Development Initiatives

Engage. Empower. Eliminate Poverty.

Harnessing All Resources to End Poverty in the Post-2015 Framework

A Comparison of two HLP co-chairs, Liberia and Indonesia

Overview

The post-2015 framework should consider:

- poverty eradication is happening and can be accelerated with sufficient resources used effectively;
- aid retains its critical role in ending poverty; and
- there is significant potential to harness wider resource flows to accelerate poverty eradication.

The contrasting circumstances of the two developing country High Level Panel (HLP) co-chairs, Liberia and Indonesia, illustrate the opportunities to get more value out of aid and release the potential of other international resources alongside domestic investments.

The following themes should be central to the post-2015 framework.

Poverty eradication is happening and can be achieved (with sufficient resources)

The world achieved MDG 1a, to halve extreme poverty rates, in 2010 and an end to extreme poverty is within sight. Progress can be accelerated by the post-2015 framework if it maximises the resources available for poverty eradication and bolsters mutual commitments and coordinated action between the international community and countries like Liberia and Indonesia, where millions remain in extreme poverty.

Aid has a critical role to play in ending poverty

Aid, while often small compared to other resources, is unique as a resource flow motivated primarily by poverty reduction. Aid supports partner countries in various ways, such as direct financial support delivered through projects or government budgets, provision of personnel and other forms of knowledge transfer, support to country processes as well as indirect assistance through the support of global public goods.

Aid is just one of a number of domestic and international resources. The bundle and trajectories of these resources vary substantially between countries. Beyond 2015 a number of countries, like Indonesia, are on a path of growing domestic resources and increasing financial capacity for the state and other domestic institutions to implement poverty eradication programmes.

But a number of countries, primarily in sub-Saharan Africa, look set to face continued significant domestic resource constraints. Other sources of financing may also be limited in the near future.

It is vital to recognise these diverging patterns of resource potential in the post-2015 framework. International assistance will continue to have a critical role in both contexts, as it is directly supports poverty reduction. The comparative advantage of aid will be maximised when the scale and scope of other resources are taken into account and the most appropriate modes of assistance identified.

The international aid system beyond 2015 must continue to support resource-constrained countries and develop effective cooperation with countries with growing domestic resources.

There is significant potential to harness other resources

There is significant potential for developing countries, including **Liberia** and **Indonesia**, to benefit from greater harnessing and mobilisation of domestic and international resource flows to support poverty eradication and other goals more effectively.

Non-aid resource flows have grown rapidly in the last two decades. Remittances and natural-resource-FDI are particularly important, the latter being significant for both Liberia and Indonesia. South-South cooperation is playing an increasingly important role for some countries, and outflows such as profits remitted abroad and illicit financial flows are also significant issues.

The post-2015 discussions should look specifically at how domestic and international institutions can work together to harness these key resources and maximise their potential for poverty eradication. International development assistance can be a catalyst, releasing the potential of private and business flows. Other mechanisms, policies and partnerships that harness remittances and natural resource FDI (e.g. diaspora bonds, lower transaction costs, greater transparency); and curb illicit outflows also deserve focused and considered attention through the post-2015 framework. These initiatives have potential to release more value from existing resources to drive faster progress.

Liberia and Indonesia: different resource profiles, different opportunities

Liberia and **Indonesia** are both important countries in the global fight to eradicate poverty. **Liberia** has a small population of 4 million, but very high poverty rates, estimated at 83% in 2007. With a population of over 230 million, **Indonesia** has the sixth largest number of people living in poverty, 43 million in 2010[i]. Achieving poverty eradication will require different approaches, co-ordination and resource mixes in each country.

	Liberia	Indonesia
Poverty $1.25 per day	83% (2007); 3 million people	18% of population; 43 million people (2010, down from 48% in 1999)
Government expenditure $ per capita	$220 per capita (2010) $330 projected by 2017	$730 per capita (2010) $1,000 projected by 2017 $1,800 projected by 2030
International flows	Highly dependent on ODA Now attracting FDI in natural resources	Large FDI and remittance flows ODA and other official flows (OOFs) still important

The domestic context

Liberia has significant resource constraints and relatively new government institutions. Government expenditure is very low at just $220 per capita[ii] in 2010, less than one-fifth of the average $1,380 per person across all developing countries. Some growth in government resources is projected, but levels are likely to remain limited compared to the challenge of addressing large proportions of the population in poverty. Liberia's 'Vision 2030' strategy, sees it becoming a middle income country "capable of meeting and sustaining its own development aspirations" within two decades. It recently launched an 'Agenda for Transformation' laying out the country's plans for the next five years. Liberia's Finance Minister stated that support from development partners and other governments was essential to raise the necessary funding.

Poverty rates are high in **Liberia**, with the latest official estimate showing 83% of the population living below $1.25 a day in 2007. There is evidence of poverty reduction since then: the lower $1 per day poverty rate fell from 64% in 2007 to 56% in 2011 according to the IMF. Whilst on the right track, Liberia has a significant task ahead in ending poverty.

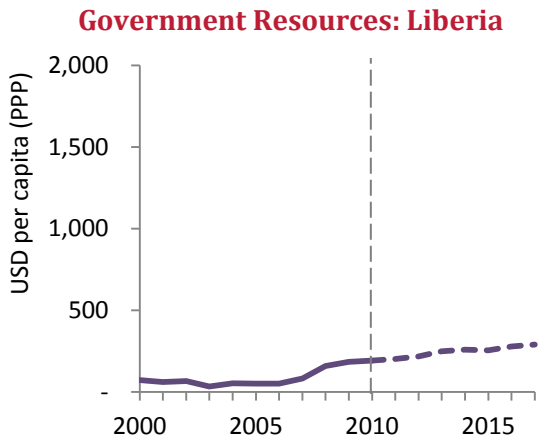


Figure 1: Liberian government expenditure per capita, 2000-2010, and projections to 2017

Figure 2: Indonesian government expenditure per capita, 2000-2010, and projections to 2030

Indonesia faces contrasting circumstances, highlighting the divergent trajectories of the different developing countries. Government resources are still relatively low – at $730 per person they are just over half the average across all developing countries in 2010 – but the country is growing and the resource constraints faced by the state and other institutions are gradually falling. Government projections show nominal tax revenue doubling between 2007 and 2012. Forecasted real government expenditure could reach around $1,800 per capita by 2030.

Indonesia has made considerable strides in reducing poverty and has achieved MDG1a to halve rates of extreme poverty. The proportion of people living below $1.25 per day stood at 48% in 1999 but has fallen to 18% in 2010. This still leaves 43 million people living below $1.25 a day in 2010. Given projected growth in domestic resources and a strong recent history of poverty reduction, poverty levels can be expected to continue to fall. Indeed, the government's national plan for 2011-2025 envisions continued poverty reduction through the opportunities created by economic growth as well as through interventions to generate employment and improve social security.

The international context

The mix of international resources received by the two countries further highlights their divergent trajectories and the different roles that the international development community can play to support poverty eradication in each country.

Liberia receives large volumes of ODA[iii], totalling USD 488 million in 2010. Some 70% of sector-allocable ODA goes to social infrastructure and services. The largest component of this supports government and civil society (USD 94 million in 2010). The Liberian government also receives

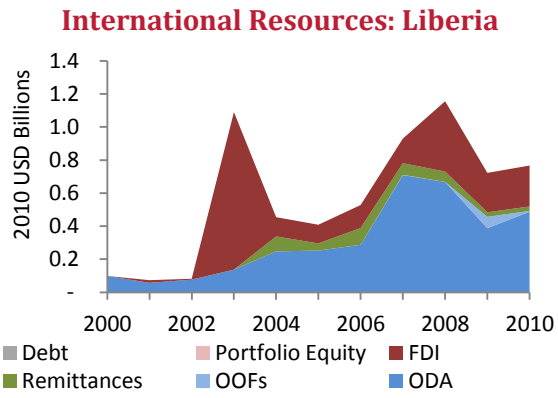


Figure 3: International resource flows to Liberia, 2000-2010. See note below Figure 4.

general budget support – unearmarked finance that the government can spend as it deems appropriate – which peaked at USD 336 million in 2008 but has totalled between USD 20 and 40 million a year since then. **Liberia** is a resource-rich country and is attracting growing volumes of FDI. New foreign investments totalled USD 248 million (31% of GNI) in 2010, with most investments in the natural resource sectors[iv] - particularly in iron ore mining.

Indonesia receives larger and more diverse international resource flows. FDI is the largest international flow, totalling USD 13 billion (2% of GNI) in 2010. A significant portion is related to extractive industries, although foreign investment in **Indonesia** is far more diversified than in **Liberia**. Remittances are also substantial, totalling USD 7 billion (1% of GNI) in 2010. Debt flows, which consist of public, private and short-term debt, have grown rapidly, with short term debt rising sharply since the global crisis[v].

Although ODA accounts for a relatively small proportion of Indonesia's total international flows, it is still an important resource, totalling USD 1.4 billion in 2010. The country receives a large amount of technical assistance – such as the provision of skilled personnel and training - totalling USD 520 million in 2010. It also receives significant volumes of concessional loans – gross loans totalled USD 2.2 billion in 2010[vi]. Other official flows (OOFs), largely loans that do not qualify as concessional, are also significant, reaching USD 3.4 billion in 2010.

International Resources: Indonesia

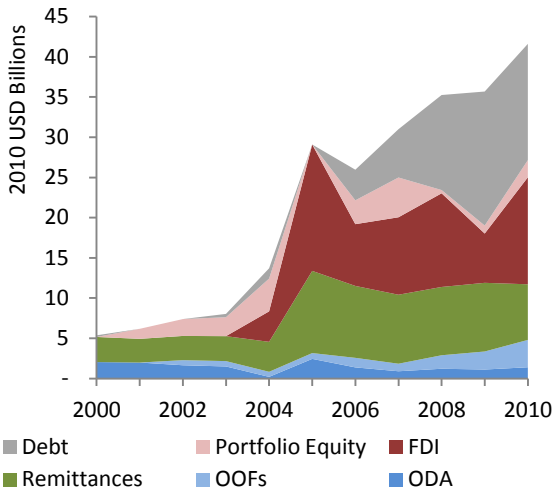


Figure 4: International resource flows to Indonesia, 2000-2010.
Note that the data on each international resource flow is taken from a separate source and it is not possible to fully account for duplications between series – there may therefore be some double counting in the totals for each country.

Beyond 2015

These countries face different challenges in realising the end of poverty, and have different resources that can contribute and be drawn on to support this goal.

International aid has an important role to play in both contexts – though the functions that it performs will vary in each country. For example, for **Liberia** financial support may be needed to reduce the severe resource constraints the country faces and help catalyse other resources for poverty reduction. There may also be a strong rationale for ODA to provide basic goods and services aligned to domestic efforts. In a country like **Indonesia** ODA may have a different emphasis. Technical assistance is high, and donors may be able to offer valuable support across a range of policy, economic and political channels.

In both contexts international assistance can help to harness other resources. Domestic resource mobilisation is central and programmes to assist tax authorities have been supported by donors in both countries. The international development community can also support the effective management of non-ODA resources through interventions at the national and international level. **Liberia** is a member of the international Extractives Industries Transparency Initiative and was

awarded the title of 'best implementing country' in 2009. Donors may be able to support other transparency initiatives to help developing countries utilise resources openly and effectively.

Annex: Trends since the MDGs were agreed and towards 2030

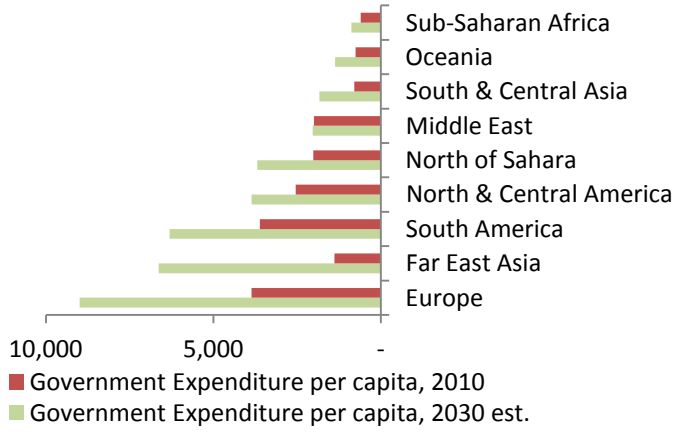
The first MDG, to halve the proportion of people living in extreme poverty, was achieved in 2010. The end of extreme poverty is now within sight and consensus is emerging around the inclusion of a goal to eradicate poverty in the post-2015 agreement.

A feature of the post-2015 discussions is the emphasis on combining domestic commitments with international efforts and resources to achieve the goals. As discussions progress, and as a structure for sharing responsibilities is formalised through the discussions at Bali and beyond, 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 agenda needs to be supported by a realistic, costed plan which combines domestic and international resources. A precondition for that is to understand what resources are currently available.

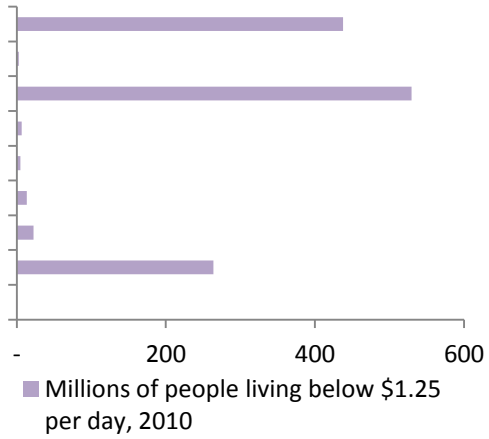
To understand different countries' capacity to realise the post-2015 goals we analyse government expenditure per capita in this briefing note and in the discussion paper on which it is based, *Harnessing all resources to end poverty*. We analyse resources on a per capita basis because ending poverty means impacting the lives of individuals. This measure therefore provides a gauge of the financial constraints that governments face in realising poverty eradication.

Looking beyond 2015 it is clear that different developing countries will have varying capacity to implement the post-2015 agenda and different mixes of domestic and international resources will be required. This is highlighted by **Liberia**, whose government is openly seeking international support over the next five years and beyond. Projections across all developing countries show that, while some countries like **Indonesia** will experience growth in domestic resources, others like **Liberia** will face continued resource constraints. Countries in sub-Saharan Africa, as well as some fragile states, will face the most severe shortfalls over the post-2015 timeframe and, with high poverty rates and rapidly growing populations, international resources are going to be particularly important to them. But the global fight against poverty also depends crucially on progress in countries like India and Indonesia which are home to very large numbers of people living on less than USD1.25 a day.

Government Expenditure, 2010 and 2030



$1.25 Poverty, 2010



Figures 5 and 6: Government expenditure per capita in 2010 and projections for 2030; and millions of people living in extreme poverty in 2010, by region

Development Initiatives' Investments to End Poverty programme

Development Initiatives' Investments to End Poverty programme (ITEP) intends to contribute to the debate on how we can best resource global poverty eradication.

Investments to End Poverty is bringing together independent and reliable data on international resource flows, domestic resources and poverty. It will map out the complex landscape of these resources to help inform decision making at a crucial moment for international development. Better and more transparent information on resources can strengthen and accelerate progress towards ending poverty. Each resource will contribute most effectively if they focus on their comparative advantages. Understanding comparative advantage requires an appreciation of the full resource flow picture.

In 2013, we are publishing detailed analysis and engaging widely on two key themes: the big picture of resource flows, and their potential roles within a post-2015 framework; and releasing greater value from aid. This briefing note for the Indonesia HLP meeting is drawn from findings in our discussion paper, *Harnessing All Resources to End Poverty*. We have also published an update to the *Essential Guide to ODA* featuring the newly released 2011 OECD data and welcome input and comments. All guides and discussion papers will be available on our website www.devinit.org.

For comments or further information please contact Tim Strawson, Senior Analyst: tim.strawson@devinit.org

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[i] The data in this note is sourced from: fDi Intelligence, IMF World Economic Outlook, OECD DAC, Oxford Economics, UNCTAD Stat and World Bank Databank.

[ii] All government expenditure per capita figures are expressed in 2005 international PPP $

[iii] The ODA figures presented here are Net ODA excluding debt relief, taken from Table 2A of the OECD DAC tables

[iv] Sector level data on actual investments is unavailable; this is based on detail about planned investments.

[v] The data on each international resource flow is taken from a separate source (see above) and it is not possible to fully account for duplications between series – there may therefore be some double counting in the totals for each country.

[vi] Loan repayments are netted from gross loans and other ODA to calculate the total net ODA figure, which is why gross loans exceed total ODA.