Harnessing all resources to end poverty

Development Initiatives
Harnessing all resources to end poverty

Tim Strawson, Development Initiatives

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About this working paper

Global poverty is falling at an unprecedented rate. Currently 22% of the world’s people are living on less than $1.25 a day, compared with 52% in 1980 – but 1.2 billion people still live below the poverty line.

To plan for and finance the end of poverty we need to understand the scale and scope of all potential resources including aid, domestic revenues, private sector spending and that of NGOs.

Investments to End Poverty is an initiative that provides independent, reliable, accessible data and information to make this happen. It proposes a more rigorous framework to ensure that all resources are better used and engages with a wide range of actors including companies, aid agencies, governments, foundations, civil society and the military to share knowledge and understanding on how poverty can be ended.

This paper was written by Tim Strawson at Development Initiatives – an independent organisation committed to enabling the effective use of information to end poverty – with a view to encouraging feedback, comments and discussion on the subject of harnessing resources to end poverty. We have made every effort to ensure that the information contained herein is accurate and reliable, but please do contact us with any new information or corrections to errors of fact or interpretation.

The author would like to thank Andrew Rogerson for peer reviewing the paper and is grateful for valuable comments and suggestions from, among others, Homi Kharas, Laurence Chandy, Ben Leo, Jenny Lah, Judith Randel, Daniel Coppard and Ian Townsend.

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Important notes

This paper focuses on resource flows to developing countries. The figures and analysis presented throughout the paper are for developing countries only (see Annex A for a list). This means, for example, that the regional totals presented are the sum of resource flows to developing countries in each region and exclude resource flows to all other countries.

Most of the figures presented in this paper are in constant 2010 US dollars, and are labelled ‘US$’. Some figures, however, are presented in 2005 international Purchasing Power Parity (PPP) $. This conversion is used when discussing government expenditure per capita and the $1.25 a day poverty line, to give a more accurate gauge of the purchasing power of government expenditure. These figures are labelled ‘$’ throughout the paper.
Executive summary

The world has changed dramatically over the past two decades and the global fight against poverty looks very different in 2013 than it did in 1990 or even 2000, when the Millennium Development Goals (MDGs) were agreed. The goal to halve extreme poverty (MDG 1a) was achieved ahead of schedule, and there is a growing consensus that the sustainable end of extreme poverty is achievable within the post-MDG timeframe. At the same time there has been radical transformation in international finance, and developing countries now have access to a larger and more diverse range of financial resource flows than ever before.

In the run-up to the end-date for the MDGs, and as discussions on how to replace them gather pace, it is appropriate to evaluate how the next set of global goals can be financed and to consider the role that various resource flows – domestic and international, public and private – can play in eradicating poverty. The post-2015 framework needs to be supported by a realistic, costed plan which combines domestic and international resources. A precondition for that is understanding what resource flows are currently available.

This working paper builds a big picture analysis of the resources flowing to developing countries, and aims to start a debate on the opportunities and challenges presented by different flows and emerging trends. This picture is not yet complete, as our understanding is limited by the constraints of available data. Nevertheless, we make a number of stark findings that are of central relevance to the post-2015 financing framework and the ongoing debate about financing the end of poverty.

The post-2015 framework will place greater emphasis on the role of domestic institutions in realising the end of poverty than the MDGs did and, as we look towards 2015 and beyond, we find evidence that two broad groups of developing countries will emerge. Many countries are on a path of growing domestic resources and shrinking resource constraints to realising the end of poverty. A second group of countries, however, are likely to face severe and continued domestic resource constraints; these countries are largely in sub-Saharan Africa and many can be considered fragile states.

Ending global poverty requires significant progress in both groups of countries – there are hundreds of millions of people living in extreme poverty in each – and aid and other development cooperation will continue to play a vital role in realising this goal. However, development cooperation will be increasingly differentiated between countries, and regions within countries, facing different challenges and constraints to ending poverty.

There is significant potential for other international resource flows to support poverty eradication more effectively, and incorporating these flows more prominently in the post-2015 financing framework may yield substantial additional resources for poverty eradication efforts. Two international resources flow in particularly large volumes to countries with high numbers of people living in extreme poverty and low levels of domestic resources – remittances and foreign direct investment (FDI, especially natural resource FDI). There are also large resource flows leaving many of the same countries, particularly in the form of illicit finance. We need to know more about how these flows affect people living in poverty, and the development agenda should look seriously at how to enhance their contribution towards ending poverty.

The financing framework for the post-2015 goals should respond to these emerging trends, structuring the design of development cooperation with countries facing different contexts over the post-2015 timeframe and responding to the fundamental changes in non-aid international finance, exploiting the opportunities and meeting the challenges that these resource flows present.

Feedback, comments and discussion are warmly welcomed: tim.strawson@devinit.org
Section 1: Resource flows for developing countries

This paper analyses the scale and pattern of international resource flows. This is an essential precondition to understanding the roles that they can play in supporting poverty eradication, and requires a comprehensive understanding of the nature, characteristics and types of resource flows to countries in different contexts. Section 1 presents an overview of this information.

Domestic resources are the largest pool of funds available to most developing countries, and international resources have an important role to play in supporting domestic efforts to end poverty. Both domestic and international flows have grown rapidly and the mix of resources available to many developing countries now is fundamentally different to that of ten or 20 years ago.

International flows can be grouped into two broad types – social impact flows and profit-seeking flows – and it is important to note that different resources perform different functions. They have different characteristics, affect people living in poverty through different channels and mechanisms, and should not be thought of as displacing one another.

There are also large volumes of resource flows leaving developing countries. Indeed, the available evidence suggests that outflows are roughly equal to inflows. However, our understanding of both inflows and outflows and even some key characteristics of individual resource flows is limited by poor-quality data. The data on many resource flows has large gaps or is inaccurate; for other resources comprehensive data does not exist.

1.1. Resource flows

The broad picture

Domestic resources represent the largest pool of funds available to developing countries, and in 2010 government expenditure totalled US$ 4.8 trillion across all developing countries. International resources – the sum of all foreign flows received by developing countries – were estimated at US$ 1.7 trillion, equivalent to just over one-third of total government expenditure.¹

Government expenditure is just one of many domestic resources, but it is central when thinking about poverty eradication and can be used to compare the scale of international flows against a key domestic resource. Although government expenditure is larger than international flows across all developing countries, for around 40% of countries total international resource flows exceed domestic government expenditure in magnitude.

Volumes of resource flows are themselves only one aspect of a larger and more complex picture. There are many non-financial challenges to

Figure 1: Total government expenditure and international resource flows to all developing countries, 2010. Source: author’s calculations based on numerous sources (see Data sources and notes).

¹ Data limitations mean that we do not have an exact figure for total international resource flows, due to limited data on some resources and possible duplications between data on some flows. See section 1.2.
realising the end of poverty and expenditure figures alone are, at best, a poor proxy for understanding the impact on poverty. Expenditure data is used in this paper to indicate the potential for different resources to contribute towards poverty reduction.

International resource flows have a critical role to play in realising the end of poverty in many contexts, and this paper aims to contribute towards a big picture understanding of the roles that different flows can play and the opportunities that resource flows present.

**International resource flows**

A diverse range of international resources flow to developing countries, and we group these flows into two broad categories: those motivated by social impact and those motivated by profit. We analyse volumes and characteristics of 12 international flows, highlighted in Table 1. International trade is not covered in this paper as it is not a resource flow comparable to those included. Other resource flows, including climate finance, innovative finance, export credits and sovereign wealth funds, are also excluded from the picture due to a lack of available data. Future work under the Investments To End Poverty programme will look at these flows in more detail.

<table>
<thead>
<tr>
<th>Table 1: Two types of international resource flow</th>
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<tbody>
<tr>
<td>Social impact</td>
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<tr>
<td>Official development assistance (ODA)</td>
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<tr>
<td>Other official flows (OOFs)</td>
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<tr>
<td>Development finance institutions (DFIs)</td>
</tr>
<tr>
<td>South–South cooperation</td>
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<tr>
<td>Philanthropic foundations</td>
</tr>
<tr>
<td>Non-governmental organisations</td>
</tr>
<tr>
<td>Remittances</td>
</tr>
</tbody>
</table>

Social impact resource flows are partially or exclusively motivated by poverty reduction and broader development goals. Many of these flows are managed by public or non-profit institutions, and control over them is relatively centralised. The exception is remittances, which represents a private flow between individuals. There are a range of reasons for sending remittances, but it is classified as a social impact flow on the assumption that most remittances flow for social rather than profit reasons.

We capture two types of profit-seeking resource flow: investments (FDI and portfolio equity) and lending (public, private and short-term debt). These flows are privately owned and controlled, and are relatively decentralised in comparison with social impact resources.

The classifications used here are approximate and there are exceptions. Some flows make a profit at the same time as serving social impact purposes while other resource flows are heterogeneous, with some transfers for profit motives and others for social impact motives.

**Effects on poverty**

For different resource flows to contribute effectively towards poverty reduction, we must understand how they affect people living in poverty. The linkages between resource flows and poverty reduction are both numerous and complex, and significant additional research is needed before we fully understand the underlying channels and mechanisms.

The academic literature often frames the effects of international resource flows on recipient countries through the effect of resources on two constraints: the government finance (or fiscal/basic services) constraint and the foreign exchange constraint (or real exchange rate effects). The government finance constraint describes a gap in services and sees that international resource flows can relieve this constraint by increasing the capacity of the government or other institutions to provide services and transfers, or by offering services themselves. The foreign exchange constraint
refers to a lack of foreign currency that can limit productive growth that requires inputs from abroad, or alter the exchange rate in a way that affects domestic production.

The two constraints provide a useful framework for thinking about the broad impact of different resource flows. The government finance constraint is likely to be most directly relevant to people living in poverty, at least in the short to medium run. Resource constraints will hamper the efforts of the state and other domestic institutions to implement interventions that reduce poverty eradication; this is discussed in greater detail in section 3. Foreign exchange effects, while important, are more likely to affect poverty eradication over the long term through broader development processes, except in extreme circumstances. There are additional mechanisms that may not affect these constraints at the national level, but which may have a significant bearing on individuals living in poverty – job creation is a key example. The following section and Table 2 discuss these concepts in more detail.

Volumes and characteristics of international resources

Developing countries receive larger volumes of profit-seeking resource flows than social impact flows. The social impact flows to developing countries captured in this paper totalled US$ 670.9 billion in 2010, while profit-seeking flows totalled US$ 997.3 billion. Figure 2 shows the volume of international resource flows received by developing countries in 2010. It is important to note, however, that the distribution of flows and the balance of social impact to profit-seeking flows vary significantly across countries.

Total volumes of resource flows are only one component of the picture and different flows should not be thought of as being direct substitutes for one another. Resource flows have different functions, perform different roles and affect the recipient economy and its people in different ways. The impact of FDI is very different from that of ODA and they work through very different channels to affect people living in poverty.

Profit-seeking resource flows to developing countries exceed social impact flows

![Figure 2: Total volumes of international resources to all developing countries in 2010. For sources, see Data sources and notes.](image-url)
Social impact resource flows

Nine social impact resource flows are covered in this paper. Table 2 outlines some of the key characteristics of these resources.

<table>
<thead>
<tr>
<th>Official development assistance (ODA)</th>
<th>US$ 128.5 billion</th>
<th>Aid from 23 DAC donors and multilaterals for welfare and development purposes</th>
</tr>
</thead>
</table>

ODA totalled US$ 128.5 billion in 2010. ODA covers a range of activities and operations funded by aid agencies from the 23 Development Assistance Committee (DAC) donor countries and multilateral organisations. However, not all ODA is transferred to developing countries. ODA is sourced from the public sector in donor countries or from multilaterals’ own resources and are used for objectives related to improving welfare and development. There is potential for all ODA to reduce poverty and some donors have legislated to ensure that their ODA is poverty-reducing, e.g. UK ODA from DFID.

The channels through which ODA can help alleviate poverty include the direct provision of basic services, humanitarian assistance or indirect channels such as supporting state capacity or economic sectors. ODA can therefore be thought of as relieving the government finance constraint, although in countries where ODA is equivalent to a large proportion of GDP it may also be an important source of foreign exchange. ODA is relatively centralised in comparison with other flows – the majority of ODA is controlled by a small number of institutions, and the international governance structure is comparatively well developed, with numerous international agreements and commitments. ODA is also the most transparent international resource, and the information we have about how ODA is spent is considerably more detailed than the information about other flows.

<table>
<thead>
<tr>
<th>South–South and other non-DAC cooperation (SSC)</th>
<th>US$ 10.6 billion</th>
<th>Aid from emerging and non-DAC donors including the BRICs, Middle Eastern and Eastern European countries</th>
</tr>
</thead>
</table>

South–South and other non-DAC cooperation (SSC) captures aid-like flows from donors including the BRICs, Middle Eastern and Eastern European countries, and was estimated at US$ 10.6 billion in 2010 (OECD DAC). These flows are an increasingly important resource flow and their growth highlights a change in the nature of international relationships with developing countries (discussed in more detail in section 1.2). SSC is in some ways similar to ODA, although activities are less standardised or formalised internationally. Emerging donors engage with developing countries on a range of issues – some of this engagement is similar enough to ODA to be classified as SSC, while other components of the engagement would not meet ODA criteria and are not classified as SSC, even though the emerging donor and recipient may not view those activities as distinct from the rest of the engagement package. The size and nature of these flows are not well understood and detailed data is not readily available. The channels through which these flows affect people living in poverty are similar to those of ODA and other official flows (OOFs).

<table>
<thead>
<tr>
<th>Private giving</th>
<th>US$ 60.6 billion</th>
<th>Private giving by NGOs and US foundations</th>
</tr>
</thead>
</table>

Private giving is captured in two data series: NGOs and foundations. There is no comprehensive data on these resource flows and estimates are used to gauge their scale. In 2010 NGO expenditure was estimated at US$ 46.6 billion and foundation expenditure by US-based foundations was estimated at US$ 14.0 billion. Data on foundations based elsewhere is unavailable. NGO data covers

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2 This is explored in more detail in a forthcoming paper, *Maximising the Value of Aid*.

3 Net NGO expenditure – excluding that which is funded by official sources (this counts as ODA – see section 1.2). Total NGO expenditure, including that funded by official sources, is estimated at US$ 64.0 billion in 2010 (source: Development Initiatives calculations: see Data sources and notes).
activities by NGOs that contribute towards poverty reduction, excluding those that are funded by official sources (which count as ODA) or by foundations. Foundation data covers giving by private foundations, often linked to a company or high net worth individual (HNWI), towards poverty reduction. These flows may work through similar mechanisms as ODA to affect poverty, and can be thought of as alleviating the government finance constraint. Neither NGO nor foundation giving is well understood at the global level – while there have been great improvements in transparency at the level of individual organisations, there is little standardisation or centralised reporting of activities, so even basic information about the global volumes of these flows is lacking.

<table>
<thead>
<tr>
<th>Development finance institutions (DFIs)</th>
<th>US$ 106.1 billion</th>
<th>Approvals by multilateral DFIs, development banks and regional DFIs</th>
</tr>
</thead>
</table>

**Development finance institution (DFI)** approvals were estimated at US$ 106.1 billion in 2010. However, this estimate covers only three of the four types of DFI: multilateral development banks, regional development banks and sub-regional DFIs. Bilateral DFIs, such as the Commonwealth Development Corporation or Proparco, are excluded⁴ (although some activities may qualify as ODA or OOFs). DFIs provide a range of financing to both the public and private sectors in developing countries. Loans typically form a central part of the portfolio, but some DFIs also offer technical assistance, grants and equity. DFIs may contribute towards relieving both the basic services and foreign exchange constraints. Their activities may have a less direct impact on poverty reduction, as DFIs primarily support institutions that are involved in poverty reduction initiatives, rather than managing interventions themselves. DFIs are relatively centralised – 14 institutions account for the three types of DFI covered by this data. As with NGOs and foundations, most DFIs are transparent at the institutional level, but there is little standardised reporting and the sector as a whole is not well understood. The figures estimated here are approvals from DFIs, as data on disbursements is unavailable.

<table>
<thead>
<tr>
<th>Other official flows (OOFs)</th>
<th>US$ 53.8 billion</th>
<th>Loans and other official support from 23 DAC donors and multilaterals</th>
</tr>
</thead>
</table>

**Other official flows (OOFs)** totalled US$ 53.8 billion in 2010 (OECD DAC). OOFs are typically loans made by donor countries to support programmes in the private and public sectors in developing countries, and these estimates do not incorporate export credits. However, OOFs do not meet ODA criteria, for two primary reasons – flows from certain institutions can only be classed as OOFs according to OECD designations, and other OOFs do not meet the concessionality criteria. OOFs perform similar functions to DFI funds, as they support poverty reduction initiatives in the public and private sectors in developing countries. Like ODA, OOFs are relatively centralised and the resource is controlled by agencies in the 23 DAC donor countries.

<table>
<thead>
<tr>
<th>Remittances</th>
<th>US$ 311.4 billion</th>
<th>Person-to-person or household-to-household transfers</th>
</tr>
</thead>
</table>

**Remittances** are the largest social impact flow, totalling US$ 311.4 billion in 2010 (World Bank). However, the official value of remittances is thought to be understated, due to large volumes of remittances that flow through informal channels. Remittances are distinct from other social impact flows. They are person-to-person or household-to-household transfers and are used for a range of activities. They are classified as social impact under the assumption that the majority of remittances to developing countries are used for social rather than profit-seeking purposes. While some remittances will be used for private investment, it is assumed that the majority are used to support family or friends, or for savings. There is little data on the use of remittances. As remittances are person-to-person transfers, control over them is considerably more decentralised than other social impact flows.

⁴ Data is taken from a forthcoming paper on DFIs. See Data sources and notes.
Innovative finance and climate finance are relatively new international finance resource flows. Innovative finance covers a number of initiatives that raise funding through alternative financing mechanisms, typically for a specific purpose such as immunisation or nutrition. The financing mechanisms include debt instruments, pooled funds and mandatory or voluntary contributions linked to transactions. Many of these mechanisms have been created in the past decade by ODA institutions, although a number work in partnership with the private sector, philanthropists or charitable giving in some way. Innovative finance mechanisms primarily impact on poverty through the provision of basic services. Climate finance is a cross-cutting category, including some existing flows alongside newer resources flows. Data on these flows is not readily available, but they will be quantified and explored in more detail by DI in the Investments to end poverty programme.

Profit-seeking resource flows

Five types of profit-seeking international resource flow are covered in this paper. These can be grouped into two broad types: investment and debt. As discussed in section 1.2, the boundaries between these flows are blurred and there may be significant overlaps. Certain profit-seeking flows such as sovereign wealth funds are not included because of a lack of available data.

<table>
<thead>
<tr>
<th>Foreign direct investment (FDI)</th>
<th>US$ 393.1 billion</th>
<th>Foreign investment that acquires a lasting management interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio investment</td>
<td>US$ 134.4 billion</td>
<td>Foreign investment that does not acquire a lasting management interest (typically stocks, bonds)</td>
</tr>
</tbody>
</table>

Foreign direct investment (FDI) is the largest resource flow to developing countries, totalling US$ 393.1 billion in 2010 (UNCTAD). Portfolio equity flows totalled US$ 134.4 billion (World Bank). These two flows cover total foreign investment in developing countries, and the distinction between the two centres on the nature of the investment. FDI covers investments that are typically longer-term in nature, and in which the foreign investor takes some management control over the recipient enterprise. The criteria used for defining FDI are investments exceeding one year in length where at least 10% of management control is taken over by the foreign investor. Portfolio equity flows are shorter-term in nature and foreign investors do not take control over management. FDI covers investments in new and existing businesses, green- and brownfield investment, and mergers and acquisitions. Portfolio equity flows are typically linked to domestic stock markets and primarily flow to countries with more developed financial markets. Portfolio investments may therefore have less direct effects on poverty than FDI. FDI can have a range of effects – both positive and negative – on a host country and on people living in poverty. The effect on poverty will vary by the nature and type of investment, including the sector, the length of the investment, the quantity and quality of job creation, the strength of supply chain linkages with domestic enterprises, whether profits are reinvested or repatriated, payment of taxation, and the way in which the investment is initially financed (in particular the external debt to equity ratio).

<table>
<thead>
<tr>
<th>Debt flows (public, private, short-term)</th>
<th>US$ 106.7 billion</th>
<th>US$ 102.7 billion</th>
<th>US$ 260.4 billion</th>
<th>Debt taken on by the public sector or private sector, or debt of less than one year in term length</th>
</tr>
</thead>
</table>

Three types of debt flow are covered in this paper – public flows, private flows and short-term flows. Short-term debt flows, which in 2010 were the largest of the three at US$ 260.4 billion (World Bank), have a term length of less than one year. Public and private debt flows are defined by the institution that takes on the debt; public debt is either taken on by government or is publicly guaranteed, and private debt is taken on by the private sector within developing countries. In 2010 new public debt taken up by developing countries totalled US$ 106.7 billion, and private debt totalled US$ 102.7 billion (World Bank). As with DFIs and OOFs, debt flows affect poverty through the institutions they support, and may contribute towards alleviating the foreign exchange constraint.
### Table 2: Key characteristics of international resource flows

<table>
<thead>
<tr>
<th>Resource</th>
<th>Source</th>
<th>Destination(s)</th>
<th>Motives</th>
<th>Regulatory framework</th>
<th>Channels to impact poverty (direct and indirect)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA</td>
<td>• Public sector</td>
<td>• Public sector</td>
<td>• Welfare and development</td>
<td>• Paris Declaration</td>
<td>Numerous, including:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• NGOs</td>
<td>• Poverty reduction</td>
<td>• Accra Agenda for Change</td>
<td>• Provision of health, education, water and sanitation, nutrition</td>
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<td></td>
<td></td>
<td>• Donors’ own projects</td>
<td>• Mutual interest</td>
<td>• Busan Global Partnership</td>
<td>• Humanitarian assistance</td>
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<td></td>
<td></td>
<td>• Some private activities</td>
<td></td>
<td>• IATI</td>
<td>• Support to economic sectors</td>
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<td></td>
<td></td>
<td>(e.g. scholarships)</td>
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<td></td>
<td>• Climate change</td>
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<tr>
<td>Foreign investment</td>
<td>• Private sector</td>
<td>• Private sector</td>
<td>• Profit</td>
<td>• Monterrey Consensus</td>
<td>Up- and downstream linkages</td>
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Domestic resources

There are a wide range of domestic resources that can contribute towards poverty reduction directly and indirectly, through various channels and mechanisms. We can broadly group domestic resources into four types: public sector; private sector; NGOs and civil society; and private households. The analysis of domestic resources in this paper focuses primarily on government expenditure.

Government expenditure totalled US$ 4.8 trillion across all developing countries in 2010, although there was considerable variance in levels across countries, from $100 per capita in DR Congo to $10,782 in Equatorial Guinea, and from 12% of GDP in Myanmar to over 80% in Iraq.

Government expenditure in developing countries is funded from a range of sources, both domestic and international. These include tax revenue, loans taken on by the state (public debt) and grants from donors, which typically count as ODA. The balance of funding sources varies significantly across countries and some countries are more reliant on donors while others have stronger domestic tax bases. Expenditure is controlled by the governments of each developing country, although control may not rest entirely with central government. In many countries, provincial or local governments have power to raise their own funds and control a certain proportion of national revenue.

The state is responsible for providing a range of goods and services, and government funds are spent across diverse sectors and divided between longer-term investments and consumption or recurrent costs. There have been multilateral commitments by governments to dedicate expenditure towards certain goals, for example the 2003 Maputo Declaration to spend 10% of national budgets on agriculture and rural development policy. However, information on how government funds are spent is poor and although some governments publish detailed information on their expenditure, many do not, and information is not collated or standardised comprehensively across countries. International datasets on government expenditure have scant information on how government funds are spent, and there are also problems with historic total expenditure data (see Annex C).

The analysis of domestic resources in this paper focuses primarily on the state for a number of reasons. The government is a central actor in the domestic effort to end poverty – it is the governments of developing countries that committed to the MDGs and that will commit to the post-2015 framework. Governments are accountable to their citizens for realising social goals and as such have a mandate to end poverty. The analysis is also driven by the lack of comprehensive information on other domestic institutions: data capturing the scale and nature of activities from other actors across developing countries is not readily available. Nevertheless, it is important to recognise the contributions made by non-state actors towards poverty reduction.

Private households make substantial contributions and in many countries household expenditure is a fundamental driver of progress towards achieving the MDGs. A significant proportion of health expenditure, for example, is borne by households, as is a large amount of investment in agriculture and small enterprise. The private sector more broadly also makes important contributions – through expansion in productive activity that drives economic growth and creates opportunities for people to be lifted out of poverty, through job creation and the payment of taxation, and through the provision of goods and services that meet people’s basic needs. Domestic NGOs and civil society organisations also provide vital contributions that support households and communities, providing goods and services and holding the state and other institutions to account for their actions. Future work under the Investments to End Poverty programme will look at these areas in more detail.

Despite being unable to capture the resource flows from all domestic actors, the focus on government resources gives an important perspective on a country’s ability to realise change. In addition, it adds to a literature that primarily focuses on income per capita, as it analyses resources under the control of an institution with a mandate to realise poverty eradication. Constraints in the resources available to governments are indicative of reduced capacity to implement the changes needed to realise the end of poverty. This is explored in more detail in section 3.
Not a zero-sum game

Different resource flows perform different functions and it is not appropriate, in most cases, to think of resources as displacing one another. The roles that resource flows play are diverse and a country’s path to development and poverty eradication requires a mix of resources.

It is important that the debate around financing the end of poverty and other global goals is not reduced to trade-offs between flows that are fundamentally different. If a country that has an historic dependence on ODA starts to receive large volumes of FDI, this does not necessarily diminish the need that ODA is meeting. It is vital that we understand and consider the functions that different resources perform and the mechanisms through which they work.

We must ask how the role of different resource flows should evolve as the context in which they work changes, and this is a core message of this paper – that resource flows can be used most efficiently if their design takes into account both the context in which they are working and the functions being performed by other flows. The presence of other flows alone should not dictate changes in ODA or other social impact flows.

Each resource flow affects people living in poverty in different ways, through different channels and mechanisms. Resource flows also have very different characteristics at the aggregate level, and the effects on countries vary by flow. The differing nature of each transaction means that the characteristics, impacts and effects of expenditure vary significantly across countries and flows. Figure 3 presents an example of this, highlighting how two key characteristics – volatility and concentration – vary across international resource flows. FDI is the most volatile international flow and remittances are the most stable. ODA is the least concentrated flow amongst recipient countries.

Different flows – different characteristics

![Figure 3: Bubble graph showing volatility (measured by the standard deviation of the growth rate over 1990–2010), concentration (proportion of recipients accounting for 90% of receipts over 2008–10) and volumes (as represented by area of each bubble in 2010) of international resource flows. Source: author’s calculations.](image-url)
Resource flows from developing countries

Resource flows from developing countries are of roughly the same size as flows to developing countries. Available data suggests that the outflow of resources leaving developing countries totalled US$ 1.7 trillion in 2010, 1% higher than total captured inflows. Data limitations in both inflows and outflows add a degree of uncertainty to this picture; nevertheless, it is clear that the scale of resource flows leaving developing countries is an important issue for the global development financing agenda. These outflows may represent a serious drain on the resources available to developing countries to realise poverty eradication.

Resource outflows

This paper has so far examined the nature of international resource flows to developing countries, but this is just one side of the picture. There are large volumes of resource flows that leave developing countries, which can be grouped into three broad types:

- Outward flows – outward flows of a similar nature to incoming resource flows discussed above, from developing countries
- Reverse flows – outward flows generated by incoming resources
- Illicit financial flows – unrecorded outward flows of an illicit nature.

There are significant volumes of resource flows leaving developing countries

Figure 4: Outflows from developing countries in 2010.

*Illicit financial flows data is from 2009.

Note than an unknown proportion of these outflows is received by other developing countries (bilateral data on outflows is unavailable). For sources, see Data sources and notes.
Outward flows
Outward flows – flows similar in nature to the incoming resource flows discussed throughout this paper – account for the smallest proportion of outflows originating from developing countries. Data is available for three types of flow: FDI from developing countries, remittances from developing countries and South–South cooperation.

FDI from developing countries totalled US$ 171.0 billion in 2010 (UNCTAD), equivalent to 43% of new inward investments in the same year. Outward remittances totalled US$ 36.4 billion (World Bank), equivalent to 11.7% of inward remittances to all developing countries. South–South cooperation is estimated at US$ 10.6 billion (OECD), although this resource flow consists entirely of transactions between two developing countries.

‘Reverse’ flows
Reverse flows – outward transfers linked to an earlier resource inflow – may account for the largest flows from developing countries in aggregate.

The largest portion of reverse flows are debt servicing costs – interest payments on foreign debt taken on previously (capital repayments are not captured in this series). Debt servicing costs – interest payments made by developing countries on external debt – totalled US$ 479.6 billion in 2010 (World Bank), slightly more than the US$ 469.8 billion in new debt taken on. Outflows of profits on FDI are also large, totalling US$ 293.5 billion (World Bank), equivalent to 74% of new FDI in developing countries in the same year. However, the true figure is likely to be higher, as data does not exist for a third of all developing countries. High rates of profit outflows can be indicative of FDI that is shorter-term in nature, is funded to a higher degree by debt and may have weaker linkages with the recipient country. Repayments on ODA – typically repayments on concessional loans – totalled US$ 13.9 billion in 2010 (OECD).

Illicit financial flows
Illicit financial flows are unrecorded outflows from developing countries. At an estimated US$ 673.8 billion in 2010, they represent a significant drain on the resources available in developing countries. These flows are difficult to estimate – they are unrecorded at the point of transfer – and this paper uses estimates by the Global Financial Integrity programme for trade mispricing and changes in external debt, calculated from residuals in balance of payments statements.

Trade mispricing covers companies moving profits around the globe, typically in order to reduce their tax burden. This is done through transfer pricing, where companies sell goods or services to one another at manipulated prices. In 2009 illicit outflows due to trade mispricing were estimated at US$ 463.0 billion. Christian Aid estimates that this results in lost tax revenue totalling US$ 160 billion to developing countries each year (Christian Aid, 2008).

While trade mispricing captures financial flows that are misreported, changes in external debt cover flows that are unrecorded in the country of origin. These figures are calculated from balance of payments statistics as the difference between incoming funds and funds used in the country. These unrecorded outflows provide an estimate of illicit transfers from activities such as bribery, theft, kickbacks, tax evasion and smuggling. In 2009 these illicit flows were estimated at US$ 210.9 billion.

Data quality
Currently, bilateral data does not exist for any of these flows, making it impossible to know what proportion of such flows from developing countries are received by other developing countries. Further information is required; however, it is likely that a significant proportion of these outflows goes to developed countries and that many developing countries may in fact be creditors to the rest of the world, rather than debtors as is often assumed. Significant additional research in this important area is required.
1.2. What we know and what we don’t

Data quality and coverage

Harnessing the resources that flow to developing countries to support poverty eradication requires an understanding of these flows based on reliable, good-quality data and information.

The data presented here comes from a range of sources that are collected, analysed and distributed for very different purposes. They are therefore neither standardised nor consistent, and were not designed with the purpose of being used alongside one another. This section outlines the underlying issues and attempts to gauge the impacts on what we can and cannot say as a result.

Data coverage

There are three major issues: that some series exclude or only partially cover some countries; that some series capture only a portion of the true resource flow; and that data for some resource flows simply does not exist.

An overview of country coverage for each series used in this paper is presented in Annex B. Government expenditure data is the most problematic, and this is the only series for which fewer than two-thirds of developing countries are covered at any point in the 1990–2010 sample. Unlike other series where countries joining the sample since 1990 have no major effect on overall values, the growth in government expenditure across all developing countries is overestimated by around a third due to improvements in country coverage (Annex C discusses this in more detail).

The accuracy of some series may be poor because they do not capture the full volume of the resource they are tracking. This is difficult to evaluate thoroughly and the nature of the problem varies among flows. Remittance data is thought to be particularly prone to underestimation, due to the potentially large amounts moving informally. Regarding other flows, issues such as national interest, political willingness to report to particular institutions or the lack of standardised data collection may also affect data accuracy. Data on most series used in this paper is based on recorded transactions; however, data on NGOs and illicit financial flows is modelled and therefore may be less accurate. True volumes are hard to gauge for illicit financial flows in particular, as these transactions are by nature unrecorded.

For some flows, no data is collected or compiled, even in aggregate. The flows most affected by this problem are DFIs, NGOs and private foundations (outside the US). To improve the understanding of these resource flows, Development Initiatives is undertaking a review of DFIs and NGOs (see Data sources and notes). The foundations data presented here covers only the US, as data on non-US-based foundations does not exist.

Detailed data

One major hindrance to comparing different flows stems from the fact that data is published to varying levels of detail, and across different dimensions. This is reflected throughout the paper, as there is insufficient data to include all resource flows in all analyses.

The issue is particularly pertinent for government expenditure – this is the largest resource for the majority of developing countries, but for many countries very little is known about how it is utilised and the sectors or sub-national locations in which it is spent. It is also true for sector-level expenditure data across many international resource flows. We have sector-level data for ODA and OOFs, but do not have comprehensive information on the sectors in which FDI, DFIs, SSC, NGOs or foundation resource flows are working. These are major gaps in the data.
Double counting

The data used in this paper comes from a range of sources and there will be problems of overlaps between the data that is captured for individual resources. The risk of double counting is that it may inflate overall totals. As an extreme example, if a foreign direct investment was funded by a loan from a DFI, it is possible that the transaction could appear in three flows: FDI, DFIs and private debt.

The boundaries between some resource flows are much clearer than others, allowing overlaps to be more easily recognised. For example, some ODA goes directly to recipient country governments. The portion of these flows that is reported as general budget support can be accounted for. However, reporting on budget support is inconsistent across donors, and in addition some transfers to the state may not officially be classified as budget support. Therefore, double counting cannot completely be avoided. In other cases the overlap is far more complex. Debt flows, for example, may capture transactions that are also captured in other series; FDI is often funded or partially funded by debt and the series covering DFIs, ODA, OOFs and South–South cooperation all include transactions in which debt is issued to the private and/or public sectors.

These overlaps are complex and more detailed data series and overarching analysis is needed in order to truly understand the big picture more accurately. Figure 5 offers a schematic representation of potential overlaps between international resource flows.

The complexity of international resource flows

While these issues limit certainty about the international resource flows to developing countries, they do not undermine the assertion that all resource flows are important for development and poverty reduction. Nevertheless, good decision-making requires good data and it is imperative that we improve our understanding of these flows. This requires improvements in transparency and access to information, as well as action to strengthen statistical collection and reporting systems.

Figure 5: This schematic diagram, which is not to scale, highlights potential overlaps between data series describing different resource flows.

While these issues limit certainty about the international resource flows to developing countries, they do not undermine the assertion that all resource flows are important for development and poverty reduction. Nevertheless, good decision-making requires good data and it is imperative that we improve our understanding of these flows. This requires improvements in transparency and access to information, as well as action to strengthen statistical collection and reporting systems.
1.3. Resource flows in a changing world

The world has changed dramatically over the past two decades and many developing countries have access to a larger and more diverse pool of resource flows than ever before. Growth in domestic resources highlights the increasing ability of many countries to combat poverty within their own borders, while growth in international resource flows highlights the significant potential for a range of international flows to support poverty eradication processes.

Historic trends

The resource flows – domestic and international – that are available to developing countries have grown rapidly since 1990 and the resource position of many countries has fundamentally changed.

Government expenditure has grown rapidly since 1990

International resource flows have grown rapidly

Figure 6: Total government expenditure across all developing countries, 1990–2010. Note that gaps in historic data exaggerate the speed of growth. For sources see Data sources and notes.

Figure 7: International resource flows to all developing countries, 1990–2010. For sources, see Data sources and notes.

Despite data limitations that reduce the coverage of historic estimates, it is clear that both domestic and international flows have grown rapidly across the developing world. International resources may have increased as much as five-fold between 1990 and 2010, while domestic government expenditure has grown at a similar pace.\(^6\)

While growth in domestic resources indicates increased financial capacity for many countries to realise poverty eradication (although resources are still low for many developing countries, a theme explored in detail in section 3), growth in international resources highlights the opportunity to harness other flows to also support this goal.

\(^5\) A lack of data means that some international resource flows are missing from this picture (see section 1.1).

\(^6\) Poor data coverage reduces the accuracy of historic information and inflates the growth rate across all developing countries (see section 1.2 and Annex C).
The scale and mix of international resource flows to developing countries have changed radically. In 1990, international flows to developing countries totalled US$ 333.0 billion and ODA accounted for 25% of total flows; by 2010 total flows had grown to US$ 1.7 trillion and ODA accounted for just 8% (despite growing by more than 50% in real terms). This fundamental change has been driven by growth in FDI, remittances and other international resource flows.

FDI in developing countries in 1990 totalled US$ 42.4 billion, but annual growth averaging 11.8% over 1990–2010 took FDI to a peak of US$ 512.1 billion before the global economic crisis in 2008. FDI fell during the crisis, but in 2010 new FDI stood at US$ 393.0 billion, making it the largest recorded resource flow to developing countries in aggregate. Remittances have grown at a similar pace, rising from US$ 46.8 billion in 1990 to US$ 311.4 billion in 2010.

The three forms of debt – public, private and short-term – also grew over the period, from a combined value of US$ 126.6 billion in 1990 to US$ 469.8 billion in 2010. It is likely, however, that there is some double counting between these flows and other series – many foreign direct investments, for example, are funded or part-funded by debt that is also recorded under private debt flows. Data limitations prevent us from gauging the size of these overlaps (see section 1.2). Nevertheless, it is clear that debt flows have grown rapidly. Public debt and short-term debt have spiked particularly sharply since the global economic crisis – both have increased to levels significantly higher than at any previous point over the last two decades.

Approvals from DFIs – a mixture of concessional debt, grants and other financing instruments – were estimated at around US$ 106.1 billion in 2010. Comprehensive data is unavailable for all DFIs (see Annex D), and we do not have data for disbursements, but significant growth has occurred across the institutions for which data is available, with flows roughly doubling since 2006.

The changing nature of bilateral relationships

As emerging economies have grown and international resource flows to developing countries have accelerated, the nature of financial relationships between many ‘developing’ and ‘developed’ countries has evolved. These changing relationships alter the context in which resource flows and development institutions and agencies operate. This raises a number of pertinent questions about how institutions and resource flows should adapt, and supports calls to broaden the development agenda to ask how we can harness these flows to support poverty reduction more effectively.

Many developing countries have moved from a position where external relationships were dominated by aid to one in which profit-seeking flows now dominate. Figure 8 shows, for each international resource flow, the number of countries in which it was the largest flow received in each year from 1990 to 2010. The largest resource flow received is taken as

Note that Figures 8 and 9 use the extended list of developing countries – see Note in Annex A.
a proxy for understanding the primary channel through which developing countries interact with the rest of the world. In 1990, ODA was the largest international resource for 91 developing countries; by 2010 this had fallen to 37 countries. Over the same period the number of developing countries for which FDI was the largest international resource grew from 24 to 53, with a peak of 68 countries before the economic crisis. Remittances have also grown: in 1990 remittances were the largest international resource for 15 developing countries, but by 2010 this had risen to 43 countries.

The relationship between many ‘developing’ and ‘donor’ countries has evolved over time, from a position where the relationship is dominated by social impact flows to one in which profit-seeking flows dominate. This trend is observed in many developing countries’ external relationships, although different countries are at different stages in this process. Figure 9 highlights this point, estimating the ratio of social impact resource flows to profit-seeking resource flows between DAC donor countries and developing countries in four regions at different stages in the process. Sufficient bilateral data exists for only three resource flows – ODA and OOFs on the social impact side, and FDI on the profit-seeking side – but even this partial picture highlights a clear and important trend.

The relationship between many developing countries and developed countries that have traditionally acted as donors has evolved considerably over time. Many developing countries and regions were historically in a position where financial interactions with developed countries were dominated by ODA and other social impact flows. However, as they have grown economically, and as institutions, education, health, infrastructure and other domestic factors have been developed and strengthened, profit-seeking flows have also grown. At some point profit-seeking flows overtake social impact flows in scale and, for many countries, have continued to grow to the point where they greatly outweigh social impact flows.

Different countries and regions are at different stages in this process (see Figure 9). Across Far East Asia and South America, profit-seeking flows greatly exceed social impact resource flows. North Africa is not as far through the transition, and in sub-Saharan Africa profit-seeking flows are roughly equal to social impact flows.

These findings highlight how the relationship between many donor and developing countries changes, but it is also important to understand the evolving nature of relationships between developing countries and in particular the emergence and growth of new donors. Comprehensive data on this issue is less readily available, although data on SSC captures aid-like relationships between developing countries. It is important that the development community recognises these emerging relationships, which fall outside the scope of traditional donor partnerships, and considers them within the context in which aid and other resource flows work to reduce poverty.
The fundamental shifts in the mix of resource flows available to developing countries, and the evolving nature of developing countries’ relationships with both traditional donors and emerging partners, highlight the role that different flows and partnerships can play at different stages in a country’s development. These changes further underline the importance of using aid and other social impact flows in the context of other resource flows.

It is vital that the development agenda towards 2015 and beyond addresses both the challenges and opportunities of the evolving context in which developing countries, and extreme poverty, exist. While social impact resource flows such as ODA and OOFs are unlikely to match the large volumes of resources flowing to developing countries in aggregate through the private sector, they will retain a critical role in ending poverty. Just as there are 900 million people living on less than $1.25 a day in middle-income countries, there are over 160 million people living below $1.25 a day in the 53 countries for which FDI is the largest international resource flow, and over 670 million people in the 43 countries for which remittances are the largest international resource flow. As resource flows that are motivated by and have arguably the most direct linkages to poverty reduction, ODA and other social impact flows have a continued role to play in supporting poverty eradication across countries with various resource mixes. As discussed in section 1.1, it would be wrong to assume that resource flows which perform fundamentally different functions can replace one another. It is imperative, however, that ODA responds to growth in other flows and works within the context of other resources – working to comparative strengths and catalysing or leveraging other flows.

The changes in international resource flows also highlight the potential for other flows to support poverty eradication. These resource flows move in such large volumes to countries with significant numbers of people living in poverty that even partial success in increasing their poverty reduction efficacy or channelling them more directly to support poverty reduction could yield substantial results. This is explored in more detail in section 3.
Section 2: The distribution of resource flows

The volume and mix of resource flows vary significantly across developing countries and regions. In absolute terms, Far East Asia receives the largest international resource flows, while in per capita terms flows are largest to South America. Government expenditure levels also vary widely and are lowest in per capita terms in sub-Saharan Africa.

Using government expenditure as a proxy for understanding the domestic resources potentially available to fight poverty, it is clear that many developing countries face large resource constraints. However, it is also clear that there is significant potential to harness large flows of international resources to support poverty eradication.

2.1. Geographic distribution

The mix and volume of resource flows available to developing countries in different regions vary considerably.

Government expenditure is a key domestic resource and low levels of expenditure can indicate constraints in domestic capacity to end poverty. Government expenditure volumes are highest in Far East Asia, at US$ 1.7 trillion, but as a proportion of economic activity the region has the second lowest level of government expenditure. South America and North Africa have the highest levels of government expenditure as a proportion of GDP, at 37% and 36% respectively.

Far East Asia receives large international flows, but is less open than other regions

Figure 10: Total government expenditure by region in US$ and as a proportion of GDP, 2010. Source: author’s calculations based on IMF World Economic Outlook.

Far East Asia received the largest volume of international resource flows and, with inflows of US$ 485.9 billion in 2010, its international resource receipts were more than 50% higher than any other region. The largest resource flows for the region were FDI and short-term debt, which accounted for 30% and 29% of total receipts respectively. FDI was also the largest international flow for South America, and accounted for 29% of the total US$ 299.5 billion. South and Central Asia received the
third largest volume of international resource flows, US$ 279.3 billion, although the mix was quite different – remittances were the largest component and accounted for 32% of total flows.

ODA accounted for more than a fifth of international resource flows in three regions: sub-Saharan Africa (30.4% of international resource flows), the Middle East (24.6%) and Oceania (29.8%). In all other regions it accounted for less than 7% of international flows.

In order to understand the potential for impacting on people living in poverty, it is useful to analyse resource flows in per capita terms (see section 3 for more detail). Government expenditure per capita is highest in developing countries in Europe ($ 3,924 per person) and South America ($ 3,904 per person). Four regions, sub-Saharan Africa, Oceania, South and Central Asia and the Middle East, have government expenditure averaging less than $1,000 per person. This indicates the significant resource constraints that governments in many developing countries face.

Many countries face severe domestic resource constraints, but there are opportunities to harness international resources

![Graph showing government expenditure and international resources per capita by region, 2010.](image)

**Figure 12: Government expenditure and international resources per capita, by region, 2010.**

*Source: author’s calculations based on numerous sources (see Data sources and notes).*

South America, Europe and North and Central America received the largest volumes of international resource flows in per capita terms, although the mix of flows was very different across the regions. FDI was the largest international resource received by South America, and short-term debt was the largest for developing countries in Europe. Far East Asia and South and Central Asia, which receive the largest and third largest volumes of international flows in absolute terms, have comparatively lower volumes of flows in per capita terms because of their large populations. Oceania is the only region where the sum of international resource flows is greater than government expenditure, and ODA is a significant resource, accounting for 29.8% of total international flows to the region in 2010.

This data highlights how the mix and volume of resource flows vary across developing countries around the world, and that poverty eradication in some regions may be severely constrained by a lack of resources. Large international flows to many countries present an opportunity: if these flows can be harnessed, they may contribute towards reducing resource constraints and reducing poverty. There are also differences within resource flows, and flows in different regions may be distinct from one another. FDI in Far East Asia may in general be of a very different nature from FDI in sub-Saharan Africa. The heterogeneity of international flows is not captured in an analysis of volumes. To fully understand the effect that different resource flows have on development and poverty will require a significant deepening of our knowledge about the mechanisms through which they affect developing countries and the people within them.
Country recipients

Large volumes of international resource flows in many developing countries highlight potential to harness these flows and yield significant additional resources for poverty eradication. In order to understand how changes to policy, rules or international cooperation on individual resources might impact poverty, we need to understand which flows are important to which countries. Comparing the resource flows which are important to different countries alongside information on where poverty is located gives a picture of which flows have the potential to contribute most towards poverty reduction. Figure 13 shows which international resource flow accounted for the largest volume of inflows for each developing country in 2010.

Which resource flow is largest for each developing country?

Figure 13: Thematic map showing the largest international resource for each developing country, 2010. Source: author’s calculations based on numerous sources (see Data sources and notes).

The largest resource flow to each developing country can be used as a proxy for understanding which flows are most important to different developing countries, as well as the nature of their interactions with the rest of the world and the mechanisms through which these occur. For countries where ODA is the largest international resource, relationships with aid agencies are a vital link, and changes in the way that aid is delivered are likely to be felt by these countries more than others. Countries for which FDI or remittances are the largest international resource flows may be impacted more by changes in the nature of these flows.
The majority of countries for which ODA is the largest international resource are located in sub-Saharan Africa. Figure 8 highlighted that the number of countries for which ODA is the largest international resource has fallen sharply – however, it remained the largest international resource for 37 countries in 2010, with an estimated 250 million people living on less than $1.25 a day. ODA accounts for more than half the international resource flows received by these countries as a whole. For seven countries, ODA accounted for more than 70% of total international resource flows and for one (Afghanistan) it accounted for more than 90%. Government expenditure in these countries averaged $ 509 per capita in 2010 and ten countries had government expenditure of less than $ 250 per capita.

It is clear that many countries for which ODA is the largest international resource face both significant domestic resource constraints and high numbers of people living in extreme poverty, and there is a continued strong role for ODA to support these countries.

Countries for which FDI and remittances are the largest international resource flows are spread geographically and most are lower- or upper-middle-income countries. Both groups have significant numbers of people living in extreme poverty; over 160 million people in countries for which FDI is the largest international resource flow and over 670 million in countries for which remittances are the largest flow. Across the group of countries for which FDI was the largest international flow, FDI accounted for 52.6% of total inflows in 2010. Within this group are ten countries for which FDI accounted for over 70% of international resource flows received and five for which it accounted for over 90% of total international flows. Countries for which remittances are the primary international resource flow generally have a more diversified portfolio of other international flows. Across the group as a whole, remittances accounted for 38.1% of total international resource flows, and there were only two countries (Bosnia-Herzegovina and Nepal) for which remittances accounted for more than 70% of international receipts.

Table 3 shows the top ten country recipients of ODA, remittances and FDI, and presents the total volumes received in 2010 as well as average receipts per capita. The only country to appear on all three lists is India, although China and Mexico are both among the top ten recipients of remittances and FDI. Afghanistan was the largest recipient of ODA in 2010, followed by the DRC and Ethiopia.

---

**Table 3: Top 10 developing country recipients of ODA, remittances and FDI in 2010**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>6,370.56</td>
<td>185.27</td>
<td>54,034.71</td>
<td>44.12</td>
<td>China</td>
<td>105,735.00</td>
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<td>DR Congo</td>
<td>3,541.30</td>
<td>53.68</td>
<td>53,038.46</td>
<td>39.65</td>
<td>Brazil</td>
<td>48,438.00</td>
<td>248.47</td>
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<tr>
<td>Ethiopia</td>
<td>3,524.20</td>
<td>42.49</td>
<td>22,047.56</td>
<td>194.38</td>
<td>India</td>
<td>24,639.92</td>
<td>20.12</td>
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<tr>
<td>Haiti</td>
<td>3,064.84</td>
<td>306.69</td>
<td>21,423.00</td>
<td>229.71</td>
<td>Mexico</td>
<td>18,679.27</td>
<td>164.69</td>
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<tr>
<td>Pakistan</td>
<td>3,011.36</td>
<td>17.35</td>
<td>10,851.94</td>
<td>72.98</td>
<td>Mexico</td>
<td>15,094.83</td>
<td>882.03</td>
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<tr>
<td>Tanzania</td>
<td>2,958.18</td>
<td>65.97</td>
<td>10,045.02</td>
<td>63.41</td>
<td>Indonesia</td>
<td>13,303.65</td>
<td>55.46</td>
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<td>Vietnam</td>
<td>2,940.08</td>
<td>33.82</td>
<td>9,690.00</td>
<td>55.82</td>
<td>Kazakhstan</td>
<td>9,961.01</td>
<td>610.23</td>
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<tr>
<td>India</td>
<td>2,806.36</td>
<td>2.29</td>
<td>8,260.00</td>
<td>95.02</td>
<td>Angola</td>
<td>9,941.60</td>
<td>521.00</td>
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<tr>
<td>West Bank &amp; Gaza</td>
<td>2,516.74</td>
<td>66.43</td>
<td>7,725.18</td>
<td>95.23</td>
<td>Malaysia</td>
<td>9,102.97</td>
<td>320.52</td>
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<tr>
<td>Iraq</td>
<td>2,189.87</td>
<td>68.37</td>
<td>7,558.14</td>
<td>1,787.81</td>
<td>Turkey</td>
<td>9,071.00</td>
<td>124.68</td>
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</table>
Section 3: Resource flows and poverty

The world has made significant progress in reducing poverty, and MDG 1a – to halve the proportion of people living in extreme poverty – was achieved ahead of schedule in 2010. As we move towards the end-date for the MDGs there is growing recognition that the world is able to realise the end of poverty, and consensus is emerging around the inclusion of this goal in the post-2015 framework.

Realising the end of poverty will require maximising the resources available, increasing their efficacy in eradicating poverty, and strengthening coordination between domestic and international development institutions.

Aid will retain its critical role in ending poverty, although the nature of the cooperation offered will vary across countries facing different circumstances. There is a strong rationale to amplify support to countries facing both high poverty rates and continued resource constraints – many of which are in sub-Saharan Africa, although the nature of cooperation with countries with growing domestic resources may evolve over time. Ending global poverty will require progress in countries facing different circumstances, and aid has an important role to play in many different contexts. Fragile states will become increasingly important and the development community must continue to strengthen and expand mechanisms to work in and with fragile states.

There is significant potential to broaden the development agenda and yield additional resources for poverty eradication, particularly through harnessing remittances and FDI (especially natural resources FDI) and curbing illicit financial outflows. These flows account for large volumes of money flowing to and from developing countries, and we need to better understand their impact on people living in poverty, and ask how these flows can contribute more directly towards poverty eradication. The post-2015 financing framework should look to exploit the opportunities and meet the challenges that these resource flows present.

3.1 Global poverty

$1.25 a day poverty has fallen in every region since 1990; however, there is still a long way to go. Poverty rates remain high in some regions – notably sub-Saharan Africa and South Asia – and in 2010 an estimated 1.3 billion people were still living on less than $1.25 a day.

Extreme poverty has fallen in every region since 1990

\[\text{Figure 14: Proportion of the population living below $1.25 \text{ a day by region. Source: World Bank.}}\]

There are many factors that affect the rate of poverty and which drive the rate at which people can be lifted out of poverty. In looking at the resource flows that are available to developing countries this paper focuses primarily on the financial constraints to poverty eradication. It is, however, important to note the range of other factors – political, economic, policy, security, technical, social and others – which can all contribute to or constrain poverty eradication processes.
3.2. Domestic resources and poverty

One notable way in which the development debate has evolved in recent years is the greater emphasis on combining domestic commitments with international efforts and resources. As we plan global goals beyond 2015 and consider a structure for sharing responsibilities, it is important to account for the varying capacity of different countries and institutions to undertake the actions required to realise the outcomes that we seek to achieve. The post-2015 framework needs to be supported by a realistic, costed plan which combines domestic and international resource flows. A precondition for that is to understand what resource flows are currently available.

We use government expenditure per capita to indicate the capacity for domestic institutions in developing countries to realise the end of poverty. This is not to downplay the contributions of other institutions and actors – households, private enterprise, NGOs/CSOs and others all have important roles to play. We focus on government because it is the governments of developing countries that committed to the MDGs and that will commit to the post-2015 framework. Governments are the primary domestic institution with responsibility for ending poverty and are accountable to their citizens for achieving this. We use expenditure per capita because ending poverty requires lifting all individuals out of poverty – therefore it is appropriate to look at resources at the individual level.

In 2010 the majority of the world’s extreme poor lived in countries with low levels of government resources. Over 80% of people living on less than $1.25 a day – 990 million – were in countries with government expenditure of less than $1,000 per person per year; 33% (405 million) were in countries where it was less than $500 annually. While there is no clear point at which a government has sufficient resources to implement the changes needed to realise poverty eradication, it is clear that many countries face significant resource constraints.

Two countries which have made real progress in reducing poverty, Brazil and China, highlight the severity of the resource constraints felt by many other developing countries. Both Brazil and China have had success in reducing poverty, and in both countries government interventions have occurred during periods of sustained economic growth. Government resources have grown rapidly – to almost $4,000 per person in Brazil and to over $1,500 per person in China.

Brazil and China are likely to eradicate poverty in coming years – however, the point that these world leaders in poverty reduction have not already achieved it shows the significant task ahead for many less well resourced states.

Looking towards 2030, it is likely that many countries will face continued resource constraints.

Government expenditure, 2010 and 2030

Figures 15 and 16: Government expenditure per capita by region 2010 and projections for 2030; millions of people living below $1.25 a day in 2010 by region. Source: author’s calculations based on numerous sources (see Data sources and notes).
As we move to the end-date for the MDGs and plan global development cooperation beyond 2015, it is important to evaluate what we know about the medium-term trends that developing countries are likely to experience. We use projections to 2030 to evaluate domestic resources and to provide a framework for thinking about how aid and other resource flows can support poverty eradication. Future work will analyse projections for poverty and international resource flows in more detail.

Broadly speaking, we can divide developing countries into two rough groups: those that are likely to experience continued growth in domestic resources, and those that are not likely to see domestic resources grow substantially over the medium term. The first group will experience reductions in resource constraints to poverty eradication, while the second are likely to face continued resource constraints. This is shown in Figures 17 and 18, for 2010 and 2030. Projections to 2030 show that many countries are moving towards higher levels of domestic resources – however, a significant number of people will still live in countries with very low levels of government expenditure.

The first group, of countries with growing domestic resources, includes a number of countries that are central to ending global poverty, including China, India and Indonesia. These countries all have large numbers of people living in extreme poverty and, although significant progress has been made in reducing poverty, there is still an important task ahead.

The second group, which is likely to face continued domestic resource constraints, consists largely of sub-Saharan Africa countries and fragile states. These countries also account for a large proportion of global poverty; however, poverty rates as a proportion of their population are higher (47% in countries with government expenditure per capita below $1,000 compared with 14% in other developing countries) and the population of many of these countries is growing very rapidly.

The countries in each group face different challenges in realising the end of poverty – although both groups have important tasks ahead if the world is to achieve this goal. International aid has a critical role to play in supporting both groups, although the nature of the support may differ across countries. There are also other international resource flows that countries in both groups can draw upon to support their poverty eradication processes.

**Population and government expenditure, 2010**

<table>
<thead>
<tr>
<th>Region</th>
<th>Total population, billions of people</th>
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</thead>
<tbody>
<tr>
<td>sub-Saharan Africa</td>
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<tr>
<td>India</td>
<td>0.5</td>
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<tr>
<td>China</td>
<td>0.25</td>
</tr>
<tr>
<td>Asia excl. India &amp; China</td>
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<tr>
<td>Other</td>
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**Population and government expenditure, 2030**

<table>
<thead>
<tr>
<th>Region</th>
<th>Total population, billions of people</th>
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</thead>
<tbody>
<tr>
<td>sub-Saharan Africa</td>
<td>2.5</td>
</tr>
<tr>
<td>Americas</td>
<td>1.25</td>
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<tr>
<td>India</td>
<td>0.45</td>
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<tr>
<td>China</td>
<td>0.15</td>
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<tr>
<td>Asia excl. India &amp; China</td>
<td>0.1</td>
</tr>
<tr>
<td>Other</td>
<td>0.025</td>
</tr>
</tbody>
</table>

*Figures 17 and 18: Total population in 2010 and estimates for 2030, grouped by government expenditure per capita and by region. India and China are separated. Source: author’s calculations.*

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8 Based on Oxford Economics data: see Data sources and notes.

9 As defined either by indices measuring fragility or by membership of fragile state groups such as the g7+.
3.3. International resource flows

The role for aid

International aid will retain a critical role in supporting the end of poverty, though this role will vary from country to country. ODA and other development cooperation should be designed within the context of other resource flows and should catalyse and leverage other resources where possible.

A significant number of countries will face continued resource constraints over the post-2015 timeframe and there is a strong rationale for continuing and amplifying international support to these countries. They are home to large numbers of people living in extreme poverty and catalytic aid will be required if under-resourced domestic institutions are to achieve the end of poverty and other goals agreed through the post-2015 framework.

Other developing countries are on a path to growing domestic resources and the nature of international cooperation with these countries will evolve over time. There are also significant numbers of people living in extreme poverty in these countries and there is a considerable task ahead before poverty eradication is achieved. As a resource flow that aims to reduce poverty, aid has an important continued role to play. Donors may be able to offer valuable cooperation across a range of policy, economic, technical and political channels, as well as through the provision of global public goods and international coordination on supra-national development issues. This transition is likely to occur in a not insignificant number of countries, so it is important for the development community to recognise these trends and to plan future cooperation with these countries.

Looking beyond 2015, a number of countries that can be considered fragile\(^{10}\) are likely to be at the forefront of the global fight against poverty. Helping fragile states will become a fundamental component of international efforts to end poverty, and the development community must continue to expand and strengthen mechanisms that work in and with fragile states.

In a world with rapidly growing resource flows, aid also has an important role to play in assisting developing countries as they manage and harness these flows to support poverty eradication. Catalytic aid can be transformative. There are three ways that aid can leverage resource flows for poverty eradication: mobilising domestic resources, harnessing international resource inflows and limiting damaging resource outflows.

Harnessing international resource flows

Remittances and FDI (particularly natural resource FDI) present important opportunities to harness additional resources for poverty eradication. Remittances flow in large volumes to countries facing severe resource constraints, as does FDI – although volumes of FDI to these countries are smaller than remittances. In order to realise the potential from these flows, we must understand how they can affect people living in poverty and find ways to strengthen and deepen these linkages.

Harnessing, mobilising or tapping into resource flows to increase their contribution to poverty eradication may be challenging and will require innovations in policy, coordination and design. There are numerous ways in which resource flows could be harnessed, including changes in government policy, adjustments to business models, international coordination around legislation or exchange of information, and financing mechanisms that channel multiple resource flows. These flows move in such large volumes to countries with significant numbers of people living in poverty that the development community should look in a focused and coordinated way to ask if and how these flows can be harnessed to support poverty eradication move effectively.

\(^{10}\) As classified either by various indexes measuring fragility or by self-selection through membership of a fragile states grouping such as the g7+ or New Deal for Engagement in Fragile States.
Harnessing remittances

Remittances flow in large volumes to many countries that have both high numbers of people living in extreme poverty and very low levels of domestic resources, and should be viewed as having enormous potential to support poverty eradication. By harnessing remittances more effectively for this purpose we may release significant additional resources to countries that will be central to global efforts to ending poverty over the post-2015 timeframe.

Remittances represent the largest total flow into countries with government expenditure below $1,000 per person per year, and they are the largest flow for 18 countries individually below this level – the same number as for ODA. Remittances have grown rapidly to these countries over the past two decades, increasing almost five-fold in real terms since 1990.

Remittances are particularly important for countries with the highest numbers of people living in extreme poverty. They are the largest international resource flow to India, Nigeria and Bangladesh, countries with an estimated 382 million, 108 million and 64 million people respectively living below $1.25 a day.

That remittances flow in such large volumes to countries with high poverty levels and low levels of domestic resources highlights the potential that tapping into this resource could yield. If we are able to harness these flows, we may be able to strengthen and expedite the end of poverty in some of the highest-priority countries.

Pioneering mechanisms to mobilise remittances are being explored by some institutions and the development community should invest in understanding how domestic and international institutions can work best to harness this cross-border flow. Potential areas include diaspora bonds issued by developing country governments, lowering transactions costs, innovative policies such as the use of remittances as collateral for borrowers and the targeting of specific diaspora groups by NGOs and charitable organisations working in their countries of origin.

FDI also has the potential to make significant contributions to poverty eradication, although FDI flows to the countries with the most severe domestic resource constraints are lower than remittance flows. Information on the types of investment being made is scarce, but evidence suggests that a significant proportion of FDI is focused on natural resources.

Total FDI to countries with government expenditure below $1,000 per person per year was US$ 80.0 billion in 2010, just over half the US$ 146.7 billion in remittances to these countries. FDI is particularly important to some countries with significant numbers of people living in poverty, including Indonesia and Vietnam.

Figure 19: International resource flows per capita, grouped by country according to level of government expenditure per capita, 2010. Source: author’s calculations.
Over half of all FDI to countries with government expenditure of less than $1,000 per person goes to 15 resource-rich countries (from a total of 48 countries), and eight of the top ten investment locations are resource-rich countries. Better data and further research are required, but this suggests that a significant proportion of FDI is related to the extractive industries. The volume of FDI to countries with severe resource constraints highlights the potential for these investments to contribute towards poverty eradication, and harnessing natural resource FDI may be a priority. There are numerous ways in which FDI flows could be harnessed to support poverty eradication more effectively. Legislation in the US and EU is starting to force companies to be more transparent about the payments they make to governments, particularly in the extractive industries, while initiatives such as the Extractives Industries Transparency Initiative (EITI) are supporting government transparency in the use of funds from natural resources. Some countries have significantly boosted government revenue through legislation that increases taxation on the extractive industries, often channelling these funds directly into welfare or security programmes, and there are other mechanisms that can direct revenue generated from extractives towards social investments, such as oil-to-cash programmes. Softer options may include encouraging foreign firms to operate in a more pro-poor manner to increase the impact that they have on poor communities, for example through training and employment or enhanced supply chain management.

**Curbing illicit financial flows**

Illicit financial flows – the outflow of resources through trade mispricing, kickbacks, theft and corruption – may represent a significant drain on resources for many countries. For many countries with low levels of domestic resources, illicit financial flows are equivalent to a large proportion of national income – as high as 40% in DR Congo. Figure 20 highlights this issue, comparing estimates for illicit financial flows as a proportion of GNI against government expenditure per capita. There is not a straight relationship between domestic resources or income levels and illicit financial flows, but a number of countries with low levels of government expenditure also suffer from very large illicit financial outflows that drain domestic resources.

Illicit financial flows, and tax avoidance / evasion in particular, are increasingly being recognised as central to the development agenda. A number of initiatives aim to stem these damaging outflows – many of which prioritise increasing transparency and improving access to information.

**Illicit financial flows are a significant drain for many resource-constrained countries**

![Figure 20: Illicit financial flows as a proportion of GNI against government expenditure per capita. Source: author’s calculations based on Global Financial Integrity Programme and IMF World Economic Outlook.](image-url)
Pertinent questions for the post-2015 financing framework

- How should we balance domestic and international responsibilities for achieving the global goals we want to see?

- How can we harness, mobilise or tap into different resource flows so that they support the realisation of these goals more directly and effectively?
  - What policies, interventions, partnerships and actions can be taken (particularly in the areas of remittances, natural resources FDI and illicit financial flows)?

- How can we coordinate, sequence and combine the resources controlled by the broad international development community (ODA, SSC, OOFs, DFIs, NGOs, private foundations) to best respond to emerging priorities over the post-2015 timeframe, in the context of other resource flows?

- Given the major problems and gaps with the information we have about both poverty and the resources that can be used to combat it, how can we improve data collection systems to produce more accurate information that can feed into decision-making processes?
Abbreviations

BRICS  Country grouping of Brazil, Russia, India, China and South Africa
DFI  Development finance institution
DI  Development Initiatives
FDI  Foreign direct investment
G8  Group of Eight countries
G20  Group of 20 countries
HNWI  High net worth individual
LIC  Low-income country
LDC  Least developed country
LMIC  Lower-middle-income country
MIC  Middle-income country
NGO  Non-governmental organisation
ODA  Official development assistance
OOFs  Other official flows
PPP  Purchasing power parity
SSC  South–South cooperation
UMIC  Upper-middle-income country

References

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InterMedia, 2012, *Building Support for International Development Among Key Policy Constituencies Findings from China, France, Germany, the UK and the US*.


Neilsen, L., 2011, *Classifications of Countries Based on their Level of Development: How it is done and how it could be done*, International Monetary Fund.

OECD, 2011, *DAC list of ODA recipients*.


World Bank Databank

World Bank, PovcalNet database


www.devinit.org  HARNESSING ALL RESOURCES TO END POVERTY  Page | 33
Data sources and notes

**Debt flows: private non-guaranteed, public and publicly guaranteed and short-term**
World Bank Databank.

**Development finance institutions**
The figures used in this working paper have been compiled by Development Initiatives based on a review of DFIs’ annual reports. DFIs can broadly be grouped into four categories: multilateral development banks (MDBs); multilateral development finance institutions (MDFIs); sub-regional development banks (SRDBs); and bilateral development finance institutions (BDFIs). The review undertaken by DI covered the first three categories – MDBs, MDFIs and SRDBs. A list of institutions covered is given in Annex D. Data on BDFIs was still being compiled at the time of drafting the first working paper and will be included in a subsequent edition.

**Foreign direct investment**
Headline data on volumes of FDI is taken from UNCTAD Stat. Information on FDI by sector is based on planned investments captured in the Financial Times’ fDi Intelligence database.

**Foundations**
Data on US foundations is based on information from the Foundation Center, with discounts applied to account for expenditure in developed countries and for non-developmental purposes.
Data on foundations based outside the US is unavailable and the information presented here only covers US-based foundations.

**Government expenditure**
Historic government expenditure data is based on the IMF World Economic Outlook Database April 2012 and IMF Government Financial Statistics. Government expenditure figures have public debt and general budget support netted out to avoid double counting (see Annex E). Projections for government expenditure to 2030 are based on Oxford Economics and the IMF World Economic Outlook. Government expenditure per capita figures are in 2005 international $ PPP terms; total figures are based on market exchange rates.

**Illicit financial flows**
Estimates of illicit financial flows are taken from Global Financial Integrity’s Illicit Financial Flows from Developing Countries 2000-2009 report.

**Non-governmental organisations**
The figures for NGO expenditure presented here are estimates generated by Development Initiatives based on a review of INGOs’ annual reports.

**Official development assistance (ODA)**
OECD DAC International Development Statistics: Table 1, Table 2A and Creditor Reporting System.

**Other official flows (OOFs)**
OECD DAC International Development Statistics: Table 2B and Creditor Reporting System.

**Poverty data**
Development Initiatives’ calculations based on World Bank Databank and PovcalNet.

**Remittances**
World Bank Migration and Remittances Factbook 2011.

**South–South cooperation**
OECD DAC International Development Statistics: Table 1 and Table 33A.
Annexes

Annex A: List of developing countries used in the paper

1. Afghanistan 38. Dominican Republic 75. Madagascar 113. Solomon Islands
3. Algeria 40. Egypt 77. Malaysia 115. South Africa
5. Anguilla 42. Equatorial Guinea 79. Mali 117. Sri Lanka
7. Argentina 81. Mauritius 82. Mexico
11. Belarus 89. Morocco 90. Myanmar
15. Bolivia 97. Niue 98. Pakistan
18. Brazil 103. Peru 104. Philippines
22. Cameroon 111. Saint Vincent & The Grenadines
23. Cape Verde 112. Sao Tome & Principe
25. Chad 114. Suriname
26. Chile 115. Swaziland
27. China 116. Syrian Arab Republic
28. Colombia 117. Tajikistan
29. Comoros 118. Tanzania
31. Congo, Rep. 120. Timor-Leste
32. Cook Islands 121. Togo
33. Costa Rica 122. Tonga
34. Côte d’Ivoire 123. Turkey
35. Cuba 124. Turkmenistan
36. Djibouti 125. Tuvalu
37. Dominica 126. Uganda
38. Dominican Republic 127. Ukraine
39. Ecuador 128. Uruguay
40. Egypt 129. Uzbekistan
41. El Salvador 130. Vanuatu
42. Equatorial Guinea 131. Venezuela
43. Eritrea 132. Vietnam
44. Ethiopia 133. Wallis & Futuna
45. Fiji 134. Yemen
46. Gabon 135. Zimbabwe
47. Gambia 136. Zambia
48. Georgia 137. Zimbabwe
49. Ghana 138. Zimbabwe
50. Grenada 139. Zimbabwe
51. Guatemala 140. Zimbabwe
52. Guinea 141. Zimbabwe
53. Guinea-Bissau 142. Zimbabwe
54. Guyana 143. Zimbabwe
55. Haiti 144. Zimbabwe
56. Honduras 145. Zimbabwe
57. India 146. Zimbabwe
58. Indonesia 147. Zimbabwe
59. Iran 148. Zimbabwe
60. Iraq 149. Zimbabwe
61. Jamaica 150. Zimbabwe
62. Jordan 151. Zimbabwe
63. Kazakhstan 152. Zimbabwe
64. Kenya 153. Zimbabwe
65. Kiribati 154. Zimbabwe
67. Kosovo 156. Zimbabwe
68. Kyrgyz Republic 157. Zimbabwe
69. Laos 158. Zimbabwe
70. Lebanon 159. Zimbabwe
71. Lesotho 160. Zimbabwe
72. Liberia 161. Zimbabwe
73. Libya 162. Zimbabwe
74. Macedonia, FYR 163. Zimbabwe
75. Madagascar 164. Zimbabwe
76. Malawi 165. Zimbabwe
77. Malaysia 166. Zimbabwe
78. Maldives 167. Zimbabwe
79. Mali 168. Zimbabwe
80. Marshall Islands 169. Zimbabwe
81. Mauritania 170. Zimbabwe
82. Mauritius 171. Zimbabwe
83. Mexico 172. Zimbabwe
84. Micronesia, Fed. States 173. Zimbabwe
85. Moldova 174. Zimbabwe
86. Mongolia 175. Zimbabwe
87. Montenegro 176. Zimbabwe
88. Montserrat 177. Zimbabwe
89. Morocco 178. Zimbabwe
90. Mozambique 179. Zimbabwe
91. Myanmar 180. Zimbabwe
92. Namibia 181. Zimbabwe
93. Nauru 182. Zimbabwe
94. Nepal 183. Zimbabwe
95. Nicaragua 184. Zimbabwe
96. Niger 185. Zimbabwe
97. Nigeria 186. Zimbabwe
98. Niue 187. Zimbabwe
99. Pakistan 188. Zimbabwe
100. Palau 189. Zimbabwe
101. Panama 190. Zimbabwe
102. Papua New Guinea 191. Zimbabwe
103. Paraguay 192. Zimbabwe
104. Peru 193. Zimbabwe
105. Philippines 194. Zimbabwe
106. Rwanda 195. Zimbabwe
107. Samoa 196. Zimbabwe
108. São Tomé & Principe 197. Zimbabwe
109. Senegal 198. Zimbabwe
110. Serbia 199. Zimbabwe
111. Seychelles 200. Zimbabwe
112. Sierra Leone 201. Zimbabwe

This is the 2011 list of developing countries published by the OECD, and is the standard list used throughout the report. In certain places – Figures 8 and 9 in Section 1 – a broader list of developing countries is used. These are historic analyses including countries that are no longer considered to be...
‘developing’. These analyses include the 148 countries listed above as well as the following former developing countries, territories and economic areas:

<table>
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<th>Region</th>
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</thead>
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<td>South of Sahara</td>
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<td>South America</td>
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<td>North &amp; Central America</td>
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<td>South &amp; Central Asia</td>
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<tr>
<td>Middle East</td>
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</tr>
<tr>
<td>Oceania</td>
<td>16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income group</th>
<th>No. of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>36</td>
</tr>
<tr>
<td>Lower-middle-income</td>
<td>55</td>
</tr>
<tr>
<td>Upper-middle-income</td>
<td>47</td>
</tr>
<tr>
<td>High-income</td>
<td>1</td>
</tr>
</tbody>
</table>

Table A.1 highlights the distribution of developing countries included in the standard list across geographic regions and income groups. Regional classifications are based on the OECD’s regional groupings, and income group classifications are based on the World Bank’s 2011 classifications.

**Table A.1: The number of developing countries in each region and income group**

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>10</td>
</tr>
<tr>
<td>North of Sahara</td>
<td>5</td>
</tr>
<tr>
<td>South of Sahara</td>
<td>50</td>
</tr>
<tr>
<td>South America</td>
<td>12</td>
</tr>
<tr>
<td>North &amp; Central America</td>
<td>20</td>
</tr>
<tr>
<td>South &amp; Central Asia</td>
<td>17</td>
</tr>
<tr>
<td>Far East Asia</td>
<td>11</td>
</tr>
<tr>
<td>Middle East</td>
<td>7</td>
</tr>
<tr>
<td>Oceania</td>
<td>16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income group</th>
<th>No. of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>36</td>
</tr>
<tr>
<td>Lower-middle-income</td>
<td>55</td>
</tr>
<tr>
<td>Upper-middle-income</td>
<td>47</td>
</tr>
<tr>
<td>High-income</td>
<td>1</td>
</tr>
</tbody>
</table>
### Annex B: Data coverage and quality

#### Table A.2: Proportion of developing countries with data for each resource flow

<table>
<thead>
<tr>
<th>Year</th>
<th>Govt exp.</th>
<th>FDI</th>
<th>Remittances</th>
<th>Public debt</th>
<th>Private debt</th>
<th>Short-term debt</th>
<th>Portfolio equity</th>
<th>Debt service costs</th>
<th>Profits on FDI</th>
<th>Trade mispricing</th>
<th>Changes in external debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>29%</td>
<td>70%</td>
<td>70%</td>
<td>69%</td>
<td>69%</td>
<td>69%</td>
<td>70%</td>
<td>70%</td>
<td>68%</td>
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<td>No data</td>
</tr>
<tr>
<td>1991</td>
<td>32%</td>
<td>72%</td>
<td>72%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>72%</td>
<td>72%</td>
<td>69%</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>1992</td>
<td>35%</td>
<td>72%</td>
<td>72%</td>
<td>71%</td>
<td>71%</td>
<td>71%</td>
<td>72%</td>
<td>72%</td>
<td>70%</td>
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<td>No data</td>
</tr>
<tr>
<td>1993</td>
<td>39%</td>
<td>80%</td>
<td>80%</td>
<td>79%</td>
<td>79%</td>
<td>79%</td>
<td>80%</td>
<td>80%</td>
<td>76%</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>1994</td>
<td>39%</td>
<td>80%</td>
<td>80%</td>
<td>79%</td>
<td>79%</td>
<td>79%</td>
<td>80%</td>
<td>80%</td>
<td>77%</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>1995</td>
<td>43%</td>
<td>81%</td>
<td>81%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>81%</td>
<td>81%</td>
<td>78%</td>
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<td>No data</td>
</tr>
<tr>
<td>1996</td>
<td>45%</td>
<td>81%</td>
<td>81%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>81%</td>
<td>81%</td>
<td>79%</td>
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<td>No data</td>
</tr>
<tr>
<td>1997</td>
<td>51%</td>
<td>81%</td>
<td>81%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>81%</td>
<td>81%</td>
<td>79%</td>
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<td>No data</td>
</tr>
<tr>
<td>1998</td>
<td>53%</td>
<td>81%</td>
<td>81%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>81%</td>
<td>81%</td>
<td>79%</td>
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</tr>
<tr>
<td>1999</td>
<td>54%</td>
<td>82%</td>
<td>82%</td>
<td>81%</td>
<td>81%</td>
<td>81%</td>
<td>82%</td>
<td>82%</td>
<td>80%</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>2000</td>
<td>68%</td>
<td>83%</td>
<td>83%</td>
<td>82%</td>
<td>82%</td>
<td>82%</td>
<td>83%</td>
<td>83%</td>
<td>80%</td>
<td>83%</td>
<td>83%</td>
</tr>
<tr>
<td>2001</td>
<td>71%</td>
<td>86%</td>
<td>87%</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
<td>87%</td>
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<td>82%</td>
<td>86%</td>
<td>86%</td>
</tr>
<tr>
<td>2002</td>
<td>75%</td>
<td>86%</td>
<td>87%</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
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<td>87%</td>
<td>82%</td>
<td>86%</td>
<td>86%</td>
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<tr>
<td>2003</td>
<td>76%</td>
<td>87%</td>
<td>88%</td>
<td>86%</td>
<td>86%</td>
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<td>88%</td>
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<td>86%</td>
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<tr>
<td>2004</td>
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<td>86%</td>
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<td>88%</td>
<td>88%</td>
<td>82%</td>
<td>86%</td>
<td>86%</td>
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<tr>
<td>2005</td>
<td>77%</td>
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<td>88%</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
<td>88%</td>
<td>88%</td>
<td>82%</td>
<td>86%</td>
<td>86%</td>
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<tr>
<td>2006</td>
<td>78%</td>
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<td>86%</td>
<td>86%</td>
<td>86%</td>
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<td>89%</td>
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<td>87%</td>
<td>87%</td>
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<tr>
<td>2007</td>
<td>78%</td>
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<td>89%</td>
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<td>89%</td>
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<td>83%</td>
<td>87%</td>
<td>87%</td>
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<tr>
<td>2008</td>
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<td>87%</td>
</tr>
<tr>
<td>2009</td>
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<td>89%</td>
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<td>86%</td>
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<td>87%</td>
</tr>
<tr>
<td>2010</td>
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<td>86%</td>
<td>86%</td>
<td>86%</td>
<td>89%</td>
<td>89%</td>
<td>83%</td>
<td>87%</td>
<td>87%</td>
</tr>
</tbody>
</table>

**Notes:**
- ODA and OOFs are excluded – this data is from the OECD, whose definitions are used to define the list of developing countries. Therefore data coverage is 100% for these resource flows.
- DFIs, NGOs and foundations are excluded from this table as this data is collected from the sources of these flows (see Data sources and notes).
Annex C: Data coverage for government expenditure

Table A.3 below evaluates the impact of partial data coverage for government expenditure by developing countries included in the sample. The table includes the 25 developing countries with the largest total government expenditure in 2010. The columns show the proportion of the sample (1990–2010) for which data is available and the earliest year with available data. The last column shows, for countries with partial data coverage, how much each country’s expenditure counted for as a proportion of total government expenditure by all developing countries. This is an indicator of the extent to which sudden rises in total government expenditure across all developing countries is caused by the inclusion of new countries in the sample.

The inclusion of Brazil in the sample causes a major jump in 1996 and, combined with the inclusion of Argentina in 1995, shows that a portion of the apparent rapid growth in government expenditure during the mid-1990s is actually due to improved data coverage. The inclusion of Turkey in 2002, as well as Thailand, Indonesia and South Africa, also causes artificial rises in total expenditure across all developing countries.

Table A.3: Proportion of developing countries with data for each resource flow

<table>
<thead>
<tr>
<th>Country</th>
<th>Proportion of sample covered</th>
<th>Earliest year with data</th>
<th>Portion of total expenditure in the first year with data</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>71%</td>
<td>1996</td>
<td>37.5%</td>
</tr>
<tr>
<td>India</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>43%</td>
<td>2002</td>
<td>7.5%</td>
</tr>
<tr>
<td>Argentina</td>
<td>76%</td>
<td>1995</td>
<td>6.6%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>52%</td>
<td>2000</td>
<td>3.4%</td>
</tr>
<tr>
<td>South Africa</td>
<td>52%</td>
<td>2000</td>
<td>3.1%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>76%</td>
<td>1995</td>
<td>4.0%</td>
</tr>
<tr>
<td>Egypt</td>
<td>43%</td>
<td>2002</td>
<td>1.8%</td>
</tr>
<tr>
<td>Iraq</td>
<td>24%</td>
<td>2006</td>
<td>1.3%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>67%</td>
<td>1997</td>
<td>2.2%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>52%</td>
<td>2000</td>
<td>1.5%</td>
</tr>
<tr>
<td>Chile</td>
<td>71%</td>
<td>1996</td>
<td>1.9%</td>
</tr>
<tr>
<td>Libya</td>
<td>100%</td>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>81%</td>
<td>1994</td>
<td>2.8%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>86%</td>
<td>1993</td>
<td>2.5%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>43%</td>
<td>2002</td>
<td>0.6%</td>
</tr>
<tr>
<td>Peru</td>
<td>52%</td>
<td>2000</td>
<td>0.9%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>62%</td>
<td>1998</td>
<td>0.5%</td>
</tr>
<tr>
<td>Angola</td>
<td>52%</td>
<td>2000</td>
<td>0.7%</td>
</tr>
</tbody>
</table>
Figure A.1 below highlights the extent to which apparent growth in the volume of government expenditure across all developing countries is due to improvements in data coverage. The blue area at the bottom of the stacked area graph shows total expenditure across countries for with data for the entire period 1990–2010. The areas above this line show trends in total expenditure for countries with data starting from years after 1990, i.e. the second area from the bottom shows aggregate expenditure for countries for which data exists only from 1991, the third area from the bottom for countries with data from 1992, and so on. The large light blue area represents countries with data from 1996, and its large size is primarily because it includes Brazil, as noted above.

The graph highlights that a portion of the apparent growth in government expenditure across developing countries in aggregate is in fact due to improved data coverage. Table A.5 attempts to quantify this. The first line shows average growth rates for all available data in each year, i.e. ignoring the fact that some countries are only partially covered. The rows below this show average annual growth rates for countries; with complete coverage (data from 1990); with data from 1995 or earlier; 2000 or earlier; and 2005 or earlier. By comparing the growth rates we can gauge the extent to which growth rates for the sample as a whole are exaggerated by improvements in data coverage.

For example, total government expenditure for the 43 countries with data from 1990 grew at an average rate of 7.1% per annum, roughly one-third less quickly than growth across the sample as a whole. The table highlights that headline figures which consider all available data do exaggerate the growth in resources somewhat, but it also reinforces the point that there has been real, rapid growth in government expenditure across many developing countries (albeit less rapid than the headline figures suggest). As noted in section 2, more than half of all developing countries have experienced growth in government expenditure exceeding 3% per annum on average, and more than one-third have experienced growth exceeding 5% per annum on average.

### Table A.5: Average annual growth across countries with different data coverage

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All available data</td>
<td>10.6%</td>
<td>13.1%</td>
<td>8.4%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Countries with data from 1990</td>
<td>7.1%</td>
<td>9.6%</td>
<td>9.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Countries with data from 1995 or earlier</td>
<td>9.1%</td>
<td>8.7%</td>
<td>10.6%</td>
<td></td>
</tr>
<tr>
<td>Countries with data from 2000 or earlier</td>
<td>7.3%</td>
<td>8.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries with data from 2005 or earlier</td>
<td></td>
<td>8.2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex D: Development finance institutions

The figures used for DFIs in the first version of this working paper have been compiled by Development Initiatives based on a review of DFIs’ annual reports.

DFIs can broadly be grouped into four categories: multilateral development banks (MDBs); multilateral development finance institutions (MDFIs); sub-regional development banks (SRDBs); and bilateral development finance institutions (BDFIs). The review undertaken by DI covered the first three categories – MDBs, MDFIs and SRDBs. Data on BDFIs was still being compiled at the time of drafting, and will be included in a subsequent edition. Data on expenditure was taken from the annual reports of the institutions covered, converted to US$ (based on exchange rates on the final day of the financial year) and standardised to calendar years. Where DFIs support projects in both developed and developing countries, only expenditure in developing countries has been included. The institutions included in the figures for DFIs (with the earliest year in which data is available in brackets) are as follows:

- Andean Development Corporation (1999)
- Asian Development Bank (1990)
- Caribbean Development Bank (1996)
- Central American Bank for Economic Integration (2006)
- Council of Europe Development Bank (2008)
- East African Development Bank (1998)
- European Bank for Reconstruction and Development (2000)
- European Investment Bank (2005)
- InterAmerican Development Bank (1991)
- International Bank for Reconstruction and Development (1990)
- International Development Association (1990)
- International Finance Corporation (1990)
- West African Development Bank (2007)
Annex E: Government expenditure data

To avoid double counting, government expenditure figures are net of international sources of revenue – public debt and general budget support reported as ODA. General budget support data is available only from 2002; public debt data is available for the whole period. This is not a perfect methodology because the nature of both public debt and general budget support is such that they may not be utilised to fund expenditure in the year in which they are received. Information about how these revenue streams are used is unavailable. A second shortcoming is that other international sources of revenue which feed into government budgets are not accounted for here. Short-term debt, for example, cannot be netted out because we do not know the proportions of short-term debt that flow to the public and private sectors. We are also unable to discount other forms of ODA that fund government expenditure but which are not reported as general budget support.

Figure A.6: Total government expenditure, public debt and general budget support
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