INVESTMENTS TO END POVERTY

Investments to End Poverty

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Development Initiatives exists to end absolute poverty by 2030

www.devinit.org
Development Initiatives believes that we can – and must – end absolute poverty by 2030.

No one should be living below the international poverty line of $1.25 a day. To achieve this vision, we need to mobilise all the available resources and target them on those living in poverty.

Today, 1.2 billion people live in extreme poverty. Varying projections based on economic growth predict that, by 2030, that figure could be reduced to 100 million, or it could actually increase. While economic growth is vital, to ensure that no one is left behind we need to better understand all the resources available for poverty reduction and maximise their impact.

Our Investments to End Poverty report maps those resources and makes complex data simple, to enable better decisions about future resource allocations.

Most poor people live in countries with low government spending per person. Where government spending is higher, international resources flows are higher too. In many of the poorest countries where government spending is lowest, aid is still the largest international resource flow, so it remains critical to poverty reduction.

To maximise its impact, the aid bundle must be unpacked: aid may be cash, expertise or goods. It may not even leave the donor country but be used to fund debt relief, student fees or refugees. As a result, there are significant variations in the value of each donor’s aid, and in the value of aid received by each developing country.

The data show that we can end absolute poverty by 2030. To do that, we need to target aid to the poorest people, mobilise all of the other resources that can contribute to reducing poverty, and maximise the value of every dollar.

This document summarises the highlights from our Investments to End Poverty report. For further information or to download a copy of the full report, please visit: devinit.org/report/investments-to-end-poverty
Ending poverty by 2030

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

Poverty has many dimensions – it is not just about income. Ending poverty means ensuring that everyone has adequate nutrition, basic health, education and housing as well as the information and freedom from discrimination that enable them to take part in society.

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

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

FIGURE 1
The extent of poverty depends on the income threshold

![Graph showing the extent of poverty depending on income threshold.]

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

FIGURE 2
The number of people in extreme poverty in 2030 could be anywhere between 100 million and more than 1 billion

![Graph showing the number of people in extreme poverty from 1990 to 2030.]

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

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

**Aid must be used in the context of other resources.** By focusing aid on people in poverty and leveraging other resource flows – such as investment and private giving alongside government spending – we can make progress towards ensuring that every person attains the most basic living standards by 2030.
All investments – domestic and international, public and private – can contribute to ending poverty. Some will deliver immediate returns, others longer term impact. Those by developing countries and poor people themselves will contribute the most.

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

The scale and diversity of resource flows to developing countries have increased rapidly. The volume of international resources received by developing countries has more than doubled since 2000, reaching an estimated US$2.1 trillion in 2011.
Resources also flow out of developing countries. Of the US$472 billion in foreign direct investment into developing countries, US$420 billion flowed out as repatriated profits.

The poorest countries still face severe spending constraints that are likely to continue. 82% of the world’s extreme poor live in countries where government spending is less than PPP$1,000 per person per year, compared with PPP$15,025 across DAC countries.

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

FIGURE 7
Resources flow both in and out of developing countries
Inflows and outflows of resources from all developing countries, US$ trillions, 2011

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

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

Source: Development Initiatives calculations based on data from the IMF and World Bank.
Official development assistance remains important. ODA remains the main international resource for countries with government spending of less than PPP$500 per person per year.

Better information is needed to deliver better results. Harnessing all resources for poverty reduction will be easier when we know more accurately who provides them, who controls them, and where and on what they are spent.

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

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

ODA has grown substantially since 2000. ODA from DAC donors totalled US$128 billion in 2012, having grown substantially in real terms since 2000. G8 countries provide two-thirds of ODA, with the USA accounting for a quarter of total ODA.
**Sub-Saharan Africa gets the largest share of ODA.** Sub-Saharan Africa receives about 35% of ODA, South and Central Asia about 17%. Thirteen of the twenty largest aid recipients are in sub-Saharan Africa, while the largest is Afghanistan, which receives 4.9% of total ODA disbursements.

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

**FIGURE 11**
ODA to sub-Saharan Africa and South and Central Asia has risen in recent years; ODA to the Middle East and East Asia has fallen

**FIGURE 12**
Debt relief has fallen since 2005; ODA to most sectors has grown
Aid targets haven’t been met. Only five countries currently exceed the UN target for ODA of 0.7% of GNI, set in 1970. Together, DAC donors achieved only 0.29% of GNI in 2012.

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

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

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

Source: Development Initiatives calculations based on DAC data.
Not all aid is transferred to developing countries. Some parts of the aid bundle never leave the donor country – among them, debt relief, support for students and refugees in donor countries, and development awareness.

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

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

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

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

**MAP 2**
Targeting aid on ending poverty: the darker the shading, the less ODA allocated per person in extreme poverty
ODA per poor person, PPP$, 2011

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

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

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

Measuring poverty by averages will continue to leave people behind. Disaggregated data on people in poverty and more timely, subnational, geocoded data on how aid and other resources are used can underpin more disciplined planning, resource allocation and evaluation.
Estimates of poverty are unreliable and out of date. Global poverty estimates draw on five data sources, including household surveys and national accounts. The collection methods for surveys and the use of different data sources can change the estimates of the numbers of people in poverty by hundreds of millions.

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

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

A Development Data Revolution is needed to end poverty. With timely, forward looking, disaggregated data, resources can be allocated more optimally, progress can be properly monitored, and lessons can be learned about effective and efficient policies and programmes.
Development Initiatives exists to end absolute poverty. Through objective, high quality research and analysis, we inform decisions at all levels that deliver better use of resources. We champion transparency, enable effective use of information and support others to deliver practical tools and systems for people to hold their representatives to account and to inform policy and practice. We have centres in the United Kingdom, Kenya and Uganda, and have partners globally including governments, academic institutions, the private sector and citizen representatives.

To find out more about our work visit www.devinit.org 

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