2

The mix of all resources

- Actors across the official, commercial and private spheres perform different functions and invest resources for different reasons. All can contribute to the goal of ending poverty, though they impact people in poverty in different ways to different degrees and over different timelines.
- To end poverty by 2030, we must create an environment at global, national and local levels that leverages the comparative advantage of each investment and resource.
- Official resources at the domestic and international level are particularly important because they can be targeted directly towards the investments needed to reduce poverty.
- Unfortunately there are least domestic resources in the countries where the challenge of ending poverty is greatest.
- Therefore, development assistance will remain critical for countries with the greatest depth of poverty and the least domestic public resources.
- International commercial and private resource flows to developing countries are growing rapidly, but remain primarily concentrated in a few larger emerging markets.
- Data on resource flows – particularly disaggregated data that describes context below the national level – must improve if we are to understand how different resources can be used to benefit people in poverty.

Achieving the end of extreme poverty by 2030 requires a diverse mix of resources that offer the world's poorest people improved access to services, greater economic opportunity and strengthened resilience against shocks.

Actors from all sectors – public and private, domestic and international – have a role to play in ensuring the end of poverty, though they bring different strengths and comparative advantages. Different resources are driven by incentives and perform functions that vary widely in different contexts. Their impact on people in poverty also varies, with each resource impacting over a wide-ranging timeline through diverse mechanisms.

Ending extreme poverty by 2030 requires a political environment at national and international levels that can leverage the strengths of different resources and ensure that the people in the deepest poverty also benefit from an appropriate mix of investments. To understand these comparative strengths and the role each resource can play, we must first understand the resource landscape – what resources are available, why they move in and out of countries and communities, and how they impact on people in poverty.

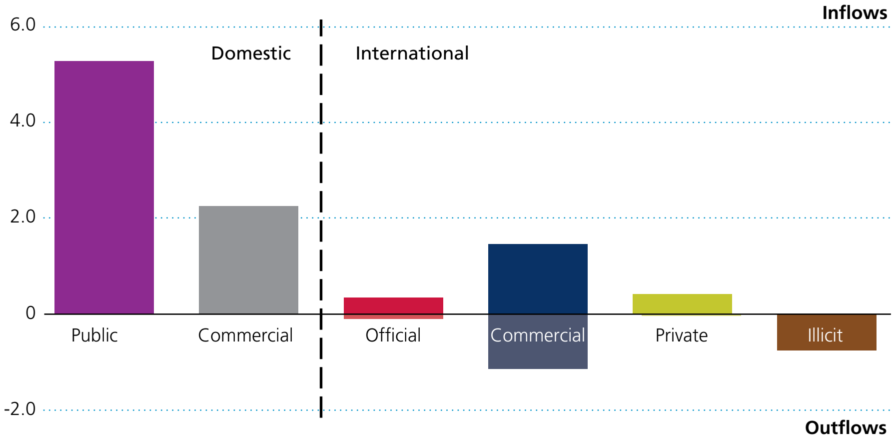
The scale of resources available

A wide range of public, private and commercial resources from both domestic and international sources are available to developing countries. In aggregate, although the data allow a more comprehensive understanding of the scale and nature of international flows, domestic resources far outweigh those flowing to developing countries from external sources. Domestic finance, particularly from public resources, is a key driver of poverty reduction. Domestic institutions are best placed to diagnose, prioritise and design investments to address domestic problems, and mobilising and using domestic resources effectively is 'central to our common pursuit of sustainable development'.[1]

FIGURE 2.1

Domestic public resources are the largest source of financing to developing countries in aggregate

Domestic resources in developing countries; international resource flows to and from developing countries, US$ trillions, 2013



Notes: This figure presents the best available estimates for the scale of resources in each of these categories[5] across 146 developing countries. Data on many flows is known to be partial (see data section below).

Source: Development Initiatives calculations based on numerous sources (see Methodology.)

Domestic

By far the largest resource, domestic public resources – the tax and revenue mobilised by governments of developing countries – totalled US$5.3 trillion in 2014.[2] Growth in revenue across developing countries in aggregate grew rapidly in the late 2000s, almost doubling between 2005 and 2010, though plateaued thereafter. Since 2011 trends have been more mixed across developing countries, with almost 40% of countries experiencing a decline in revenue following the global economic crisis.[3]

Domestic commercial finance is estimated at US$2.2 trillion[4] (excluding China, for which no data is available). As a key creator of jobs, economic growth and opportunity, domestic commercial actors have a critical role to play in ending poverty, though the data on commercial investment across and within developing countries is poor and the links between investments in different sectors and poverty reduction are not well understood.

Other domestic actors – civil society, non-governmental organisations and households – will also play a critical role on the path to ending poverty, though data on the scale and characteristics of their activities is not available.

International

The international resources that flow to and from developing countries are smaller in scale, but are potentially significant for the targeted, or catalytic, role they can play beyond their monetary value.

Commercial resources account for the largest international flows to developing countries, totalling US$1.5 trillion in 2013. The two largest components – lending to the private sector[6] and foreign direct investment (FDI) – totalled US$669 billion and US$517 billion respectively, a twofold and 1.7–fold respective increase since 2000. Short-term lending accounted for a further US$197 billion. As commercial investments, these resources generate reverse flows of finance leaving developing countries. In 2013 these totalled over US$1.1 trillion; the largest components were capital and interest repayments on long-term debt (US$561 billion) and the outflow of profits on FDI (US$386 billion). Such outflows are not necessarily detrimental to developing countries – the value of an investment is ultimately determined by the impact it has on the people of the destination country, not the outflows it generates. But the scale and nature of flows leaving developing countries is increasingly important, as is the need to evaluate the impact these investments have on the poorest people.

International official finance, which covers a wide range of instruments used by governments and multilateral organisations such as concessional grants, loans, technical assistance and other aid and development cooperation, non-concessional lending and peacekeeping operations, **totalled US$344 billion in 2013**. Gross ODA from Development Assistance Committee (DAC)[7] donors has grown at almost 5% per year since 2000, rising from US$88 billion to US$163 billion in 2013. Wider forms of official finance – other official flows from DAC countries, development cooperation from other providers, and peacekeeping operations – have grown at 2.9%, 16.4% and 10% respectively on average each year since 2000. Other activities by Development Finance Institutions (in addition to those reported as ODA or OOFs) totalled US$44.9 billion in 2012.

Remittances to developing countries have grown steadily since 2000, rising at almost 7% a year to US$368 billion in 2013. Remittances leaving developing countries totalled US$35 billion. Private development assistance (PDA) – the resources committed to development purposes by non-governmental organisations (NGOs), foundations and philanthropists – is estimated at US$44.9 billion in 2013.

The unequal distribution of domestic resources

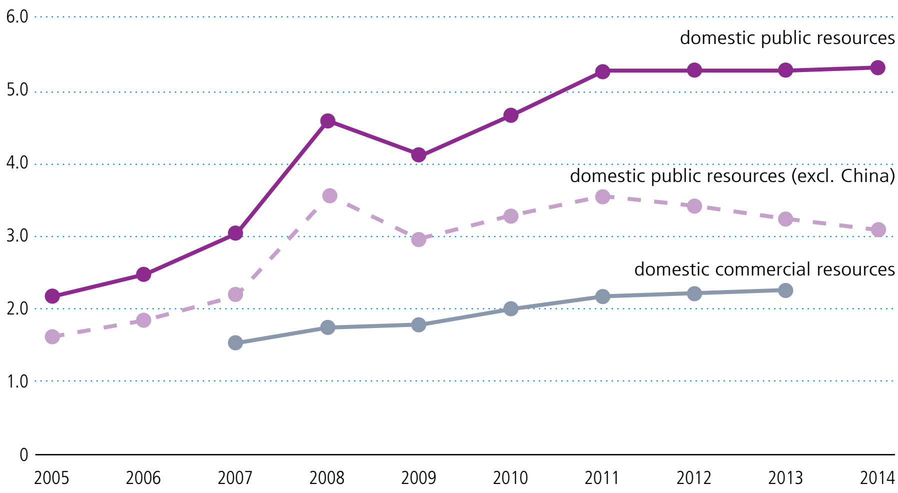
While domestic public resources are the largest resource flow available to developing countries in aggregate, their scale varies widely between countries. In particular, government revenues are lowest where the depth of poverty – a measure of the scale of the challenge for ending poverty – is greatest (Figure 2.3). Such countries are likely to face the greatest challenges in reducing poverty – yet it is these countries that face the greatest financial constraints.

In 24 of the 33 countries where depth of poverty is very high (above 10%),[8] government revenues per person are less than PPP$500 each year (PPP$ 1.37 a day), and in nine of these countries revenues are less than PPP$200 per person (PPP$ 0.55 a day). This compares to revenues of over PPP$15,000 in high-income countries (PPP$42 a day).

FIGURE 2.2A

Domestic resources – public and commercial – are growing rapidly

Constant 2012 US$ trillions



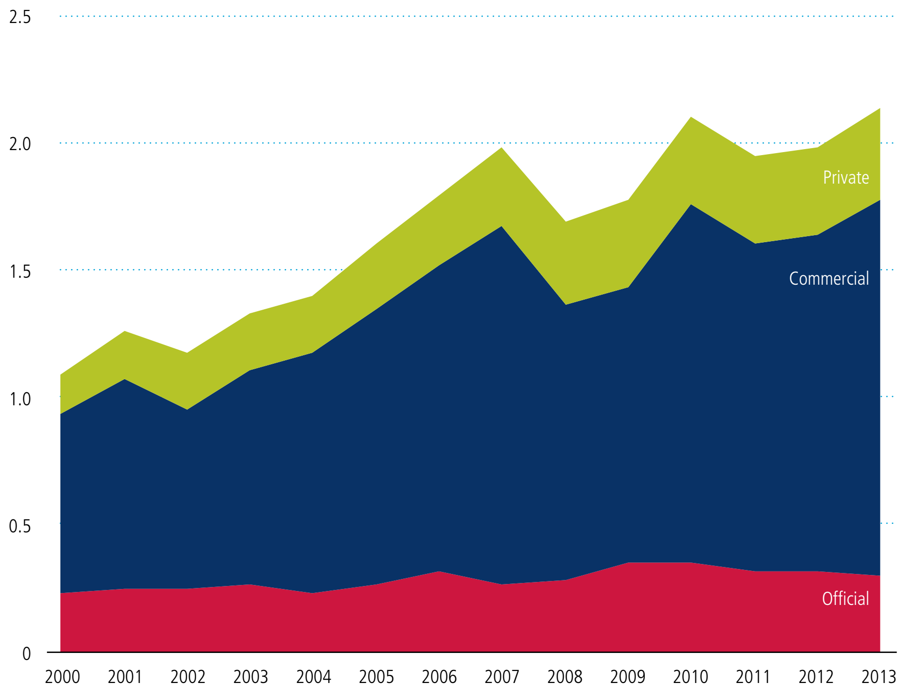
Notes: No domestic commercial resources data is available for China, hence the domestic public resources line excluding China is included for comparison.

Source: Development Initiatives calculations based on IMF Article IV publications, World Bank databank and UNCTAD

FIGURE 2.2B

Commercial resource flows to developing countries have grown rapidly in aggregate

Constant 2012 US$ trillions



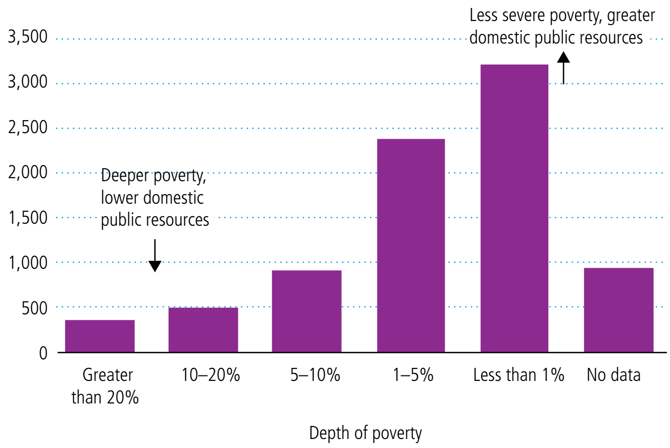
Notes: This figure shows inflows to developing countries; negative values for net inflows of some resources have been excluded at the country level. Official resource flows included are: DAC official development assistance, other official flows, development cooperation from other providers, other long-term loans from official sources, other activities of development finance institutions and peacekeeping operations. Commercial resource flows included are: foreign direct investment, portfolio equity, long-term debt from commercial sources and short-term debt. Private resources include remittances. Resource flows for which no historic data is available, such as private development assistance, are excluded from this figure.

Source: Development Initiatives calculations based on numerous sources (see methodology notes on international resource flows).

FIGURE 2.3

Government revenues are lowest where depth of poverty is highest

Government revenue per person, PPP$, 2013



Notes: Each bar shows the weighted average government revenue per person for countries grouped by the estimated depth of poverty. 20 of 146 developing countries for which no estimates of the depth of poverty exist are included in the 'no data' group.

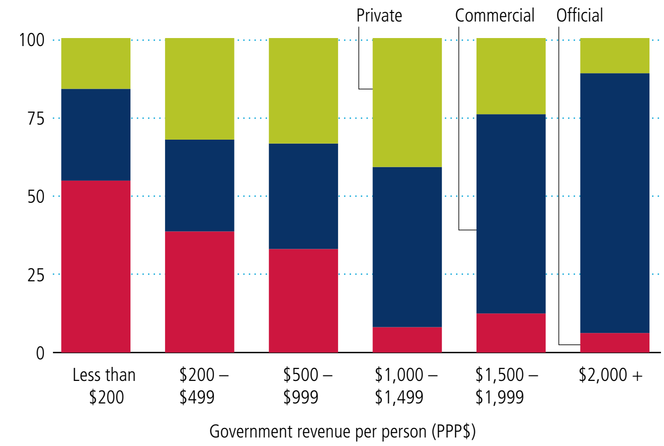
Sources: Development Initiatives calculations based on IMF Article IV data and PovcalNet

Explore further: how revenue per person varies across countries (http://bit.ly/1EEV0Tu) in comparison to depth of poverty (http://bit.ly/1Vw3NAY)

FIGURE 2.4

International official finance is important in countries where domestic public resources are lowest

% of international resources



Notes: Flows for which recipient country level data does not exist are excluded from this figure.

Sources: Development Initiatives calculations based on numerous sources (see methodology notes on international resource flows).

The differing mix of international resources

Regionally, government revenues are lowest in sub-Saharan Africa (PPP$625 per person in 2013), followed by Oceania (PPP$760) and South and Central Asia (PPP$960). Sub-Saharan Africa is also the region with the greatest depth of poverty (see Chapter 1).

The mix of international resources varies considerably between countries (Figures 2.4 and 2.5).

In countries where domestic public resources are lowest, official resources account for the largest proportion of international flows. Where domestic public resources are lower than PPP$200 per person, official resources account for half of international flows; in other countries where it is less than PPP$1,000 per person, they are more than 30% of international flows.

While official finance encompasses a range of instruments, less concessional mechanisms constitute a larger part of the official portfolio in countries with higher domestic public resource levels. Conversely, concessional ODA is prominent where domestic resources are low, accounting for over 90% of official finance in such countries (see also Chapter 4). In 2013 ODA was the largest international resource flow to almost a third of developing countries (39 of 134 with sufficient data[9]) and more than any other international resource flow. In more than half of these countries (22) government revenues per person are lower than PPP$ 500.

International commercial resources are larger in countries where domestic public resources are greater. In countries where domestic public resources are less than PPP$1,500 per person, international commercial resources average US$43 per person – this compares with more than US$451 per person where domestic public resources exceed PPP$1,500 per person. FDI is the largest resource flow to 35 developing countries (22 of which have government revenues exceeding PPP$1,000 per person) and commercial debt the largest to 25 (23 of which have government revenues exceeding PPP$1,000 per person).

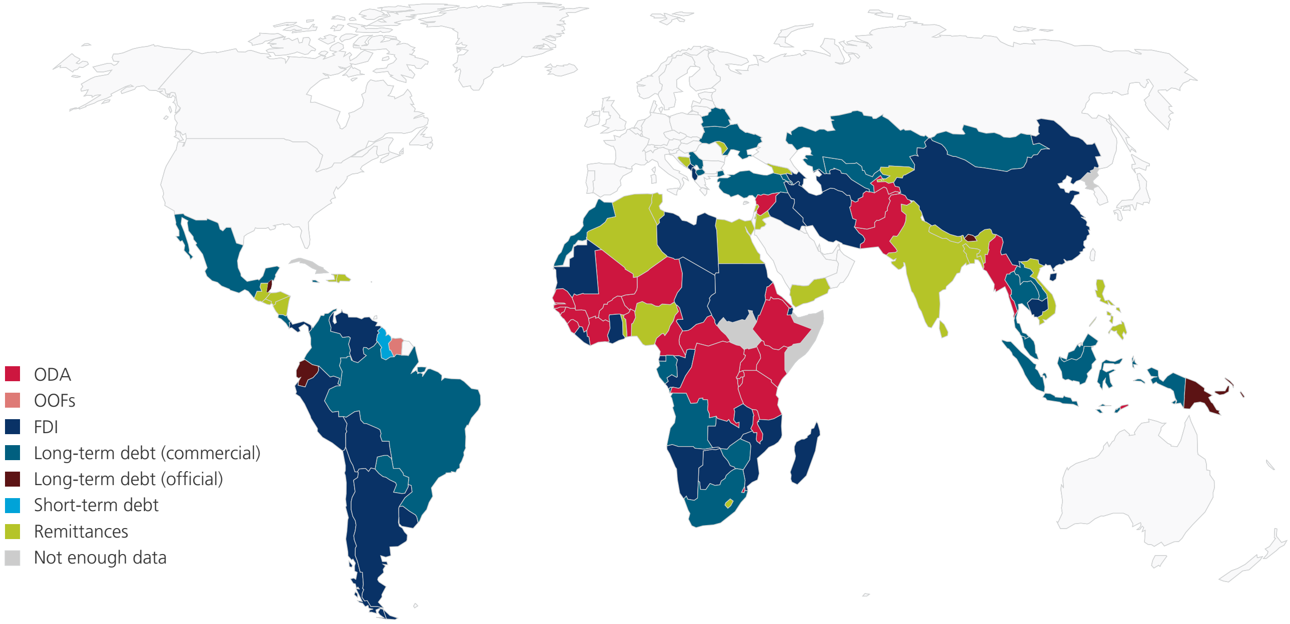
Remittances[10] are a significant international resource for a number of countries with large diasporas, such as India, the Philippines and Viet Nam, all of which have domestic public resources between PPP$1,000 and PPP$1,499 per person. Remittances were the largest international resource flow to 28 developing countries in 2013.

The objectives for investing different resources vary considerably, from the commercial and profit-seeking to altruistic motives for poverty reduction or humanitarian relief (Table 2.1).

FIGURE 2.5

ODA is the largest international resource flow to 39 developing countries

Developing countries coloured by the largest international resource flow, 2013



Notes: ODA is the largest international resource flow for a number of smaller countries, including a number of Pacific Islands, which appear small on this world map.

Source: Development Initiatives calculations based on numerous sources (see methodology notes on international resource flows).

Explore further: the largest international resource for each developing country (http://bit.ly/1TWecDc) and how this has changed since 2000 (http://bit.ly/1Vw40nQ)

TABLE 2.1

Different resources have different comparative advantages for ending poverty

Type of flow	Resource	Objective	Channels to impact the poorest people
Official	ODA (DAC providers)	Welfare and development Poverty reduction Mutual interest	Numerous, including: improved service provision; strengthened public sector; support to economic sectors; humanitarian response to crises
	Other providers of development cooperation	Development and poverty reduction Mutual interest	Numerous, including: improved service provision; economic development
	Other official flows	Economic development Mutual interest	Finance for private sector development; indirect job creation
	Other official debt	Economic development Strategic interests	Indirect job creation
	Peacekeeping	Peace and security	Enhanced security
	Military and security	Peace and security	Enhanced security; indirect job creation, economic development
Commercial	Foreign direct investment	Return on investment	Job creation; payment of taxes; multiplier effects within local economy
	Portfolio equity	Return on investment	Indirect economic development; job creation
	Commercial debt	Commercial returns	Finance for private sector development; indirect job creation
Private	Private development assistance	Poverty reduction Humanitarian Solidarity	Numerous, including: improved access to basic services; humanitarian response to crises
	Remittances	Support for family and friends Small-scale private investment	Increased household income for recipients; investments in human capital and enterprise; safety net in times of crisis

These underlying objectives drive quite different patterns of distribution both between and within developing countries (Figure 2.6). Commercial resources are highly concentrated in larger emerging economies, where poverty rates and depth are less severe. In 2013 two-thirds of FDI went to just 11 developing countries. Remittances are also quite concentrated, though a number of developing countries such as Nigeria and Bangladesh with the largest diasporas are those with greater depths of poverty.

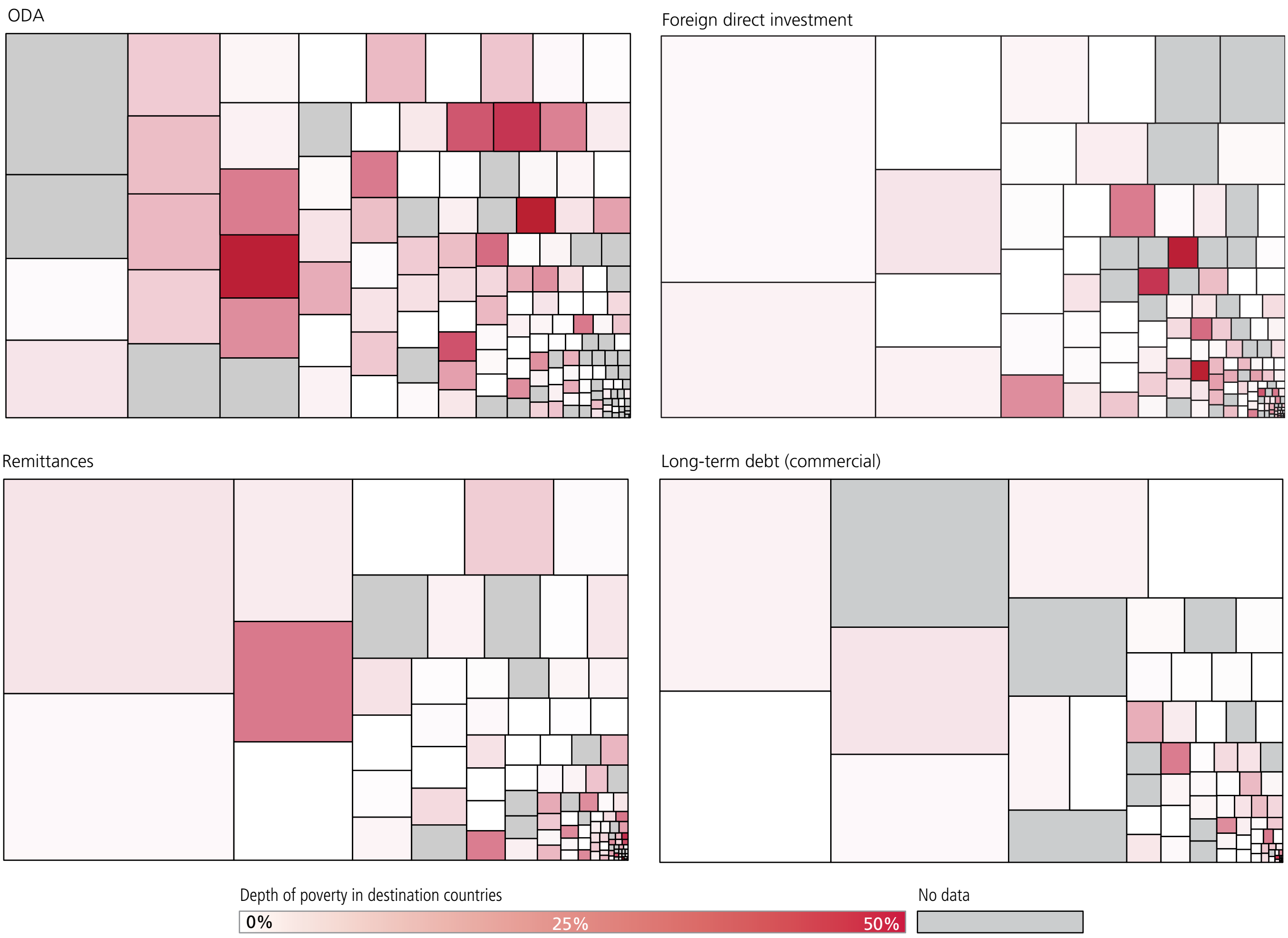
A significantly larger proportion of ODA is directed to countries with a greater depth of poverty and is less concentrated than other international flows.

With different distributions, motivations and potential impacts on people in poverty, the contributions that actors from the official, commercial and private spheres can make towards reducing poverty vary considerably. Each resource brings different comparative advantages and strengths, and can impact the poorest people over different timelines and in different ways. Within this mix, ODA, which can be targeted more directly at poverty reduction, should explicitly aim to make and mobilise investments that benefit the poorest people. Strengthening the poverty mandate of ODA is one step towards this (see also Chapter 4).

FIGURE 2.6

ODA targets the poorest countries more than other international resources

Depth of poverty in recipients of key international resource flows



Notes: These tree maps show the distribution of four international resources across developing countries. The volume received by each country is represented by the size of the cells within each tree map, while the colour of each cell represents the depth of poverty. Tree maps with a higher proportion of darker red cells show that a higher proportion of that resource flows to countries with greater depth of poverty. Regional and unspecified destinations for ODA are excluded from the tree map. *Links to data hub:* Explore further: Link to ODA tree map to explore ODA further.

Source: Development Initiatives calculations based on numerous sources (see notes in Methodology.)

Explore further: destinations for ODA (http://bit.ly/1EgE3E8) and other official flows (http://bit.ly/1LL5xSr)

Data poverty

There are some significant gaps in our understanding of the resource landscape, both what is available to whom and the roles each can play in reducing poverty. At the domestic level, there is little internationally comparable data that captures the activities of domestic actors beyond the public sector. And while data on the way governments mobilise and use resources is improving, there are still significant gaps in tracking public resources in key sectors for poverty reduction (see Chapter 3).

At the international level the focus on aid effectiveness and transparency over the last decade has driven significant improvements in ODA data, though there is still some way to go: for example much data on ODA remains untimely and difficult to use for forward planning. But wider forms of official finance are less visible, and without comprehensive information that describes the scale, characteristics and uses of these instruments it is difficult to have informed discussions about the role that different types of official finance should play in efforts to end poverty.

Many private development assistance actors – NGOs, civil society organisations, philanthropists and foundations – do publish information on their activities. Yet this information is disparate, often published only in each organisation's own annual report. Until this is standardised we can have little understanding of what private development assistance actors are doing in aggregate, limiting discussion on the role they can play in the SDG era.

The basic characteristics of international commercial activity are often recorded by governments or central banks, so estimates on the scale of investment are reasonably accurate. But many important details, such as the sectors in which investments are being made or the mechanisms through which they are financed, are rarely captured.[11] This makes it difficult to assess which aspects of it the SDG agenda the international commercial sector is best placed to contribute to in different contexts.

Beyond these constraints of the existing data, one of the biggest challenges will be to develop disaggregated data that can accurately inform and guide policymakers as they aim to secure investments that benefit people in poverty. Understanding the mix of resources available to people within countries will be essential for effectively targeting investments.

Summary

All investments can contribute to the goal of ending extreme poverty by 2030, though the nature of these contributions will vary given their different objectives and the different mechanisms through which each resource can impact people in poverty. Creating an environment at the global, national and local levels that leverages the comparative advantage of each resource will be vital to the progress of the world's poorest people.

Official finance at the domestic and international level has a critical role to play as it has a mandate to meet people's needs and consequently can be targeted more directly towards the investments needed to reduce poverty.

Domestic public resources will be central to implementing the SDG agenda, though resources remain constrained in many countries where the depth of poverty is greatest. In these places international official finance will play a key role in efforts to end poverty. Using ODA effectively is particularly important as it remains a vital resource in the countries and communities that face the biggest challenges in meeting the goal of ending poverty, and which have the least access to domestic resources to address those challenges.