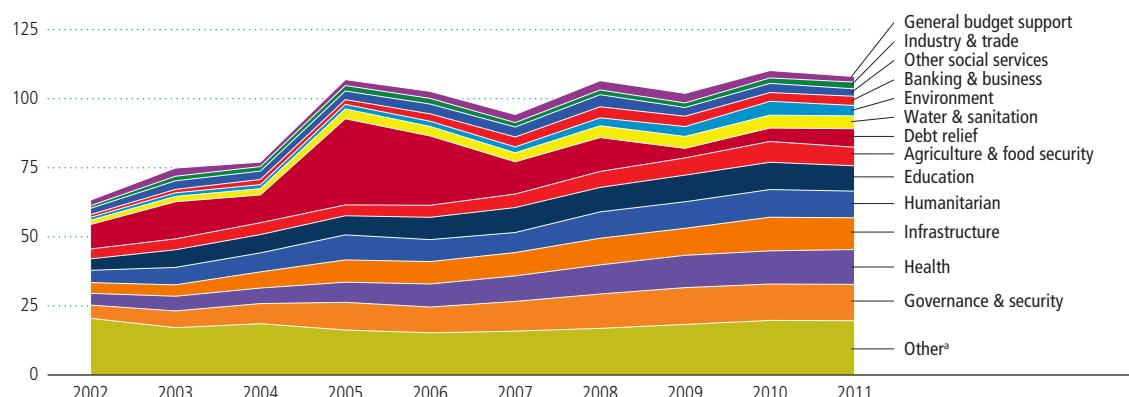


**The three largest sectors account for more than a third of ODA. General budget support from DAC donors fell from US\$3.5 billion to just over US\$2 billion between 2009 and 2011**

a. Includes multisector ODA, administrative costs, support for refugees in the donor country and unallocated or unspecified ODA.

**ODA to most sectors has grown over the decade; debt relief has fallen**

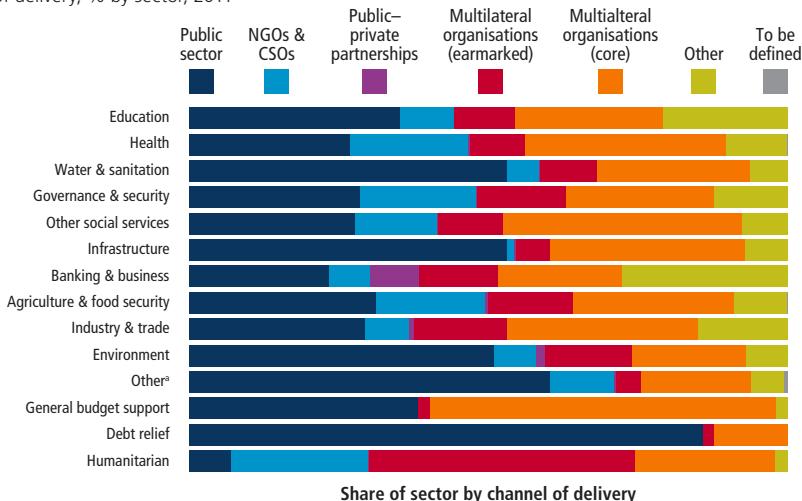
Gross bilateral ODA by sector, US\$ billions, 2002–2011



a. Includes multisector ODA, administrative costs, support for refugees in the donor country and unallocated or unspecified ODA.

**The choice of implementing agency varies by sector**

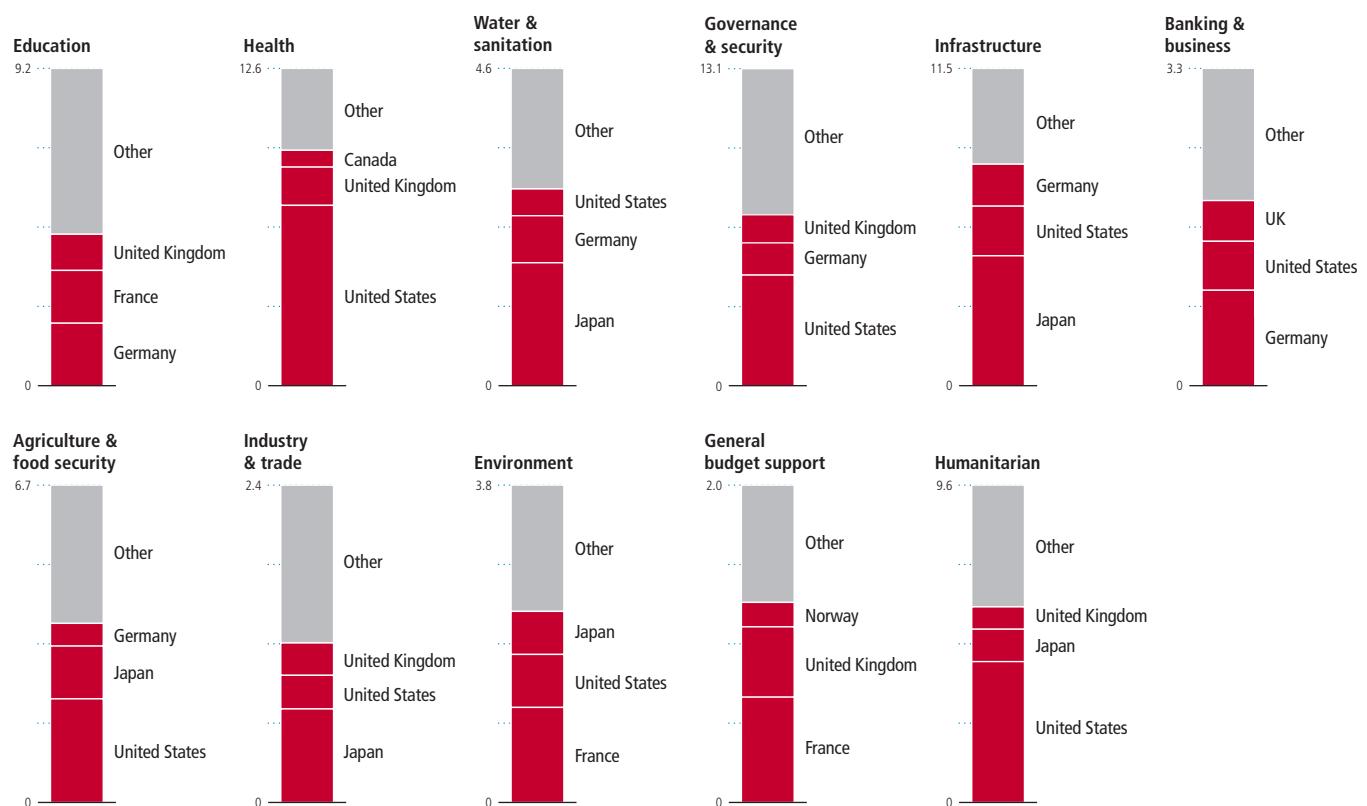
Gross bilateral ODA by channel of delivery, % by sector, 2011



a. Includes multisector ODA, administrative costs, support for refugees in the donor country and unallocated or unspecified ODA.

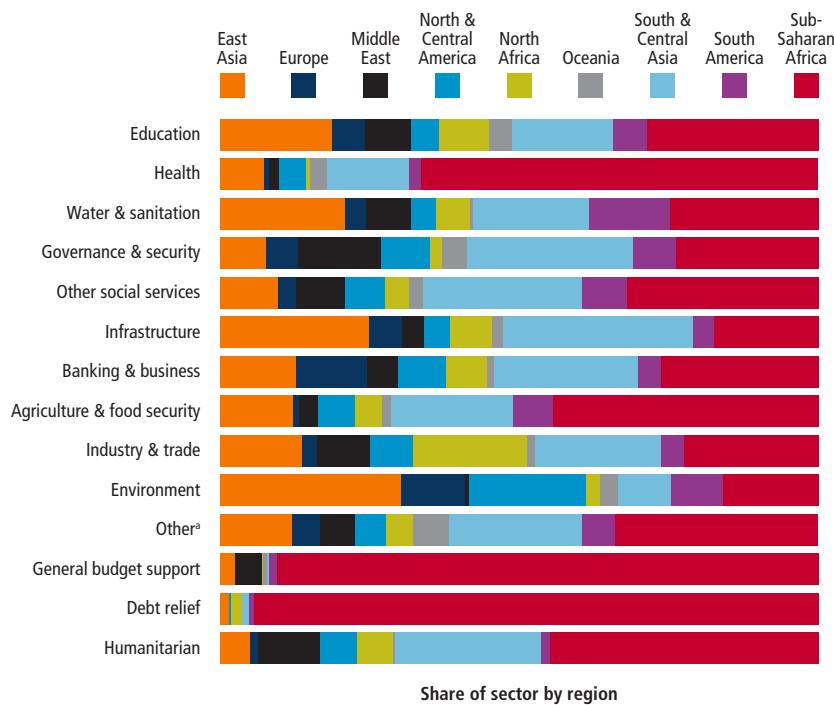
## In most sectors the three largest donors account for more than half of ODA

US\$ billions, 2011



## ODA to health, general budget support and debt relief is concentrated in Africa; ODA to environment and infrastructure is more common in Asia

Gross bilateral ODA by destination region, % by sector, 2011



*Although more ODA goes to Africa than to any other region, investments in Africa's infrastructure, industry and environment are less than those in South and East Asia's*

a. Includes multisector ODA, administrative costs, support for refugees in the donor country and unallocated or unspecified ODA.

## Notes

1. For more detail on aid-qualifying criteria, see OECD (2008).
2. Finland met the target for one year in 1991. The Netherlands looks set to fall below 0.7% in 2013 following substantial cuts in ODA.
3. This section considers gross ODA. Information on sectoral ODA is available only in gross ODA terms. Figures are also for commitments rather than disbursements because trend data is more accurate. Commitments record the total value of the project in the year the commitment is made. This differs from disbursements, which

- represent actual spend for each year.
4. Figures in this section refer to gross ODA disbursements.
5. United Nations 2013, p. 5.
6. Clements and others 2004.
7. Lumsdaine 1993.

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# Unbundling aid

- There is a lack of understanding about what aid is. Large headline figures are presented as if aid is entirely a cash lump sum passed directly from donor to recipient.
- Aid is a bundle of different things. Some of it is money. Some is food and other goods. Some is people: the costs of consultants and staff providing technical advice and training.
- Not all aid is transferred to developing countries. Some parts of the bundle never leave the donor country – debt relief, the costs of developing-country students and of supporting refugees in donor countries and development awareness.
- Developing countries do not always receive what donors report as allocated. The headline amount of aid reported as disbursed by donors (which includes investment in global public goods) is much bigger than the actual amount over which developing country governments have control and can directly administer in-country.
- The type of aid given affects the impact it delivers. The different parts of the aid bundle, controlled by a wide range of governments and agencies, have different impacts on poverty. A dollar spent on food aid will have markedly different economic effects from a dollar spent on debt relief or a consultant based within a ministry.
- We need to unbundle aid to use it effectively. To understand and use aid effectively, we must start by unbundling it and deploy different aid instruments to get the maximum value for poverty reduction from every aid dollar.

**A** debate over aid has raged for many years. Is it effective or ineffective? Does it create more problems than it solves? Should the whole notion of aid be abandoned in

**favour of political or market-based measures, or does it have a unique role in ending poverty?**

Various analyses of aid are sometimes accompanied by impressive-sounding

statistics on its scale. For example, “In the past fifty years, over \$1 trillion in development-related aid has been transferred from rich countries to Africa...the recipients of this aid are not better off as a result of it.”<sup>1</sup> And

for another example, "The West spent \$2.3 trillion on foreign aid over the last five decades and still had not managed to get twelve-cent medicines to children to prevent half of all malaria deaths."<sup>2</sup>

Most readers would assume that the US\$1 trillion and US\$2.3 trillion in the quotes above referred to money that had actually been transferred. But the words 'transferred' and 'spent' are misleading. Why? Because a large part of aid is not transferred to developing countries. And some aid that is transferred is not money; it is sent in the form of goods and services, with their reported monetary value determined by donors.

## Know what is given, know what is measured

Aid statistics have never really measured the value of resources that developing countries have received. Instead, they are closer to an account of how much donors are giving, supposedly based on how much it costs to provide assistance. But the most widely used method for counting aid, using the Organisation for Economic Co-operation and

Development (OECD) Development Assistance Committee (DAC) guidelines, does not accurately measure donor expenditure or the worth of the money and goods transferred to recipients.

Despite this fact, most assessments of aid – particularly macro-level reviews such as the effect of aid on the economic performance of developing countries – are based on donor-sourced figures. These assessments also routinely treat aid as a homogeneous resource. The approach inevitably reduces the usefulness of such studies because it implicitly assumes that a dollar of cash transferred to a developing country has exactly the same economic effect on poverty and development as a dollar of debt relief, a dollar of food aid, a dollar of a consultant's time, a dollar spent on a conference in the North or a dollar spent on donor administrative costs.

This leads to misleading conclusions about the impact of aid. Analysis of the detrimental macroeconomic side-effects of aid is one example. One argument is that large aid inflows to a poor country can push up inflation, systematically reducing a country's

export competitiveness – the so-called Dutch Disease.<sup>3</sup> But most such assessments use total reported official development assistance (ODA; sometimes expressed as a percentage of the recipient's GNI) – not how much foreign finance actually enters the country, the key mechanism in Dutch Disease – as the measure of aid.

Such economic assessments should count only actual transfers to the recipient country and allow for the differing macroeconomic effects of aid in the form of money and aid in the form of, say, food or other goods. Why? Because, in terms of volume, the difference between total reported ODA and how much a country actually receives can be substantial. For example, more than US\$5 billion of aid reported as being given to the Democratic Republic of Congo in 2011 was not transferred to that country.

Similarly, discussions of aid dependency and the need to reduce it typically focus on the ratio of total aid to the size of the recipient country's economy. Again, this fails to consider that the composition of aid to one country may be very different from that to another – even though the two may experience, on the face of it, similar levels of 'aid

### BOX 4.1

#### Country programmable aid: an alternative measure

The OECD acknowledges long-standing criticisms that its measurement of aid includes many things that do not actually transfer resources to developing countries. In response, it introduced country programmable aid (CPA) in 2007, a new measure of aid intended to represent "the portion of aid on which recipient countries have, or could have, a significant say."<sup>1</sup>

CPA therefore removes the following categories from ODA: debt relief, humanitarian aid, in-donor costs (including administrative costs, student

costs, refugee costs and development awareness spending), aid through NGOs and local governments, geographically unallocated aid and aid not from donors' main agencies.

Although CPA recognises that much aid does not transfer resources to developing countries (by excluding some aid that does not entail cross-border flows), it is not a substantially better guide to *resource transfers* than ODA is. CPA excludes some types of aid that actually involve a resource transfer, such as humanitarian aid, aid through local governments (because they are

not part of cooperation agreements between governments) and food aid (even if the food aid is purchased within the developing country). Further, CPA does not differentiate between aid given as cash and aid given in kind as technical cooperation or goods. For these reasons CPA does not provide a true picture of the amount of aid transferred to developing countries or the form in which it is transferred and is not used in this report as the basis for analysing aid.

#### Note

1. Benn, Rogerson and Steensen 2010, p. 1.

dependency' according to summary indicators.

That is why we need a different way of analysing aid – one that takes into account the many types of aid and the differing impacts they can have on poverty in varying places and circumstances. When counting aid to developing countries, we should not include elements that do not transfer resources, such as spending on refugees or students in donor countries. When analysing the macroeconomic effect of aid, we should start with aid that results in a transfer and then differentiate between aid transferred as cash and aid transferred as goods and services.

We need to do this because:

- It supports a true assessment of the impact of aid – we know exactly what we are assessing.
- It adds transparency to discussions of aid and improves understanding of how aid disbursements reported by donors relate to aid receipts recorded by developing-country governments and in the financial records of developing-country nongovernmental organisations (NGOs).
- It improves accountability by allowing a more meaningful assessment of donor efforts to meet their aid commitments, such as 0.7% of GNI.
- And most important, the people in whose name aid is being spent need to know exactly what resources are supposed to be available so they can make best use of them and hold providers to account.

## What counts as aid?

To discuss the various disparate elements that make up aid, it helps

to know the rules that cover what donors can count as aid. These rules are set by the donors themselves in the DAC, which defines ODA as flows from donor governments and their agencies to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions.<sup>4</sup> To qualify as ODA these flows must:

- Be administered with the promotion of the economic development and welfare of developing countries as their main objective.
- Be either a grant or a concessional loan (loans must have a grant element of at least 25%; see below).

The resource flows covered by this definition need not be money. Flows of food or other goods and flows of advice and training (usually referred to as technical assistance), some administrative costs associated with donor aid programmes and other costs of supplying non-monetary aid (such as the cost of shipping food aid and the travel and accommodation costs of consultants, staff and implementing organisations) are also included as ODA. These components yield different economic effects in recipient countries, so it is imperative to understand the composition of aid as a precondition to assess the effect, and indeed effectiveness, of aid.

Several elements that fall within the definition of ODA do not actually transfer any resources to developing countries:

- **Debt relief.** Donors may count cancelled or rescheduled existing debt as ODA even though no new transfer of resources is involved.
- **Student costs.** Donors with students from recipient countries in their universities may count part of their public spending on universities as ODA if the university system

## Unbundling is essential – a dollar of cash and a dollar of expert advice are not the same thing

does not charge fees or the fees are deemed not to cover the full cost of tuition.

- **Refugee costs.** Donors may count as ODA the cost of housing, feeding and other services for the first 12 months of the refugees' stay.

- **Promotion of development awareness.** Donors may count as ODA the funding of activities within the donor country designed to increase public support for, and awareness of, development cooperation needs and issues. This support and awareness can be considered a global public good.

## How much aid is actually transferred to developing countries?

Including debt relief, administrative costs, transaction costs (such as shipping costs of food aid) and spending within the donor country means that official aid statistics are effectively a guide to the costs donors incur in development-related activity. While there is some validity in measuring aid from this perspective, the statistics are a poor guide to the actual resources transferred to poor countries.

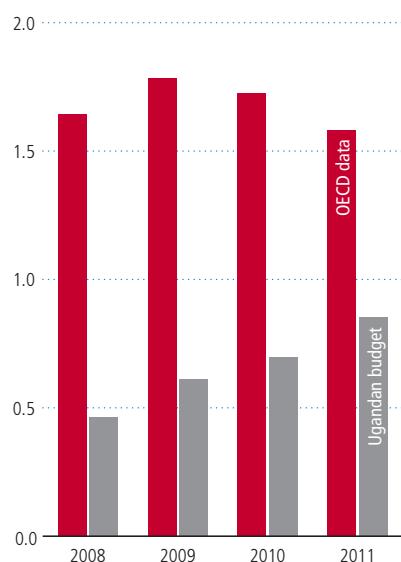
The truth is that we do not know exactly how much aid is actually transferred to developing countries – in whatever form. The volume of aid that donors reportedly disburse (recorded by the DAC) typically exceeds the aid reported as received by recipient governments in their own records – and by some margin (Figure 4.1). For example, during 2008–2011 the net

foreign assistance counted in Uganda's resource envelope was less than two-fifths of the net ODA that donors reported to the DAC.<sup>5</sup>

FIGURE 4.1

### Aid reported for Uganda greatly exceeds aid recorded as received

US\$ billions, 2008–2011



Source: Development Initiatives calculations based on DAC data and data from Ugandan budget documents.

One reason for such discrepancies is that aid does not always go through the recipient country's budget. It may be disbursed directly to projects under the control of NGOs, multilateral bodies or private organisations. In some cases it may be disbursed within a country without the government's knowledge. But this alone does not explain the discrepancies. For example, donors reported more than US\$1.8 billion in aid to Mozambique in 2011, but the in-country ODAMoz database that captures all aid inflows, not just those through the government, recorded less than US\$1.2 billion, a discrepancy of more than US\$600 million (Figure 4.2).

Recipient countries need to know how much aid is coming into the country in order to effectively manage the economy and coordinate aid and government resources. This is becoming more urgent as the range of available domestic and international resources increases, leading to the need for aid to focus on its comparative advantages (see Chapter 2).

Macroeconomic planning with misleading information on aid disbursements is no easy task, as highlighted by Kampeta Sayinzoga, Rwanda's Permanent Secretary to the Ministry of Finance. "Because we do not know the value of project support given to Rwanda, we had to use a guesstimate in Rwanda's macroeconomic framework – a meaningless number."<sup>6</sup>

To get more value from aid, recipient governments need to know how much has been transferred and in what form. Without unbundling aid, it is impossible for governments to know what they have to spend or how to spend it.

### The aid bundle – what aid is really made of

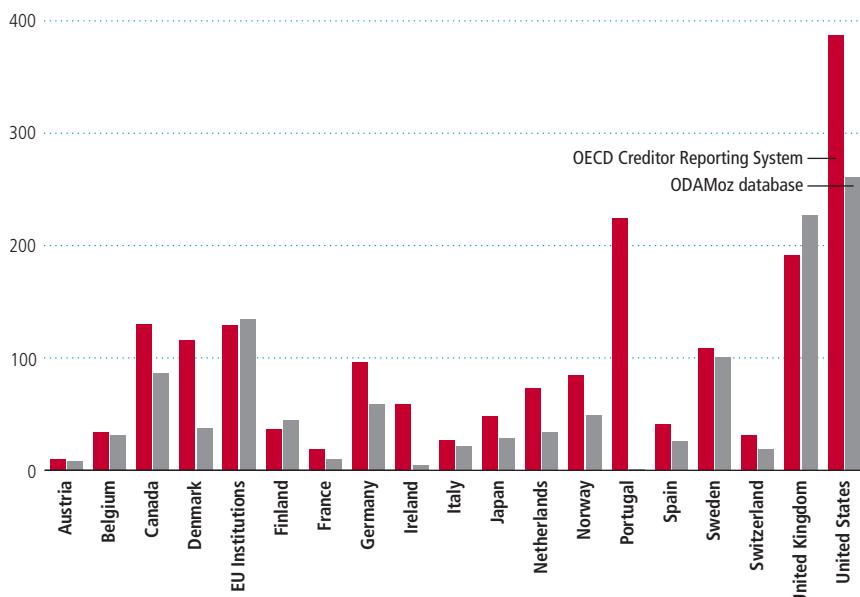
Aid flows are usually reported and analysed as if they were homogeneous transfers of cash rather than a broad mix incorporating a wide range of different elements. What are these elements? And how much is money, both grants and loans? How much is in-kind transfers such as food, commodities and expert advisors? How much is support for projects that combine both cash and in-kind components? How much is spent on administrative costs, students or refugees within donor countries, and how much is spent internationally on global public goods (GPGs; Box 4.2) or to support the work of Northern NGOs (NNGOs)?

Before value judgments can be made about the best use of different types of aid in different circumstances, we must understand what volumes of funding are involved and how they are spent (Figures 4.3 and 4.4 and Table 4.1). The aid bundle varies widely across donors, sectors and countries – variations described more fully in Part 3.

FIGURE 4.2

### Aid reported for Mozambique exceeds aid recorded as received in Mozambique both on and off budget

US\$ millions, 2011



Note: Includes only donors that appear in both the DAC and ODAMoz databases.

Source: Development Initiatives calculations based on DAC data and data from the ODAMoz databases.

**BOX 4.2****Global public goods: not directly transferred, but large potential benefit**

ODA invested in GPGs is an element of the aid bundle that transcends geographic borders. The World Bank defines GPGs as “commodities, resources, services and systems of rules or policy regimes with substantial cross-border externalities that are important for development and poverty-reduction, and that can be produced in sufficient supply only through cooperation and collective action by developed and developing countries.”<sup>1</sup> They include a wide range of activities – from research into tropical diseases or drought-resistant crops to organisations working to reform international trading laws and practices.

ODA spending on GPGs is a special form of aid that is neither transferred directly to recipient countries nor necessarily spent within the donor country. Although it confers no immediate or direct benefits to targeted people in specific countries,

the longer term benefits to those people and places can be enormous. And when investing in GPGs, donors should still know who is likely to benefit and where they are (see Chapter 5).

Precisely determining whether any given aid disbursement is used for developing or providing GPGs is not easy. Unlike most other forms of aid, the standard aid data sets do not have a specific aid type, code or marker that identifies spending on GPGs. So estimates vary – ranging from 3.7%<sup>2</sup> to 25%.<sup>3</sup>

A conservative measure of financing directed to GPGs includes contributions to international research bodies and to specific-purpose programmes and funds managed by international organisations and not directed to a specific country or region. This approach yields a figure of around 4% of ODA – or

US\$6 billion (Box figure 1). This may well underestimate spending on GPGs, but the ODA data makes it difficult to produce a higher estimate with any certainty. Also, GPGs receive funding from non-ODA sources such as foundations and corporate giving.

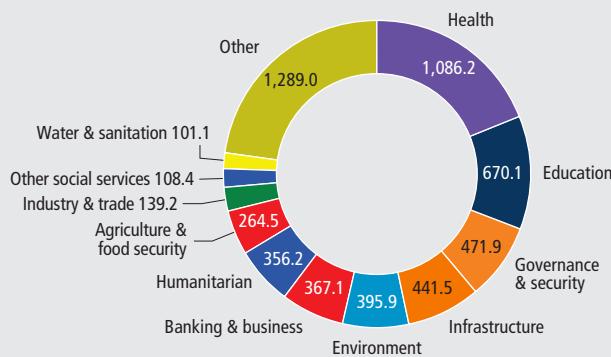
Health is the largest recipient sector of ODA spending on GPGs, driven by research programmes and global initiatives to combat or eradicate specific diseases such as polio. Education-related GPGs are boosted by funding for global initiatives such as the Education For All movement. Aid to GPGs related to governance and security reflects support for global policy research and work on specific issues such as gender equality.

**Notes**

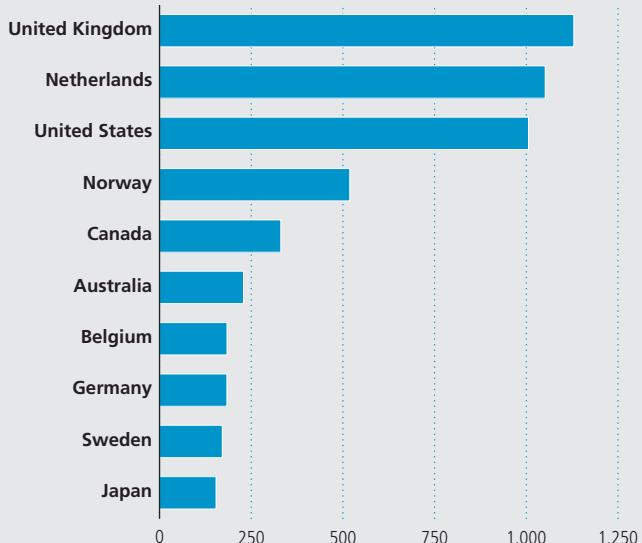
1. Development Committee 2000, p. 2.
2. Anand 2002.
3. Raffer 1999.

**BOX FIGURE 1****ODA for global public goods by sector**

US\$ millions, 2011

**BOX FIGURE 2****Largest donors of ODA for global public goods**

US\$ millions, 2011



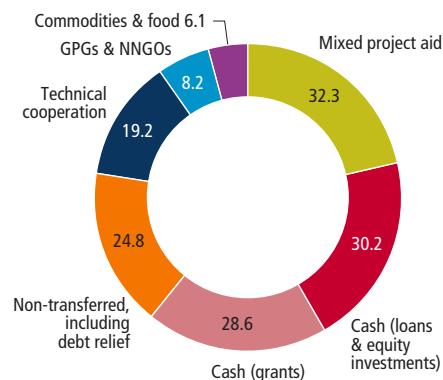
Source: Development Initiatives calculations based on DAC data.

Unbundling ODA in this manner reveals the diverse ways that aid is delivered – and becomes even more relevant when viewed from a recipient-country

**FIGURE 4.3**

### Unbundling aid in 2011

Bilateral and multilateral disbursements US\$ billions, 2011



Source: Development Initiatives calculations based on DAC data.

perspective. For example, Sierra Leone received US\$408 million in aid in 2011, according to DAC statistics. But what it got was a bundle: US\$181 million in cash grants, US\$48 million in loans, US\$82 million in cash and in-kind transfers to support specific projects, US\$35 million in food and other commodities, US\$48 million in people and expertise and US\$10 million invested on its behalf in GPGs, development education and NGOs; US\$3 million was spent within donor countries on administrative costs, student costs and similar items.

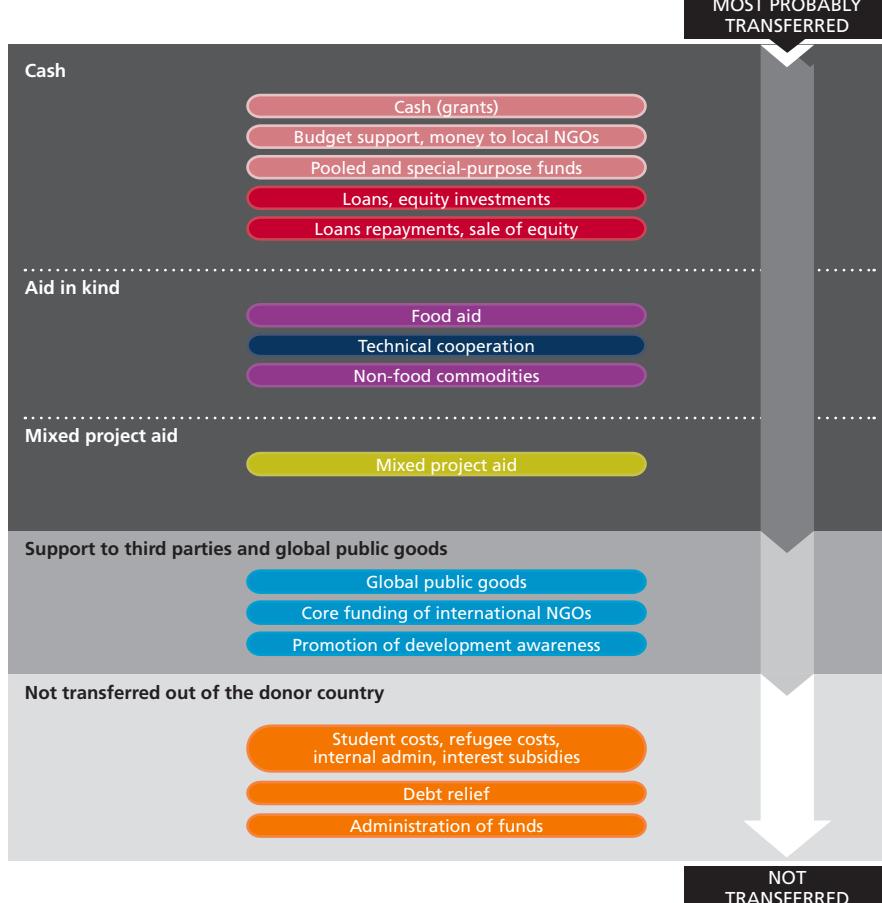
Analysing aid as a heterogeneous mix also reveals differences in how donors operate their aid programmes. For example, Denmark and Italy each reported giving just over US\$2 billion in bilateral ODA in 2011. More than

two-thirds of Denmark's aid was transferred to developing countries as cash grants, cash loans, project support or technical assistance. By contrast, more than two-thirds of Italy's aid, mainly debt relief or housing refugees in Italy, did not transfer any new resources to developing countries (Figure 4.5).

Knowing how much aid has been transferred is also vital for meaningful policy debate. For example, ending aid dependency has become a much-voiced concern from both recipient and donor countries. Whether a country is described as dependent on aid is conventionally determined by the amount of aid the country receives compared with the overall size of its economy. But what type of aid is being discussed? And are summary ODA/GNI ratios an appropriate indicator when aid has so many different elements? For example, Afghanistan, the Solomon Islands and Togo, three countries with similar aid dependency at 35%, 43% and 36% of ODA/GNI respectively, receive vastly different amounts of cash (Figure 4.6). The aid dependency of Afghanistan, with US\$2.4 billion and 36% of ODA in cash, is very different from that of the Solomon Islands, with aid overwhelmingly delivered as people and expertise. The difference is even more marked in Togo, where the bulk of reported aid never gets anywhere near the country. Clearly, a recipient country is unlikely to be dependent on aid that is not transferred.

**FIGURE 4.4**

### The aid bundle



Source: Development Initiatives.

## Unbundling aid presents very different pictures for the six largest recipients

In 2011 donors reported almost US\$7.5 billion in disbursements to the Democratic Republic of Congo and US\$3.5–6.5 billion for each of the five next largest recipients of ODA (Figure 4.7). But the composition of the disbursements reveals considerable contrasts (Figure 4.8).

TABLE 4.1

**What is inside the aid bundle?**

Type of aid	Description	Volume in 2011 (US\$ billions)	Change from 2010
<b>CASH</b>			
Budget support grants	General budget support is a completely unearmarked cash contribution to recipient government budgets, to be spent at the discretion of the recipient governments.	9.643	↓
	Sector budget support is a financial contribution to recipient government budgets where donors specify the sector (such as health or education).		
Core support to local NGOs	Money to NGOs to be spent at the discretion of recipient organisations.	0.225	↓
Pooled and special purpose funds	Aid disbursements where donors contribute funds to an autonomous account, managed jointly with other donors or recipients. Donor contributions in cash to funds, managed by international organisations, with a sectoral, thematic or geographic focus.	7.914	↑
Other cash grants*	There is no unique DAC code for 'cash grants'. Other cash grants include projects whose CRS descriptions imply that aid to these projects is in the form of money, plus large grants from multilateral development banks. This is most probably an underestimation.	10.783	↓
Loans	Loans to developing countries from donors on terms agreed by the DAC as meeting the criteria for concessional finance.	28.451	↓
Equity investments	Equity investments from donor agencies in developed countries, not made to acquire a lasting interest in an enterprise.	1.7	↑
<b>IN KIND</b>			
Food aid	Aid in the form of a direct supply of food. The food may be purchased in or near recipient countries or shipped from donors. The cost of shipment is included in the donor valuation of food aid.	4.688	↓
Technical cooperation	The direct supply of experts, consultants, teachers, academics, researchers, volunteers and so on by donor agencies.	19.190	↓
Non-food commodities	The supply of non-food items, either capital goods or such consumables as oil. This may include export credits covering the supply of such items.	1.447	↑
<b>MIXED PROJECT AID</b>			
Mixed project aid	Aid transferred to specific projects as a combination of cash and in-kind resources. Available data on aid in this category is not detailed enough to separate cash and in-kind elements.	32.284	↑
<b>CORE SUPPORT TO THIRD PARTIES AND GLOBAL PUBLIC GOODS</b>			
Core support to Northern NGOs	Similar to core support to local NGOs, but based in donor countries, so the first transfer of cash takes place within the donor countries.	2.014	↓
Global public goods	Spending on GPGs, the benefits of which are shared worldwide (at least potentially). Examples are research on disease prevention or the production of drought-resistant crops.	5.691	↓
Promotion of development awareness	The funding of activities within donor countries designed to increase public support for, and awareness of, development cooperation needs and issues.	0.496	↑
<b>NOT TRANSFERRED OUT OF DONOR COUNTRY</b>			
Debt relief	Debt forgiveness and debt rescheduling on both the original debt and any accumulated unpaid interest.	7.695	↓
Administrative costs	Administrative costs not associated with the delivery of a specific project.	8.155	↑
Students in donor countries	The cost associated with students from developing countries in the universities of donor countries.	3.634	↓
Refugees in donor countries	The cost of housing and feeding refugees from developing countries within donor countries.	4.533	↑
Interest subsidies	Subsidies paid from donor governments to private companies in the donor countries in return for the companies softening the terms of loans to developing countries.	0.086	↑
Other spending within donor government*	Spending channelled through donor governments and spent within donor countries excluding the above categories.	0.677	↓

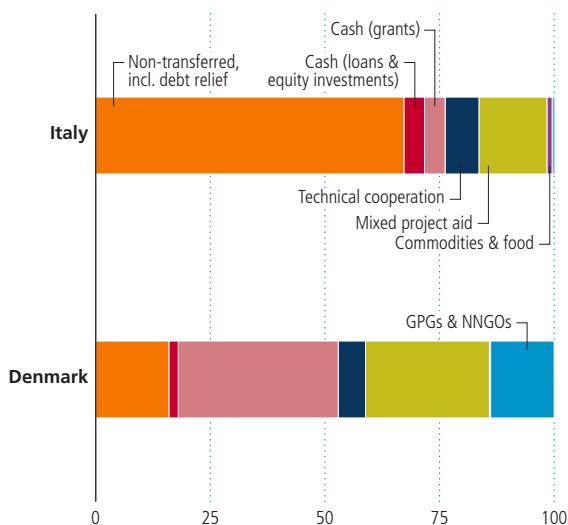
\* Category created by Development Initiatives reflecting internal calculations based on CRS data

Source: Development Initiatives.

**FIGURE 4.5**

**Headline figures show that Italy and Denmark each gave US\$2 billion in ODA in 2011; unbundling shows that Italian aid delivered US\$300 million to a developing country, and Danish aid delivered US\$1.85 billion**

% of ODA, 2011

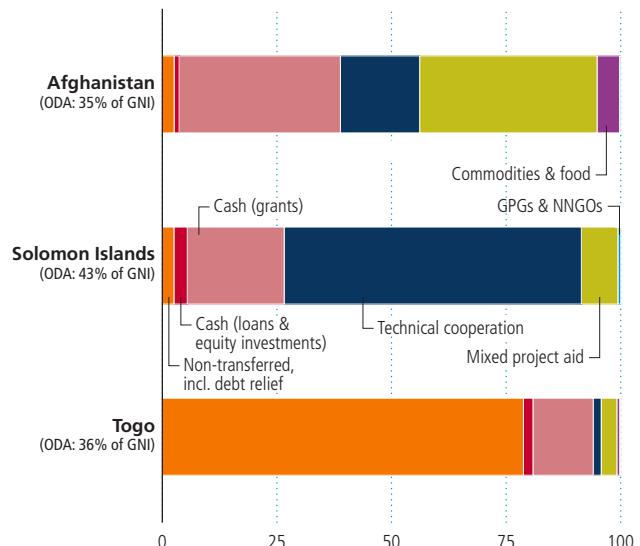


Source: Development Initiatives calculations based on DAC data.

**FIGURE 4.6**

**Headline figures show Afghanistan, Solomon Islands and Togo as equally aid dependent, but unbundling shows that the Solomon Islands are dependent only on expertise and that Togo's reported aid never left the donor country**

% of ODA, 2011

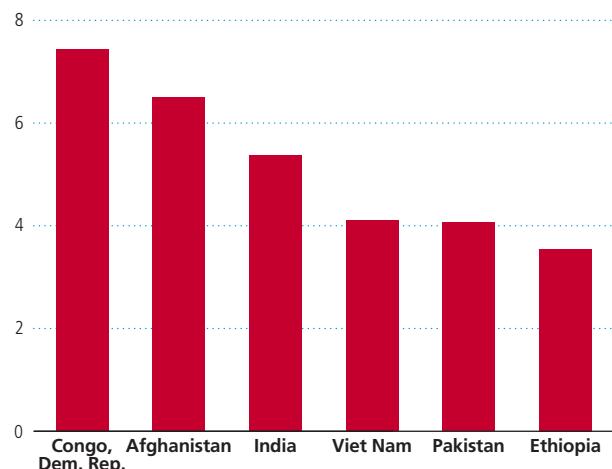


Source: Development Initiatives calculations based on DAC data.

**FIGURE 4.7**

**The five largest recipients of ODA each received at least US\$3.5 billion...**

US\$ billions, 2011

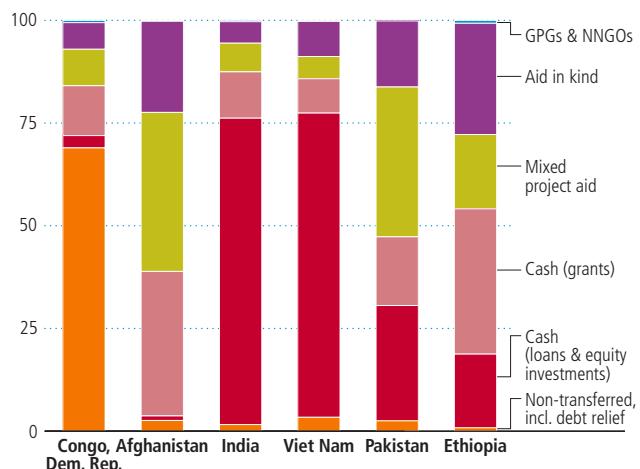


Source: Development Initiatives calculations based on DAC data.

**FIGURE 4.8**

**...but the composition of disbursements varied considerably**

Aid bundle of the largest ODA recipients, %, 2011



Source: Development Initiatives calculations based on DAC data.

Of the US\$7.5 billion gross ODA reported as being distributed to the Democratic Republic of Congo in 2011, the vast majority was not transferred. Debt relief was the largest single item, accounting for US\$5.1 billion, itself

broken down into three components (Figure 4.9).

Debt relief is clearly valuable to the Democratic Republic of Congo by potentially freeing up money for use

elsewhere, but overall ODA figures mislead when debt relief is lumped in with other aid flows.

Of the six largest recipients of ODA, Afghanistan (35%) and Ethiopia

FIGURE 4.9

### Breakdown of debt relief to the Democratic Republic of Congo

Forgiveness of old other official flow and private loans	\$2.3 billion	This relates to old loans, which will also have been reported in previous years' data on other official flow or private lending
Forgiveness of old ODA loans	\$1.9 billion	This relates to old loans, which will also have been reported in previous years' data on ODA
Forgiveness of accumulated interest	\$0.9 billion	As this interest was never paid, it existed only as an accounting transaction on the donors' records
<b>Total debt relief</b>	<b>\$5.1 billion</b>	

Source: Development Initiatives.

(39%) received the most ODA in cash grants in their aid bundles. India and Viet Nam, wealthier countries that still face poverty, received the majority of their aid in credits (either loans or equity investments), eventually to be repaid to the donor with interest. India received more than 75% of aid as loans or equity investments, Viet Nam, 60%.

For in-kind aid, Afghanistan had more than US\$1 billion of reported technical cooperation (17% of total aid), reflecting governance and reconstruction needs. Ethiopia, with its food security challenges, received the most assistance in food aid (almost US\$700 million, or 19%).

### Loans and debt relief: How ODA statistics can overstate resource transfers

To meaningfully assess the impact of aid, we need to first answer a basic question: How much is there, and what is it worth? Unbundling aid allows us to isolate different types of aid and to look at how they differ in value to the recipient. Statistics account for some types of aid in ways that substantially overstate the value of resources transferred to recipients. To illustrate

this, we look at how the valuation of loans and debt relief highlights the discrepancy between reported ODA figures and the value of aid to recipients.

#### Loans: What counts as an aid loan?

To be counted as aid, a loan must be on concessional, or 'soft,' terms. Indeed, concessionality is one of the key principles underlying the rules governing aid – rules set by the donors themselves. A donor's lending money on commercial terms to a poor country and making a substantial return on such a loan clearly should not qualify as aid.

Several things can affect the softness of loans:

- **Interest rate.** Is the loan at a lower rate of interest than prevailing market rates, and if so, how much lower?
- **When repayments start.** Is there a grace period before the borrower has to begin making repayments?
- **Length of the loan.** Due to inflation and other factors, a dollar received by a borrower today is likely to be worth more than a dollar repaid in 10, 20, 30 or 40

years. Thus the longer the period of the loan, the better it is for the borrower. For poverty eradication, having money now is important and increases the return on investment (see Chapter 5).

So, it is not necessarily straightforward to compare the softness of one loan with that of another. We need a standard way of measuring this and criteria for deciding how soft a loan has to be before it can be counted as aid.

The method normally used to estimate the softness of loans, including by the DAC, is to calculate the 'grant element' of each loan. The grant element is the difference between the cost, in today's prices, of the future repayments a borrower will have to make on the loan and the repayments the borrower would have had to make on a non-concessional loan. This amount is considered to have been 'given away' by the donor and is normally shown as a percentage of the value of the loan.

Any loans with a grant element of more than 25% are included in their entirety as ODA. So loans with low concessionality (just over 25%) are valued the same as those with high concessionality. DAC statistics show wide differences in the average concessionality of loans from different donors (Figure 4.10).

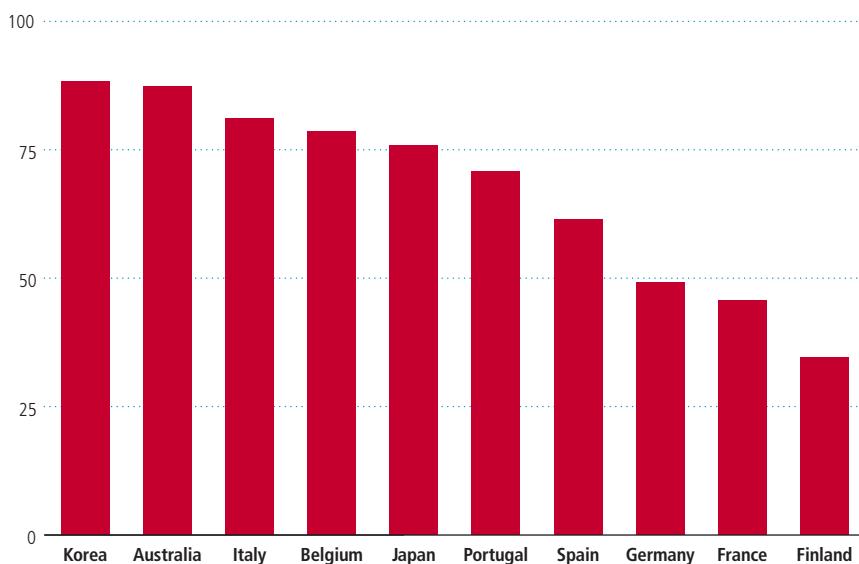
More than 90% of bilateral ODA loans in 2011 came from just three donors: Japan, Germany and France. But the average grant element of Japanese loans was 75%, compared with 42% for French loans and 47% for German loans. So Japanese loans were worth three-quarters of the value of an equivalent level of cash grants; French and German loans were worth less than half.

Why does this matter? To understand how different levels of concessionality

FIGURE 4.10

### The concessionality of loans differs across donors

Average grant element of loans, based on the DAC reference rate of 10%, %, 2010



Source: Development Initiatives calculations based on DAC data.

affect the value of an ODA loan to the recipient, consider the following hypothetical.

Two donors each advance a US\$10 million loan to a developing country. Both loans are repayable over 25 years, and repayments are made annually, commencing one year after the loan is made. One donor charges interest at 0.5%, the other at 3.5%. Using the DAC reference rate of 10%, the grant element is 58% for the low-interest donor's loan and 40% for the high-interest donor's loan. Thus both loans easily qualify as ODA and are recorded in the ODA statistics for that year as US\$10 million of gross ODA disbursed by each donor.

However, over the lifetime of the loans, the different interest rates lead to very different outcomes for the recipient country. By the time the loans are fully repaid with interest, the recipient will have paid US\$10.7 million for the low-interest loan and US\$15.2 million for the high-interest loan, a difference of US\$4.5 million. Despite this large difference in

repayment burden, ODA statistics would show both loans as being of equal value to the recipient.

### How soft are ODA loans? The effect of reference rates

An important variable in calculating a loan's grant element is the reference rate (this should be an approximation of the interest rate a lender could receive if lending at market rates). The difference between the reference rate and the actual interest rate charged is thus a key determinant of how soft the loan is.

One result: the higher the reference rate, the greater the apparent concessionality of the loan. To accurately measure concessionality, the reference rate should resemble the market rate a donor faces. But in calculating the grant element of ODA loans, the DAC uses a reference rate of 10%, set when global interest rates were much higher. This makes ODA loans appear much softer than they actually are and thus overstates the generosity of donors.

Other international bodies do not follow the DAC's example. The International Monetary Fund (IMF) uses a range of reference rates – published by the DAC and specific to each donor and currency – that are regularly recalculated to reflect the interest rates applicable to donors.<sup>7</sup>

In every case, the IMF's reference rates are lower – sometimes substantially – than the DAC's 10% (Figure 4.11).

This means that, compared with IMF calculations, the DAC calculations substantially overvalue the grant element of ODA loans – tipping more loans over the 25% qualifying criterion and thus making more loans eligible as aid. Indeed, based on the IMF's currency-specific reference rates and the 25% criterion, a considerable proportion of loans from some donors would cease to qualify as ODA.<sup>8</sup>

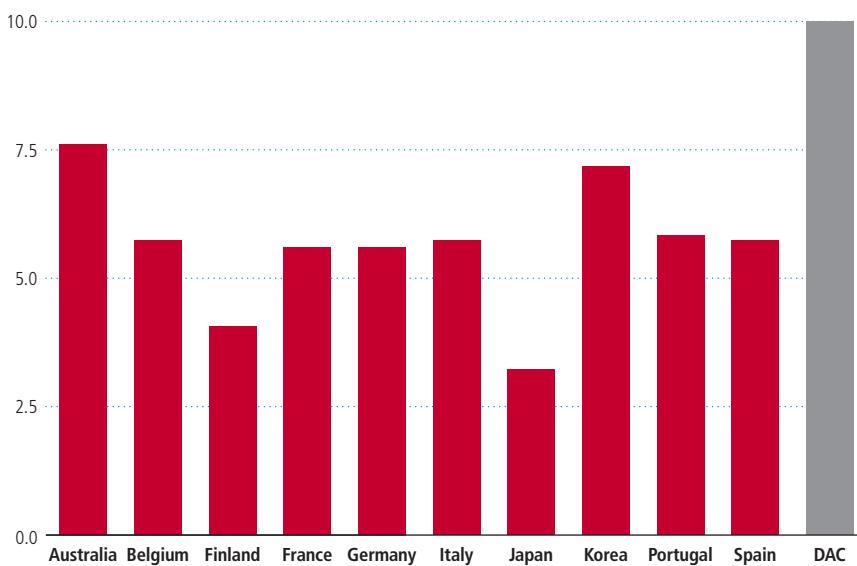
Using a more realistic reference rate of 6% in the example above, the grant element of the low-interest (0.5%) loan falls from 58% to 43% and still qualifies as ODA, but the grant element of the high-interest loan (3.5%) falls from 40% to less than 20% and is thus no longer eligible to be counted as ODA.

The reduction in the grant element that would arise from using a realistic reference rate strongly affects how generous donors appear to be. One way of measuring the apparent generosity of donors that give aid as loans is to multiply the percentage of the grant element of their loans by the value of the loans, which yields an estimate of the amount of money donors forgo when making soft loans. The more realistic reference rates used by the IMF reduce the dollar value of the grant element of loans by US\$400 million for Germany, US\$500 million for France and more than US\$3 billion for Japan (Figure 4.12).

**FIGURE 4.11**

**IMF reference rates are lower than the DAC's**

ODA reference rate, %, 2011

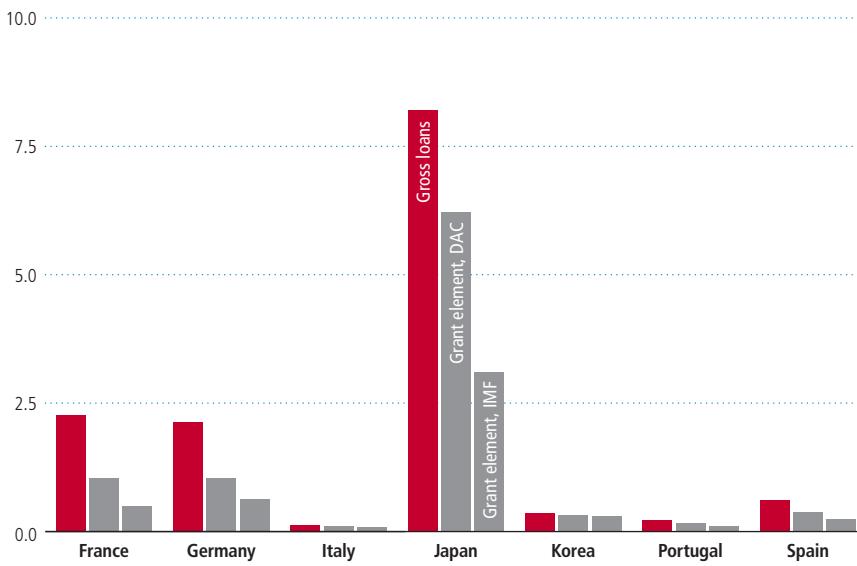


Source: Development Initiatives calculations based DAC currency-specific interest reference rate data.

**FIGURE 4.12**

**Reference rates can exaggerate the grant element of ODA loans**

Grant element of ODA loans based on IMF and DAC reference rates, US\$ billions



Source: Development Initiatives calculations based DAC data and the IMF Grant Element calculator.

Across all bilateral donors, the average grant element of ODA loans is 67%, according to the DAC. But the IMF's more realistic reference rates reduce the average grant element across all loans to just 36%.

### Loan repayments: Headline figures exclude repayments of interest

ODA is reported in both gross and net terms. Gross ODA is the sum of

all aid disbursed by donors in a given year, and net ODA is gross ODA minus repayments on loans or equity investments during the year, recoveries on grants and any offsetting entries for debt relief. Net ODA is normally used to calculate donor ODA as a share of GNI.

But only principal repayments are taken into account when calculating the net value of ODA loans. Interest repayments are not subtracted from gross lending but are instead recorded as a memo item. So, in practice, ODA statistics ignore a large reverse flow: the money paid from developing countries to donors as interest payments on ODA loans.

This may seem a technicality, but such repayments can be substantial. The net lending figure overstates the true net transfer of resources between donors and recipients by about US\$5 billion a year. For the three largest providers of bilateral ODA loans, the actual transfer of resources is much smaller than the net lending figure suggests – and for loans from Japan, there is a net transfer of resources from developing countries (Figure 4.13).

### Debt relief

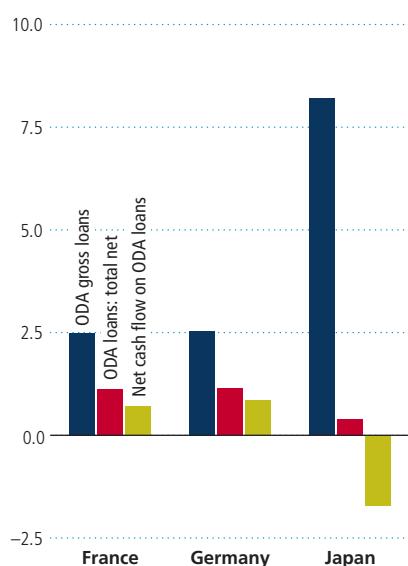
Various types of debt relief may also be counted towards a donor's reported ODA. Debt cancellation, debt rescheduling, debt conversion and debt buyback can all be reported as ODA. Debt relief may apply to ODA loans or to loans that were originally other official flows or private loans.

If an ODA loan is cancelled, the donor subtracts an 'offsetting entry' from its net ODA figures equivalent to the principal value of the original ODA loan. This avoids double-counting, as the original loan is included in a previous year's ODA figures. Similarly, when an other official flow or private loan is cancelled, with the debt relief reported as ODA, the offsetting entry

**FIGURE 4.13**

**Not subtracting interest payments from gross lending overstates the true volume of transfers**

US\$ billions, 2011



Source: Development Initiatives calculations based on DAC data.

is applied to the other official flow or private flow data. This is purely a statistical exercise. Though it appears that additional resources have been transferred to developing countries when looking at the ODA data in isolation, some lending previously reported as other official flows or private loans (perhaps many years previously) has simply been moved under ODA in the DAC statistics. No new resources have been transferred, but the reported ODA is increased by the original value of the other official flow or private loan plus unpaid interest that has accrued since the loan was advanced.

Donors also count write-offs of accumulated interest as ODA. For example, if a donor advances a US\$10 million loan to a developing country, but the recipient does not keep up repayments, the debt could rise to, say, US\$12 million because of unpaid interest. If the donor then writes off this loan, the US\$2 million

of forgiven interest is counted as ODA, despite the fact that this money existed only as an interest calculation and was never received by the creditor country.

In 2011 donors reported US\$7.3 billion of debt forgiveness and another US\$0.4 billion of debt conversions, buybacks and the like – totalling US\$7.7 billion in gross debt relief. The principal value of old ODA loans covered by this debt relief – and recorded as offsetting entries – was US\$3.5 billion, yielding a net debt relief figure of US\$4.2 billion, which was included in the total ODA figures for 2011.

This US\$4.2 billion actually represented:

- More than US\$2.4 billion in loans previously counted as other official flows and now counted as ODA.
- More than US\$240 million in loans previously counted as private and now counted as ODA.
- More than US\$1.5 billion in accumulated interest (funds never disbursed) written off in 2011.

Although this reduced aid recipients' debt by more than US\$7 billion, it did not represent any new transfer of resources to developing countries. Debt relief, as an element of ODA, has fallen in recent years. But from 2002 to 2011 more than US\$95 billion of reported ODA disbursements were debt relief (Figure 4.14).

### Differences in the reported and perceived value of aid in kind

Aid sent as goods rather than as finance needs a monetary value so that aid flows can be more easily measured and compared. Such aid is recorded at values determined

by donors and includes additional transaction costs. There are many ways for the cost reported by donors to differ from the value of the aid that beneficiaries perceive to have gained. Consider two very common types of aid in kind: food aid and technical cooperation.

### Food aid

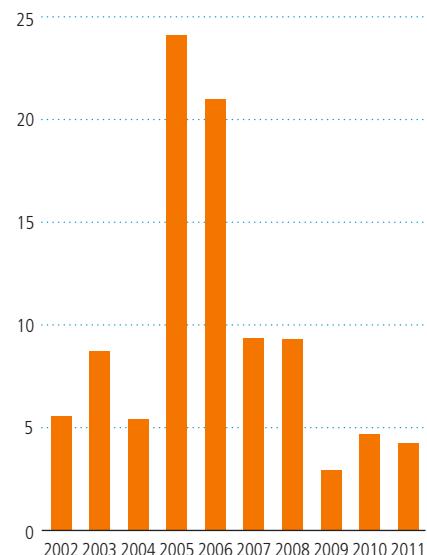
The value donors place on the food aid they disburse can be a poor reflection of its true worth to the recipients. For example, premiums paid to suppliers and shippers, combined with increased costs due to lengthy international transport, can raise the cost of food aid by more than 100% over the cost of locally purchased food aid, according to some assessments.<sup>9</sup>

Transport costs can also inflate the cost of food aid. The United States, the largest global supplier of food aid,

**FIGURE 4.14**

**ODA reported as net debt relief totalled US\$95 billion over 2002–2011**

US\$ billions, 2002–2011



Note: The peak in overall ODA in 2005 and 2006 was due mainly to exceptional debt relief for Iraq and Nigeria.

Source: Development Initiatives calculations based on DAC data.

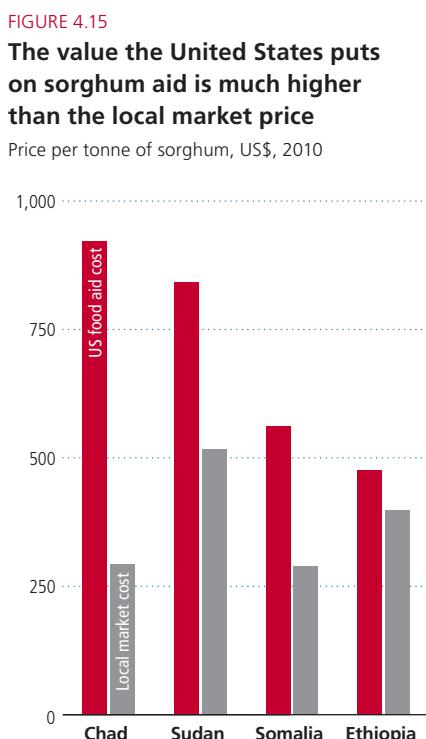
requires half its food aid to be carried by US ships (a recent reduction from the previous requirement of 75%). The distortion on the value of such aid is evident: In 2010 ODA claimed per tonne of US sorghum shipped was 215% higher than the average local market price in Chad, 95% higher in Somalia, 63% higher in Sudan and 20% higher in Ethiopia (Figure 4.15).<sup>10</sup>

Most donors have begun to source more of their food aid from local markets and purchase the majority of such food close to the communities for whom the food aid is intended – a practice referred to as local and regional procurement. Proponents argue that such practices are both faster and more cost-effective than food aid shipped from the donor country.<sup>11</sup> Under the right conditions, local and regional procurement supports local markets and avoids the classic side-effects of ‘food dumping,’ which reduces local food

prices to the detriment of local producers.

The World Food Programme began procuring food locally in Asia in the 1970s and in Africa in the 1980s. In 1996 the European Union issued a regulation favouring local and regional procurement over food aid shipments from donor countries. And Canada now provides virtually all its food aid as cash for local procurement, vouchers or cash distributions. Such policy changes increased local and regional procurement’s share of global food aid from just 11% in 1999 to 46% in 2011.<sup>12</sup>

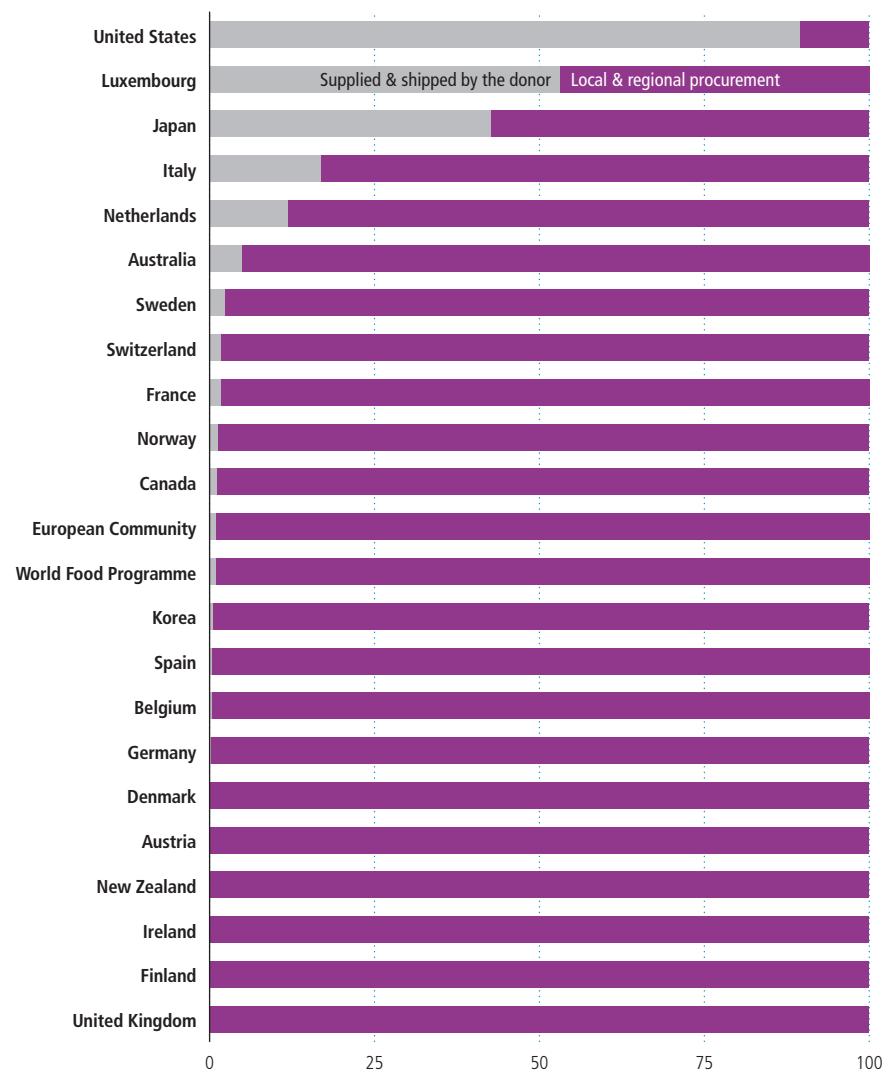
Of the major donors of food aid, only the United States and Japan continue to make extensive use of food shipments, purchasing the majority of food aid from their own farms and then shipping it to developing countries, often in their own ships (Figure 4.16). The additional cost of shipment is then added to the cost of procuring the food and included in aid statistics. Although the United States was responsible for 54% of food aid disbursed (by weight) in 2011, US food aid accounted for nearly 90% of food aid shipments.



Source: Development Initiatives calculations based on DAC data and data from the FAO Global Information and Early Warning System database ([www.fao.org/giews/pricetool/](http://www.fao.org/giews/pricetool/)).

**FIGURE 4.16**  
**Most food aid is now procured locally or regionally**

Tonnage of food aid disbursed by procurement source, %, 2011



Source: World Food Programme Food Aid Information System.

## Technical cooperation

Technical cooperation is defined as:

- Activities that augment the knowledge, skills, technical know-how or productive aptitudes of people in developing countries.
- Services such as consultancies, technical support or the provision of know-how that contribute to the execution of a capital project.

Technical cooperation has always been a major feature of the aid landscape, and given the resource and capacity constraints facing many developing countries, it will continue to be a substantial type of aid (Figure 4.17).

Free-standing technical cooperation accounts for around one-eighth of gross ODA (one-sixth of net ODA) reported by all donors. But the total amount donors spend on technical cooperation is considerably

higher because donors also include additional technical cooperation within their projects without reporting it separately.

Technical cooperation has come under criticism, with many arguing that some donor practices can substantially reduce its value and that what donors report far exceeds its worth in developing countries. Technical cooperation may be bundled with other aid, or 'tied' to the provision of donor-country personnel. This can encourage overpricing, inherent in tendering

processes. Donor-driven technical cooperation can also be overvalued if the assistance provided is not what recipient governments would choose if they were directly provided the equivalent in cash.

A wide range of inappropriate practices can widen the gap between volumes reported and benefits received, such as limiting capacity building, using expatriate consultants rather than national expertise or development cooperation from non-DAC providers, tying to donor-country consultants, limiting country ownership and having

FIGURE 4.18

### Technical cooperation coordinated with country programmes ranges from 27% to 88%

Share of technical cooperation coordinated with country programmes, %, 2011

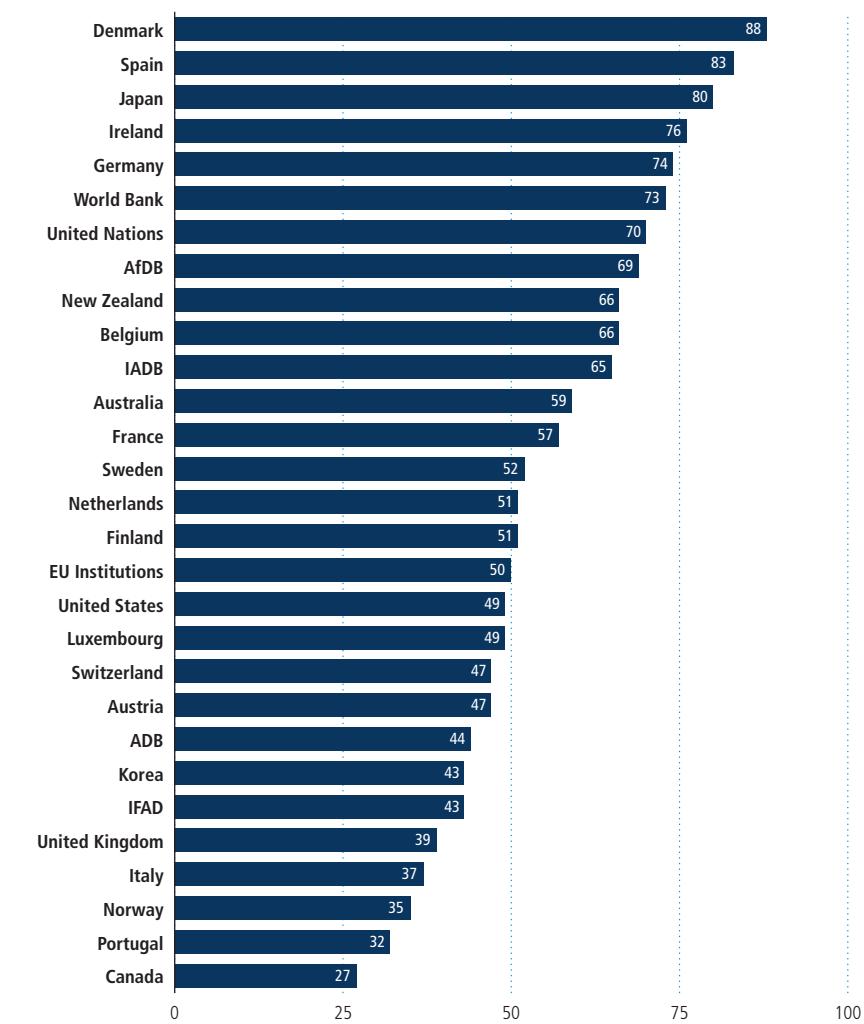
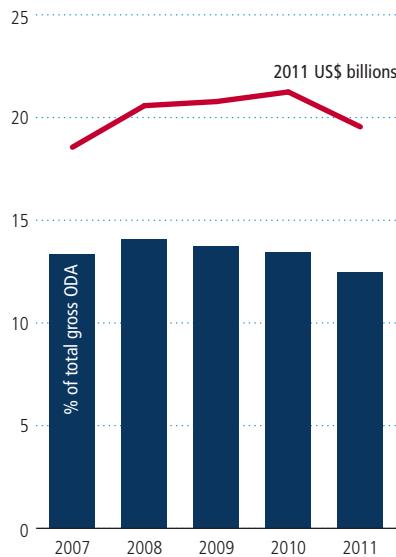


FIGURE 4.17

### Technical cooperation has remained steady at around US\$20 billion a year and 12–14% of total gross ODA



Source: Development Initiatives calculations based on DAC data.

Source: OECD 2011.

consultants accountable to donors rather than to recipients.

The extent to which technical cooperation aligns with country priorities lies at the heart of its value. The 2011 Paris Declaration Monitoring Survey, which assesses the effectiveness of ODA, includes a donor-by-donor evaluation of the share of technical cooperation coordinated with country programmes.<sup>13</sup> Donor performance varies considerably, with Denmark coordinating 88% of its technical cooperation to country

programmes, and Canada only 27% (Figure 4.18).

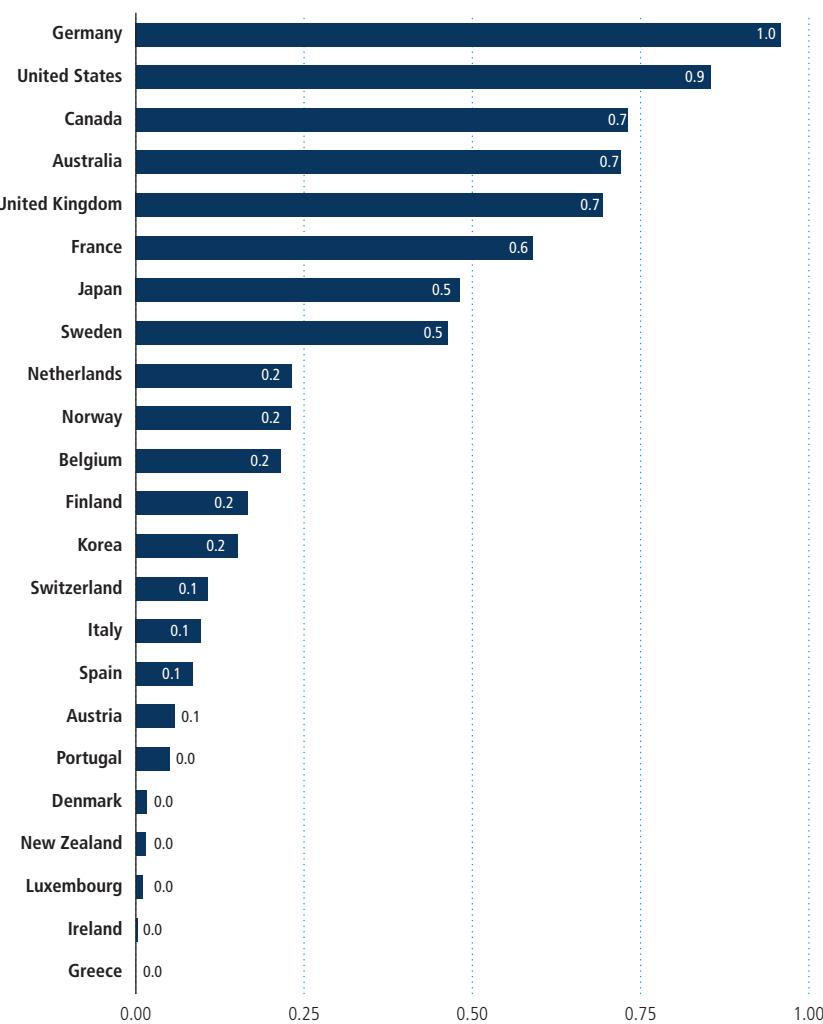
Poor alignment can substantially reduce value from what is reported. Applying these proportions to DAC donors' disbursements shows that in 2011 almost US\$7 billion of technical cooperation was not coordinated with recipient-country programmes and priorities (Figure 4.19). The value that recipients place on technical cooperation would be much higher if donors increased their coordination.

## Why unbundling aid is important

For almost every aspect of aid effectiveness, it is important to unbundle aid. To understand burden sharing and to see whether donor countries are meeting international targets, we need to know what it costs them to provide their aid. To measure aid dependency, we have to know what forms aid arrives in. To know whether aid inflows risk creating inflationary pressure and reducing international competitiveness, we have to know how much aid arrives as money. But more important, to ensure that money is well spent, we – as a ministry official expanding an education service, an aid donor investing in roads or an international NGO rolling out a sanitation programme – have to know what resources are available and in what forms. To hold people to account, we have to know what they are spending and on what.

**FIGURE 4.19**  
**Almost US\$7 billion in technical cooperation from DAC donors was not coordinated with country priorities**

Volumes of technical cooperation not coordinated with country programmes, US\$ billions, 2011



Source: Development Initiatives calculations based on DAC data and data from the 2011 Paris Declaration Monitoring Survey.

This rigour should apply even to modest spending. On average, people living in extreme poverty in sub-Saharan Africa need 54 cents more a day just to reach the extreme poverty line, compared with 29 cents a day for people in living in extreme poverty in the rest of the developing world (see Chapter 1). Each of the 1.2 billion people trying to survive and improve their lives while living below the poverty line has to make profoundly difficult choices about every cent. The nominal volume of ODA is enough to bring everyone above the poverty line through a cash transfer. The onus on everyone allocating aid resources is to do better than that.

Knowing exactly what is being spent, and where and how, is thus a fundamental baseline for making better decisions on allocating aid – and for ensuring that aid has the maximum impact on lifting people out of poverty.

TABLE 4.2

### Categories of aid that distort the headline ODA figures – a summary by donor

This chapter has shown that some types of aid do not result in a transfer to developing countries and other types may be given, or accounted for, in ways that mean they deliver less benefit to recipients than the headline ODA figures suggest. The table below summarises, for each DAC donor, the value of:

- Aid that is not transferred: debt relief, costs of refugees and students in donor countries, administrative costs and other forms of non-transferred ODA.

- The interest received on ODA loans – these amounts are not included in the headline net ODA figures even though they represent a significant transfer from developing countries to donors.
- The difference between reported new lending and the grant element of loans. Where loans are provided at relatively low levels of concessionality, this makes a real difference to the worth of these loans to the recipient countries concerned. Low-concessional lending may be completely

appropriate for certain contexts, as it can free up resources elsewhere. However, deficiencies in ODA definitions bring into question how much of such lending should actually qualify as ODA.

- Technical cooperation that is not aligned with recipient priorities, according to the Paris Declaration monitoring survey.
- Food aid that is grown in donor countries and for which aid money is spent on shipping it around the world.

US\$ millions, 2011

	Debt relief	Costs of refugees in donor countries	Costs of students in donor countries	Administrative costs & other non-transferred ODA	Loan interest repayments not subtracted from net ODA figures	Difference between reported new lending and grant element of loans	Value of technical cooperation not aligned with recipient priorities	Value of food aid grown in donor country and shipped abroad
Australia	13	0	294	218	13	8	720	6
Austria	43	42	107	72	0	0	58	0
Belgium	310	127	99	135	3	2	215	0
Canada	4	338	223	313	0	0	730	3
Denmark	1	121	11	220	0	0	16	0
Finland	0	35	0	100	0	1	166	0
France	1,368	545	987	498	408	1,969	590	1
Germany	454	86	1,093	433	323	1,101	959	1
Greece	0	25	75	14	0	0	0	0
Ireland	0	0	2	42	0	0	3	0
Italy	797	526	14	70	8	12	97	4
Japan	1,446	1	379	783	2,562	1,885	482	192
Korea	0	0	42	162	32	51	151	0
Luxembourg	0	0	0	104	0	0	10	3
Netherlands	121	481	66	509	0	5	232	3
New Zealand	0	14	27	45	0	0	15	0
Norway	22	263	5	310	0	0	230	0
Portugal	5	1	27	26	18	104	50	0
Spain	38	33	7	281	55	206	85	0
Sweden	186	489	46	284	0	0	463	0
Switzerland	80	537	11	288	0	0	107	1
United Kingdom	182	31	14	531	0	0	694	0
United States	1,641	836	0	1,480	233	0	854	1,771
<b>DAC BILATERAL ODA, TOTAL</b>	<b>6,709</b>	<b>4,533</b>	<b>3,527</b>	<b>6,919</b>	<b>3,654</b>	<b>5,342</b>	<b>6,925</b>	<b>1,987</b>

## Notes

1. Moyo 2009, p. xviii.
2. Easterly 2006, p. 4.
3. See, for example, Rajan and Subramanian (2010).
4. OECD 2008.
5. Uganda Ministry of Finance, Planning and Economic Development 2011.
6. Interview with Development Initiatives, February 2009.
7. Currency-specific interest reference rates.
8. DAC data gives only average grant element percentages for the ODA loans advanced by each donor. This makes it impossible to say with certainty exactly what proportion of loans may cease to qualify as ODA if a reference rate of less than 10% is used in the grant element calculation.
9. Mousseau 2005.
10. ODA data from the DAC Creditor Reporting System database ([www.oecd.org/dac/stats/](http://www.oecd.org/dac/stats/)); wholesale commodity prices from the FAO Global Information and Early Warning System database ([www.fao.org/giews/pricetool](http://www.fao.org/giews/pricetool)).
11. Studies showing some evidence to support this view include Walker, Coulter and Hodges (2007), Haggblade and Tscharley (2007) and Hanrahan (2010).
12. World Food Programme Food Aid Information System database ([www.wfp.org/fais/](http://www.wfp.org/fais/)).
13. OECD 2011.

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# Using data to get better results

- Aid is the main official international financial resource flow that can be focused primarily on ending poverty. It can be readily targeted on reaching the poor and is vital to many low-income countries. Aid is also well suited to the targeted interventions required to ensure that the poorest people share in the benefits of growth.
- Poverty reduction will never be a single sector activity. It will require development across the board: political, economic and social.
- Aid should be allocated to deliver the most impact. Aid is a small resource in relation to the challenge of ending poverty for over a billion people; it must be allocated where it can deliver the most impact.
- Aid can play different roles. It can deliver direct, immediate and measurable benefits. It can also provide catalytic funding, leveraging in larger resources and investing in longer term impacts that may be transformational and benefit millions.
- Better information will improve decisionmaking. Deciding between competing calls on aid is challenging and requires clear thinking on who will benefit, when the benefit will be felt and the probability of impact.
- Every dollar should contribute to ending poverty. More timely, sub-national, preferably geocoded data on how aid is currently used can underpin more disciplined planning, resource allocation and evaluation.

**M**any things determine the impact of aid on poverty – most important are a country's environment, policies and institutions. But the providers of aid also affect its impact, first by their *choices* in the type of

assistance and where it should go and second by their *behaviours* and practices in delivering aid. Both components are vital to allocating and delivering effective aid. This chapter focuses on the choices that people make when they are

allocating aid resources and the ways that better data could drive decisions that achieve more poverty reduction for every available dollar. It deliberately sets to one side the aid effectiveness agenda and the principles for delivering aid.

The choices facing people charged with allocating aid resources are not easy. There are many factors at play, including domestic and geopolitical interests, organisational incentives, existing policies and relationships, as well as different views and contested evidence about what is likely to deliver the most progress. More and better data will not substitute for difficult judgement calls, but it will support more-transparent choices and wider debate about the investments most likely to expedite the end of poverty.

Aid, as one of several international financial flows, has comparative advantages in reaching the poor. It can be targeted specifically to support people and places where governments do not function or where markets are not prepared to take risks. It can support innovation and bring international expertise. It can provide critical supplementary financing in its own right or play a catalytic role to leverage or improve the targeting of other flows. Above all, it can focus on ending poverty as an objective, not a by-product. Because it is often a relatively small resource, even in the countries where it is largest, decisions about the allocation of aid need to look explicitly at where it can add the most value in the context of other resources.

Poverty reduction will never be a single-sector activity. It requires complementary investments across the board – political, economic and social. It means meeting short-term needs and ensuring long-term security and

***"In general we should judge aid by its direct impact on people to whom it is given, not by its effects on political change or economic growth"***

opportunity. Aid cannot respond to all these needs everywhere, and it is much better suited to some investments than to others.

Good governance and leadership, for example, are fundamental to sustained poverty reduction, but the achievement of aid in this area is mixed, with either limited success or questionable cost-effectiveness. Growth is critical to ending poverty, but the impact of aid on growth, at least in the short term, may be limited. The data needed to make a decision about the best use for aid is not the same as that needed for a decision about the best investments for poverty reduction. It needs to take into account the comparative advantages and disadvantages of aid in achieving the end of poverty. As Owen Barder writes, "In general we should judge aid by its direct impact on people to whom it is given, not by its effects on political change or economic growth."<sup>1</sup>

This chapter sets out some suggestions for data and disciplines that could help the people making choices about aid spending release more value for poverty reduction.

Whether spending is global, national or local, accountable choices about the allocation of aid require answers to three questions:

- Who will benefit – and are they poor?
- When will the benefit be felt?
- What is the evidence on the probability of impact?

In addition to these issues of probability, proximity and timeframe, there are two dimensions where value could be added:

- Can this aid be used to catalyse other resources?

- Are the aid instruments available (loans, grants, technical cooperation, food aid, tied aid and the like) being used in the most appropriate way for the context?

Donors and others who allocate resources do not control many of the conditions for success. So, it is all the more important that they exercise rigorous discipline over the things they do control. Every donor has the potential to release more value for poverty eradication, even from their existing resources, by testing allocation decisions against these five questions.

## **Who will benefit – and are they poor?**

Aid is a rare resource, both limited in volume and focused on poverty. A key question, therefore, is whether the impact of the investment is targeted to benefit the poorest people. This does not mean that allocations should, as a matter of principle, favour direct over indirect investments. But all potential aid allocations, at every level, should provide answers on two points: First, is it clear who is intended to benefit? And second, is it targeting places where poor people live?

## **How much data is there on who will benefit?**

In some cases the question of who benefits can be answered very literally, with the locations and even the names and addresses of the people who are intended to benefit. Brazil, through its Brasil sem Miséria programme, has targeted the total eradication of extreme poverty within its borders by 2015. Central to this effort is the Cadastro Único, or single registry, which tells the government who the poor people are, where they live and how they make a living. So Brazil not only knows that 7.7 million people in \$1.25 a day poverty between 1999 and

2009 are now above the poverty line, it also knows their names and addresses, and it knows what investments each of those households made and with what outcomes. That same information helps Brazil know details on many of the remaining 16.2 million individuals to lift from poverty on a national definition by 2015.

However, for most ODA investments (and aid more broadly), we know much less about who will benefit and where they live. For some investments there is no data at all about the location of the beneficiaries. For others there is data at the regional and country levels. And for a small number data is published at the sub-national level.

### Is aid allocated to places where poor people live?

The data on aid allocation has different degrees of detail. Some aid has no geographical allocation at all (regionally unspecified ODA), some goes to regional investment and some is reported at the country level. All reporting is based on where the aid is expected to have an impact, not on where the funds are spent. Almost a quarter of gross bilateral ODA reported to the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD DAC) by its members, some US\$25 billion, is recorded as regionally unspecified. Bilateral donors account for most of such aid, which is increasing. Australia saw its volume of unspecified ODA grow from US\$180 million to more than US\$1 billion between 2010 and 2011 and the United Kingdom from US\$790 million to US\$2.7 billion.

Some of this aid will fund upstream investments, which may be relevant to ending poverty, for example:

- Research targeting the problems of developing countries, such as tropical diseases and drought-resistant crops.

- International initiatives to catalyse and coordinate improvements in specific areas, such as the global Education for All movement, or other pooled funds.
- Core contributions to international organisations not on the OECD list of multilateral aid recipients, such as the International Committee of the Red Cross and the International Union for the Conservation of Nature and Natural Resources.

For some indirect investments the link with who benefits is straightforward – for instance, on the returns from research on neglected tropical diseases that disproportionately affect poorer populations in specific locations. But even when the chain of causation is long, the answer to the question of who should benefit should be as clear and specific as possible.

Just asking the question 'Do we know who will benefit?' can focus attention on the different impacts on different groups of people: disaggregating project results by gender could change project design because it prompts people to consider whether the intervention will have different impacts on men and women.

### Could more aid flow to poorer countries?

There are two levels of analysis that can help answer the question about who benefits and whether they are poor. The first is at the country level: Has aid been allocated to benefit countries with large numbers or a high percentage of the population living below the poverty line? The second is more disaggregated and requires answers on whether aid has been allocated to benefit the poorest people within countries. Inequality means that extreme poverty can co-exist with progress at the national level, and even among those living below the poverty

**Every donor has the potential to release more value for poverty eradication**

line, there can be different depths of poverty (see Chapter 1).

A basic measure that can be used as a crude starting point to see whether aid is being allocated to prioritise people in poverty is ODA per poor person. This can then be combined with data on government expenditure to see whether ODA is being allocated to both the poorest countries and to those with the lowest government expenditure per person.

Looking at ODA disbursements relative to the numbers of people in poverty draws a distribution map that shows that ODA per poor person is lowest in countries with large numbers or high proportions of people below the poverty line.

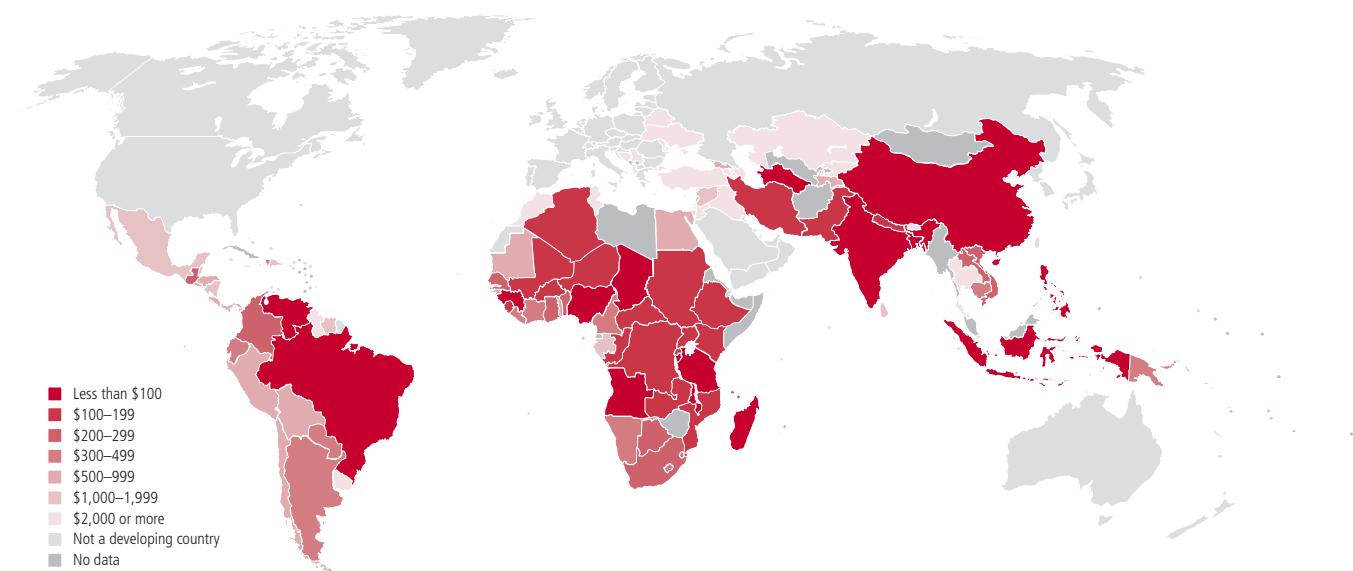
In 2011, US\$13.9 billion of gross bilateral ODA (US\$9.3 billion of net ODA, once loan repayments are deducted) went to the wealthiest group of developing countries. Of that, US\$300 million went to donor protectorates.

Substantial sums are also spent in countries with low levels of poverty. In 2011, US\$8.8 billion of net ODA was disbursed to 16 countries with less than 1% of their national population below the \$1.25 poverty line (based on countries with data) – all but one have fewer than half a million people in poverty according to the latest records.

Map 5.1 shows the distribution of ODA per poor person. The darker the shading, the less ODA per poor person. Many of the countries with lower ODA levels have access to far fewer domestic and international resources than do countries with higher ODA levels.

**MAP 5.1****Redrawing the aid map by ODA per person: the darker the shading, the less ODA per poor person**

ODA per poor person, PPP\$, 2011



Source: Development Initiatives based on DAC data and World Bank (2013).

ODA per poor person in many poor sub-Saharan countries, where a lot of people are living below the poverty line, is just US\$119 a year, compared with US\$1,654 in the Middle East and substantially more in Europe. Yet annual government expenditures average PPP\$427 a person in sub-Saharan countries (excluding South Africa) – less than a ninth of the PPP\$3,823 per capita that European recipients spend. At the global level the overall distribution of aid shows that the largest allocations per poor person go to the richer countries – although total volumes of ODA to richer countries are small.

Because ODA is just one of a range of resources, domestic and international, that can be harnessed for poverty reduction, it is necessary to look at the resource context as well as the absolute numbers of people in poverty.

There is no obvious relationship between the amount of ODA provided and how rich a country is

(Figure 5.1). Indeed, if anything, as countries get richer, the amounts per poor person increase. And there can be good reasons for this, as increasing capacity enables a wider range of investments to be made, although as countries get richer, the range and scale of other resources available to them also increase (see Chapter 2). Among the poorest countries – those at low and lower middle incomes – there is almost no relationship, with most countries getting around US\$200–300 per poor person.

The same allocation pattern emerges when comparing aid with government's own resources. Aid certainly is important for poor countries: for those with low government per capita spending ODA is often one of the largest international flows (see Chapter 2). But allocations of ODA do not correlate with domestic spending per capita (Figure 5.2). ODA is not compensating for poorer countries having fewer resources of their own. Instead, ODA per poor

person remains within a fairly constant range for a number of countries, even as per capita government spending increases.

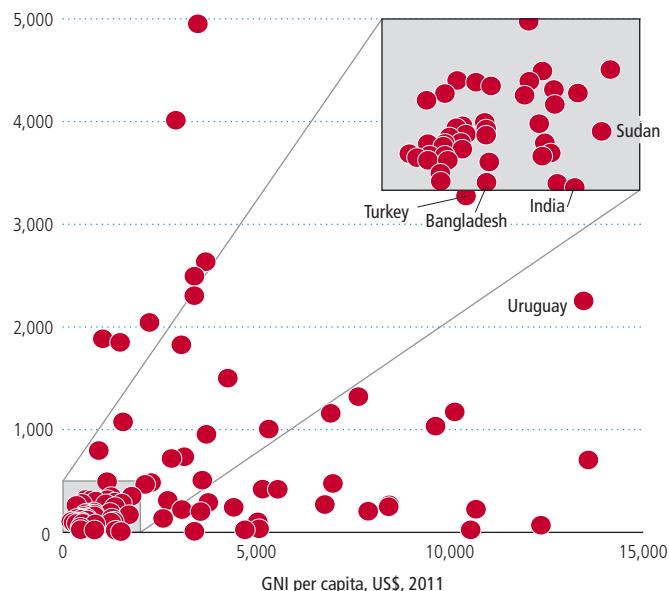
### **Could more aid flow to poorer people – whatever country they live in?**

Understanding how aid is allocated nationally is not enough for targeting poverty in any meaningful way. Progress at the national level is not reflected equally throughout society. It is clear that many people fail to share in the benefits of growth. So, national economic status or growth is not an automatic indicator of where the poor are or where they will be. Six of the ten fastest growing economies in 2012 were in Africa, with Nigeria and Zambia outperforming India and with Angola matching China. But the benefits of capital-intensive and predominantly urban growth can bypass the poor. Nigeria's growth has had limited impacts on poverty, and Zambia saw poverty rates rise since 2002.

**FIGURE 5.1**

**ODA allocations per poor person are not strongly related to a country's national income...**

ODA per poor person, US\$, 2011

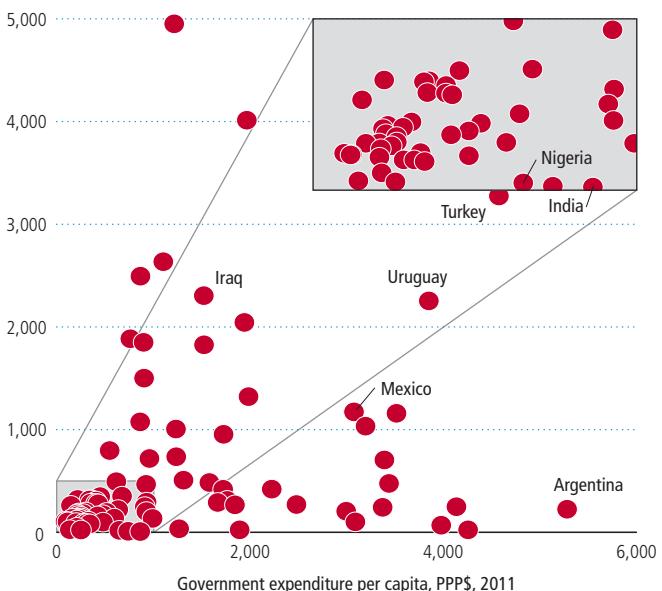


Source: Development Initiatives calculations based on data from the DAC and the World Bank.

**FIGURE 5.2**

**...or to government spending**

ODA per poor person, US\$, 2011



Source: Development Initiatives calculations based on data from the DAC and the World Bank.

**TABLE 5.1**  
**Ethiopia's reductions in poverty were not across the board**

Status in 1989	Status in 1995		
	Poor	Non-poor	Total
Poor	↔ 31	↑ 30	61
Non-poor	↓ 15	↔ 24	39
Total	46	54	100

Source: Dercon and Krishnan 1998.

In 1989, 61% of Ethiopia's population was poor. Six years later, 46% was (Table 5.1). But that does not mean a reduction across the board – 31% of the population stayed poor, 30% moved out of poverty but 15% of people classified as non-poor in 1989 got poorer and fell below the poverty line six years later. Ending poverty thus requires data on who has failed to benefit from overall progress as well as who has escaped poverty.

The level and trajectory of inequality also matter – growth that is not broad-based is much less likely to

reduce poverty. In Asia, a global growth centre, 15 of 21 countries have seen inequality increase over the last two decades (measured by the Gini coefficient).<sup>2</sup> The proportion of national wealth going to the poor in these countries has fallen, and this inequality remains a barrier to poverty reduction. Poverty scenarios by the Brookings Institution suggest that if inequality rises further in South Asia and in East Asia and the Pacific combined, by 2030 an additional 174 million people could remain in extreme poverty than if income distribution remained unchanged.<sup>3</sup>

### The importance of disaggregated data

Sub-national inequalities affect both places and people: between different regions within a country, between rural and urban areas and between different groups of populations.

- The central regions of Uganda sit alongside the equivalent of Turkey,

higher than all but one African country in national rankings of multidimensional poverty. Yet if the poor northern sub-region of Karamoja were a country, it would flounder in the second lowest position among 104 countries, just above Niger.<sup>4</sup>

- Poverty headcount ratios differ by more than 10 percentage points between rural and urban areas in India and by almost 40% between the richest and poorest states.<sup>5</sup>
- In Nigeria poor rural girls average only two years of education, in line with Chad, while rich boys get ten, more than Bolivia.<sup>6</sup>

The same is true for different groups in society. For instance, although there has been much progress in women's educational achievement, analysis from 33 Demographic and Health Surveys and 16 panel datasets from Africa and Asia revealed that women in the lowest income groups have made

slower progress than their better-off counterparts.

- In the 1990s there was a difference of 1.3 years of schooling between girls in the lowest and middle quintiles; by the 2000s the gap had increased to 2.4 years.
- In the 1990s the poorest girls married around five months earlier than average; by the 2000s the gap had increased to nine months.<sup>7</sup>

If investment decisions fail to account for who benefits, poorer girls will continue to lose out on more than a year of schooling compared with girls in middle-income households. Similarly, the aggregates mask the fact that the poorest girls marry much earlier than their better-off counterparts. Both staying in school and delaying marriage have profound effects on prospects for escaping poverty. In addition, the increasing inequality in itself has an impact, affecting poorer women's ability to compete for jobs and take more control over their lives.

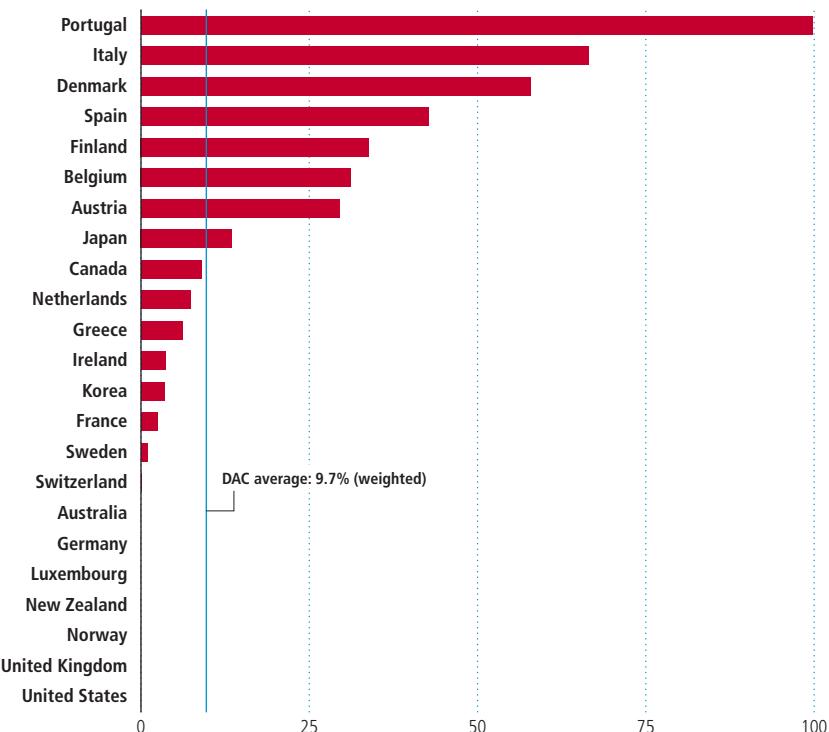
Data on sub-national inequalities and the allocation of resources within countries is therefore critically important if it is going to add value and focus on ending poverty.

### The need for better data on sub-national allocation of aid

We do not know enough about where aid is spent in countries. Place names may occur in the "long descriptions" published as part of DAC aid statistics, but such reporting is voluntary, and the quality of such information varies substantially across donors (Figure 5.3). Aggregate data on locations and target populations is not published, but the underlying information clearly exists within project documents. And of course aid is mixed in with other resources – some is combined with public finance, some matches voluntary

**FIGURE 5.3**  
**Most donors provide little or no sub-national geographic data on their aid activities**

% of CRS records giving sub-national information, 2011



Source: Development Initiatives calculations based on data from the DAC.

contributions from non-governmental organisations and some will be fungible, simply substituting for government spending in particular sector.

There has been progress in the last few years. The International Aid Transparency Initiative (Box 5.1) has promoted geocoding as part of the standard for the publication of aid information, so that every allocation would be coded for where the benefit is intended. All World Bank projects have now been geocoded, and work is starting on geocoding other bilateral projects. Mapped in Malawi are 540 projects and 2,100 activities valued at US\$5.3 billion in cumulative commitments. Mapping aid allocations against local distributions of poverty or mapping health, education and other expenditures in an area can help target, coordinate and assess the impact of aid.<sup>8</sup>

This mapping is a relatively new development. As it is used more, people will want additional data. The total number of projects is a useful first step but an imperfect proxy for the amount spent. And the maps could usefully compare the amount spent per poor person rather than poverty rates. We would not expect a large spend in a high-poverty area with few people.

Knowing, and sharing, information on where aid is spent can increase its impact on poverty in at least two ways. First, it can help communities identify projects and programmes intended to serve them, enabling them to provide feedback and increase accountability for those resources. Knowing what aid resources have been allocated gives people on the receiving end more choice and control – and an opportunity to spend the resources better. Second, it can

**BOX 5.1****Increasing the transparency of aid flows**

The International Aid Transparency Initiative (IATI) is a multistakeholder initiative to increase the transparency of resource flows in a way that meets the needs of developing countries.

IATI is:

- An international standard that defines best practice in the publication of data.
- A common technical format for sharing and comparing data.
- Applicable to all providers, and all forms, of humanitarian aid and development cooperation.
- Designed to meet the needs of users – particularly in developing countries.
- A source of timely, traceable information about how aid is being

delivered in an open data model, encouraging the publication and reuse of data to meet a wide range of user needs.

More than 170 providers of development cooperation publish to IATI, including 22 DAC members and multilateral organisations that provide 69% of official development finance (which is ODA plus other official flows, excluding official export credits). This is set to rise further to 85% once the G8 commitment to publish to IATI is met and all IATI signatories are publishing.

The added granularity in geocoding is augmented by IATI's ambition to reveal the traceability of resources. The delivery of aid from source to final point of spend can pass down a complex chain. As more actors in this chain report their activities through IATI – and accurately reflect their relationships with others in the chain and the

financial transactions between them – a richer picture emerges.

Knowing which organisations are involved and following the money to where it hits the ground – its traceability – have many benefits, notably:

- Enhancing the accountability of all organisations in the delivery chain – today, transaction costs and overheads are not known, and it is not possible to find out whether there is inefficiency, waste or even corruption in the organisations that deliver aid.
- Enabling citizens and community organisations to track and report on whether the organisation at the end of the chain is delivering in its community and whether a project is delivering what it should. They can then report their experiences back to funders, helping close the feedback loop.

provide a coordinating framework for donors to avoid duplication and increase synergies, particularly with complementary investments from the state, private and non-profit sectors. As Bill Gates says, "If you can track the grants to the purchase of the commodity and [to] the commodity getting delivered, then you can make quite sure the money's not being diverted."<sup>9</sup>

## When will the benefits of aid investments be felt?

The timeframe for returns to aid investments is critical for individuals whose life choices are limited. Every year delayed is another year when 59 million school-age children are not in primary school, when some 7 million children under age five die from a preventable disease and when 46 million women give birth alone or without adequate care.<sup>10</sup> So knowing

the time it takes for investments to have an impact on poverty should inform choices about resource allocation, and the timeframe is clearly important when the target is to end extreme poverty by 2030.

### Different timeframes

Different types of projects have different timeframes for impacts on poor people. Cash transfers have an immediate effect; a road may take years to complete. The benefits of the road to the poorest may then take even longer as private actors respond to new opportunities and as wealthier groups with better access to markets capture much of the initial economic benefit. To measure one intervention against another, be it responding to immediate need or transformational over the longer term, the value of benefits delivered now needs to be compared with benefits delivered in several years. This is expressed by the

discount rate. The higher the discount rate, the faster the value of every dollar is seen to diminish – so a high discount rate means that poverty reduction in the short term is valued more highly. A low discount rate means that poverty reduction in several years is seen to have almost as much value as poverty reduction now.

### Using discount rates

Donors face the challenge of reflecting the time preferences of the poor in their allocation decisions and choosing an appropriate discount rate. There is no single accepted way for deciding what discount rate to use. One approach – the "prescriptive" or "normative" – starts from the ethical viewpoint that this generation's benefits should not be at the expense of the next's. This approach leads to discount rates of 0–2% and was used in assessing the case for investments to reduce global warming.<sup>11</sup>

Another approach – the “descriptive” – looks at the opportunity cost of the project in comparison to the returns from investing the money, leading to discount rates of 3–12%, depending on the country.

So which rate should be used for investments to end poverty (Figure 5.4)? The Copenhagen Consensus project tests its proposals at both 3% and 6%. The World Bank uses 10–12%.

The descriptive approach suggests a flexible rate that is considerably higher for the poorest people facing uncertainty, with limited access to borrowing and living in the poorest but often fastest growing countries. And even the prescriptive approach suggests a fairly high rate given the direct impact of additional household finance on, say, children’s health, nutrition and education. That poor people borrow from moneylenders or microfinance institutions at rates of more than 30% shows how much they value having money now – in part because such cash allows them to make high-return investments, such as buying livestock, or because they need it to save someone’s life. It is clear from initiatives such as the International Finance Facility that donors also recognise the value of frontloading, especially in the context of a time-bound target (Box 5.2).

#### BOX 5.2

#### **Frontloading ODA: the International Finance Facility**

The International Finance Facility (IFF) was proposed in 2003 to deliver an additional US\$50 billion a year in aid flows to meet the Millennium Development Goals. The IFF works by issuing bonds on the international capital markets against long-term legally binding commitments by aid donors to make annual payments to the facility. The advantage of the IFF was its timing, as it enabled aid spending to be brought forward. The cost-effectiveness of the IFF lay in its ability to secure the highest possible rating

Considering the timeframe and discount rate does not automatically favour one investment over another. Poor people are likely to want any capital expenditure to pay for itself very quickly (a kerosene stove is better for the poor individual than a power station). But from a country perspective, this may be a wrong choice, leading to air pollution and higher cost power. A country may rationally consider a lower discount rate appropriate in assessing its own capital expenditure.

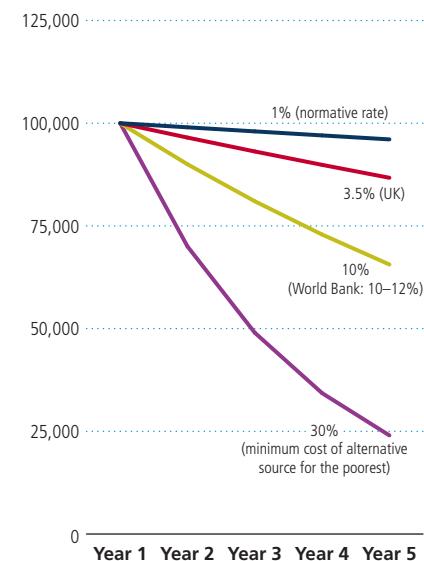
Of course, timing is not everything – and a faster project that is poorly managed or has a more negative environment impact is not a better option. And substantial returns over a longer timeframe can be just as relevant to the poor, as their own long-term investments in education demonstrate.

The main points are that upfront funding is important for people living in poverty and that data on when the benefit will be felt is an essential dimension for choosing between investment options.

#### **What is the evidence on the probability of impact?**

In addition to who will benefit and when, resources have to be allocated

**FIGURE 5.4**  
**The value of a US\$100,000 investment diminishes quickly under high discount rates, making quicker returns better for the poor**  
us\$



Source: Development Initiatives calculations.

against the probability that they are going to deliver an impact for poverty reduction. Assessing the probability is not simple, since many dimensions are beyond the control of those providing the resources and rely on assumptions and judgments. And aid is often fungible – a dollar of aid may simply substitute for a dollar of spending financed from a different source.

for its bonds, which depended on the underlying credit quality of the donor commitments and the perceived risk by bondholders.

The first, and so far, only application of IFF principles is the International Financial Facility for Immunisation (IFFIm). Announced in 2004 by France and the United Kingdom, it allows the development community to accelerate the availability and predictability of funds for immunisation. Implemented since 2006, the IFFIm benefits from

US\$6.3 billion in donor commitments over 23 years from Australia, France, Italy, the Netherlands, Norway, South Africa, Spain, Sweden and the United Kingdom. The commitments have allowed the IFFIm to raise US\$3.9 billion in bonds (over 2006–2012), releasing disbursements of US\$2.2 billion to support vaccine purchases and deliveries to 70 developing countries through mid-2013.

Source: IFFIm ([www.iffim.org](http://www.iffim.org)) and the GAVI Alliance.

There is a whole industry of evaluation and assessment to draw on, but here we simply try to pull together some of what is known about investments with a high probability of affecting the poorest people. This does not imply that only these things should be funded – there are often cases for aid to be used for high-risk investments. But the discipline needed in making these allocation decisions is to ask, compared with what? What are the alternative choices that could deliver a fairly reliably known rate of return from an aid investment, and why is the proposed investment a better choice?

Answering the question about the probability of impact on poverty is more difficult for global public goods and other less direct investments. Global and indirect investments can be a very good use of aid, but they still need to be compared with other options and the investments that will remain unfunded, if aid is to deliver as much poverty reduction as possible for every dollar. Clear, explicit theories of change about who will benefit and when support informed debate about the choices for the best use of scarce aid resources in different contexts.

### **Are there opportunities for investments that are globally proven to have high benefit-cost ratios?**

Much attention has focused on identifying development success stories, but there are also exercises that try to assess the efficiency of different interventions, often through cost-benefit exercises.

The Copenhagen Consensus, now in its third round, ranks different types of programmes by their costs and benefits and their potential for combating key global challenges. Based on the premise of a finite investment, it regularly identifies specific health, nutrition and research activities.<sup>12</sup>

The consistent highest ranking intervention is providing micronutrients. In 2012 the panel bundled this with other interventions, including complementary foods and treatment for worms and diarrhoeal diseases, that would collectively target chronic under-nutrition in preschoolers. The estimated benefit-cost ratio of this collective intervention is 30:1, at a cost per child of US\$100 and requiring an annual budget of US\$3 billion.

Other consistently high-ranking interventions, with benefit-cost ratios above 20:1, have been:

- Malaria reduction – subsidies for combination treatments and insecticide-treated nets.
- Preventive health interventions – child immunisation, Hepatitis B immunisation and campaigns to lower salt intake and reduce the spread of HIV/AIDS.

Global trade liberalisation was also highly ranked in 2004 and 2008. In 2012 the panel agreed that the benefit-cost ratio was exceptionally high (100:1) but excluded it from the list of possible interventions because the challenges were more political than financial. For the same reason the panel chose not to rank interventions to tackle corruption or reduce armed conflict.

In 2012 the panel's full list of 16 interventions worthy of funding also included:

- Research and development to increase agriculture yields, to develop geo-engineering options to reduce climate change and to research HIV vaccines.
- Early warning systems.
- Conditional cash transfers and information campaigns to boost school attendance.

### **Upfront funding is important for people living in poverty**

- Chronic disease interventions (tuberculosis treatment, surgical capacity, acute heart attack drugs).
- Boreholes and hand pumps.

Around half these interventions were on previous "top 16" lists.

One simple way of ensuring that these global high benefit-cost interventions are accorded proper priority would be to assess the benefit-cost ratio of any new intervention against the Copenhagen threshold of 20:1. Where the cost and benefit of an intervention are difficult to calculate, a maximum plausible ratio could at least be estimated and compared with this threshold.

### **Are the sectors selected for investment prioritised by poor people?**

The first ever Poverty Reduction Strategy Paper (PRSP), produced by Uganda in 1997 (with the related national budget), identified the first priority as having the right policy frameworks to support poor people – on land, on access to credit and on environmental and disaster management. Because policy frameworks by themselves are not enough, Uganda also emphasised the need to finance the implementation and monitoring of policies. And spending on accountability and governance institutions was accorded high priority in the government's Poverty Action Fund. In addition to basic services, whose benefits for poor people are well known, the PRSP set priorities for spending on areas that increase the incomes of the

## **Global and indirect investments can also be a very good use of aid**

poorest – most obviously rural roads and agricultural extension. The PRSP also recognised the interrelationships, with the benefit of roads much greater when combined with agricultural extension.<sup>13</sup>

In 2000 the Global Voices of the Poor study revealed that the top priority was security and justice.<sup>14</sup>

A more direct approach is to ask poor people themselves what their priorities are, as with community-driven development, which combines community decisionmaking with transparent budgeting and contracting.

- Indonesia's Kecamatan Development Programme, ultimately reaching some 140 million people, had leakage rates of less than 1% and construction costs 56% less than equivalent works by the Ministry of Public Works.<sup>15</sup>
- Afghanistan's National Solidarity Programme reaches two-thirds of rural households, allocating US\$200 to each of them (up to US\$60,000) for collective projects, such as irrigation, electricity generation and school reconstruction. Separate and confidential decisionmaking arenas for men and women ensure that their priorities for each are considered equally.<sup>16</sup>

### **Does the investment use the comparative advantages of aid?**

Aid resources are not allocated in a vacuum. Using the comparative advantages of aid requires taking into account the political economy and donor incentives.

Budget allocations in weak democracies are biased towards the interests of the ruling elite. So the focus is often on the resources of the main hospital in the capital city, and spending on university students can be 1,000 times that on primary school pupils. Similarly, the political incentives to build a new road are much greater than those to maintain the existing road network.

The aid industry has its own biases. The data on project locations shows a preference for capital cities and projects near roads. Sectors such as security and disaster prevention are often difficult to fund. And the three-year posting common for most donor agency staff creates incentives to undertake quick projects that pilot the latest thinking.

Given these biases in many domestic budgets and much donor spending, it is possible to suggest some precepts that can help make the best use of aid's comparative advantages and blunt the negative biases. Such spending:

- Focuses on politically weak or marginalised groups – ethnic/caste/gender/disabled/elderly.
- Focuses on getting more from existing government resources – accountability/monitoring and evaluation/decentralisation/better allocation of government resources.
- Requires time and iterative effort before the best solution emerges.
- Is based outside the capital city.
- Takes a well established practice to scale, especially one piloted by another donor agency.
- Takes advantage of change in technology, especially a change in the price of technology that allows take-up at scale.

- Supports the implementation of existing rules and policies, as opposed to creating new ones.

### **Probability of impact – compared with what?**

Any analysis of poor people and their money shows that they make careful (if very limited) choices about tiny amounts of money. Anyone spending aid money should try to exercise similar discipline.

A standard point of comparison should be, "Will my proposed investment have more impact than a poor person could achieve for themselves with a cash transfer? Can I do better than that?"

The reduction in the cost of national identity cards to just US\$5 a person and the advances in cash transfer technology are enabling known benefits to be delivered to known individuals, even in poorer countries such as the Democratic Republic of Congo and Pakistan. And while debate continues about the precise design of such transfers – whether they should be conditional, what degree of targeting is best – there is now increasing evidence of the effectiveness of such transfers (Box 5.3).

### **Is there an opportunity to use aid to catalyse other resources?**

Catalytic aid incorporates a range of ideas and objectives. Its narrow definition is financial: enabling or accelerating access to other forms of finance – as through public-private partnerships. But it can also be more direct, such as by catalysing private investment by paying for investment guarantees. Both leverage finance that would otherwise not be available.

The argument for using some aid in a way that directly encourages the flow of non-aid resources is that the

**BOX 5.3****The benefits of cash transfers**

Cash transfers have three main benefits.

**Reducing poverty and deprivation**

Cash transfers can reduce income poverty and deprivation by allowing households to meet basic consumption needs. They can respond to longer term chronic poverty with regular payments to meet a minimum level of consumption. They can also respond to transitory deprivation caused by local or widespread shocks, as long as they are timely and markets are functioning. For reducing poverty, they should be seen as complementing inclusive growth, access to basic services, investment in infrastructure and support to livelihoods.

Cash transfers allow households to improve the health, nutrition and education of their children and to invest in productive assets for their livelihoods, helping break the intergenerational cycle of poverty.

Households enrolled in Mexico's conditional cash transfer programme invested about 12% of their transfers, which on average raised their consumption by about one-third after five and half years.<sup>1</sup>

**Managing risk**

Cash transfers can allow households to better cope with and manage social and economic risk. In times of crisis, whether for an individual household or the wider community, they can help smooth consumption and prevent resorting to harmful coping strategies (removal of children from school) and the irreversible loss of productive assets (consuming seeds, selling assets). During a coffee crisis in Honduras and Nicaragua beneficiaries kept their children in school and did not put them to child labour.<sup>2</sup>

**Allowing governments to pursue other economic goals**

As part of wider safety nets, cash transfers can mitigate the effects

on poor households of withdrawing inefficient subsidies on fuel, food or other commodities. Safety nets have also been used to cushion the effects of wider economic changes such as structural adjustment reforms.

Cash transfers are redistributive and thus contribute to reducing inequality. This has immediate benefits for poor households but can also lead to multiplier effects through increased demand in local economies. As part of wider social protection systems, cash transfers can also maintain consumption and expenditure during economic downturns.<sup>3</sup>

**Notes**

1. Gertler and others (2006), cited in Grosh and others (2008).
2. Grosh and others 2008.
3. Grosh and others 2008.

*Source:* Mathers and Slater 2013.

latter will typically be much larger, thus delivering more bang for the buck. The counter-argument is that aid may be diverted into areas where the development benefits, particularly to poor people, may be less evident. It should be possible to make reasoned judgements about the right balance.

Aid can both build bridges between poor people and existing resources and work directly with other financing more smartly to increase the net volume of resources for ending poverty (Table 5.2). It can support governments' ability to mobilise domestic revenues and more effectively build the national tax base.

Innovative mechanisms can manage risk to create favourable environments for private investment in poverty reduction, as well as build efficiencies of going to scale.

- Advance market commitments for vaccines use aid to guarantee future purchase in order to incentivise manufacturers to invest in the research and development of the vaccines for diseases that primarily affect low-income countries. This mechanism for managing risk provides an incentive for drug companies to research, produce and distribute relevant vaccines at scale, thus lowering costs, and requires sales to be at rates that reflect this.
- Development impact bonds are building on the early success of comparable mechanisms and are being tested in Australia, Canada, Ireland, the United Kingdom and the United States. Here, the private sector invests in social interventions in developing countries, and when results are demonstrated,

the government and donors repay the investors their principal plus a financial return linked to performance.<sup>17</sup>

Aid has also been used to scale up investments, particularly in working with other sources of finance, to bring down costs of interventions known to directly reduce poverty. For example, donor support has been crucial for the massive rollout of long-lasting insecticide-treated nets. Demand was increased by the creation of the Global Fund to Fight AIDS, Tuberculosis and Malaria's Global Health Fund, thus creating a single major financier of nets as opposed to more atomised provision by individual agencies.

While the potential is there, past initiatives to link public and private financing – such as international

TABLE 5.2

**How aid can work with other resources**

<b>Area of action</b>	<b>Type of catalytic investment</b>	<b>Examples</b>
Empowering the poor	Increasing financial flows to poor people by improving their access to existing flows and markets	<ul style="list-style-type: none"> <li>Reducing the cost of transferring overseas remittances</li> <li>Providing market information on prices to increase farmgate prices that intermediaries offer</li> <li>Titling land to maximise the value and security of poor people's assets</li> <li>Supporting private sector development through seed finance to base-of-the-pyramid business models</li> </ul>
	Increasing poor people's ability to benefit from existing technologies and development policies	<ul style="list-style-type: none"> <li>Financing community development mobilisers to bridge the gap between isolated communities and the wider private sector</li> <li>Subsidising the private sector to reach the poor, as with extending electricity grid to rural areas</li> <li>Reforming education and health services to increase quality and access</li> </ul>
Enhancing and focusing resources for poverty reduction	Developing new markets and technologies that will benefit the poor	<ul style="list-style-type: none"> <li>Developing mobile phone technology to facilitate transfers within a country</li> <li>Building cold storage at airports to enable exports of perishable agricultural products</li> <li>Scaling up production of insecticide-treated nets to make them affordable to the poor</li> <li>Conducting research on vaccines, such as one for malaria and for neglected diseases</li> <li>Piloting social impact bonds</li> <li>Supporting key labour-intensive markets</li> </ul>
	Increasing the volume and effectiveness of financial flows directly relevant for poverty reduction	<ul style="list-style-type: none"> <li>Developing innovative public-private partnership financing mechanisms to facilitate philanthropic investment in developing countries and draw on private expertise to increase effectiveness and reduce costs, such as the Global Health Fund and GAVI Alliance</li> <li>Providing investment guarantees, returns and subsidies, especially for investment in rural areas, such as advanced market commitments and development impact bonds</li> <li>Mapping natural resource availability</li> <li>Improving tax collections</li> <li>Reforming public finance management, tracking expenditure and launching transparency and anticorruption initiatives</li> <li>Conducting research on maximising the poverty returns to private investment</li> </ul>
	Transforming external and internal development policies for the benefit of the poor	<ul style="list-style-type: none"> <li>Investing in a global trade deal that benefits the poor and providing technical assistance to enhance negotiating capacity</li> <li>Reallocating the budget in favour of the poor</li> <li>Providing technical assistance for designing and implementing proper budget policies</li> <li>Investing in governance and economic infrastructure</li> </ul>

investment in African water infrastructure, public–private partnerships on roads and subsidies for power connections – have not delivered as much to poor people as originally hoped. Similarly, the replication of successful examples in other countries, such as Kenya's M-PESA mobile money transfer programme, has proved much more challenging than originally expected.

In a post-2015 financing framework, where the potential of other resources

has already been recognised by the United Nations High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, harnessing other sources of finance for poverty reduction may be one of the most effective uses of aid. As the panel writes, "We asked where the money would come from to finance the massive investments that will be needed for infrastructure in developing countries, and concluded that we need to find new ways of using aid and other public funds to mobilise private capital."<sup>17</sup>

## Are the elements in the aid bundle being used to get the most value?

### Aid instruments that have a weak link to ending poverty

Some aid reflects donor priorities more than international goals for poverty reduction. Take the imputed student costs and the costs of housing refugees in a donor country. Such expenditures, which transfer no resources to poor countries, were more than US\$8 billion in 2011. Current rules allow donors

to choose whether to include such spending in their reported ODA.

This type of funding, very resistant to campaigning, has increased faster than ODA as a whole (Figure 5.5). So, at the political level, donors are choosing to include in their ODA items that have a weak link to ending poverty. In so doing, they are exaggerating the value of their ODA and possibly squeezing out other, more effective, investments.

### Procurement and tied aid – be savvy about the data and look at the potential

Some types of aid have terms and conditions that compromise value. The US\$27 billion of tied and partially tied aid and related procurement practices are fruitful areas for getting more value.

Donors and recipients use most aid to purchase goods and services. Procurement practices can hold back the potential to reduce poverty, or they can both get better value and create jobs and support local industries in developing countries.

Much of the debate around procurement in the aid arena has

concentrated on tied aid, where the recipient of an aid package is obligated to purchase goods and services from the donor country. This has three main effects:

- Any financial transfer associated with tied aid is a “round trip,” as the money returns to the donor country to be spent with suppliers there.
- The recipient has no opportunity to increase the value of the aid by shopping around for the best-value suppliers.
- Local industries and jobs in the recipient country are not supported and may even be harmed by what are effectively subsidised imports of goods and services.

These limits inflate project costs by 15–30% (US\$4–8 billion in 2011), according to some estimates,<sup>19</sup> and suggest that the value of tied aid to the recipient is less than the amount donors report in their ODA figures.

Volumes of tied and partially tied aid reported by donors have fallen in response to commitments to curb such practices in the 2001 DAC Agreement

on Untying, followed by the 2005 Paris Declaration and the 2008 Accra Agenda for Action. Among bilateral donors, Ireland, Norway and the United Kingdom reported no tied aid at all in 2010. (Multilateral aid is always untied, except to some extent aid provided by the institutions of the European Union.)

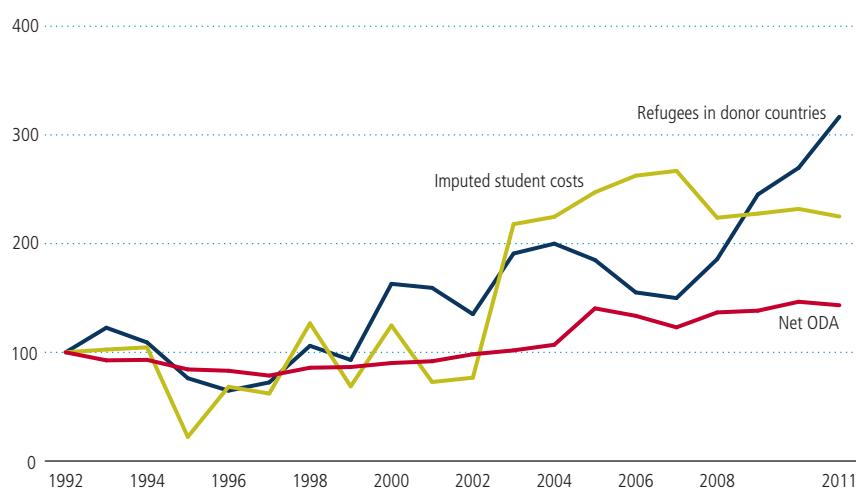
Not all moves to local procurement result in more ODA being reported as untied. For example, since November 2011 the US Agency for International Development has adopted a default of procuring goods and services from either the United States or from developing countries while excluding advanced developing and developed countries other than the United States. This opens the bidding for aid contracts to suppliers in developing countries. But the exclusion of advanced developing and non-US developed countries means that such aid will still have to be reported as partially tied. So, contracts awarded to developing-country suppliers still appear as tied aid (albeit partially tied) in the ODA statistics.

The official statistics on formally tied aid tell only part of the story. The overwhelming majority of procurement contracts for untied aid are still awarded to donor-country suppliers. One recent report finds that donors use a variety of methods to tilt procurement decisions in favour of donor-country firms and organisations, such as using restrictive conditions and eligibility criteria for preselecting bidders or advertising tenders in a language different from the local one. Up to 60% of aid may be subject to these informal tying practices, with US\$3 informally tied to the use of donor firms for every US\$1 of officially reported tied aid. Eurodad concludes, “De facto tied aid … does not differ much in terms of results from formal tied aid: it decreases value for money, and deprives developing countries from positive aid externalities.”<sup>20</sup>

FIGURE 5.5

#### Refugee costs and imputed student costs continue to rise faster than ODA

Index, 1992 = 100



Source: Development Initiatives based on DAC data.

Reforming inefficient procurement practices – which are more pervasive than official data on tied aid suggest – could thus release substantial additional value.

## Getting more value out of loans, technical cooperation and food aid

Three areas of aid – loans, food aid and technical cooperation – have been the subject of major criticism for failing to deliver value for money. Their value can be increased by improving the way they are managed.

**Loans.** While grants account for the bulk of ODA, loans grew some 45% over 2007–2011 to make up just under 20% of gross aid disbursements. Loans have several advantages over grants. By leveraging other finance, they can make aid go much further. For example, Germany can now leverage up to ten times the amount of market capital for every dollar of aid compared with the 1960s, increasing overall development finance to countries where lending is appropriate and freeing up ODA for grants where it is not. Recycling repayments from loans can sustain gross aid programmes and facilitate a transfer over time from better-off recipients to poorer ones (as China's repayments have helped boost the International Development Association's capacity to lend to its remaining much poorer borrowers). And managing loans can improve fiscal discipline in the recipient country.

However, used inappropriately, even concessional lending can lead to overborrowing, particularly if fuelled by agencies driven to meet lending targets and compounded by excessive non-concessional borrowing. In 2011 more than US\$900 million was lent as ODA to countries rated by the International Monetary Fund either as a high risk of debt distress or as already suffering

from debt distress, and a further US\$3.6 billion was lent to countries at moderate risk of debt distress. Nine countries either in or at high risk of debt distress received more than 10% of their ODA in loans in 2011 – lower than the global average, but substantial nonetheless for such countries.

Grants (or loans at considerably higher concessional rates) may be more appropriate for social sectors, given the lack of revenues to service loans, and are preferable for the poorest countries. Yet 30% of ODA lending in 2011 went to social sectors, and almost US\$6 billion in loans went to low-income countries. Again, simple questions can help both define and monitor appropriate loan allocations (Figure 5.6).

Better outcomes can also come at little additional cost to donors. For example, grants are likely to be preferable to loans when the recipient is at risk of debt distress, the recipient is a low-income country and the aid is for social sectors. Had these three criteria been applied to the ODA loans disbursed in 2011, US\$7.2 billion in ODA loans to middle-income countries could have been replaced with grants. By contrast, US\$5.4 billion in grants to such countries not in debt distress and directed to productive sectors might have qualified for lending. Combined with the appropriate use of other types of aid, such as guarantees, the value – in poverty reduction – can be increased by considering the question of terms more carefully without putting substantial additional strains on donor budgets.

**Food aid.** Donor practices in procuring and delivering food aid often drive a wedge between the cost of aid that donors report and the value of assistance that recipients feel.

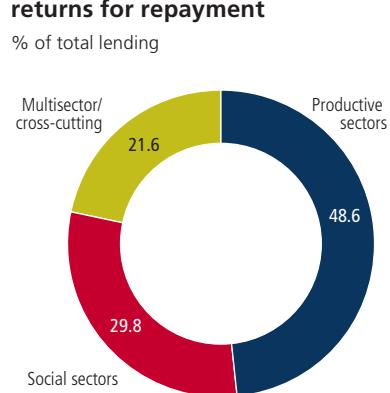
Persistent and, in some places, rising food insecurity demands flexible

responses. Except for the United States, local or regional purchases of food (close to where food insecurity is felt) are now the dominant response. And donors and operational agencies are using cash transfers – either direct transfers or temporary jobs and wages to targeted recipients. Traditional oceanic food aid (food imports from donor countries) also remains important for several donors. Each response has its place, and getting the type of transfer right can both help livelihoods and minimise the impact on local food markets. But decisions need to be driven by local demand and the local context – particularly the functioning of local markets, the use of cash where appropriate during a food (or other) crisis and the availability of nearby food – rather than donor preferences.

Such decisions need to be backed by evidence on the right choice of transfer for specific times or places – on the impacts on local communities – to identify trade-offs or synergies between relief and longer term development. In 2011, US\$4.7 billion was reported as ODA for food in-kind, shipped from the donor country.

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**FIGURE 5.6**  
**Substantial lending continues to go to social sectors, which may not generate direct financial returns for repayment**



Source: Development Initiatives calculations based on DAC data.

*Technical cooperation: people, expertise, knowledge.* Technical cooperation accounted for 13% (US\$19.2 billion) of gross bilateral and multilateral disbursements in 2011. It can support peace building and core state functions in fragile states, public financial management and trade capacity in aid-dependent countries and concessional finance in countries capable of servicing loans. Transfers of knowledge can have a high payoff under the right circumstances.

As Chapter 4 shows, the way technical cooperation is delivered and how it aligns with and flexibly responds to local needs and capacities can enhance or reduce its value to partner governments. Deciding whether longer term technical assistance that builds capacity or short-term substitution that meets immediate technical needs, as in periods of post-conflict reconstruction where a functioning government is an immediate priority, is a key first decision. Both are valid activities, but demand different strategies over different timeframes.

\* \* \*

Among both poor people and those trying to eradicate poverty, there are absolutely legitimate differences in values and views towards the priorities and the trade-offs between direct and indirect investment, the benefits of improving lives now or later and the relative importance of different approaches.

What is not reasonable, is to continue, in the face of clear evidence, to allocate aid money in inefficient ways or without a clear statement of what result is expected for whom and when. Nor is it reasonable to neglect the evidence on investments with a high probability of delivering impact in favour of other activities with less certain results, without a plausible

chain of causation that explains how the investment will deliver more for people in poverty.

But being explicit about who benefits and when also brings two new dimensions that, in practice, may be the most important for getting more value from aid.

First, it brings in the possibility of the voice of the user. For accountability to mean anything, there has to be access to information. People on the receiving end of aid need to know what has been committed in their name – whether they are a ministry, a community or a household – before they can demand accountability for its effective use. Transparency and information on who is intended to benefit and when will support robust feedback from the people who are supposed to benefit.

Second, fundamental to the idea that aid should benefit people in poverty is data – on who is in poverty, who is vulnerable and how circumstances change over time. Without that data, assessments of impact and probability are flawed – matters more of faith than of fact. The High-Level Panel's call for a data revolution is an essential asset in the drive to end poverty by 2030.

## Notes

1. Barder 2013.
2. ADB 2007.
3. Personal communication based on data from Chandy, Ledlie and Penciakova (2013).
4. Alkire, Conconi and Roche 2013; OPHI 2013; OPHI MPI Data Tables for 2013 ([www.ophi.org.uk/multidimensional-poverty-index/mpi-data-bank/mpi-data/](http://www.ophi.org.uk/multidimensional-poverty-index/mpi-data-bank/mpi-data/)).
5. Poverty rates for 2011–2012 are based on state-level poverty lines (Chhattisgarh 39.5%, Andaman and Nicobar Islands 0.4%).

- Government of India, Planning Commission 2013.
6. UNESCO 2012.
  7. See Shepherd and Lenhardt (2012) for panel data analysis.
  8. OpenAid Partnership ([www.openaidmap.org/mapping.html](http://openaidmap.org/mapping.html)).
  9. US Senate, Committee on Foreign Relations 2010.
  10. UIS 2013.
  11. Stern 2006.
  12. The Copenhagen Consensus is a small panel of experts, most of them Nobel Laureates in Economics, who assess development interventions most worthy of funding. The key metric is the relative cost–benefit ratio, and spending is allocated within a nominal budget of US\$50–75 billion over a four-year period. Panels have met three times – in 2004, 2008 and 2012.
  13. Uganda Ministry of Finance, Planning and Economic Development 2000.
  14. Narayan and others 2000.
  15. See World Bank (n.d.).
  16. Narayan and Petesh 2010.
  17. CGD 2013.
  18. UN 2013, p. 3.
  19. For example, the Center for Global Development's Commitment to Development Index.
  20. Ellmers 2011, p. 17.

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# The poverty of data

- A Development Data Revolution is needed to end poverty. Without better, disaggregated data, resources cannot be optimally allocated, progress cannot be properly monitored, lessons about effective and efficient policies cannot be learned and accountability will fall by the wayside.
- Estimates of poverty are unreliable. Global poverty estimates draw on five data sources, including household surveys and national accounts. The collection methods for surveys and the use of different data sources can change the estimates of the numbers of people in poverty by hundreds of millions.
- Current data is out of date. Household surveys have been expanded, but global poverty estimates still rely on old and patchy data. A quarter of the number of people in poverty in sub-Saharan Africa is derived from surveys conducted before 2005.
- Calculations are built on weak assumptions. Much of what is known about poverty rests on statistically demonstrated relationships that might not stand up to updated price estimates or assumptions that data from different sources is compatible.
- New approaches offer improvement. Utilising both traditional statistical approaches and new crowd-sourced data and feedback presents a challenge that must be overcome if the Data Revolution is to deliver on its potential contribution to ending poverty. New finance is need for both and to meet the demand for disaggregated data.
- Current methodologies can be improved, including by harmonising survey design, publishing provisional ‘real-time’ poverty estimates and reforming the governance of country poverty data.

**G**ood data is essential to global efforts to end poverty. It is needed to assess the prevalence and location of poverty. It is needed to inform decisionmaking, to quantify,

allocate and track resources and to measure the effectiveness of investments. And it is needed to empower people in whose name resources are being spent to demand accountability.

Access to accurate, up-to-date and easily understood information enables people to fully realise their rights and supports dialogues among citizens, governments and institutions. Good data can inspire confidence in plans to

end poverty and enable results to be rigorously pursued. Weak or missing data can make ending poverty a matter of faith.

We need timely and accurate information on two fronts – a map of exactly who and where poor people are and a map of the flow of resources and investments available to both indirectly and directly address their many needs. Limitations in either set of data will impinge on efforts to target and monitor investments to end poverty. The reality is that both areas of information have considerable weaknesses, compounding one uncertainty on top of another.

## Counting the poor

Poverty is measured in many ways. The availability and quality of data for the standard and most widely used measure – the number of people living on less than \$1.25 a day – have improved dramatically over the past two decades. But even this basic measure runs into technical, resource, coordination and institutional challenges. And there is considerable scope to improve both the quality and the usefulness of data.

## Where do poverty numbers come from?

Global poverty numbers are an amalgam of a vast amount of data from different sources, places and time periods.

The primary sources of poverty statistics are household surveys administered by national statistical agencies. These surveys gather data for a group of households that are representative of the whole country, usually including income or consumption. The resulting datasets can then be used to calculate how many, and what share, of a country's population fall below a given level of income or consumption, such as the \$1.25 a day extreme poverty line.

Global poverty estimates are the sum of country estimates. Their construction is an impressive logistical feat. Responsibility for calculating them falls to the World Bank. The international poverty line is set at \$1.25 a day, corresponding to the average poverty lines of the world's poorest countries.

The World Bank collates household surveys and uses the results from the

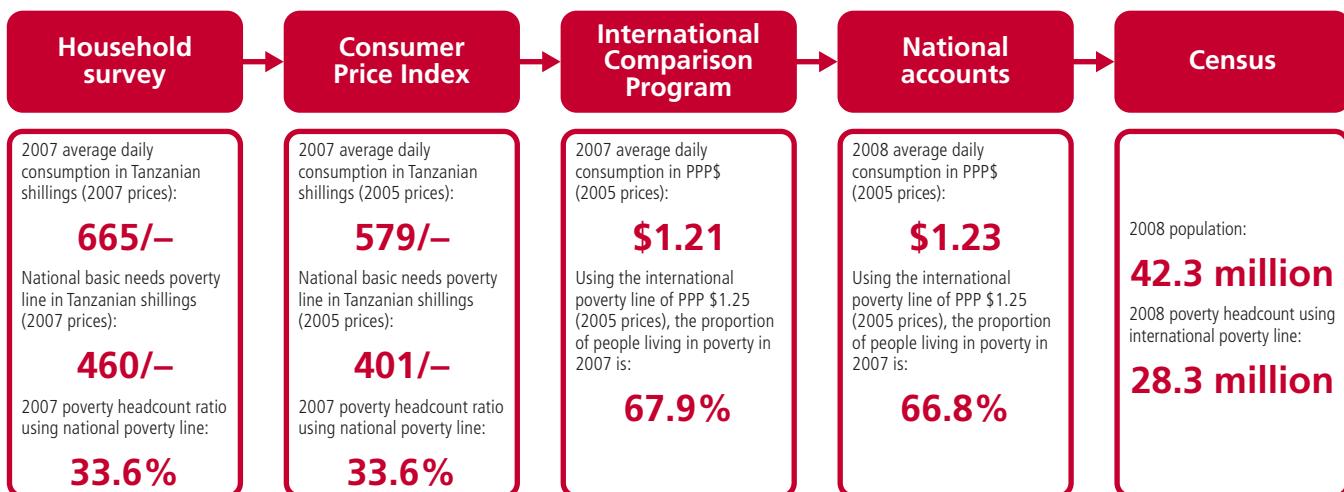
most recent survey for each country to arrive at a global total.<sup>1</sup> For countries with no survey the poverty rate is assumed to be the same as that in the rest of the country's region.

Aggregating country poverty estimates requires two key adjustments. First, the average level of consumption, expenditure or income from national surveys is converted into comparable international prices. Purchasing power parity (PPP) is an attempt to compare costs of living between different countries. A dollar in Niger can purchase more goods and services than a dollar in Norway could. This allows different costs to be equated across different countries, presenting a fairer reflection of poverty than if market exchange rates alone were used. Second, each survey average is adjusted further to account for any change in the country's consumption between the year of the most recent survey and the year for which global poverty is being estimated.<sup>2</sup>

Global poverty estimates fuse five country-level data sources: household surveys, population censuses, national accounts, consumer price indexes and the International Comparison Program (Figure 6.1).

FIGURE 6.1

### Transforming results from Tanzania's 2007 household survey to produce the 2008 poverty estimate



Note: The 2007 and 2008 national thresholds are based on the 2000/2001 poverty line adjusted for inflation.

Source: Adapted from Chandy 2013.

Relying on multiple sources poses real challenges when trying to make disparate survey results comparable. It is also an inherent weakness of poverty estimates: Each source introduces errors that global poverty numbers compound. Together, these sources form a house of cards.

Three sets of problems thwart the generation of reliable poverty data: the reliability of survey estimates, the adjustments for different prices between different countries and periods, and the frequency and timeliness of data collection and processing.

#### *Problem 1: reliability of survey estimates*

There is near-universal agreement that household surveys are the most reliable method for estimating the income and consumption of poor people. But those surveys are designed and implemented in different ways across countries and within the same country over time. These differences naturally affect the comparability of results.

Several decision points shape the estimates:

- **Consumption versus income.**

In few countries, mostly in Latin America, poverty estimates come from surveys of household income as opposed to household consumption. Income is difficult to measure accurately: it is more volatile, it is a foreign concept to many rural low-income households and it is likely to be underreported.<sup>3</sup> Comparisons between concurrent income and consumption surveys in Ghana found the capital, Accra, to have the highest incidence of poverty in one survey and the lowest in another.<sup>4</sup>

- **Number of consumption items.**

In a typical survey households are

asked to specify purchases against a list of market products over a given period. Different surveys list different products: from fewer than 20 to more than 400. Longer lists and greater disaggregation tend to produce higher estimates of consumption and are seen as more accurate.

- **Treatment of non-food items.**

Monitoring food purchases is a core part of all surveys, but the inclusion of other important consumption items – such as health, education, energy, water and housing – can vary.<sup>5</sup> When these items are excluded, reported consumption is naturally lower, producing higher reported rates of poverty. Excluding these items in Ecuador and Nepal, for example, produced poverty rates up to 50% higher.<sup>6</sup>

- **Recall versus diary.**

Household purchases are commonly identified through an interview where a household member is asked to recall transactions over a given period. The period can range from as little as three days to a year. Longer recall periods provide a more representative snapshot of household consumption but risk underreporting because it is more difficult to accurately remember a longer timeframe. More accurate results can be obtained if a diary of daily purchases is kept. But this is less feasible in countries with high rates of illiteracy.<sup>7</sup>

- **Seasonality.**

Consumption patterns can change dramatically throughout the year, particularly in rural areas subject to agricultural cycles. But surveys conducted throughout the year are rare, possibly distorting the results.

- **Number of family respondents.**

Relying on a single household member to account for spending

by the entire household may result in underreporting, especially in urban areas and societies where responsibility for expenditure is not held by one family member.

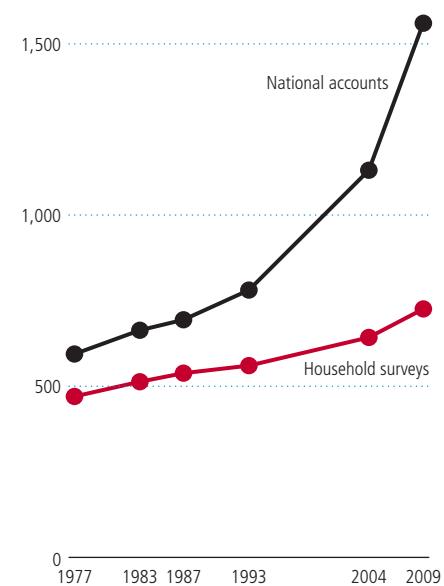
One recent experiment in Tanzania tested different survey designs against a personal diary, considered the most accurate. Each design reported lower consumption than the diary and significantly elevated poverty estimates – by almost 20 percentage points in one case. With personal diaries rarely used in practice, most household surveys probably overestimate poverty levels.<sup>8</sup>

Household surveys are not the only way to estimate consumption. An alternative is to look at a country's national accounts.<sup>9</sup> But in many countries large differences in both levels and rates of growth have been recorded between the two sources, as in India (Figure 6.2).<sup>10</sup>

Causes of such differences have been widely discussed, but understanding

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**FIGURE 6.2**  
**India's rapid economic growth since the early 1990s has barely registered in survey data**  
Annual consumption per capita, PPP\$, 1977–2009



Source: World Bank 2013.

remains limited. Concluding that a true value of average consumption lies somewhere between the two may not help either, given the gulf between the measures in many countries. The difference does, however, support claims that surveys tend to underestimate progress against poverty.<sup>11</sup>

The disconnect between surveys and national accounts also undermines overall understanding of poverty. For example, debates on the relationships between poverty and economic growth, investment or aid – all central to ending poverty and the post-2015 agenda – must presume that data from different sources is of sufficient quality and compatibility.<sup>12</sup> Predictions of the impact of global events on poverty, such as rising food prices or the 2008 financial crisis, typically use elasticity measures that assume that the relationships in historical data across different datasets are accurate and persist over time. Such an assumption cannot be taken for granted.

#### *Problem 2: adjustments for different prices*

The credibility of global poverty estimates hinges on expressing survey results from different countries and different time periods in the same terms or prices. Despite increasingly sophisticated techniques to achieve comparability, it is far from clear whether they do enough to produce reliable poverty estimates.

PPPs are intended to allow comparisons of consumption across countries. They convert local currencies into a

comparable dollar value by adjusting for differences in the cost of living between countries. A PPP dollar should have the same consumption power no matter where it is spent. PPPs come from an extensive multiyear process known as the International Comparison Program, with the most recent set calculated for 2005. Successive rounds have improved the coverage and quality of PPPs so there is now much greater confidence in the ability to compare poverty levels across countries.

But the reliability of PPPs remains subject to doubt. At its root lies the futility of trying to capture the difference between prices in one country and those of all others in a single weight. Few things are consumed everywhere, so the tension between what is comparable and what is commonly consumed is a key challenge in selecting which goods and services to include. A particular difficulty is accurately adjusting for the relative prices of services such as education and health, given the high variance in their quality. Another is the neglect (or limited coverage) of rural prices in many countries' PPPs, including large countries such as Brazil, Pakistan and Thailand.

It is difficult to quantify the degree of confidence that should be placed in today's PPPs and thus in global poverty estimates. Consider how previous International Comparison Program rounds have revised prior poverty estimates. In 1993 the percentage of the population in poverty for sub-Saharan Africa was revised up 10 percentage points, revealing for the first time that its poverty rate exceeded South Asia's, while Latin America and the Caribbean's was revised down 8 percentage points. The 2005 update motivated a revision of the international poverty line, which added almost half a billion people to global poverty estimates.<sup>13</sup>

Such large revisions call into question the robustness of previous research on poverty's dynamics and characteristics. Much of what is known about poverty rests on statistically demonstrated relationships that might not stand up to updated price estimates. And with another round of the International Comparison Program drawing to a close, further large-scale revisions of PPPs, and consequently global poverty estimates, could be on the horizon as soon as the end of 2013. Such uncertainty severely tests the credibility of global poverty data.<sup>14</sup>

Indeed, the continual revision of global poverty estimates is driven more by changes in how poverty is measured than by actual poverty trends. The number of people in poverty in South Asia, for example, is now believed to have held remarkably constant over the past 30 years (despite population growth), but estimates over that period oscillated between 400 million and 700 million people. Conversely, reported poverty in East Asia has consistently hovered at around 200–400 million people, but today it is understood that 800 million people have been lifted from poverty (Figure 6.3).

#### *Problem 3: frequency and timeliness*

The accuracy of global poverty numbers depends on the availability of household surveys. The fewer surveys there are or the less up-to-date they are, the greater the reliance on shaky assumptions and adjustments to generate the country estimates that form global estimates.

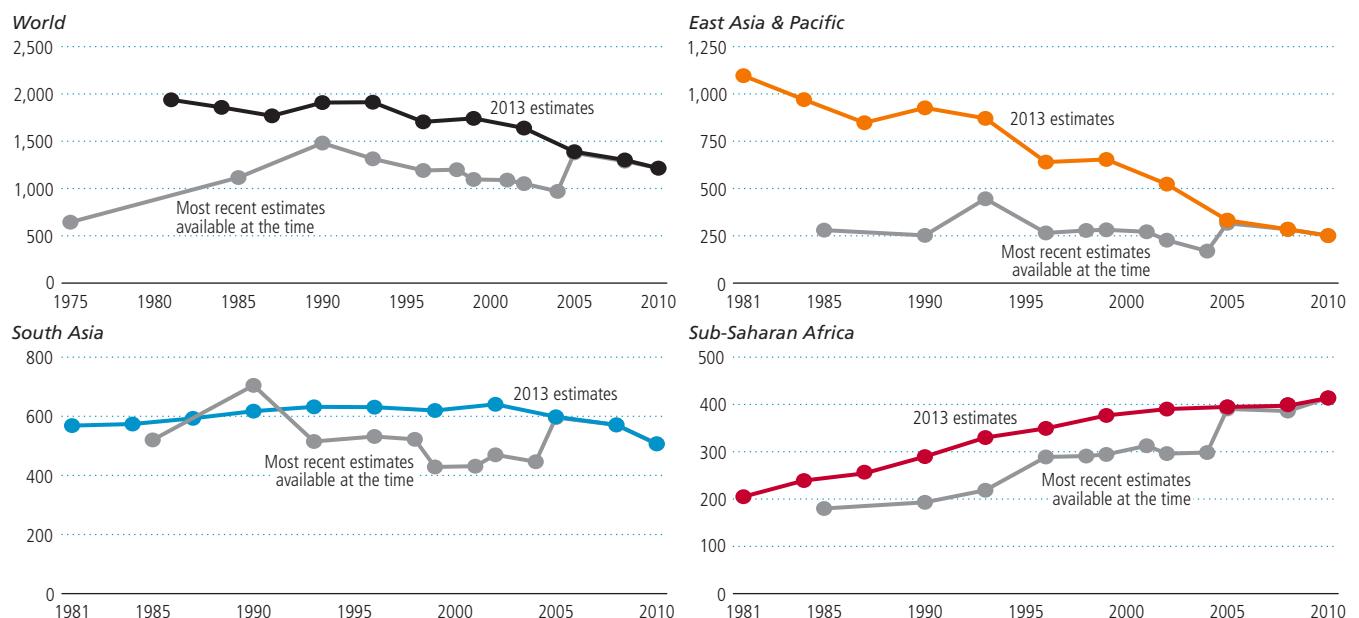
Over recent years there has been a systematic – and highly successful – effort to expand the reach of household surveys to all corners of the developing world. Today, only a handful of countries remain without a survey, Eritrea, Democratic People's Republic of Korea, Somalia and

***The continual revision of global poverty estimates is driven more by changes in how poverty is measured than by actual poverty trends***

FIGURE 6.3

### Current estimates of poverty are higher than earlier estimates

Poverty headcount, millions, various years

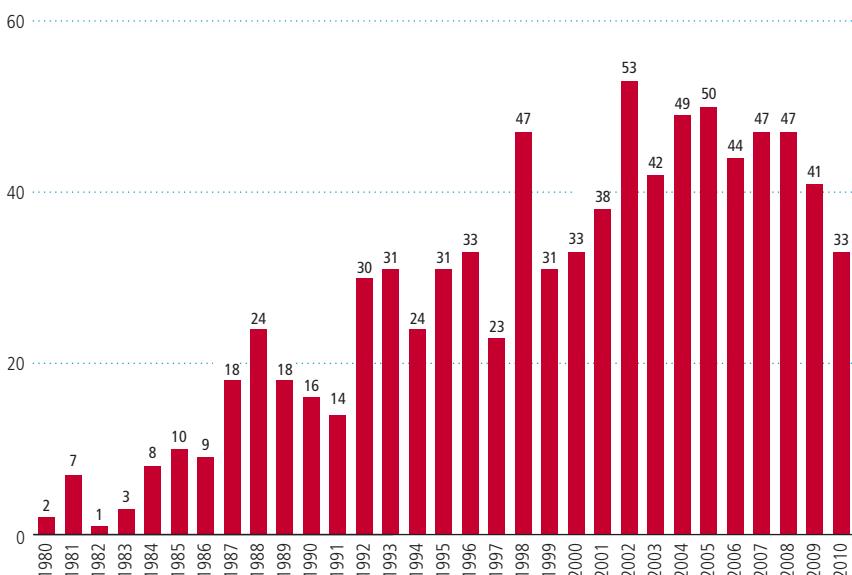


Source: Based on data from World Bank PovcalNet (<http://iresearch.worldbank.org/povcalnet/>).

FIGURE 6.4

### The number of poverty surveys has grown substantially

Number of surveys, 1980–2010



Source: Based on data from World Bank PovcalNet (<http://iresearch.worldbank.org/povcalnet/>).

Zimbabwe being the largest. The first attempt to count the number of poor people worldwide using surveys was by the World Bank in 1990, based on data from 22 national surveys<sup>15</sup>; the most recent update in early 2013 drew

on more than 869 surveys from 129 countries (Figure 6.4).

While the number of surveys has increased, ensuring that they are conducted regularly in each country

has proven a greater challenge. The International Monetary Fund benchmark for satisfactory statistical governance is to conduct a survey at least every five years. Two in five countries fail to meet it.<sup>16</sup> Twenty-one of the surveys for the 2010 global poverty estimate were conducted as far back as 2003 or before (Figure 6.5).

Of the 49 sub-Saharan countries, 43 have a survey, but only 28 have results from the previous seven years. This means that a quarter of the region's 414 million people estimated to live on less than \$1.25 a day according to the most recent official poverty estimate are derived by extrapolating from surveys in 2005 or earlier. The average sub-Saharan country has had three surveys over the last three decades, while the average Latin American country has had 13.<sup>17</sup> The number of surveys in Latin America has increased substantially, and they now account for 65% of the region's people (Figure 6.6). Compare that with less than 20% in sub-Saharan Africa.

**FIGURE 6.5**

**Surveys can be infrequent and far from current**

Number of countries

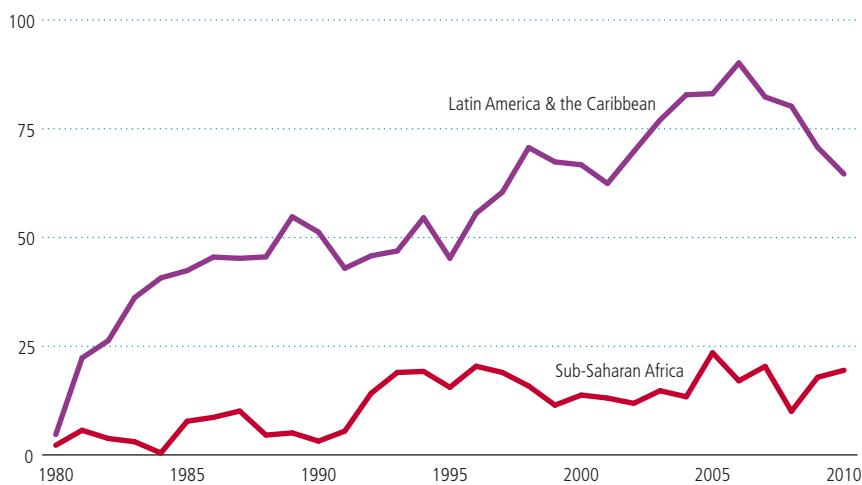


Source: Based on data from World Bank PovcalNet (<http://iresearch.worldbank.org/povcalnet/>).

**FIGURE 6.6**

**Survey coverage is high in Latin America, stagnant in sub-Saharan Africa**

% of regional population, 1980–2010



Source: Based on data from World Bank PovcalNet (<http://iresearch.worldbank.org/povcalnet/>).

If the global community is to end poverty by 2030, its greatest interest is in surveying the poorest countries. But this is precisely where frequency is low. Today's low-income countries have had, on average, four surveys since 1980, compared with six for lower middle-income countries and nine for

upper middle-income countries. Thus, knowledge about poverty rates and absolute numbers of people in poverty is generally weakest in countries where poverty is most acute.

Limited resources and capacity and poor governance are reasons for infrequent

data collection in poor countries, but they are surmountable. A handful of countries buck the trend, conducting regular surveys. Madagascar and Uganda are poor countries with poverty rates exceeding 30%, but each has administered seven surveys.<sup>18</sup>

What about global poverty estimates? Until recently, they have been updated every three to four years, with a lag of four to seven years. That schedule is useful for analysing economic history but not for understanding current conditions or informing future action. In October 2012 World Bank President Jim Yong Kim announced that the Bank would begin updating its global poverty estimates every year.<sup>19</sup> A welcome and considerable improvement, but the lags in global poverty estimates, while shorter, will remain.

### Constraints to better data

Improving the quality of global poverty estimates depends on identifying problems and understanding why

they exist. Some of the problems are purely technical, but the majority are operational.

Four factors can account for most of the problems with poverty data.

#### *Low capacity*

Government statistical agencies in many developing countries suffer from acute capacity constraints, which reduce the quality and frequency of household surveys. Low capacity means that surveys are conducted less frequently, and low frequency prevents institutional learning that would make surveys easier to conduct over time. Low capacity causes many statistical agencies to rely on donors and consultants to lead surveys. Some countries have increased capacity (Malawi and Nigeria), as measured by the World Bank's Bulletin Board on Statistical Capacity. Others, such as Botswana and Côte d'Ivoire, have seen a deterioration. Average performance for all developing countries has remained unchanged over the past eight years.<sup>20</sup>

#### *Limited resources*

A typical cross-sectional survey costs US\$1–2 million, not a trivial sum in the budget of a low-income country government. And surveys are generally financed out of the development budget, so they must compete for heavily oversubscribed funds. Funding appropriated is often a fraction of what is needed, especially when funding is spread over multiple years. Aid commitments to support statistical systems in developing countries stand at US\$200–500 million a year (less than 0.3% of total aid commitments).<sup>20</sup>

#### *Coordination failures*

The World Bank has been central in expanding the use of household surveys

but has had less success in standardising survey designs. Despite joint donor efforts to improve statistical capacity, including PARIS21 and the 2004 Marrakech Action Plan for Statistics, a review of aid flows suggests that coordination remains lacking. Ongoing assistance for statistical development is highly concentrated, with 15 countries accounting for 54% of aid.<sup>21</sup> Further, there is no apparent relationship between the volume of aid received and a recipient's statistical capacity.

#### *Institutional issues*

Government statistical agencies suffer from limited status and influence. Given their low status, they struggle to attract and retain high-quality technical staff for key posts. Institutional factors may also constrain the World Bank's compilation of global poverty aggregates. The infrequency and long lags of global poverty estimates in recent years reflect the Bank's apparent reluctance to publish provisional poverty data, which it may later have to revise. This practice contrasts with its willingness to publish provisional GDP estimates and forecasts.

### **Data solutions and emerging needs**

The quality of global poverty estimates has improved over the past 20 years, and there is every reason to believe this trend will continue. And as countries continue to develop, so will their capacity and resources for measuring poverty.

Such improvements are important but incremental. There are some promising avenues for revolutionising how poverty is counted. Polls of self-reported financial hardship, big data from cell phone activity and search engine entries, and satellite imagery are among the most creative. But their viability remains largely unproven and therefore speculative. And the

time for such disruptive innovation to cut through today's measurement challenges remains uncertain.

A more fruitful approach will be to improve existing approaches. The ongoing process to set the post-2015 global development agenda is an opportunity to do just that.

#### *Harmonising survey design and protocol*

The post-2015 process should increase cooperation and promote a common standard for household surveys.

#### *Publishing provisional 'real-time' poverty estimates, both global and national*

The World Bank should generate draft poverty estimates systematically, in the same way it does for GDP, removing the need to wait for household survey results. At the country level this would involve identifying and regularly tracking indicators that correlate with poverty levels reported in surveys to derive up-to-date provisional poverty estimates. While this would not improve the quality of global poverty numbers, it would raise their profile and boost demand for poverty data. And it would make the data more relevant to policymakers.

#### *Reforming the governance of country poverty data*

Over the last 30 years central banks have been made independent from government in most countries around the world, improving the quality of economic data. Similar reforms to national statistical agencies could do the same for poverty statistics.<sup>22</sup> Or the

***The post-2015 process should increase cooperation and promote a common standard for household surveys***

responsibility for administering surveys could be transferred to central banks.

## Poor data on resources for poor people

Current global data on poverty is not strong enough to provide the evidence needed to achieve and sustain the end of poverty. That is the message of this chapter. But the rest of *Investments to End Poverty* is about the data on resources – and the data on resource flows is also poor. Combining the two compounds the distortions. So a huge weight of analysis that in turn drives a large volume of money for the world's poorest people rests on a flimsy, uncertain, patchy body of data.

The worst holes in the data on ODA – and aid flows more widely – have been explored earlier in this report, but in summary there are three big gaps.

## What form is aid delivered in?

We do not clearly know in what form aid is delivered. Aid is transferred to recipient countries as a combination of money and in-kind transfers. These transfers have very different economic impacts and different transaction costs. But the data on aid does not state how much aid is given in cash and how much is in other forms. This report uses various characteristics of the data to identify ODA that is almost certainly in the form of either money or gifts in kind. But for around one-fifth of the ODA given in 2011, it is not possible to disaggregate the data in that way.

**A huge weight of analysis that in turn drives a large volume of money for the world's poorest people rests on a flimsy, uncertain, patchy body of data**

## Where does aid go?

We do not know exactly where aid is going. Identifying the destination of ODA more precisely than countries and regions is a voluntary requirement for reporting to the DAC. Sub-national information is minimal: eight donors, including Germany, the UK and the US, give no sub-national information. Only Portugal includes such information in all its aid activity records.

## Who delivers aid?

We often do not know who is ultimately delivering aid. Aid projects funded by donor government agencies may be implemented by many different kinds of organisation – the donor government, the recipient government, international or local NGOs, multilateral agencies and so on. For aid transparency, accountability and coordination, it is important that the donor is as specific as possible about the organisation implementing the aid project. Reporting has improved, but with wide variations in the specificity that donors employ in reporting the channel of delivery.

But aid is just one resource flow, and to get value from it, it has to be used in the context of other resources – where the information is often much worse. First, several resource flows have poor data coverage across both time and space:

- Not all countries are included in many datasets – detail of sectoral domestic spending, for example, varies considerably from country to country.
- Coverage of true flows is often only partial – for example, remittances cover some official channels but exclude informal channels, which are equally, if not more, substantial.
- And for some resources there is no recognised dataset at all – for

example, development finance institutions and private development assistance (NGOs, non-US foundations, corporate giving).

- Gaps in time series plague many datasets – sectoral government spending is often irregular, while surveys of private development assistance expenditures may be taken only every few years.

A second set of problems is the absence of relevant detail. In many instances vital dimensions to the data are missing:

- **Bilateral data.** For many resource flows there is no bilateral information. We know inflows and outflows at the point of entry or exit but not where the resources arriving in a country come from – as for FDI (except for Organisation for Economic Co-operation and Development countries) and remittances (bilateral estimates but not recorded flows).
- **How and where flows are used.** For example, we have data on volumes of FDI but do not know clearly in which sectors the investments are being made.
- **Inflows and outflows.** Net and gross flows are not disaggregated, as for FDI, portfolio equity and short-term loans. Information on reverse flows is limited, as with poor-country coverage for data on profits on FDI.
- **Channel of delivery and form of finance.** Such data is often absent.

The lack of metadata and standardisation of data sources creates a third set of problems. Such limitations hinder both the comparison of and distinction between the accounting of one set of data from another:

- The information on how datasets are created is often poor, and

where there are alternative sources that show different figures, it is often difficult to make an informed decision about which source is most appropriate.

- Lack of clarity on what is included in the data leads to problems of what is being measured and enhances risks of double counting different resources. For example, NGOs, foundations and corporate givers routinely fund each other to implement projects, and these funds are recorded by both funding and implementing institutions.
- Datasets on different resource flows are created separately and for different purposes, so they are not in a standardised format, making it difficult to compare flows and account for overlaps between datasets. How then to distinguish FDI and loans, as FDI is funded partly by equity and partly by loans, or innovative finance and ODA? The overlap of resource flows can thus be complex, and understanding how gaps and overlaps are

accounted for is extremely limited (Figure 6.7).

Poor data on resources, compounded by a limited understanding of who and where poor people are, exponentially reduces our ability to maximise the impact of different resource flows for poverty reduction. Without good poverty data, at the local level we cannot target resources effectively. And without a clear understanding of the wider resources available, ODA and other forms of aid finance cannot be used to their comparative advantage. Improved data is required on both fronts.

**Governments, donors and non-governmental organisations are interested not just in counting the poor, but also in identifying and targeting poor people through dedicated investments**

and accountability will continue to fall by the wayside.

Ending poverty means ensuring that no one is left behind. Governments, donors and non-governmental organisations (NGOs) are interested not just in counting the poor, but also in identifying and targeting poor people through dedicated investments. They need to assess risk and vulnerability, to determine the impact of events on poor populations and to understand who is moving into and out of poverty and why.

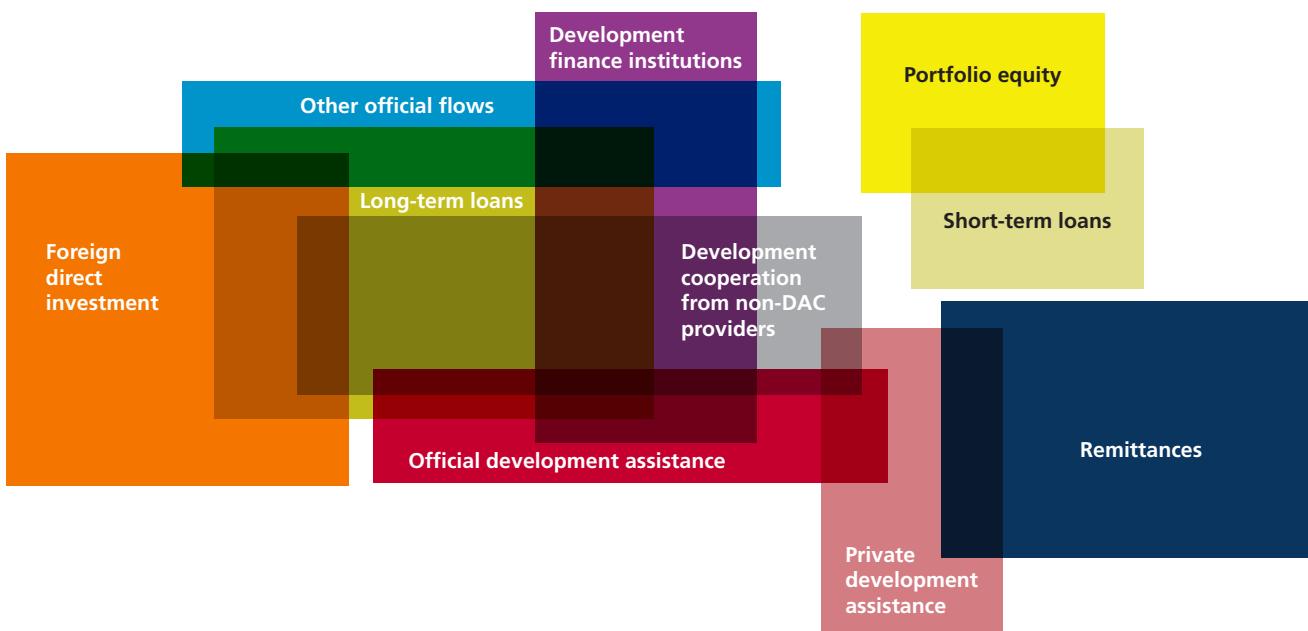
The High-Level Panel of Eminent Persons on the Post-2015 Development Agenda has called for a Data Revolution

## The call for a Data Revolution

The effective use of data drives some of the world's most successful companies and underpins some of the most dramatic global achievements. Data to end poverty is equally vital. Without better data, resources cannot be allocated optimally, progress cannot be monitored, lessons about effective and efficient policies cannot be learned

FIGURE 6.7

Different resource flows overlap, but the extent is often unknown



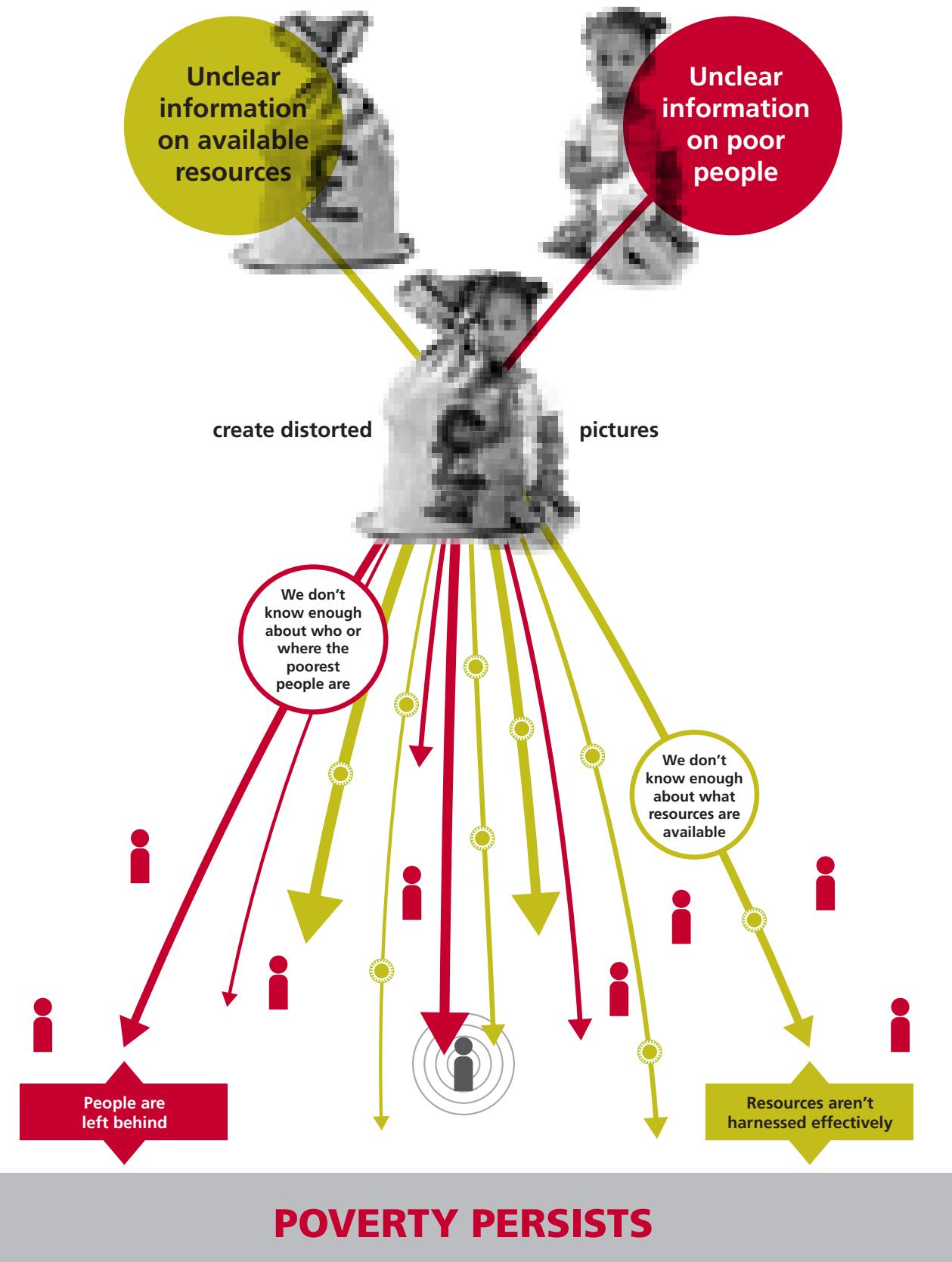
Note: Figure is not to scale.

Source: Development Initiatives.

FIGURE 6.8

Poor quality data

## POOR QUALITY DATA



Source: Development Initiatives.

to improve the quality of statistics and information available to citizens, actively taking advantage of new technologies, crowd sourcing and connectivity.<sup>23</sup>

A Data Revolution can both generate action to get to zero poor people and reduce inequalities in wider forms of deprivation – differences in health and education between girls and boys, access to basic services between rural and urban centres, and opportunities for minority groups and the rest of the population.

Measuring progress by averages will continue to leave people behind. The High-Level Panel has recommended that no target, whether for education, health or energy, be considered ‘achieved’ until it is met for every income and social group. Without disaggregated data there is little chance of achieving that. The current framework for data collection in many developing countries is unlikely to be able to deliver the degree of disaggregated data that is needed to ensure that no one is left behind. Surveys will need to be more extensive and representative, capturing information from a much wider range of different groups, remote and difficult locations, and, as those working on gender have long advocated, the household should not be the smallest unit of analysis. And on top of this, the data needs to be updated frequently.

All this calls for a major change – a clear business case that sets out the returns from investments in data for efficient poverty reduction and serious attention to overcoming the constraints to better data, some of which have been identified in this chapter. Current investments in statistics are extremely low and need radical improvement. But while we need massively improved statistics, a Data Revolution also means that data ceases to be the province only of statisticians. Statistics need to be

used in combination with the increasing number of other sources of information – often real time and grassroots.

Technologies and standards allow data from many different sources to be combined to reveal new information and applications. The new technologies and methods mean that some aspects of gathering data have also become a lot cheaper. The cost of conducting a household survey by traditional methods is much higher than the cost of an interview by mobile phone.

One of the most fundamental and universal standards is geography – where people live, where resources are spent, where benefits are to be delivered. The investments in geocoding are a quick win with huge potential. Geocoding – knowing where something is supposed to change – means that the people who live there, who are the objects of policy and the intended beneficiaries of investments, can provide a proper reality check. They can say what has actually arrived and when. They can comment on how their priorities are being met. They can see whether different resources are being used sensibly together or duplicating and undermining each other.

The Data Revolution does not just call for better data – it calls for people to acquire and use that data to drive progress. Doing that requires open government, transparency, visibility and a culture that puts a high value on enabling people to seek and use data and information – the sort of value that poorer people themselves put on communication and information. Witness the 600-plus million mobile phone subscriptions in Africa.

The Data Revolution needs to drive accessible, transparent, usable data on all finance relevant to poverty reduction – commercial investments, government spending, private

giving and philanthropy, as well as aid and other donor-government finance, including security. This opens opportunities to go beyond traditional approaches and mobilise new ways of working that bring together different resources for faster and more sustainable progress.

*Investments to End Poverty* has tried to gather together the best available data on the resources that are available – their volumes, where they come from and where they go, what they are for and where they overlap. We clearly need better data on real money. We have also set out in this chapter what we know and what we do not know about who is in poverty and how their circumstances change. We clearly need better data on real lives. These two sets of information are a fundamental requirement for people who have to make real choices about investments to end poverty that will yield better results.

## Notes

1. Where a country has a survey before and after the year for which global poverty is estimated, the Bank uses the results from both surveys to calculate the country estimate.
2. See note 1. The distribution of consumption is usually assumed to be unchanged from the most recent survey.
3. McKay 2000.
4. Coulombe and McKay 1995.
5. Wane and Morisset 2011.
6. Lanjouw and Lanjouw 2001.
7. Beagle and others 2010.
8. Beagle and others 2010.
9. The relevant measure from national accounts is household final consumption expenditure.
10. Ravallion 2003; Deaton 2005.
11. Deaton 2010.
12. “Claiming that growth has done little to reduce poverty is comparable to saying that, despite

- rapid growth in China, poverty in India remained the same. The [national accounts] and the surveys evidently measure different things" (Deaton 2010).
13. Cited in Chandy (2013).
  14. Deaton and Heston 2008.
  15. An earlier version of the current methodology was used for the 1975 poverty estimate in Ahluwalia, Carter and Chenery (1978).
  16. IMF 2007.
  17. Excludes countries with populations of less than 1 million.
  18. Cited in Chandy (2013).
  19. Kim 2012.
  20. Cited in Chandy (2013).
  21. OECD Creditor Reporting System Database (<http://stats.oecd.org>); PARIS21 2012.
  22. PRESS 2012
  23. Sandefur 2012.
  24. United Nations 2013.
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