



Financing the reduction of extreme poverty post-Covid-19

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November 2020

Key messages

- The Covid-19 pandemic has wiped out years of progress in ending extreme poverty: we forecast an additional 250 million people in extreme poverty by 2030 and expect that it will take 10 years of economic growth just to bring extreme poverty numbers back to where they were before the crisis.
- To reduce extreme poverty, many countries urgently need to step up public investments in education, health and nutrition, social protection, water, sanitation and hygiene – sectors that are also critical in developing resilience to future pandemics.
- Middle-income countries (MICs) have 100 times more tax than low-income countries (LICs) and could raise a further \$1,960 billion, which would cover most of the costs of ending poverty; LICs could only raise another \$11 billion and still could not afford even half the costs.
- If donors better prioritised their aid and met the 0.7% aid target, all LICs could afford at least half the costs. Donors should:
 - include meeting the 0.7% target in their long-term fiscal plans for Covid-19 response to increase access to national health and social protection systems for those living in extreme poverty
 - better align their aid with countries' abilities to pay, increasing the share of financial support to LICs and focusing technical assistance on helping MICs to increase their taxation and to spend more efficiently. By reallocating aid to LICs, which have lower unit costs, development assistance may benefit more people
 - commission structured research programmes to assess relative aid effectiveness in LICs and MICs, and to identify robust policies and instruments to effectively deploy aid in fragile contexts, where 85% of those in extreme poverty are projected to reside.

Introduction

This briefing note is an update to ODI's research on the role of international public finance in eradicating poverty around the world – Goal 1 of the Sustainable Development Goals (SDGs). It is perhaps more critical now than ever before in the context of the global pandemic caused by the novel coronavirus 2019 (Covid-19): the longer-term effects on the world's poorest are becoming increasingly clear. Drawing mainly on recent World Bank estimates,¹ the projections in this briefing suggest that 680 million people will still be in extreme poverty by 2030. This is an increase of more than 250 million people compared to our projections just one year ago – an extraordinary increase of 58%. It is also nearly 10 million more than the estimated numbers of people in poverty in 2018. It will take 10 years of expected economic growth to get us back to where we were before Covid-19 hit.

Ending extreme poverty is, of course, not the only global goal. But the fact that, in 2018, 670 million people did not have more than \$1.90 a day to live on is a particularly egregious form of global inequality. Informed by a country-by-country assessment of projected poverty rates assuming continued economic growth, the cost of social sector investments, and projections of available revenues based on assessments of tax capacity and official development assistance (ODA) flows, our 2015 report (Greenhill et al., 2015) looked at what financial means were available to end poverty, and what role both aid and domestic resource mobilisation could play in filling the gaps. The departure points for our 2015 work were that: (1) growth alone will never be enough to end poverty; and that (2) to achieve this aim, countries will also

need to make significant investments in the social sectors, namely health (and nutrition), education and social protection. These are the same sectors that are coming to the fore in the Covid-19 pandemic; greater resilience to future crisis and eradicating poverty are far from distinct aims.

Inevitably, finance alone is not sufficient. But no country has ever managed to provide these basic social services without sufficient funding. And to achieve universal provision, public finance (i.e. taxation), rather than private finance, will be needed.

Background and analytical approach

The objective of our 2015 report was to highlight the enormous financing disparities and the relative role and importance of ODA. Since publishing this initial report, ODI has updated and extended the analysis twice (Manuel et al., 2018; 2019a). As in previous years, this 2020 update is based on an assessment of the individual financial needs of each of the 135 low-income countries (LICs) and middle-income countries (MICs) and covers the costs for all social sectors: education, health (and nutrition), and social protection.² This year we also include costs for water, sanitation and hygiene (WASH). As in previous years this note assesses these costs relative to each country's ability to pay for these services themselves. This assessment is not based on a country's current tax revenues but on their tax *capacity* – the maximum level of taxation that International Monetary Fund (IMF) and World Bank research suggests is feasible, given the economic structure and circumstances in each country.

To make our analyses tractable, the 2015 report and subsequent updates make two main

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- 1 The analysis in this briefing note is based on World Bank's baseline poverty projections for countries included in its PovcalNet database from June 2020 (Lakner et al., 2020; Mahler et al., 2020), scaled upward to account for a modest projected rise in inequality (ibid.; see also Furceri et al., 2020). These figures are supplemented by World Poverty Clock (<https://worldpoverty.io/>) and our own estimates. Subsequent World Bank updates to the PovcalNet database published after the analysis was completed (September 2020) resulted in small adjustments to the pre-Covid-19 poverty rate estimates for 2018; at a regional level, the largest change was an increase of 1.4 percentage points in sub-Saharan Africa (Castaneda Aguilar et al., 2020). Further details of the methodology underlying the poverty projections, and all the other analysis in this note, are set out in a separate annex. This is available from the authors on request.
 - 2 Our analysis does not explore how to ensure that finance could be translated into effective provision of services, as it was beyond the scope of our objective.

Table 1 Costs of delivering social sector Sustainable Development Goals

	Education	Health and nutrition	Social protection	WASH	Total
Total costs (\$ billion)					
LIC	52.7	56.8	59.2	15.1	183.8
LMIC	375.8	295.0	87.1	45.4	803.3
UMIC	1,051.7	988.3	53.9	39.3	2,133.2
Total	1,480.2	1,340.1	200.2	99.8	3,120.3
Unit costs (\$ per person, median)					
LIC	70	84	79	18	280
LMIC	133	120	34	21	360
UMIC	282	337	26	16	674

Note: All figures in US\$, 2019. As unit costs are reported as medians, the total will not equal the sum of elements. Medians are used for per person as this is a statistically more robust indicator, given a few countries with exceptionally large populations and many with exceedingly small populations. LIC, low-income country; LMIC, lower-middle-income country; UMIC, upper-middle-income country.

Source: Authors' calculations based on UNESCO, WHO, World Bank, IHME and ODI data

assumptions. First, we do not assess what is needed to finance growth but rather assume previous patterns of growth can be maintained. Second, we assume that only half of all taxes would be available for social sector spending, leaving the other half for covering the financial costs of advancing the other SDGs (such as infrastructure and climate resilience) and other government functions. This is in line with internationally agreed sectoral spending targets and in fact leaves more room for investment in infrastructure and other areas than Organisation for Economic Co-operation and Development (OECD) countries leave, who on average spend 64% of their budgets on social sectors.

What Covid-19 means for extreme poverty

We expect that extreme poverty in 2030 will continue to be concentrated in fragile states, rising from 74% in 2018 to 85%, with the highest rates increasingly concentrated in the poorest countries. And while nearly half (49%) of those in extreme poverty will be in MICs, the numbers as a proportion of the total population will be even higher in LICs. In LICs, the proportion of the population in extreme

poverty will fall only slightly, from 47% in 2018 to 39% in 2030. Last year we expected much faster progress, projecting the poverty rate to fall to 25%. The proportion in MICs is expected to rise slightly but is still expected to be relatively small in 2030 at just 5% of their total population (3% in 2019).

As the Covid-19 pandemic has not affected all countries equally, we also now expect an increasing divergence of poverty outcomes at a country level, with some seeing a marked deterioration and others perhaps continuing to make progress. We expect a 50% increase in the number of countries that will still have extreme poverty rates of more than 20% by 2030 (43 versus 28 previously). Nearly all LICs are now expected to have such high rates of extreme poverty (83% of all LICs compared with 58% previously). Ethiopia is set to be a rare exception to this trend and to have the lowest level of extreme poverty of any LIC by 2030, at just 7.5%. For the first time, five upper-middle-income countries (UMICs) are expected to have extreme poverty rates of more than 20% (including South Africa and Venezuela). At the same time, some populous lower-middle-income countries (LMICs) are expected to have much lower rates of extreme poverty – less than 3% in India and Bangladesh.

Table 2 Current estimated revenue levels and potential capacity

	Current revenue (\$bn)	Revenue capacity (\$bn)	Current revenue (% of GDP)	Revenue capacity (% of GDP)	Current revenue (\$ pp)	Revenue capacity (\$ pp)
LIC	61	72	14	16	94	113
LMIC	1,215	1,536	21	26	467	553
UMIC	7,455	9,086	26	31	1,687	1,987
MIC	8,670	10,622	25	29	1,159	1,404
LIC+MIC	8,731	10,694	–	–	–	–

Notes: Revenues include tax and non-tax sources but exclude grants; percentage and per person (pp) are medians.

Source: Authors' calculations based on IMF and World Bank research and International Centre for Tax and Development data

Countries' abilities to cover the costs of social sector investments

Table 1 summarises our estimates for the average annual cost of achieving the social sector SDGs between 2020 and 2030. Our assessment of financial needs is based on the latest research on costings by the United Nations Educational, Scientific and Cultural Organization (UNESCO) on education; the World Health Organization (WHO); the World Bank and the Institute for Health Metrics and Evaluation (IHME) on universal healthcare and nutrition interventions; and the World Bank on WASH. These costs are all pre-Covid and are therefore likely to understate the overall expenditure needed. The social protection figures are our own estimates of the costs for a set of social protection programmes, designed at the scale needed to address extreme poverty in each country, and draw on the latest poverty projections. This set comprises guaranteed access to public work programmes for those able to work and universal grants for children, the elderly and those living with disabilities. The costs include provision for administration and leakage.

Table 2 sets out our estimates for current revenues and revenue capacities. While significant political barriers would have to be overcome and care would be needed in the detailed design to avoid impeding investment and creating a regressive tax system, these estimates suggest there is significant potential for countries to increase their revenues.

We estimate that, collectively, LICs and MICs could increase their revenues by \$1,960 billion a year. But these additional revenues are not evenly

distributed: MICs account for 99.4% of this figure; the potential for additional revenues in LICs is only \$11 billion a year. This disparity is attributable to the greater size of MIC economies – eight times more people and seven times the average gross domestic product (GDP) per person – combined with the fact that MICs have twice the potential increase in tax revenue as a percentage of GDP. Another example of the extent of the disparity is that even the typical LMIC has five times more revenue available (per person) than a typical LIC (\$553 compared with \$113).

The scale of this difference in revenue capacities underlines the need for different approaches in LICs and MICs. In most MICs, the challenge of ending extreme poverty can be tackled by the use of their tax and expenditure systems to address inequalities within their own borders. In LICs, this is not possible without aid money. And so, a redistribution of funding is needed across countries (i.e. aid), not just within countries, if the world wants to deliver this objective.

The disparity also illustrates the relative impact of cutting or redirecting aid. The recent £2.9 billion (\$3.8 billion) reduction in aid from the United Kingdom is equivalent to a 6.0% cut in LICs' tax revenues but only 0.6% of India's. The current revenues in Ukraine (population 44 million) are more than the combined revenues of all LICs (population 670 million). This is also why the statement 'half of the world's poor live in MICs' should be nuanced by the fact that MICs have 100 times more tax to finance solutions to extreme poverty (to be precise, 142 times current tax revenue and 148 times tax capacity).

Table 3 Countries' abilities to self-finance social sector costs

Country	Income group	Available revenue capacity/costs (%)	Country	Income group	Available revenue capacity/costs (%)
Less than 25%			Tanzania		
Burundi	LIC	6		LMIC	39
Somalia	LIC	8	Comoros		
Sudan	LIC	9		LMIC	44
Central African Republic	LIC	10	Senegal		
Yemen	LIC	10		LMIC	48
Sierra Leone	LIC	12	Congo		
Malawi	LIC	13		LMIC	49
Democratic Republic of Congo	LIC	14	50% to 74%		
Madagascar	LIC	14	Sao Tome and Principe		
Chad	LIC	15		LMIC	52
South Sudan	LIC	15	Benin		
Niger	LIC	17		LMIC	54
Mozambique	LIC	17	Ghana		
Afghanistan	LIC	18		LMIC	54
Togo	LIC	19	Papua New Guinea		
Liberia	LIC	20		LMIC	55
Mali	LIC	21	Cameroon		
Uganda	LIC	22		LMIC	55
Burkina Faso	LIC	24	Zimbabwe		
Eritrea	LIC	24		LMIC	56
Haiti	LIC	24	Kenya		
				LMIC	57
25% to 49%			Lesotho		
Democratic People's Republic of Korea	LIC	25		LMIC	60
Guinea-Bissau	LIC	25	Côte d'Ivoire		
Gambia	LIC	26		LMIC	62
Rwanda	LIC	28	Viet Nam		
Zambia	LMIC	31		LMIC	65
Ethiopia	LIC	32	Tajikistan		
Nigeria	LMIC	32		LIC	70
Syrian Arab Republic	LIC	33	Nicaragua		
Guinea	LIC	35		LMIC	71
			Timor-Leste		
				LMIC	73
			More than 75%		
			Pakistan		
				LMIC	76
			Egypt		
				LMIC	78
			Eswatini		
				LMIC	79
			Myanmar		
				LMIC	82
			Lebanon		
				UMIC	83
			Venezuela		
				UMIC	84
			Cambodia		
				LMIC	85
			Morocco		
				LMIC	90
			Uzbekistan		
				LMIC	92
			Ecuador		
				UMIC	93
			West Bank and Gaza		
				LMIC	98
			Philippines		
				LMIC	99

Notes: Available revenue capacity (50% of total) as % of social sector cost.

Source: Authors' estimates

Table 4 Severely financially challenged countries

Country category	Unable to afford half the social sector costs needed between now and 2030		
	Number	% of category	% of population in category
LIC	28	97	99
MIC	6	6	5
Total	34	n/a	n/a
LMIC	6	12	10
UMIC	0	0	0
LDC	30	63	69
OECD fragile states	31	54	52

Notes: Estimates assume 50% of revenue capacity is allocated to education, health and nutrition, social protection and WASH.

Source: Authors' calculations

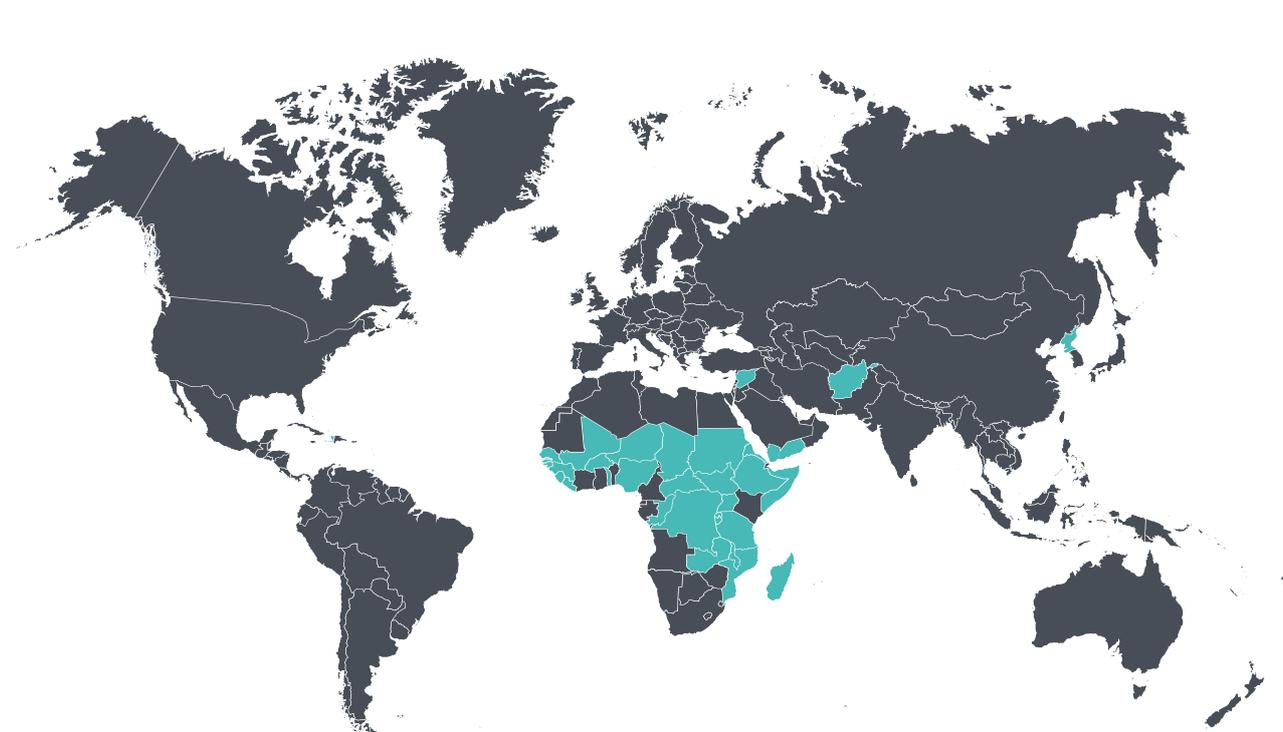
Combining the analysis of the costs and the revenue capacities (assuming 50% of budget is available for social sector spending as already noted) reveals the financial challenges that many countries face.

The list in Table 3 also illustrates the scale of financial need. The number of countries unable to afford the full social sector costs, even after they maximise their tax revenues to their full tax capacities and increase the share they spend on the social sector to 50%, has increased from 46 in last year's report to 59 now. Their combined estimated external financing gap for just the social sector has risen from \$154 billion to \$297 billion a year.

Severely financially challenged countries

As in previous reports, we found it useful to highlight for illustrative purposes the needs of those countries that cannot even afford half the social sector costs. We refer to these as 'severely

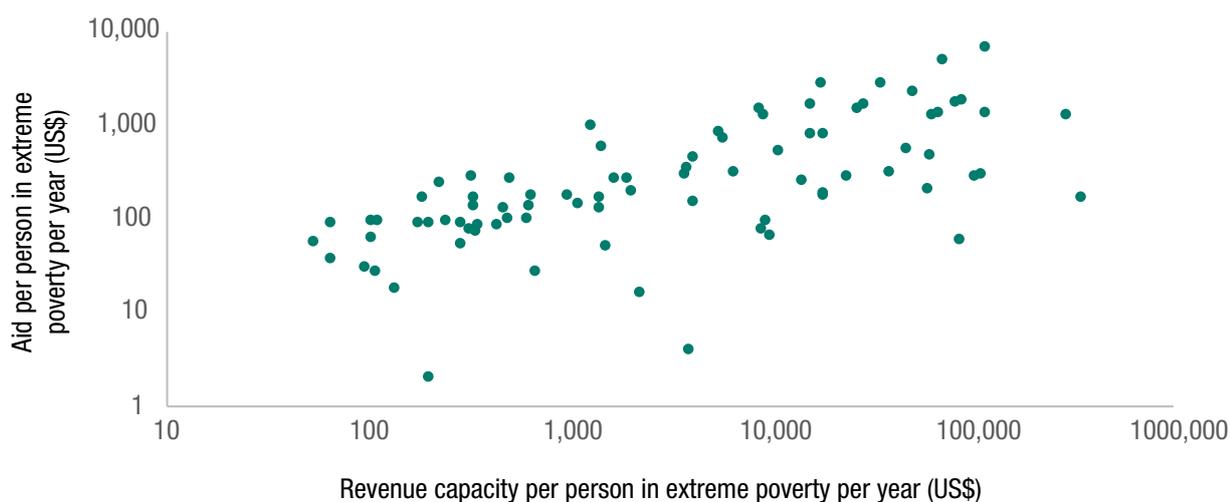
Figure 1 Countries that cannot afford half the social sector costs



Countries: Afghanistan, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Congo, Democratic Republic of Congo, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Democratic People's Republic of Korea, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Syrian Arab Republic, Tanzania, Togo, Uganda, Yemen, Zambia.

Source: Authors' estimates

Figure 2 Current allocation of aid relative to revenue capacity



Notes: Countries that receive aid and have populations of more than 1 million people and extreme poverty rates of more than 1%. Aid refers to country programmable aid.

Source: Authors' estimates building on IMF and World Bank research and data.

financially challenged countries'. While there is inevitably some uncertainty over the cost estimates – and although there may be some potential for efficiency gains – countries that cannot even cover half the costs are clearly facing exceptional financial challenges. As Table 4 shows, this year 97% of LICs fall into this category (previously 87%) and 6% of MICs (previously 2%). As Figure 1 shows, most of the severely financially challenged countries are in Africa. Most are also least developed countries (LDCs) and fragile states.

Ensuring these severely financially challenged countries have enough combined tax and aid finance to cover at least half the costs of all the social sectors would require aid flows of \$77 billion a year. This would take most of the aid that is available for all countries and all sectors. While total ODA has been between \$150 billion and \$155 billion a year in the past three years, only two-thirds of this (\$94 billion) is available for spending in individual aid recipients. Such spending is what the OECD Development Assistance Committee (DAC) refers to as country programmable aid (CPA). The rest of ODA is spent on global public goods, regional aid, humanitarian aid, debt relief, administration costs and refugees in donor countries.

Of all CPA, 40% goes to countries that can fully afford all social sector costs. Reallocating

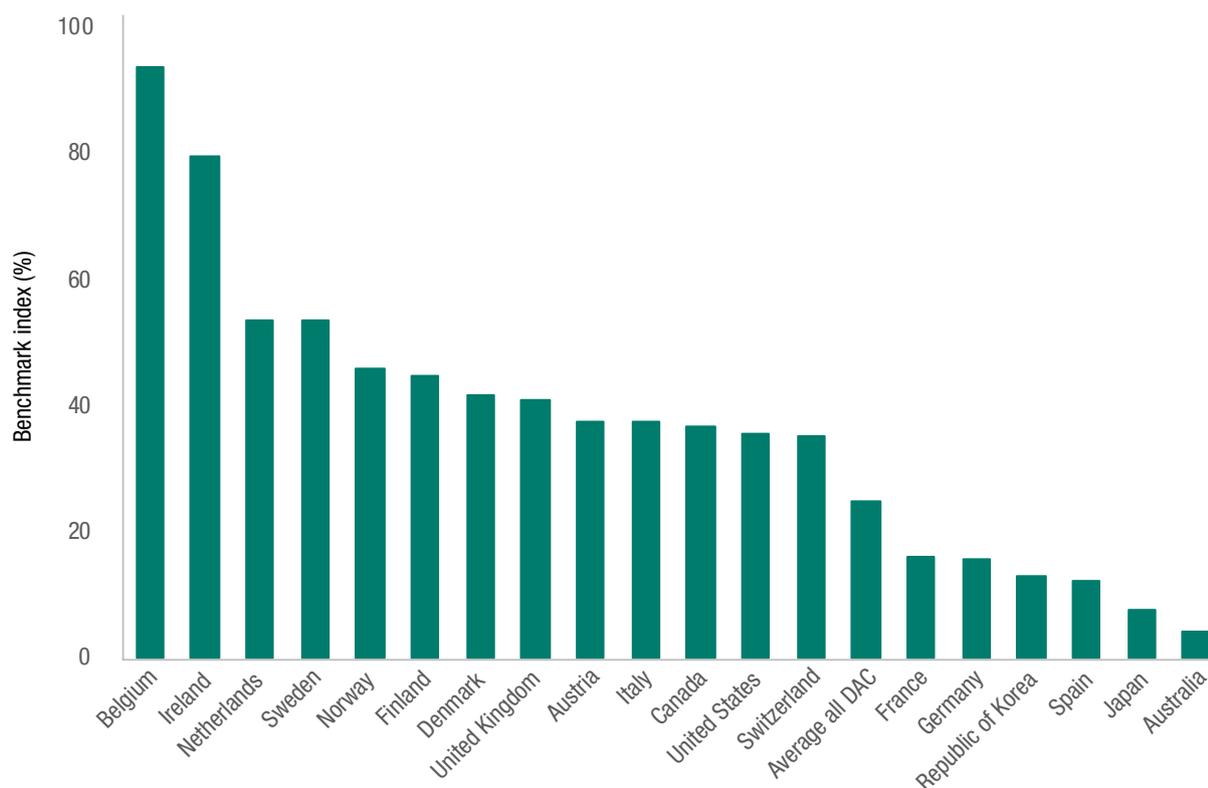
this to those countries that cannot even afford half the costs would increase their share of aid from \$33 billion to \$70 billion. If half of this (rather than the current 38%) were provided to social sectors, this would significantly improve the ability of these severely financially challenged countries to address extreme poverty through a multisector approach, but it would only meet 45% of the \$77 billion needed in aid.

If all donors met the United Nations target for ODA as 0.7% of gross national income (GNI) and focused their additional CPA aid on those countries facing the greatest financial challenges, it would be possible to bring all countries up to the minimum threshold of affording half the costs needed to end extreme poverty. In 2019, when estimated costs were lower, the combination of meeting the UN ODA target and re-allocating aid generated enough funding for all countries to afford 100% of the social sector costs. Box 1 shows the extent of current social sector funding gaps in LICs.

Donor country allocation of aid

Our 2018 update on financing the end of extreme poverty introduced a new benchmark index to measure the extent to which donors were matching their aid to what countries needed from external support to tackle extreme poverty. We introduced this benchmark because current aid allocation

Figure 3 Prioritisation of severely financially challenged countries by major bilateral donors



Notes: Chart shows all major DAC bilateral donors (i.e. those that provided more than \$500 million in ODA a year, average 2016–2018). 100% on benchmark index implies donor aid allocation perfectly matches individual country needs. Scores for other countries and multilateral agencies available on request.

Source: Authors’ estimates building on IMF and World Bank research and data.

seemed to bear little relation to countries’ own needs for aid – as shown in Figure 2. If anything, the more resources a country has to reduce extreme poverty, the more aid it receives.

For illustrative purposes, our index focuses on the group of severely financially challenged countries. It measures both the proportion of aid given to the poorest countries and how well aid matches the individual needs of the poorest countries, given that some have a much greater ability than others to contribute their own resources. This approach is similar to the Gini methodology that is often used for assessing inequalities within countries.

The index represents the funding challenge more accurately than the usual OECD DAC indicator of the total proportion of aid given to LDCs, where high scores are possible simply by funding a few of the richer LDCs. The updated 2020 index, shown in Figure 3, reveals the considerable potential for bilateral

donors to better match their funding to the needs of the severely financially challenged countries. The average of the three highest scoring bilateral donors is nine times that of the three lowest scoring donors. The high score for Belgium reflects the fact that its funding is particularly concentrated in two of the most severely financially challenged countries – Burundi and the Democratic Republic of the Congo.

In general, the major multilateral organisations are better at matching their resources to the financing needs of severely financially challenged countries. The IMF concessional financing window scores higher than any bilateral. The African Development Bank concessional window, the United Nations Children’s Fund (UNICEF) and the Global Fund all score better than the third highest scoring bilateral. And the Global Alliance for Vaccines and Immunization and the International Fund for Agriculture Development score higher than the fifth-ranked bilateral. The

EU institutions, the World Bank concessional window and the WHO all have similar scores to the United States. The only major multilaterals that score below the DAC bilateral average are those that focus on environment: the Global Environment Facility and the Green Climate Fund. Some of the smaller multilaterals, which provide less than \$500 million in ODA, do score well. The United Nations Development Programme scores better than any bilateral (but less well than the IMF concessional window). Private philanthropy on average scores below the DAC bilateral average.

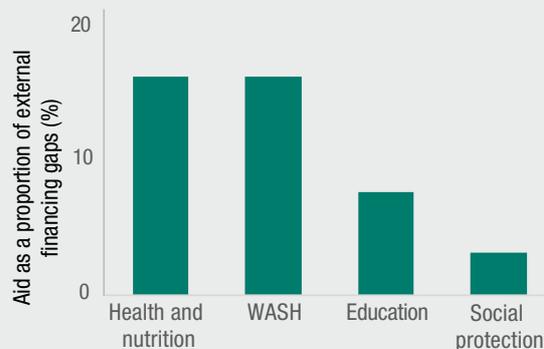
The G20 debt service suspension initiative scores below Germany. This in part reflects the fact that LMIC countries tend to have larger debts in absolute size. It also reflects the fact that the short-term health and economic impacts of Covid-19 do not necessarily correlate well with the long-term financial needs of addressing extreme poverty. If debt relief is genuinely additional support, this low score does not matter. But if some donors do offset their contribution – formally or informally – against their total aid budget, then the low score is an indicator of how funding short-term Covid-19 needs in LMICs may be at the cost of slower progress in reducing extreme poverty in LICs.

Why prioritise the poorest countries

The relative need of the poorest countries has long been recognised. However, one argument for not reallocating aid to the poorest countries is the concern as to whether it would be the most effective use of aid. The ongoing instability in South Sudan and Burundi, despite years of aid, highlights the inherent risks of working in such fragile and conflict-affected contexts. The continued high rates of extreme poverty in Zambia and Malawi raise questions about the long-term impact of aid investment in more stable contexts. The constraints on growth imposed by the large number of small, fragmented economies in much of Africa have driven interest in regional investments. Donors

Box 1 Relative funding gaps at sectoral level

All social sectors are underfunded in LICs, but social protection continues to fare the worst. The figure below sets out our analysis of the extent to which current donor funding matches the external financing gaps at sectoral levels. These gaps are the difference between the sector costs and the maximum governments could afford to spend if they increased their taxes to their full capacity and allocated these in line with international targets for sectors' shares of government spending.



Source: Authors' estimates.

also note the greater potential to leverage aid in MICs; one of the reasons that the UK government continued with aid to poorer parts of China in the 2000s was that the Chinese government would learn from small donor projects and then significantly scale up those that were seen to work.³

The analysis in this note, however, highlights why it may in fact be more efficient to fund poorer countries: their much lower unit costs enables each aid dollar to have an impact on a greater number of people. UNICEF has shown that the same funding can save twice as many children's lives if it is targeted at the worst off (Carrera et al., 2017). Evaluations have

3 Personal observation of lead author, who was responsible for the UK aid programme to China in the early 2000s.

demonstrated that effectiveness can be achieved in fragile contexts (Chandy et al., 2016). And case studies have revealed project success in challenging contexts, including in social sectors (Gisselquist, 2015; Development Progress, 2016).

Aid flows have been key in helping Rwanda and Sierra Leone recover from conflict. Meanwhile a lack of aid has constrained options in the Central African Republic (which for many years topped the aid orphans list) and chronic underinvestment in primary education in Mali is likely to have contributed to the current crisis there. Despite the political economy challenges in Bangladesh, a combination of private sector-led growth and targeted aid investments (for example in flood response mechanisms and family planning delivered by non-governmental organisations) has resulted in low levels of extreme poverty. More recently, renewed interest in conflict prevention has raised the question about aid being used in contexts at high risk of conflict. If aid were appropriately targeted and sequenced (for example by prioritising conflict prevention and cash transfers before long-term investment in education and health infrastructure), it is possible to see how aid could be effectively deployed in such contexts.

Moreover, for many people, there is an even more compelling reason to reallocate aid to the poorest countries. For them, the overriding consideration should be *equity*, rather than efficiency; funding the extra costs to reach the most marginalised is fully justified to ensure that no one is left behind.

To date, much of this debate over relative aid effectiveness has been partial and anecdotal and the evidence base is weak. For example, the OECD's latest report on fragile contexts notes that further research is needed on how aid can be more effective in fragile states (OECD, 2020). The New Deal for Engagement in Fragile States in 2011 identified critical changes needed in approaches, such as new country dialogue and risk-sharing mechanisms. These were rarely implemented – although where they were, there is some evidence of their value (e.g. Manuel et al., 2017). There is also more anecdotal evidence of mechanisms that do work, such

as those that involved additional financial controls in Afghanistan, Liberia and Somalia. In addition, cash transfer programmes have been successfully operated in highly challenging contexts such as the eastern Democratic Republic of Congo, Syria and Yemen.

Policy reflections

The Covid-19 crisis has wiped out years of progress in ending extreme poverty. Future economic growth will only be enough to just restore poverty to its pre-Covid-19 levels. The Covid-19 crisis has also highlighted the importance of building greater resilience to health-related crises with effective national systems for health, hygiene and social protection – all of which are also key to addressing extreme poverty.

The case for increasing tax revenue

The potential for MICs to raise another \$1.96 trillion a year in tax far outweighs any contribution aid finance could make. In this sense, donors should focus their technical assistance on revenue mobilisation in MICs. Given the evidence of inequitable subnational investment in social sectors in many countries (Manuel et al., 2019b), including MICs such as Tanzania and Ghana (Tidemand et al., 2014; Blampied et al., 2018), it may make sense to complement the technical assistance on taxation with technical assistance on spending their tax revenues effectively and equitably.

The case for more aid

If all donors met the UN ODA target of 0.7% of GNI, the ability of LICs (and some of the poorer LMICs) to finance their human development would be radically transformed. Without such change, teachers and health workers will continue to be chronically underpaid and under-resourced, and the poorest will either be effectively excluded or will receive ineffective services. While more aid does not automatically improve outcomes, lack of funding inevitably constrains what it is possible to achieve. The unit costs in this note illustrate the opportunity costs of reducing aid budgets: a reduction of \$1 million could exclude 12,500 people in LICs from social protection or

3,600 being excluded from the broad interlocking package of education, health, social protection and WASH support that is known to lift people out of poverty.

The case for prioritising aid on LICs

LICs have extremely limited potential for increasing their tax revenues – just \$11 billion a year – and receive three times less foreign direct investment and remittances than MICs (Manuel et al., 2019a). These countries also struggle to benefit from innovative approaches to use aid to leverage private finance: each dollar of aid has only been able to mobilise 37 cents of private flows (Attridge and Engen, 2019). Even after allowing for economic growth, most LICs will have extreme poverty rates of more than 20% in 2030. And even if all aid available at country level was given to this group, they would still have less public finance available, relative to their need, to fund their human development than all other countries. There is significant potential for donors to better match their aid to countries' external financing needs, given the most focused donors are nine times better than the worst at doing so.

The need for more evidence on aid effectiveness

By 2030, 85% of people in extreme poverty are set to be in fragile contexts. We therefore need a more comprehensive and more structured review of both the evidence on relative aid effectiveness in LICs and MICs and how to improve aid effectiveness in fragile contexts, as the OECD report concludes.

Recommendations

If donors wish to use aid to support the achievement of the first SDG of ending extreme poverty, this note recommends four courses of action to achieve that goal:

1. Increasing the volume of ODA available

Include meeting the UN target for ODA as part of their long-term fiscal plans for responding to the Covid-19 crisis.

2. Revisiting allocations of ODA across sectors

Include as part of the global response to Covid-19, the ability of those living in extreme poverty to access:

- a. national health systems
- b. national social protection systems.

3. Revising ODA allocation across countries

Allocate aid more in line with countries' abilities to pay, in particular:

- a. increase the share of their financial support going to LICs
- b. focus technical assistance on supporting MICs to increase their taxation and spend revenues more efficiently.

4. Finding ways to improve effectiveness of aid in the most challenging environments

Commission structured research programmes to:

- a. assess the relative effectiveness of aid in LICs and MICs
- b. identify a more robust set of policies and instruments to enable aid to be effectively used in fragile contexts.

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Acknowledgements

The authors are grateful for comments from Mark Miller, Annalisa Prizzon, Alastair McKechnie (all at ODI) and Amy Dodds and Dan Coppard (Development Initiatives), and for the provision of data by Christoph Lackner and Daniel Mahler

(World Bank), Manos Antoninis, Bilal Barakat, Yuki Murakami (UNESCO) and Marcia Weaver (IHME). Outstanding errors and omissions are the authors' alone. Funding was provided by the Bill & Melinda Gates Foundation.



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