

---

# Financing the end of extreme poverty

---



Marcus Manuel  
Harsh Desai  
Emma Samman  
Martin Evans



**Briefing note**  
September 2018

Readers are encouraged to reproduce material from ODI publications for their own outputs, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI.

© Overseas Development Institute 2018. This work is licensed under CC BY-NC 4.0.

---

## Introduction

In 2015, leaders of all countries committed to ‘eradicate extreme poverty for all people everywhere’ by 2030.<sup>1</sup> In the past 25 years, the world has managed to halve the number of people living in extreme poverty (World Bank, 2015). Yet despite this progress there are still 800 million people living in extreme poverty.<sup>2</sup>

Some of these people are in countries with relatively low rates of poverty overall, and which have the programmes and the resources already in place to end extreme poverty by 2030. But many more live in countries that lack sufficient resources to achieve this target and face multiple, interlocking obstacles to their progress. The challenges are particularly acute in low-income, least developed, and fragile and conflict-affected countries, most of which currently have poverty rates of over 20%.<sup>3</sup>

This briefing note presents key findings and analysis from research on what needs to be done to deliver the global target to end extreme poverty by 2030.<sup>4</sup>

First, it identifies those countries that cannot afford to end extreme poverty from their own resources by drawing on:

- **new poverty projections**, so that the estimates of need are based on the number of people that are expected to still be left in poverty in 2030 after allowing for the impact of economic growth
- **new tax projections**, based on International Monetary Fund and World Bank research as to what is economically feasible, given the structures of the economy and the overall level of economic development
- **costings of the three core social sectors** that are funded by all countries in the world, including Organisation for Economic Co-operation and Development (OECD) countries, and are recognised to have a profound impact on efforts to end extreme poverty: education, health (including nutrition) and social protection transfers.

Second, the paper assesses the impact that OECD Development Assistance Committee (DAC) donors are having on efforts to end extreme poverty – in particular, how much aid they provide and how efficiently they target this to the countries that most need external financial support to end extreme poverty.

“Despite progress, there are still **800 million** people living in extreme poverty.”

---

1 Sustainable Development Goal (SDG) 1.1 (UNDESA, 2016).

2 ODI estimate based on World Bank’s PovcalNet database (2018) with ODI estimates made for 35 countries where data is either missing or deemed unreliable (including Nigeria, South Sudan, Syria, Uganda and Yemen). Latest year in current database is 2013.

3 Ibid.

4 This briefing note summarises a longer ODI report, which sets out the full methodology and analysis (Manuel et al., 2018).

---

## Countries that can't end extreme poverty by themselves

### Poverty projections

The poverty projections in this paper reveal that if growth continues at past rates this can halve the number of people in extreme poverty to 400 million in 2030.

According to this analysis, the proportion of people living in extreme poverty across the world is projected to fall from the latest estimate of 11%<sup>5</sup> to 5% in 2030 as a result of economic growth. This would see 400 million people lifted out of extreme poverty. But predicted growth will get the world only half-way, leaving another 400 million still in extreme poverty in 2030.

Of these 400 million people, 85% will be in fragile states. While low-income countries (LICs) are expected to have 54% of the global total, poverty rates are expected to be seven times more concentrated in these countries: the average, population-weighted poverty rate is predicted to be 21% in LICs, compared to 3% in middle-income countries (MICs).

Some of the countries with projected high rates of poverty are long-term conflict-affected – such as Central African Republic, Somalia and South Sudan. Others are countries where poverty rates have been high for many years, such as Madagascar, Malawi, Mali, Nigeria and Zambia. And some are countries where poverty has started to increase after a long period of decline, such as Uganda.

### Tax-generating potential

Tax projections show that LICs and MICs have the potential to increase their revenues by \$2.0 trillion a year to \$9.4 trillion a year. On average, LICs could increase their revenues from 17% to 19% of gross domestic product and MICs from 25% to 30% of gross domestic product. But these additional revenues are not evenly distributed: 99% of the total would be generated by MICs. On average, the maximum revenue potential of MICs is \$1,290 per person – more than 10 times the \$120 average in LICs.

### Costing the three social sectors

Our costing exercise shows that costs in all LICs and MICs total \$2.4 trillion. The costs in LICs are \$137 billion, amounting to \$188 per person per year in a typical LIC.

**Table 1 Social sector costs per year**

	Total cost (\$ billion)	Of which LIC (\$ billion)	Cost per person in LICs (median \$ per person)
Education	1,138.8	33.2	41.0
Health (including nutrition)	1,155.0	58.2	77.0
Social protection transfers	153.6	45.9	65.0
<b>Total</b>	<b>2,447.4</b>	<b>137.3</b>	<b>188.0*</b>

*\*Sum of three sectors is slightly different (\$183 per person) as all figures are medians.*

---

5 As noted in an earlier footnote, the latest reference year is 2013. In addition to the 2030 projections, ODI has projected poverty rates for 2018, which suggest that poverty has already fallen significantly, especially in China and India. The global total in 2018 may be as low as 8% (610 million), so poverty may already be even more concentrated in low-income, least developed and fragile and conflict affected countries. ODI plans to update all these projections when new World Bank data (reference year 2015) is published in October 2018.

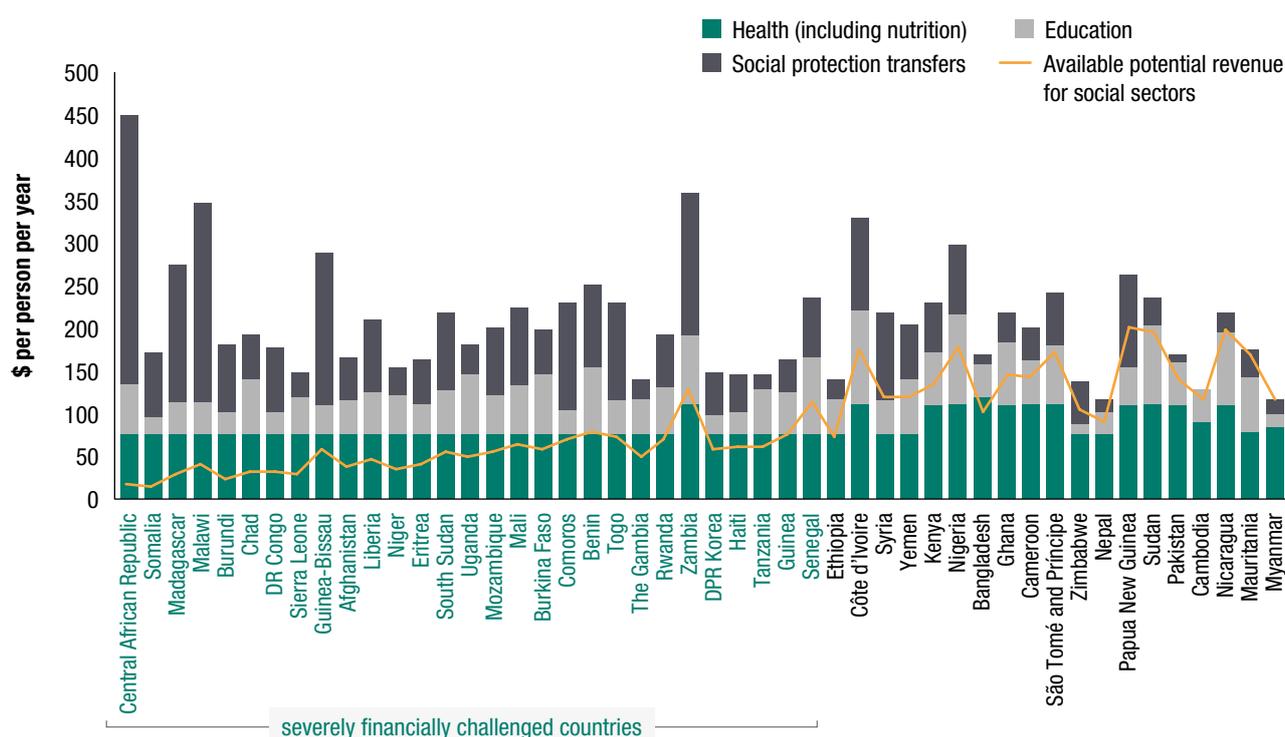
The education costs are based on United Nations Educational, Scientific and Cultural Organization research and cover pre-primary to lower-secondary schooling. The health costings are based on World Health Organization and World Bank-funded research and cover both the costs of universal healthcare and the provision of high-impact nutrition-specific interventions for all children under the age of five years. The costings for social protection transfers were developed by ODI and are based on the total income shortfall of everyone who is expected to be in extreme poverty in 2030 (after allowing for growth). The costings cover specific transfers for children and the elderly and support for working-age adults through self-targeted public work programmes, with special provision for people living with disabilities, so that no-one is left behind.<sup>6</sup>

## Implications and analysis

While additional tax revenue reduces their funding gaps, 48 of the poorest countries in the world still cannot afford to fully fund the three core social sectors needed to end extreme poverty even if they maximise their tax effort. They would still face an aggregate financing gap of \$150 billion a year.

Assuming half of their potential revenues were made available for social sector spending (in line with international targets<sup>7</sup> but below the 60% that is the average in OECD countries), all upper-middle-income countries and most lower-middle-income countries could fully fund the costs. However, none of the LICs (except Tajikistan) could afford the full costs, even if they increased their taxation to the

**Figure 1 Costs of delivering health, education and social protection vs available potential revenues for social sectors – all under-resourced countries**



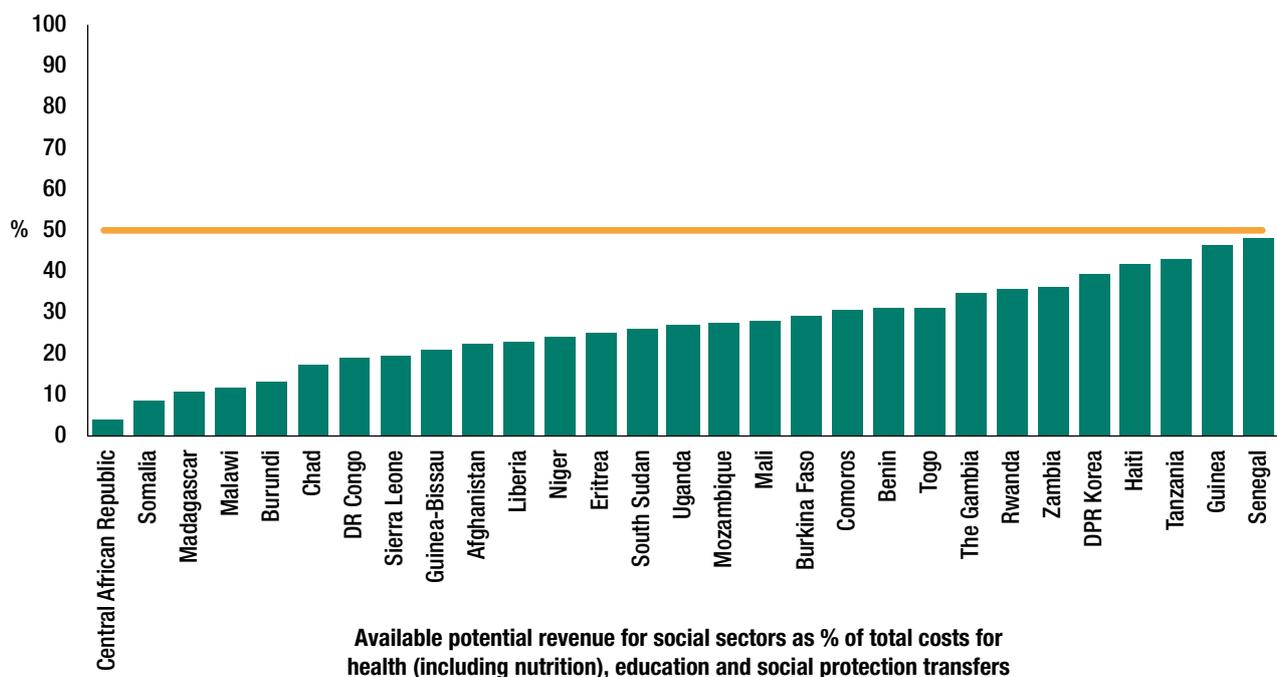
All under-resourced countries, in order of available potential revenue as % of total cost, starting with lowest

- 6 To ensure countries have choice over the precise form of social protection, both universal and targeted approaches were costed, and the higher figure was then used. The costings also allow for unconditional or conditional transfers and provide for administration costs and leakages.
- 7 The Education for All target for education (20% of government revenues), the Abuja target for health (15%) and the implied International Labour Office target for social protection (at least 15%). See full report for more details.

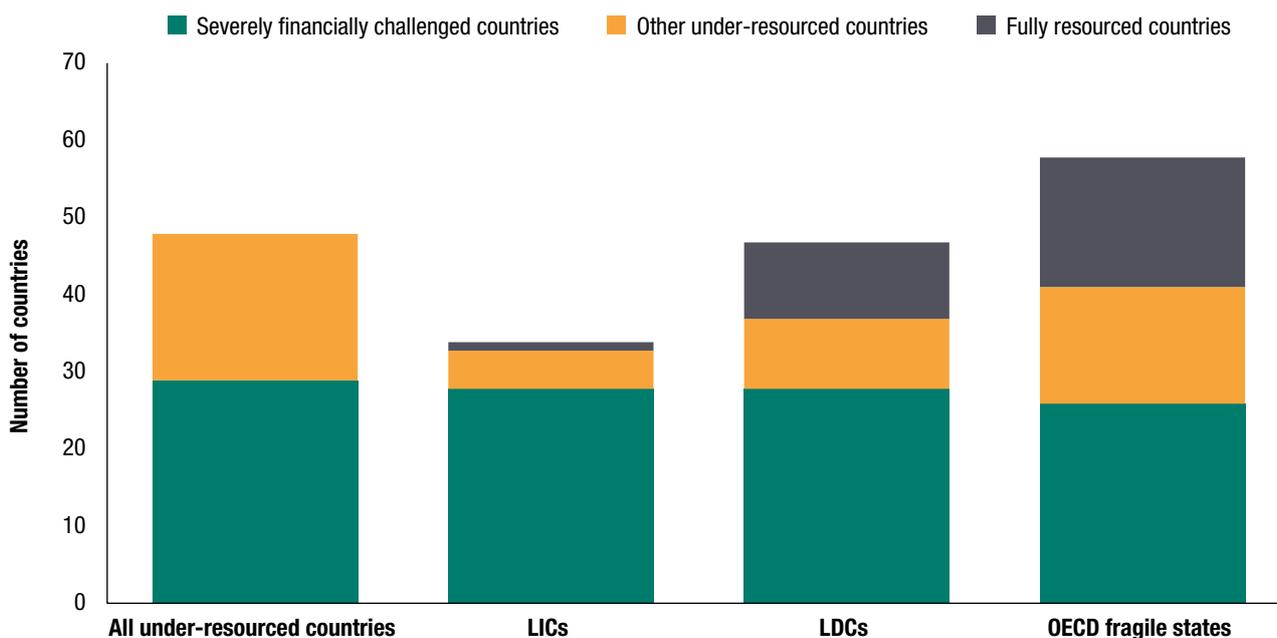
maximum level possible. Of these, there are 29 severely financially challenged countries (SFCCs) that cannot even afford half the costs.

The 48 under-resourced countries are predominantly low-income, least developed and fragile states. The concentration is even more pronounced in the 29 SFCCs: all but one of the 29 is a LIC or a least developed country (LDC), and only three are not fragile states.<sup>8</sup>

**Figure 2 SFCCs (available potential revenues less than 50% of total costs)**



**Figure 3 Under-resourced countries within LIC, LDC and OECD fragile states groupings**



<sup>8</sup> Of the 29 SFCCs the only non-LIC is Zambia, the only non-LDC is Democratic People’s Republic of Korea (DPRK) and the three non-fragile states (OECD definition) are Benin, Senegal and Togo.

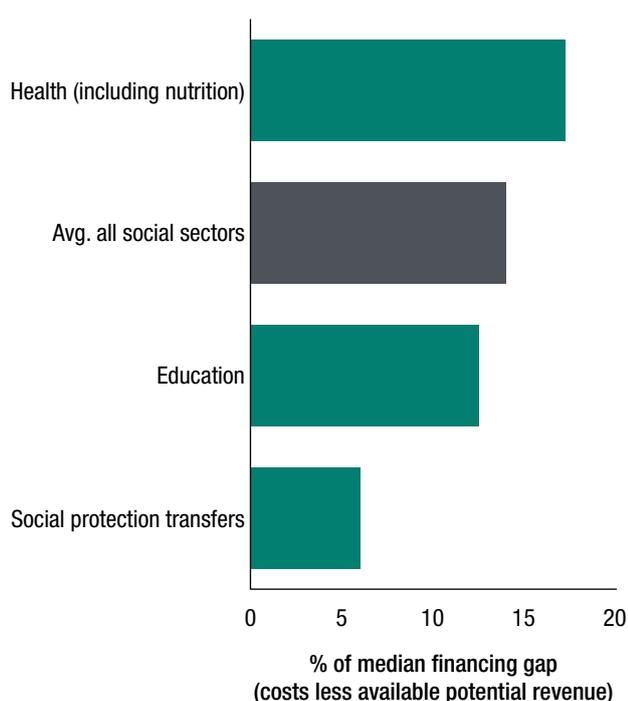
## Implications for aid donors

### Impact of current global aid flows on ending extreme poverty

Aid currently fills only a sixth of the financing gap of the 48 under-resourced countries. Assuming that 50% of the \$50 billion aid they currently receive (the latest OECD DAC estimate) is needed for infrastructure and economic growth projects, the other 50% provides only \$25 billion for social sector financing. This leaves an unfilled funding gap of \$125 billion a year. After factoring in current levels of aid, all 29 SFCCs still have funding gaps, as do most of the other 48 under-resourced countries.

Without a change in the level of aid to the 48 under-resourced countries, the size and spread of the current funding gaps effectively rule out ending extreme poverty everywhere by 2030. The inadequate funding of all three sectors is also at odds with the Addis Ababa Action Agenda (AAAA) commitment to a new social compact to address just these areas of spending.<sup>9</sup> It is also of concern given the increasing recognition of the importance of these three sectors for investing in a country's human capital, which is critical for long-term growth.<sup>10</sup> While private sector investment and remittances increase growth and can reduce poverty, they cannot fund universal provision of public social services.

**Figure 4 Total aid (ODA) vs financing gap in SFCCs**



While all sectors are severely underfunded, social protection fares the worst, receiving less than half the level of aid that education and health do, relative to the size of the financing gaps.<sup>11</sup> This is particularly damaging given its clear direct role in ending extreme poverty. Only a fifth of the extreme poor in LICs currently receive social protection transfers. But where such programmes are funded, they account for over a third of those escaping extreme poverty (World Bank, 2018).

But the recent trend is towards the poorest countries receiving a lower share of aid. Despite the international target to increase aid to LDCs (e.g. Sustainable Development Goal (SDG) 17.2), and repeated commitments to do so, LDCs' share of aid has fallen over the past six years from 30% to 24%.<sup>12</sup> MICs are now receiving ten times as much aid per person in extreme poverty as LICs.

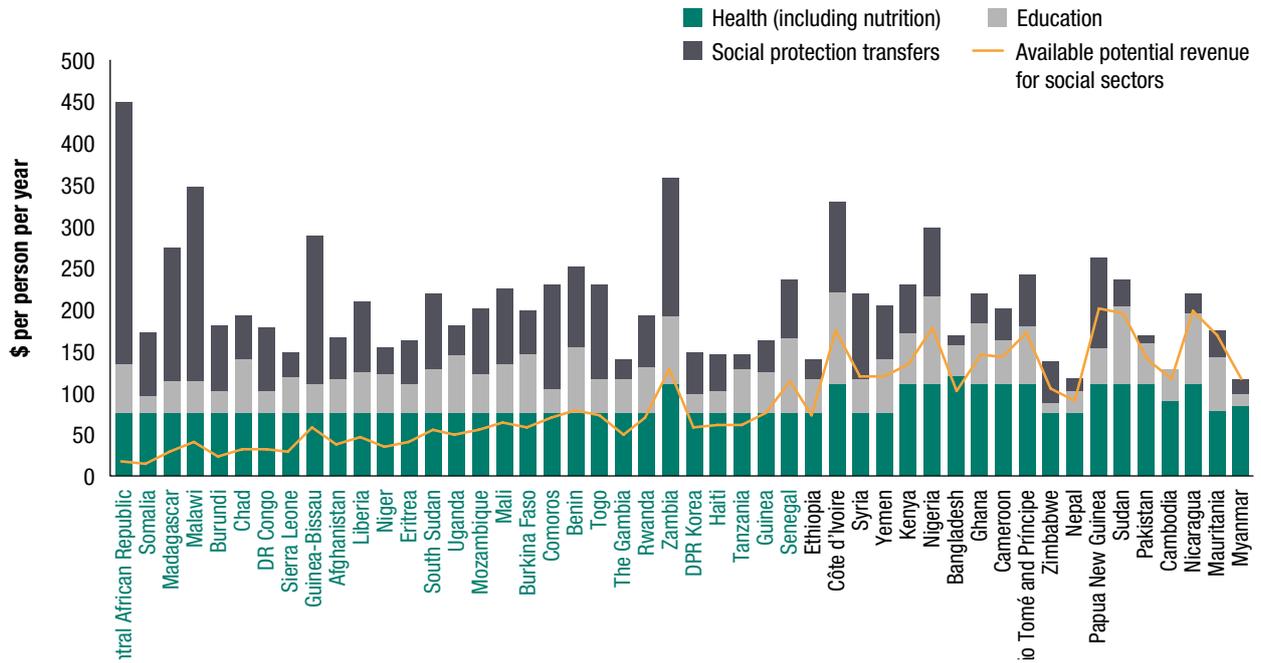
9 'To end poverty in all its forms everywhere and finish the unfinished business of the Millennium Development Goals, we commit to a new social compact'. As part of a new social compact, governments also committed to 'provide fiscally sustainable and nationally appropriate social protection system, including social protection floors' (UN, 2015).

10 See for example [www.worldbank.org/en/news/immersive-story/2018/08/03/investing-in-people-to-build-human-capital](http://www.worldbank.org/en/news/immersive-story/2018/08/03/investing-in-people-to-build-human-capital).

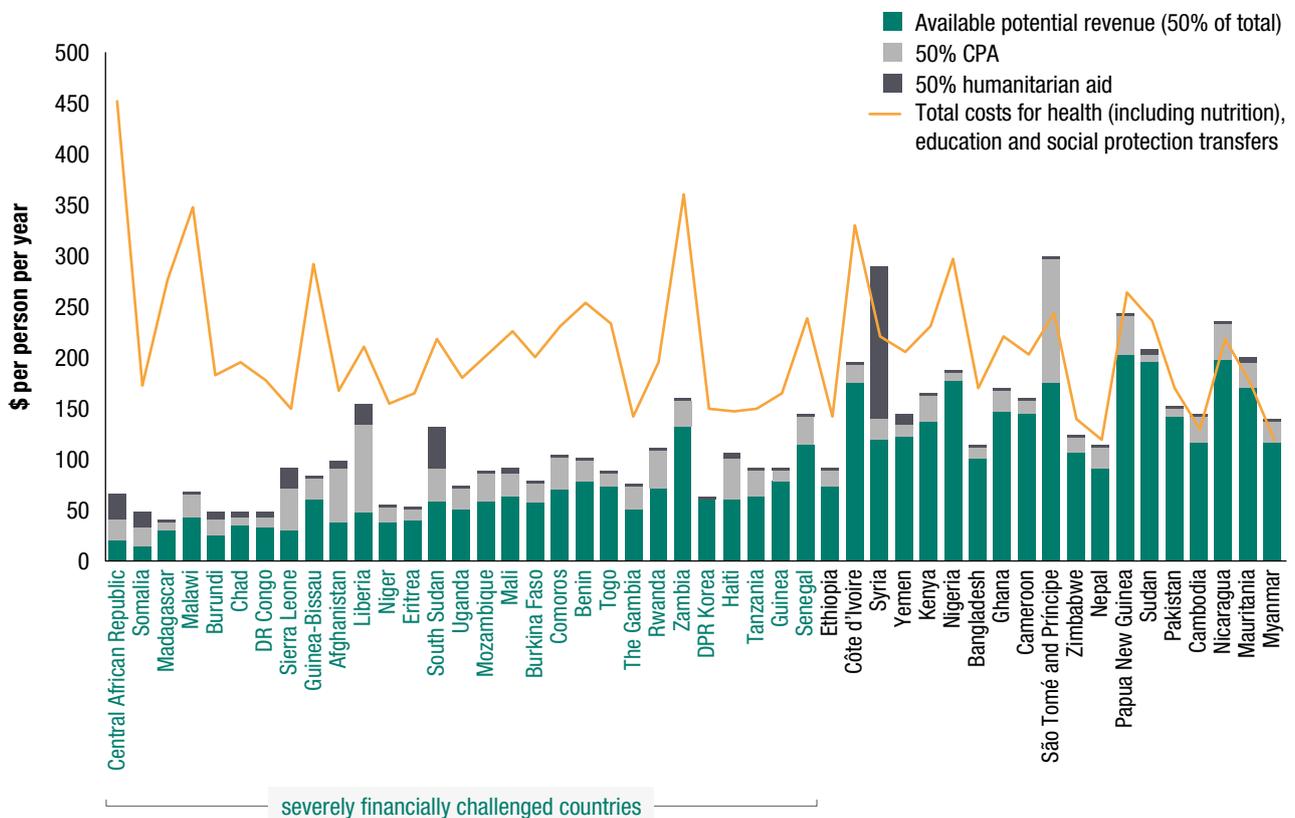
11 In 29 SFCCs the average level of social protection official development assistance (ODA) is \$3 per person, amounting to 6% of the financing gap. The corresponding figures for education are \$3 (13%) and for health are \$11 (17%).

12 Share of net ODA (all donors) 2010 compared to 2016 (latest DAC figures). This includes both bilateral and multilateral donors. The figures just for DAC donors, including DAC estimates for imputed multilateral share, show a similar trend (34% to 27%). The figures for just the bilateral aid from DAC donors also show a similar trend (22% to 17%).

**Figure 5 The countries that need aid the most receive less aid per person in extreme poverty**  
 In 2018 low-income countries receive 10 times less aid per person in extreme poverty



**Figure 6 Aid and potential revenue available for social sectors vs total costs for health, education and social protection transfers**



All under-resourced countries, in order of available potential revenue as % of total cost, starting with lowest

---

## Impact of better targeting and greater volume of global aid

There is considerable potential to improve the current targeting of aid. Nearly half of all aid (45%) that is available for spending in recipient countries – country programmable aid (CPA)<sup>13</sup> – is provided to 98 countries that can fully fund their own costs. If 82% (\$33 billion a year) were reallocated, all the 29 SFCCs could afford at least 50% of their social sector costs (and would receive the same additional amount of aid for infrastructure and other needs). However, this would fill only one-eighth of the current funding gap for all 48 under-resourced countries.

If, in addition to this improved targeting, all OECD DAC donors delivered on their commitment to spend of 0.7% of gross national income (GNI) on aid, this would generate an additional \$184 billion a year.<sup>14</sup> If half of this was provided for social sectors, and was targeted at the 48 under-resourced countries, this would enable all of these countries to fund 94% of the costs of ending extreme poverty. A further \$30 billion would be needed to fully close the gap.

“Delivering on the commitment to spend 0.7% of GNI on aid would generate an additional \$184 billion a year.”

In both scenarios, the share of CPA going to LDCs would increase sharply. For DAC donors, this implies the share of total aid<sup>15</sup> rises from 29% to 49% in the reallocation-only scenario, and to 59% in the combined reallocation and additional aid scenario.<sup>16</sup> This analysis gives further justification to the 50% target that the OECD and civil society organisations proposed for the AAAA<sup>17</sup> – and is much higher than the 29% target implicit in the SDGs.<sup>18</sup> The 50% share-of-aid target also implies that LDCs should receive a 0.35% share of DAC donor GNI, compared to the 0.10% they are currently receiving and the AAAA/SDG proposal for 0.20%.

## Individual donor performance on ending extreme poverty

To assess the extent to which individual donors are already supporting efforts to end extreme poverty, we have developed a new index. This is based on two indices, the first of which measures individual donor efficiency and the second, individual donor effort.

---

13 As defined and recorded by the OECD DAC. This excludes ODA retained for spending within the donor country (in Germany and Italy 25% and 30%, respectively, of ODA is retained for spending on refugees), humanitarian assistance (which is programmed and delivered by the UN and non-governmental organisations) and debt relief. Between 2014 and 2016, DAC donors' CPA received by countries (including their imputed share of multilateral aid) accounted for 55% of total net DAC ODA. Unless otherwise stated, all CPA figures in this paper refer to the average of latest available DAC figures (which are for 2017 to 2019).

14 Based on 2017 GNI levels.

15 Net ODA.

16 Share of net ODA (including imputed share of multilateral aid).

17 It also reinforces the same recommendation made in the earlier ODI report (Greenhill et al., 2015).

18 SDG target 17.2 is for 'Developed countries to implement fully their ODA commitments, including the commitment by many developed countries to achieve the target of 0.7% of ODA/GNI to developing countries and 0.15% to 0.20% of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20% of ODA/GNI to least developed countries.' This implies the LDC share would be 29% (the ratio of the 0.20% target to the 0.70% target). The indicator for this target is net ODA and is the total of a country's bilateral aid and multilateral contributions.

## Donor efficiency

The donor efficiency measure considers how well targeted their bilateral aid is at the countries with the most pressing financial needs: the 29 SFCCs.

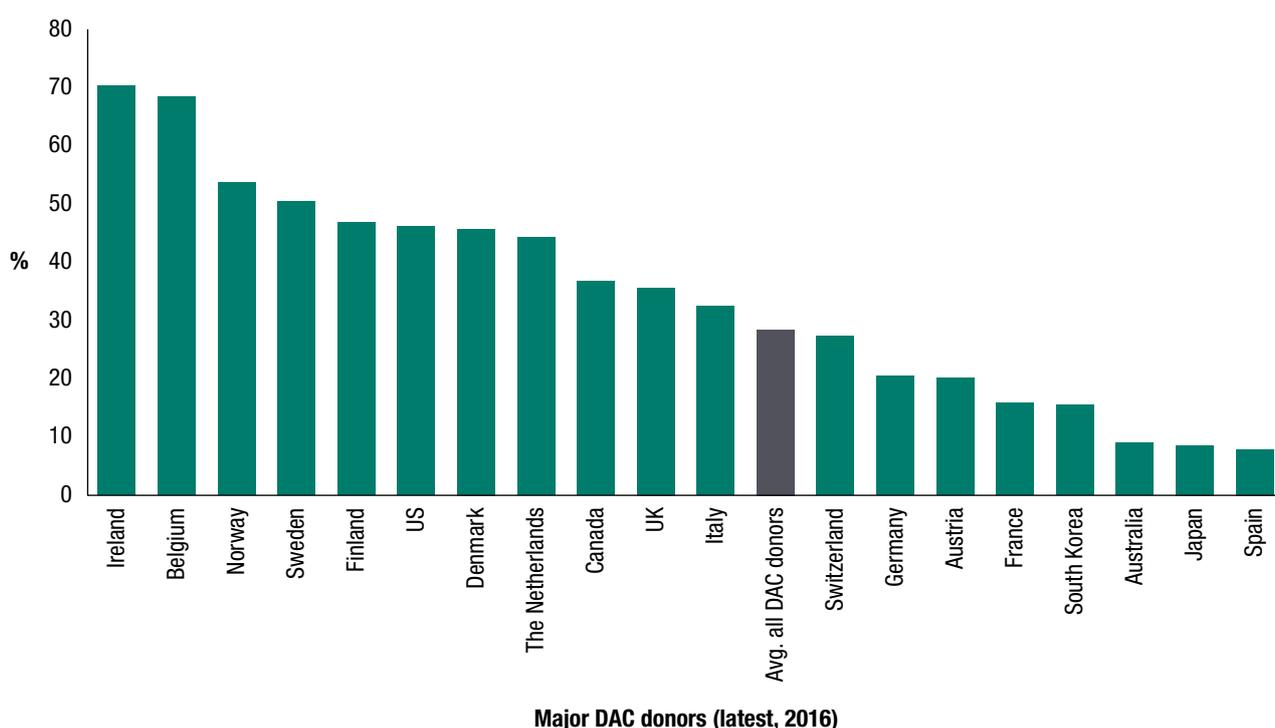
For these countries to be able to fund at least 50% of the social sector costs, two-thirds of existing CPA needs to be provided to them. Previous targeting measures simply calculate the share of total aid that goes to all countries in a particular group – for example, to all LDCs. This new approach builds on this by also assessing how well the two-thirds of CPA is matched to the relative needs of the SFCC: we can see, for example, that some have only 4% of what they need, while others are already much closer to 50%.

The index reveals that some donors are much more efficient than others. Some give much less than two-thirds of their aid to SFCCs. And some that give substantial amounts to SFCCs focus on those that have the smaller financing gaps. The country with the largest financing gap – Central African Republic – has often been noted as an aid orphan.

The top three major DAC donors in terms of donor efficiency are Ireland, Belgium and Norway. In some cases, this is owing to broad support for many of the SFCCs, and Belgium’s high score is owing to its focus on Democratic Republic of Congo (DRC) – another country with a large financing gap. The bottom three donors in terms of efficiency are Spain, Japan and Australia.

While the average score for all donors is 28%, the three best average 63% and the three worst just 8%. While there is only comparable data for a few non-DAC donors – those that report their figures to the DAC – the index also reveals the wide range of efficiency scores: from 4% (United Arab Emirates and Russia) to 51% (Turkey). Turkey’s high score reflects its focus on Africa in general and on Somalia in particular.

**Figure 7 Individual donor efficiency at targeting extreme poverty (DEEP)**



---

The donor efficiency index can also be used to assess the targeting of global funds and specific initiatives. For example, the Global Fund scores 45%, ranking alongside some of the highest performing donors. Meanwhile, spending on support for countries trying to increase their levels of taxation – a key initiative within the AAAA – scores 30%, only just above the DAC average.

### Donor effort

The donor effort measure is based on the volume of DAC aid. The effort of DAC donors is measured relative to the United Nations target of 0.7% of GNI. Among DAC major donors (that is, those donors that provide more than \$500 million in official development assistance – ODA<sup>19</sup>), the top three major donors are Sweden, Norway and Denmark. As all of the top three exceed the 0.7% target they score more than 100%. The bottom three are South Korea, the US and Spain. There is a wide range in the degree of effort: the average for all DAC donors is 44%, with the top three averaging 130% and the bottom three 25%.

### Combining donor efficiency and effort

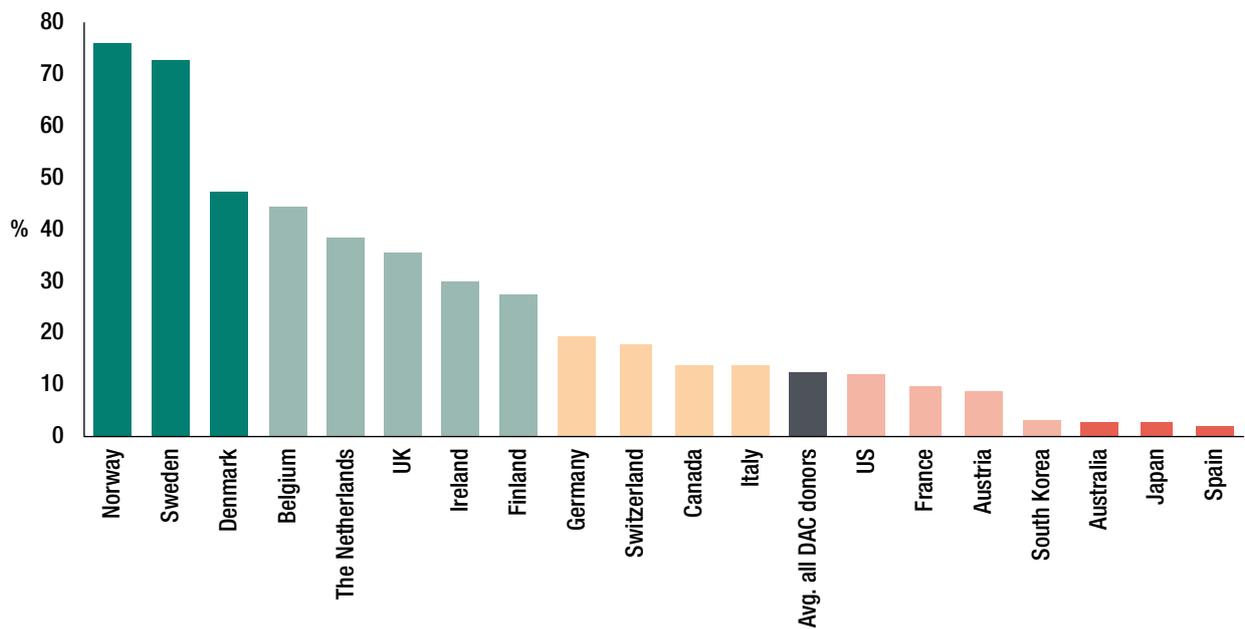
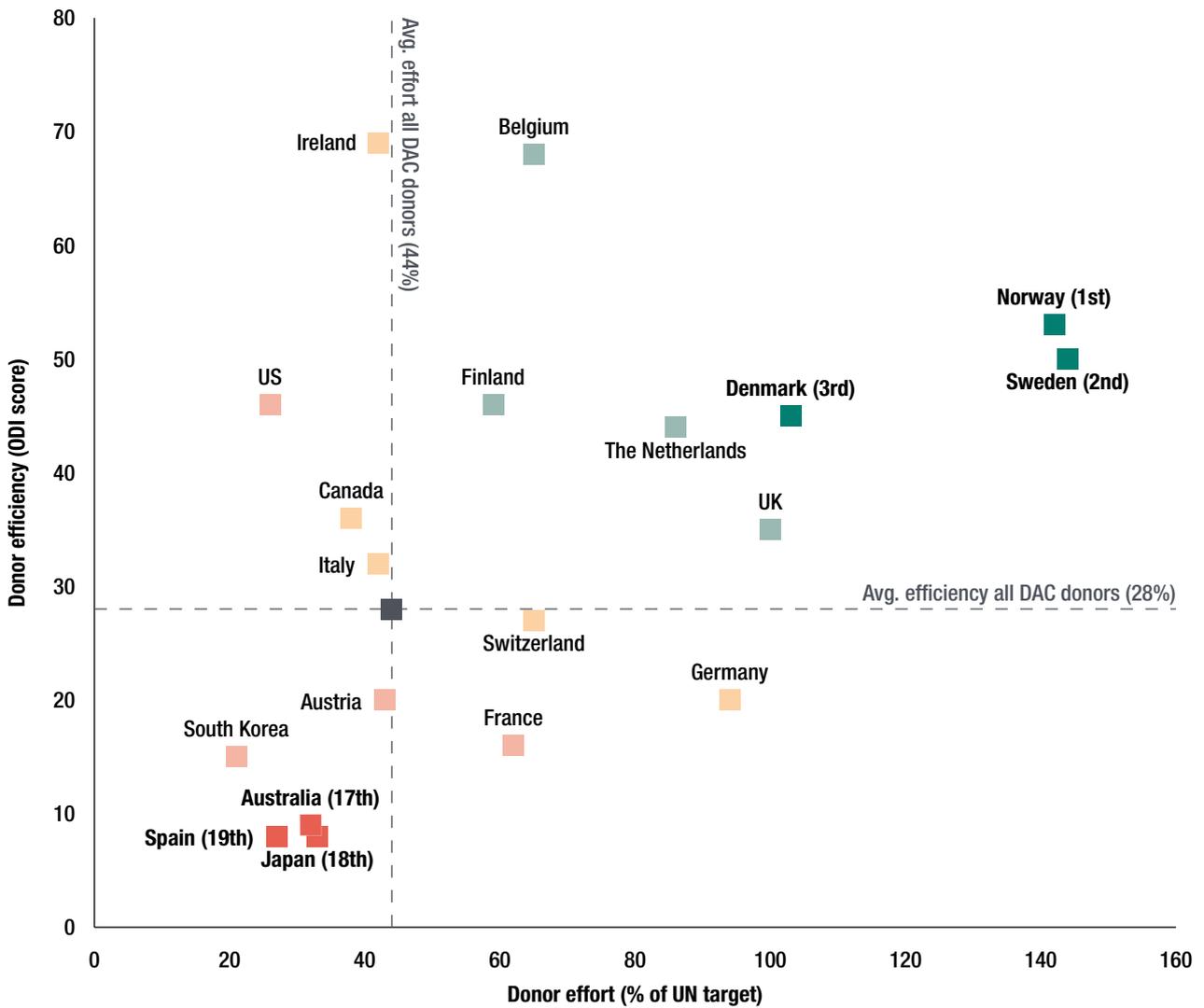
The overall donor effectiveness score – the multiplication of efficiency and effort – reveals that Norway, Sweden and Denmark are the top three major DAC donors. The bottom three are Spain, Japan and Australia. These overall effectiveness scores highlight the considerable potential for both improving aid efficiency and increasing aid effort. The effective support from the best three donors is 22 times greater than the worst three.

---

19 Average for 2014–2016.

**Figure 8 Donor effective support on ending extreme poverty – combined aid effort and efficiency**

Major DAC donors (latest, 2017 (effort), 2016 (efficiency))



---

## Recommendations and conclusion

This analysis clearly shows that the world is not on track to end extreme poverty by 2030. But this target can be within reach if donors and their partners focus their aid efforts on the countries that are projected to need the most support, and on the sectors that are known to lift people out of poverty in the long term.

To help deliver on the ambition to end extreme poverty for everyone in every country, donors and their partners should:

1. **focus global aid on those countries that, even after maximising their own taxation, are least able to finance their own public spending to end extreme poverty.** Over the next five years the share of aid to LDCs should increase from 30% to 50% of all ODA
2. **increase funding in these countries for core social sectors:** health (including nutrition), education and – particularly – social protection transfers, so that no one, especially no child and no one with disability – is left behind
3. **increase global aid from OECD DAC donors to 0.7% of GNI (and aid to LDCs to 0.35% of GNI) to ensure all countries can both afford to end extreme poverty by 2030 and invest in their human capital to secure their own future growth thereafter**
4. **include aid per person in extreme poverty as a standard metric for all analysis and presentations on aid flows.**

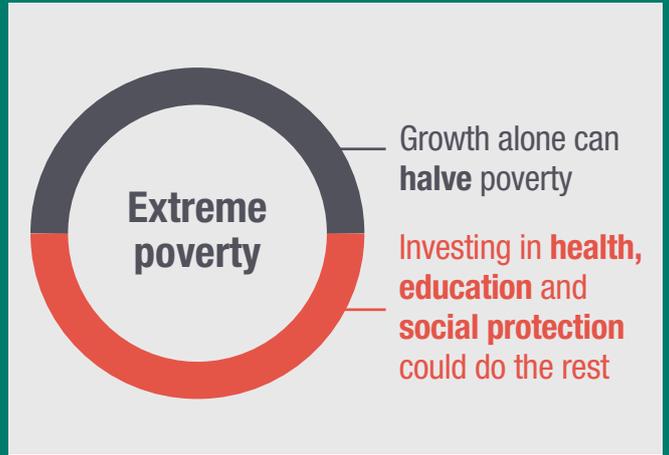
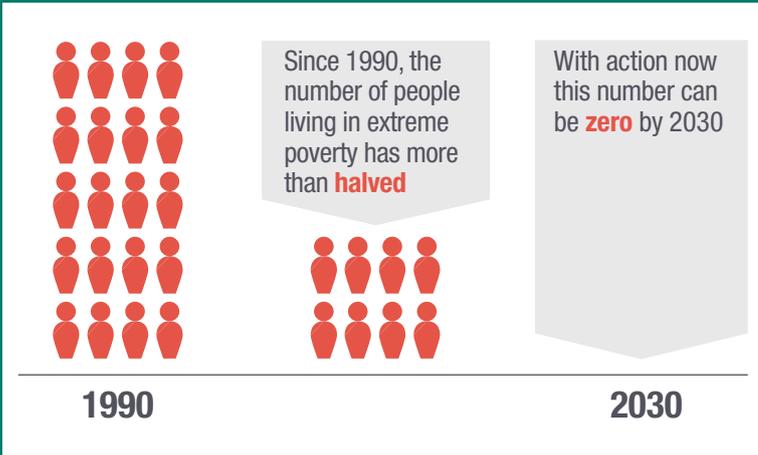
“Extreme poverty will not be eliminated **without a radical increase in funding** for the countries that cannot afford to do this themselves.

Extreme poverty will not be eliminated in many countries without a radical increase in funding for the countries that cannot afford to do this themselves – even if they do increase their taxation to the maximum level possible. All countries face funding constraints and face poverty challenges. But as long as aid is a scarce resource, the first priority should be the countries that are least able to help themselves and the critical sectors that are least well funded. However more efficient targeting will take us only part of the way. Ending poverty will also require greater donor effort.

---

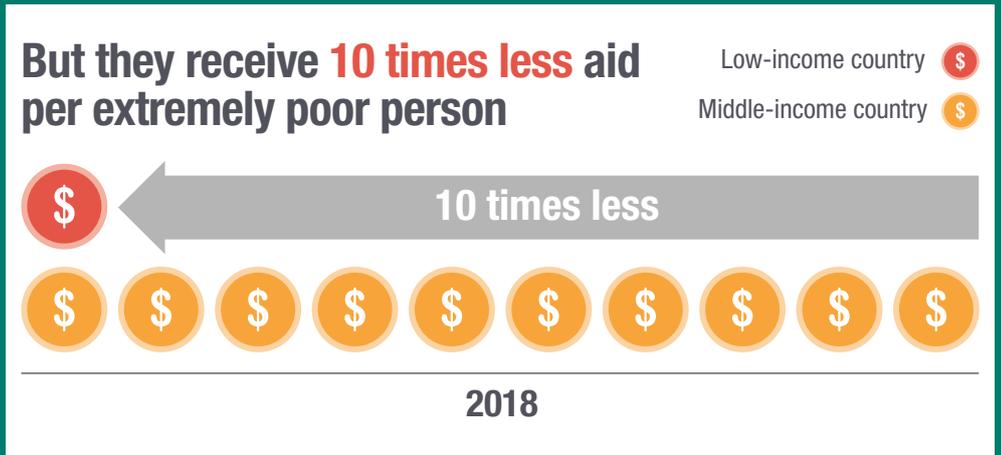
## References

- Manuel, M. Desai, H., Samman, E. and Evans, M. (2018) *Financing the end of extreme poverty*. ODI Report. London: Overseas Development Institute ([www.odi.org/publications/11187-financing-end-extreme-poverty](http://www.odi.org/publications/11187-financing-end-extreme-poverty))
- UN – United Nations (2015) Addis Ababa Action Agenda of the third International Conference on Financing for Development. New York, United Nations
- UNDESA – United Nations Department of Economic and Social Affairs (2016) ‘Sustainable Development Goal 1: targets and indicators’. Sustainable Development Knowledge Platform (<https://sustainabledevelopment.un.org/sdg1>)
- World Bank (2015) ‘Global Index of Shared Prosperity’ (dataset, World Bank) ([www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity](http://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity))
- World Bank (2018) *The state of social safety nets 2018*. Washington DC: World Bank



But **29 countries** can't afford even **half** of the investment needed – even if they maximise the tax they raise

Extreme poverty rates will be **7 times greater** in these countries than other developing countries





**Evidence.  
Ideas.  
Change.**

---

ODI is an independent, global think tank, working for a sustainable and peaceful world in which every person thrives. We harness the power of evidence and ideas through research and partnership to confront challenges, develop solutions, and create change.

---

**ODI**  
203 Blackfriars Road  
London SE1 8NJ

+44 (0)20 7922 0300  
info@odi.org

odi.org  
odi.org/facebook  
odi.org/twitter