Development Initiatives

The Global Context

Mobilisation and effective use of resources

The post-2015 framework will set an ambitious vision to end extreme poverty and drive progress across the three pillars of sustainable development: economic, social and environmental. To realise this vision, we need to mobilise sufficient financial resources and create a framework and incentives in which diverse actors can contribute, according to their comparative advantages. To develop this framework, we must start by understanding the context – the scale of poverty, the cost of meeting sustainable development goals and the distribution and characteristics of current development finance flows. This note outlines the key facts for the financing for development debate across six key components of the global context.

1. Ending extreme poverty is possible, but ending poverty will be more difficult than halving it and will require targeted resources.

2. Mobilising domestic resources is a priority for many countries; in others where domestic resources are growing, the challenge is to develop non-financial capacity.

3. International resource flows are growing, though they are concentrated in a few countries and many flows create large outflows. ODA is the most poverty-sensitive resource.

4. ODA is the key international resource that can be targeted at the world's poorest people - however allocations do not respond well to the characteristics of poverty

5. Humanitarian assistance is growing, though needs still outweigh financing – and there is a need to align this finance with poverty goals.

6. The climate and development agendas are intertwined: sustainable progress in one is not possible without progress in the other – yet current finance falls short of need.

Extreme poverty

Ending extreme poverty is possible, but it will be more difficult than it was to halve it and will require targeted resources.

MDG1a, to halve the proportion of people living in extreme poverty, was met early

The proportion of people living in extreme poverty (defined as living on less than $1.25 a day) fell from 43.5% of the population of developing countries in 1990 to 17.0% in 2011. By 2015 the number of people living in poverty is also likely to halve, from 1.9 billion in 1990 to a projected 836 million.[1]

But ending extreme poverty will be more difficult than halving it

Economic growth alone will not be enough to end poverty in a reasonable timeframe. Many people who remain in extreme poverty today live in complex situations and face overlapping vulnerabilities: 96% live in countries that are politically fragile or environmentally vulnerable, or both.

Without targeting, poverty will persist – particularly in sub-Saharan Africa

The World Bank estimates that, without accelerated efforts, some 400 million people will still be living in extreme poverty in 2030. Over time, sub-Saharan Africa will account for an increasing proportion of these people, rising to 80% by 2030.[2]

The longer-term goal of ending poverty in all its forms sets a high level of ambition

Ending $1.25-a-day poverty by 2030 is the first step towards ending poverty in all its forms. Research suggests that a sustainable end to extreme poverty (with reduced risk of falling back into extreme poverty) requires much higher income levels, in the region of $10–15 a day.[3]

Estimates show that 1.1 billion people lived on less than $1.25 a day in 2010, while 2.3 billion lived on less than $2 a day, 3.8 billion on less than $4 a day and 5.2 billion on less than $10 a day.[4]

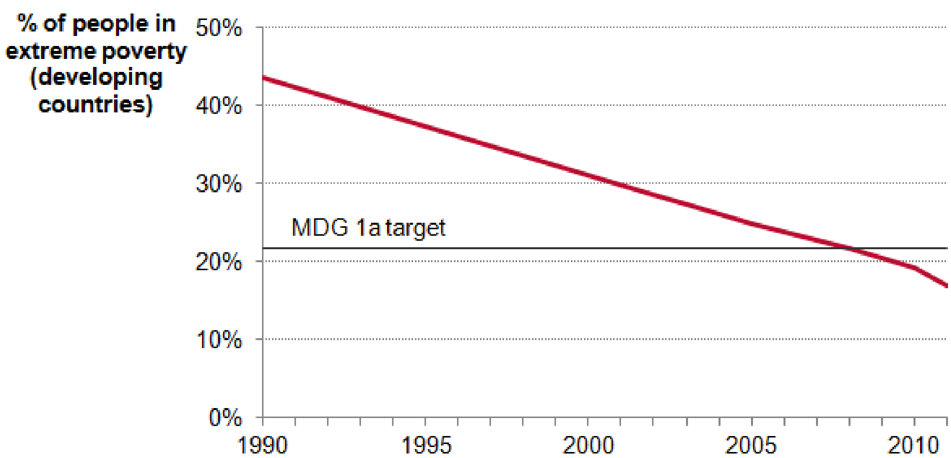
To target efforts effectively, we need much better information

Current poverty estimates are out of date, inconsistent and have a wide margin of error – this undermines efforts to prioritise resources effectively towards the poorest people.

A total of 42 developing countries have had no poverty survey since the MDGs were agreed in 2000; for another 42 the most recent survey is at least five years old. The most recent data from the World Bank, released in 2014, relates to 2011 estimates, which are extrapolated from these outdated household survey data. Revisions to the methodology used to calculate poverty estimates also have a significant bearing on our understanding. For example, we now believe that over 800 million people have been lifted out of extreme poverty in East Asia since the 1980s – yet in that decade it was thought that there were only around 280 million people living in extreme poverty in the region.[5] If we are going to commit to end poverty in all its forms, we need much better data on where poverty exists and how financial interventions impact on it.

FIGURE 1

Progress towards MDG1a, to halve the number of people living in poverty



Source: Development Initiatives calculations based on World Bank data

Domestic public resources

Mobilising domestic resources is a priority in many countries; where resources are growing, the challenge is to develop non-financial capacity to deliver services

Government resources are growing in many developing countries

Government spending in developing countries grew from US$2.4 trillion in 2000 to US$6.4 trillion in 2012 – average growth of 8.6% a year. While China alone accounted for 40% of this growth, more than half of all developing countries experienced annual growth in public spending of 5% or more.

Country progress in growing tax revenues is more mixed. The extent to which revenue growth is based on pro-poor tax regimes is very important for poverty: for example, growth in indirect taxation without exclusions can negatively impact the poorest. Tax avoidance and illicit finance are key issues that require national and supra-national responses.

For many countries where poverty is high, government resources will remain low

Government spending per person is less than PPP$1,500 per person in 58 developing countries, home to 83% of people living in extreme poverty. In 30 countries it is less than PPP$500 per person. This compares with an average PPP$17,485 per person in DAC countries (and PPP$2,170 per person in developing countries as a whole).

Countries with the lowest domestic resources will experience the slowest growth

Countries currently in the lowest spending categories will experience the slowest growth in spending over the period 2015–2030. Without a significant change in course, these countries will face financial constraints to domestically led implementation of the post-2015 agenda. Current projections show that no country where government spending is less than PPP$500 per person will reach PPP$1,000 per person by 2030.

Countries with fast-growing domestic resources will face different challenges

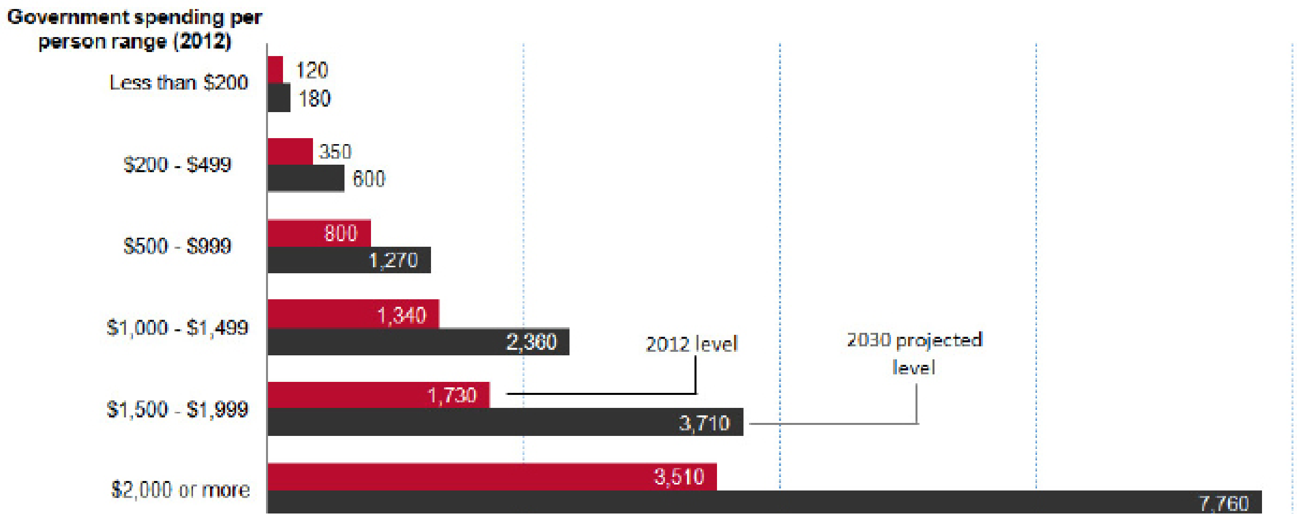
Government spending will grow more rapidly in other countries – for example, it is projected to more than double in Indonesia, the Philippines and Viet Nam, and to almost double in India. The challenges for these countries will be in developing the human and technical capacity, and governance systems, to use resources effectively and scale up service provision.

Better data can support effective governance, advocacy and resource allocation

Information on government spending is often partial, out of date and often lacking in detail. Given the centrality of government to the implementation of the post-2015 framework, better data on public spending can benefit many actors, including governments themselves, in allocating resource effectively. For example, data on sub-national spending can help central governments allocate national budgets, as well as donors and civil society working in particular regions. Greater visibility and transparency on public spending can also underpin more effective prioritisation of international resources such as ODA.

FIGURE 2

Government spending per person, 2012 and 2030 projections



International resources

International resource flows are growing, though are concentrated in a few countries and many flows create large outflows. ODA is the most poverty-sensitive resource.

International resource flows have grown rapidly to developing countries

International resource flows doubled from 2000 to 2012, rising to US$2.1 trillion across all developing countries. Much of this growth has been driven by rising FDI, lending and remittances.

However, many of these flows are concentrated in just a few developing countries

Resources are concentrated in a small number of countries: two-thirds of FDI to developing countries goes to just 10 countries, while half of all remittances go to just five countries.

The true picture is even more complex: large flows leave developing countries and some 'inflows' are in fact sourced domestically

Although large amounts of finance flows into developing countries, they also flow out. Large amounts leave developing countries each year – most are not productive investments in the rest of the world but repayments on loans, outgoing profits on FDI or illicit finance.

The bundle of some resources such as FDI is varied and complex. For example, a large proportion of FDI does not involve cross-border transfers: over 75% of US and 85% of UK investment in Africa in 2012 was funded by the reinvestment of profits made in the 'destination' country.

ODA is the most 'poverty-sensitive' resource flow

In all, 45.2% of ODA goes to countries with above average poverty rates, compared with 37.4% of remittances and 13.4% of FDI. ODA agencies with a legal mandate to target poverty reduction allocate 80% of ODA to countries with above average poverty rates.

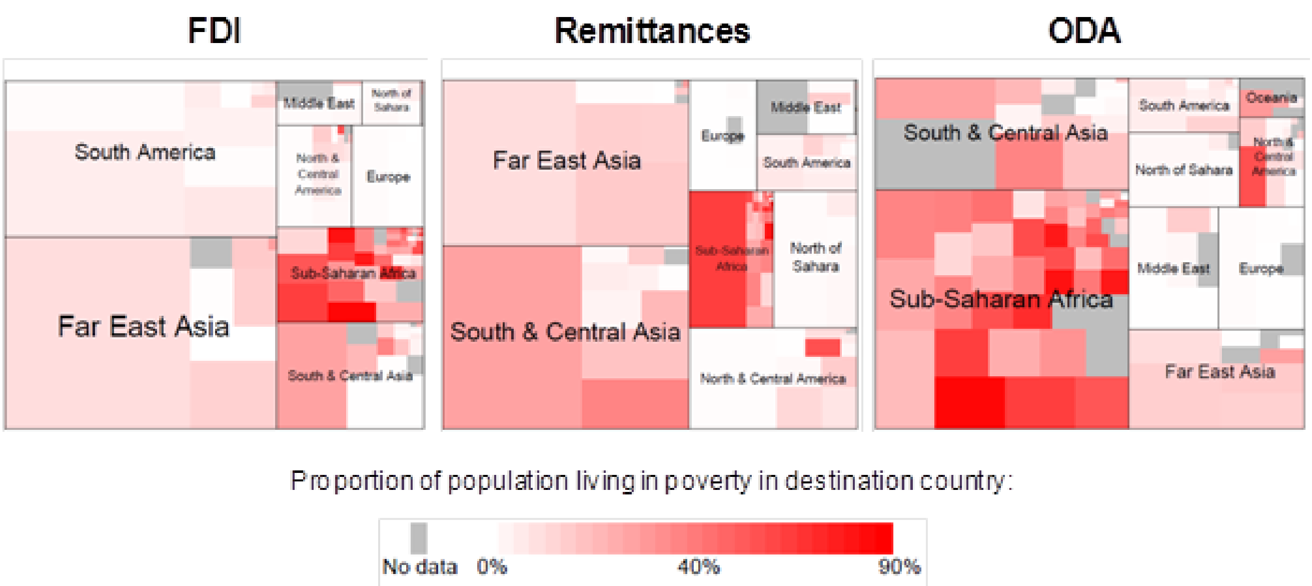
Poor data on resources limits their contribution to coordinated implementation

The data describing many resource flows is insufficient to answer even basic questions about their scale, characteristics or potential impact on sustainable development and poverty. Data are often untimely and lack details such as sector breakdown, the financing instrument used, or outflows associated with inflows. Even in ODA, which has seen sufficient improvements in data, there remain a number of important issues that cannot be understood with current data, such as sub-national spending or the ability of ODA to mobilise domestic resources and/or the private sector.

Without significant improvements in data on resource flows, it will be difficult to effectively mobilise the contributions of diverse actors within the post-2015 implementation framework, and for the international community to monitor their impacts.

FIGURE 3

International financial flows to developing countries



Source: Development Initiatives calculations based on OECD, UNCTAD, World Bank; excludes regional flows

Official development assistance

ODA is the key international resource that can be targeted at the world's poorest people - however allocations do not respond well to the characteristics of poverty

ODA has risen, but the proportion going to LDCs has recently dipped

Total ODA rose since the mid-90s, but declined in 2011 in the wake of the international financial crisis. However, ODA rose again to a new peak of just under $135billion in 2013. ODA to LDCs grew faster than total ODA for most years since 2000, but the post crisis fall disproportionately affected LDCs, with ODA falling 7% over 2011-12, compared to 0.4% in other countries.

Many donors have not met commitments on ODA

The widely-recognised target of providing ODA equivalent to 0.7% of a donor's GNI was met by only met by 5 DAC donors in 2013 and only 9 donors gave at least 0.15% of GNI as ODA to LDCs, as required by the Monterrey target on ODA to LDCs.

ODA is a diverse bundle of instruments, not a homogenous resource

Most of the discourse around ODA treats it as a transfer of cash from donors to developing countries. In fact ODA consists of a wide variety of instruments: cash grants, cash loans, technical cooperation, commodities, food (and the shipping costs of food) and resources spent on developing global public goods or supporting donor-country based NGOs. Some forms of ODA do not result in any new direct transfer of resources: such as debt relief, admin costs and costs of developing-country students or refugees in donor countries. Analysis of the 2012 ODA data shows that 17% of donors' reported ODA is not transferred to developing countries.

ODA allocations do not reflect the distribution of poverty

Many of the largest recipients of ODA are countries with high poverty rates and the top 10 recipients include 6 of the 10 countries with the largest numbers of people living in poverty.

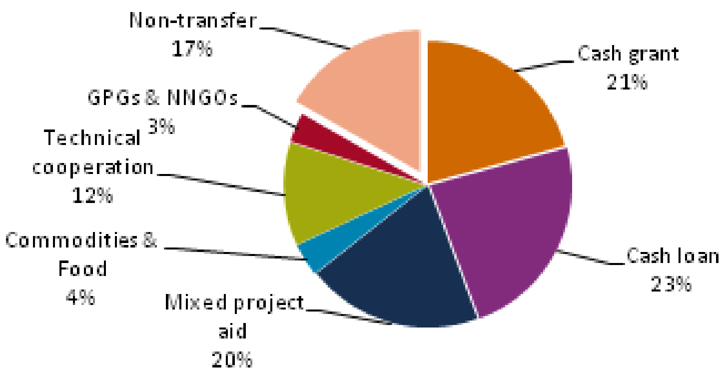
However there are both countries with significant poverty that are not prioritized in ODA allocations, and countries with comparatively little poverty that are prioritized. And the scale of ODA does not reflect the scale of poverty: ODA per poor person is lowest in many of the poorest countries. In 20 countries ODA is less than US$ 100 per poor person – these countries account for 75% of the world's poor. Conversely, ODA exceeds US$ 1,000 per poor person in 33 countries, which together account for less than 1% of the world's poor.[6]

Data on ODA is good, but could be better

Data on ODA is more comprehensive and detailed than for any other international flow. However, this data still has many shortcomings, especially the fact that annually-produced data is always between one and two years out-of date. It is also unnecessarily difficult to establish how much of the ODA actually represents a flow of money and how much is in other forms. Data is available only at a national level which is unhelpful when many countries contain pockets of poverty in specific regions. The International Aid Transparency Initiative (IATI) has set a standard for ODA reporting which addresses many of these shortcomings. However only about half of DAC donors currently publish data to the IATI standard and the donors that do publish data to this standard often do not report all their ODA in the IATI format.

FIGURE 4

ODA is not a single resource but a bundle of diverse instruments



Source: Development Initiatives calculations based on OECD

Humanitarian assistance

Humanitarian assistance is growing, though rising needs still outweigh financing – and greater alignment with goals to end poverty would bridge the gap between humanitarian and development assistance.

Despite growth, humanitarian assistance is not meeting increasing need

Humanitarian assistance refers to financial resources focused on responding to emergencies and governed by the humanitarian principles of humanity, impartiality, neutrality and independence. While a proportion of humanitarian assistance is ODA, international humanitarian assistance also includes funding by development assistance providers outside the OECD DAC, as well as private funding from individuals, trusts and foundations and private companies and corporations.

In 2013 less than two-thirds of the needs outlined in UN coordinated appeals were met. These figures, while unable to capture the international humanitarian response to crises outside of the 23 UN coordinated appeals, serve as a barometer of funding according to need. In 2013, despite record levels of humanitarian assistance (US$22 billion), requirements still surpassed funding.

Humanitarian financing should be aligned with longer-term goals to end poverty

Fragility and poverty are increasingly intertwined: in 1990, 20% of people in extreme poverty lived in fragile states; now the figure is around 50%.[7] As the links between extreme poverty and vulnerability to crisis become more pertinent, there is a need to more closely align humanitarian financing with longer-term goals of ending poverty. For example, Nigeria and DR Congo have roughly equal scores on the Fund For Peace Fragile States Index and similar numbers of people living in extreme poverty, yet DR Congo receives over 20 times more humanitarian assistance.

However, funding is often delivered in short-term cycles

In 2012 an estimated 180 million people in extreme poverty lived in countries in protracted crisis.[8] The complex, overlapping and long-term dimensions of these crises require sustained commitment and financing – yet in the past decade around 10% of ODA has been humanitarian assistance, which typically is conceived and delivered in short-term cycles.

Humanitarian assistance is only one part of financing in complex emergencies

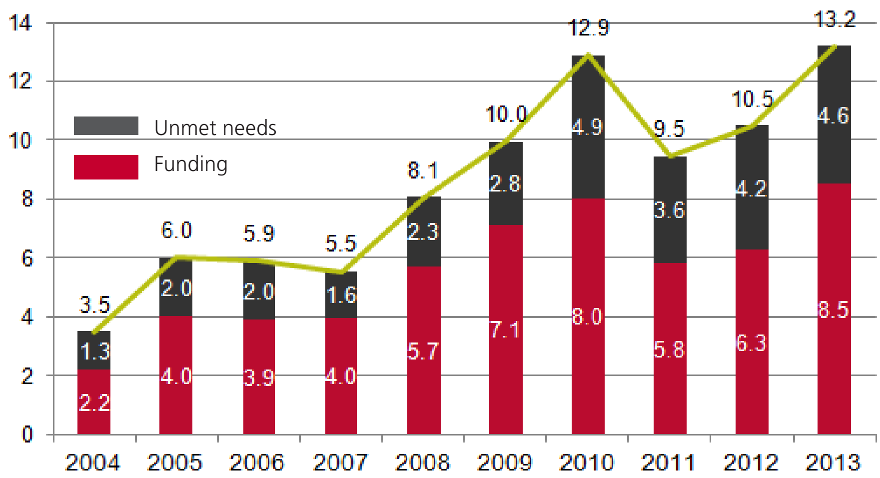
In complex crises, where extreme poverty, inequality and insecurities overlap and render communities vulnerable to the effects of natural disasters and conflict, there are many overlapping flows of financial resources, such as climate financing, peacekeeping and remittances. But these different forms of financing largely operate in isolation. It is important to identify complementarities and funding gaps to produce a context-specific blend of financing.

Coherent humanitarian response requires a complete picture of public, private, domestic and international resource flows

Humanitarian contributions from non-OECD DAC donors are increasingly captured alongside international public resource flows – yet the domestic humanitarian response is often overlooked and a large proportion of private giving is unreported. This is significant, as national and local structures play an important role in preparedness and response. For example, in 2012 the Philippines government contributed almost five times as much to disaster response and recovery and disaster risk reduction as it received in international humanitarian assistance.[9] These figures, however, are largely missing from the international community's picture of the response.

FIGURE 6

Less than two-thirds of UN coordinated appeals were met in 2013



Source: Global Humanitarian Assistance Report

Climate finance

The climate and development agendas are intertwined: sustainable progress in one is not possible without progress in the other – yet climate finance falls short of need.

Global climate finance reached US$359 billion in 2012, far below estimates of need

Total global climate finance, a mix of public and private flows from a wide variety of sources and instruments, equalled US$359 billion in 2012 – down from 2011. Total investment needed to mitigate climate change and/or minimise its impacts through adaptation is estimated at between US$4 billion and US$171 billion per year by 2030 for adaptation and between US$200 billion and US$1 trillion for mitigation.[10]

Around half (51%) of global climate finance is invested in developing countries

Climate finance is sourced and invested unequally across the globe. Of the estimated US$182 billion invested in developing countries in 2012, 72% came from domestic sources. Finance flows from developed to developing countries represented just 12% of total global climate finance investments (around US$43 billion). Though climate-related ODA is small in comparison with wider flows, it remains essential for developing countries to address climate change and accounts for a significant proportion of cross-border climate finance. Climate-related ODA has grown since 2002.

Climate finance plays a critical role in sustaining and protecting development

The effects of climate change disproportionately affect those with the weakest coping capacities. Around 86% of people in extreme poverty live in countries that are classified as environmentally vulnerable.[11] Support for these countries, particularly adaptation support, to increase resilience to the impacts of climate change is critical to end poverty and safeguard developmental progress. However, climate finance supports a plethora of projects and an estimated 94% of in 2012 was invested in mitigation projects, compared with just 6% in adaptation-related activities.

Climate change requires multiple near- and long-term interventions

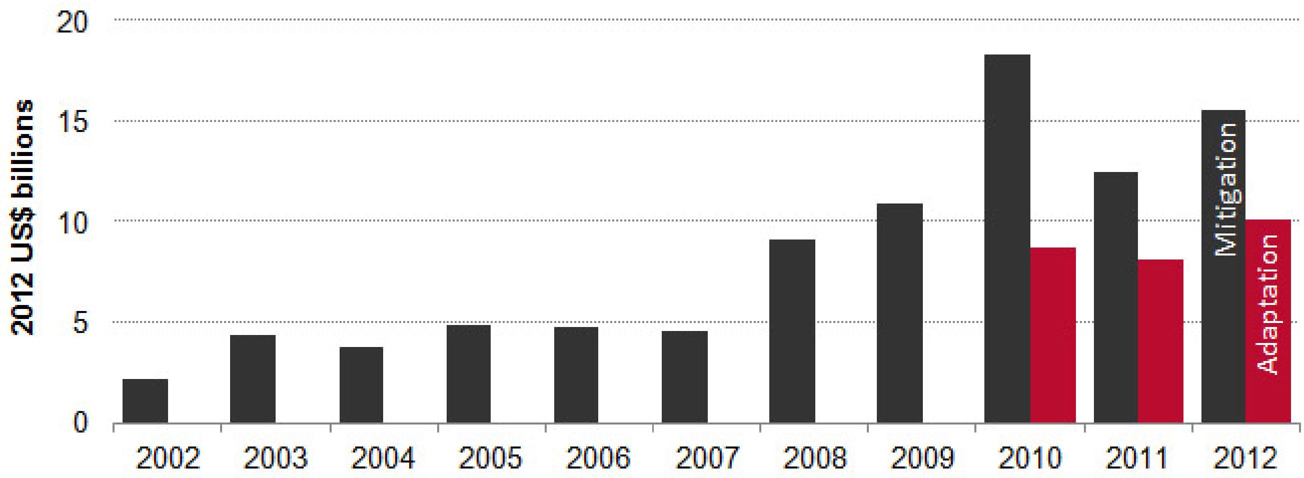
Climate finance needs to support both the transition to sustainable development pathways and support efforts to adapt to the impacts of climate change at national and local levels. Inadequate investment and inaction may increase future costs substantially.

Data on climate finance is lacking, is untimely and is of poor quality

The absence of consensual definitions, together with poor reporting and misinterpretation, contributes to a poor understanding of climate finance. Data on private climate finance is especially poor. Without a single repository for data on climate finance, it is difficult to monitor commitments to the climate agenda or additionality in financing without relying on self-reported statistics or third party research.

FIGURE 7

Climate-related ODA 2002–2012



Source: Development Initiatives calculations based on OECD data. Note: Totals for adaptation and mitigation cannot be summed as projects can be marked as relevant to both adaptation and mitigation

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2 World Bank, 2014/15 Global Monitoring Report

3 Birdsall, Nancy, Nora Lustig, and and Christian J. Meyer. The strugglers: the new poor in Latin America? Center for Global Development, 2013.

4 World Bank, Povcalnet

5 Development Initiatives (2013) 'Investments to End Poverty', p.113.

6 Forthcoming study by Development Initiatives for the Development Cooperation Forum

7 Kharas and Rogerson (2012), Horizon 2025.

8 Global Humanitarian Assistance Report 2014. The report classified countries 'in protracted crisis' as those receiving long-term humanitarian assistance.

9 Global Humanitarian Assistance Report 2014

10 Buchner et al. (2013), The Global Landscape of Climate Finance 2013, Climate Policy Initiative

11 Defined as highly vulnerable or extremely vulnerable in UNEP's Environmental Vulnerability Index