Targeting aid to reach the poorest people: LDC aid trends and targets

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Focusing aid on the poorest people to end poverty

Remarkable development progress was seen between 1990 and 2010 as extreme poverty rates were halved. But ending poverty is a different challenge that requires a shift in focus away from the world's poor countries towards its poorest people. The poorest 20% of people globally includes everyone living below the $1.25-a-day extreme poverty line. It also includes those people who live just above that line and who are vulnerable to falling back under it. It is these people the world needs to target in order to leave no one behind.

Explicitly targeting improvements for and monitoring the progress of the poorest 20% will help mobilise the resources, investments, partnerships and cooperation needed to realise the post-2015 development agenda and end extreme poverty by 2030. It will also help track whether outcomes are in line with an equitable growth agenda. Our report for the UN Development Cooperation Forum outlined what such an approach might look like.

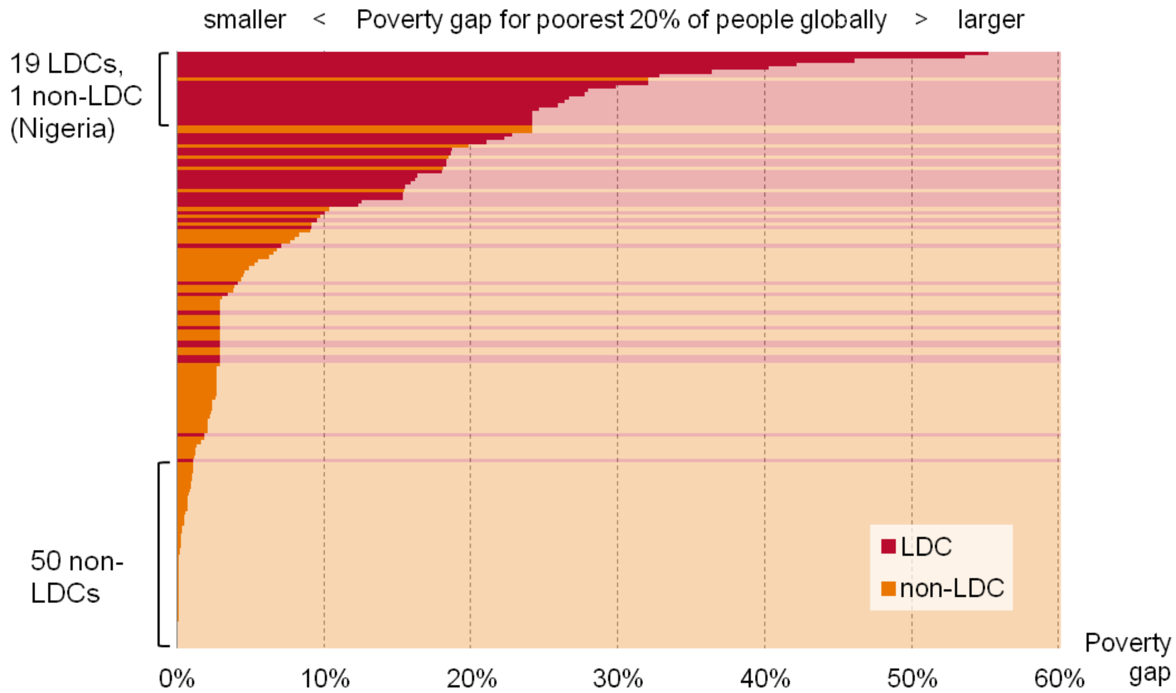
Poverty data is notoriously poor and out of date. Better data is needed to enable a more focused targeting of resources sub-nationally to where the poorest people live and track their development outcomes. This data needs to be collected and collated regularly for it to accurately inform policymaking. Some progress on improving data is being made: there is now district-level data for poverty in Vietnam on both national and international extreme poverty measures while Zambia has published ward-level national poverty line data.

But until similar data is widely available, a country-level focus remains important. Least developed countries (LDCs) offer a readily available means to guide resource allocation. These countries tend to have: higher proportions of their populations living in poverty – and this poverty tends to be deeper; low current and projected domestic capacity; and political and environmental vulnerability. These factors support significant long-term investments for LDCs to end poverty globally by 2030. A number of options have been proposed for increasing official development assistance (ODA) to LDCs. This briefing quantifies the implications of two proposals.

The LDCs are a group of currently 48 countries recognised by the UN.[1] Their status is based on a combination of low income per capita – central to the income groups often used in aid debates – and assessments of low human assets and economic vulnerability.

FIGURE 1

LDCs have the deepest levels of poverty among the global poorest 20%

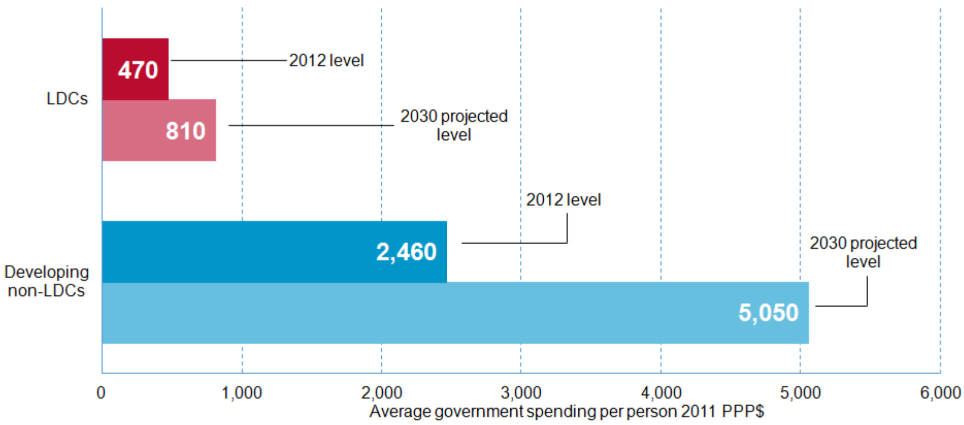


Source: DI calculations based on World Bank PovcalNet model for 2011 using global income level of $1.48 a day (at 2005 purchasing power parity). See DI factsheet for more details.

Almost a third (32%) of people in the poorest 20% globally are thought to be in LDCs, some 441 million people, although this is partly based on estimates for the 11 LDCs that lack survey data. But the depth of this poverty – how far below the poverty line people are – tends to be far greater in LDCs. On the World Bank's measure of poverty depth, 19 of the 20 countries with the largest poverty gap are LDCs (Nigeria being the only non-LDC) while none of the 50 countries with the shallowest poverty depths are LDCs.[2]

FIGURE 2

LDCs have much lower domestic capacity – and this is set to continue



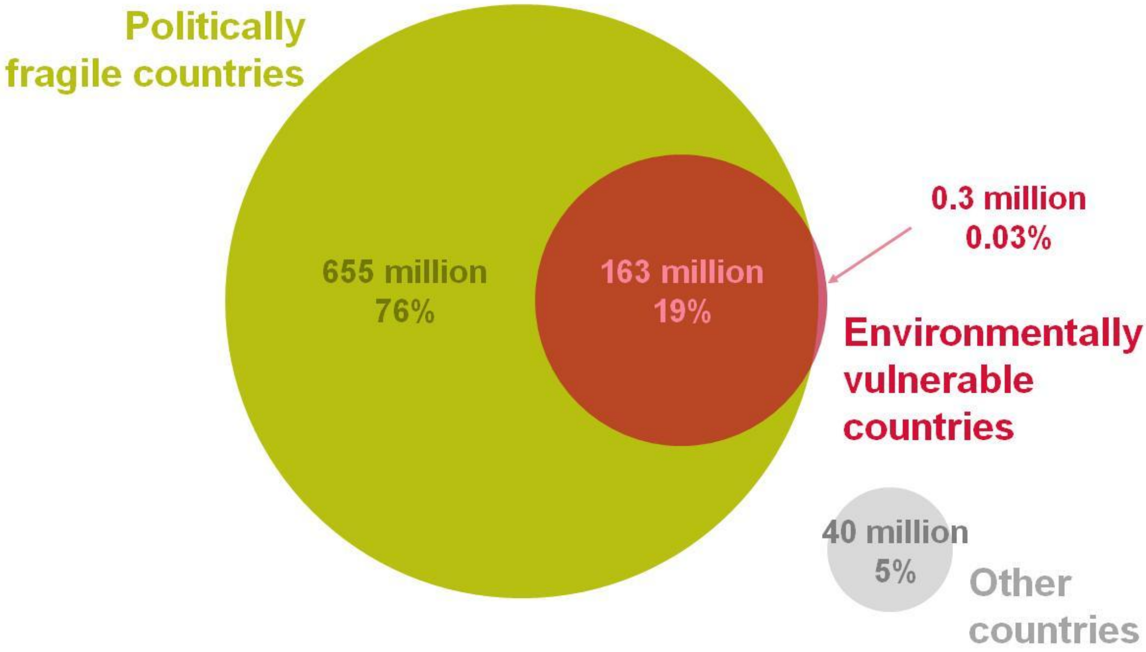
Source: DI calculations based on IMF World Economic Outlook, World Bank and Oxford Economics data.

Note: General government net total expenditure current international, net of general budget support and public debt. Updates chart in Investments to End Poverty (2013).

LDCs have much lower domestic capacity compared with other developing countries. Average government spending per person in LDCs in 2012 was less than one fifth of that in non-LDCs. While spending in LDCs is set to increase by two-thirds by 2030, spending in other developing countries is forecast to more than double. This means the gap between the two is set to widen such that by 2030 LDCs' domestic capacity will be one sixth of other developing countries'.

FIGURE 3

95% of people in LDCs live in countries that are politically fragile, environmentally vulnerable, or both



Sizes of circles represent the number of people in LDCs living in countries in each category. Source: DI calculations based on World Bank World Development Indicators population data for 2011, Fund for Peace Fragile States Index, and the UNEP/SOPAC, Environmental Vulnerability Index 2014, see UN-DESA/DI, Improving ODA allocation for a post-2015 world, 2015 for details.

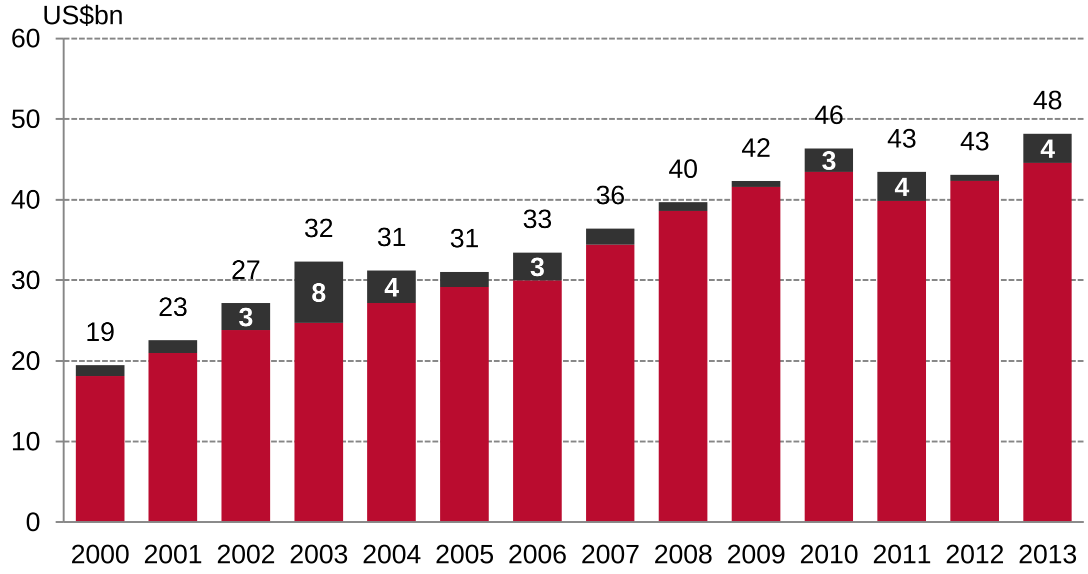
Some 95% of the population of LDCs are in countries that suffer from either political or environmental fragility, with almost a fifth of the population of LDCs living in two countries that suffer from both (Bangladesh and Haiti).[3]

Trends in ODA to LDCs

While total ODA to LDCs has been broadly stable in recent years, preliminary data suggests that aid levels fell in 2014. The limited data available on donors' forward spending plans also suggest a drop in aid to LDCs, with more going to countries with relatively higher per capita incomes.

FIGURE 4

Net ODA disbursements to LDCs from all donors have risen incrementally up to 2013



Note: US$ billions (constant 2012 prices), net ODA disbursements from all donors (DAC, non-DAC and multilaterals), including and excluding debt relief, using LDC classification in each year. Source: DI calculations based on OECD DAC database table 2a.

Total flows of net ODA to LDCs from all donors reached a high of US$48 billion in 2013, following a dip after the previous peak of US$46 billion in 2010.[4] Debt relief has been a significant element in several years, amounting to US$4 billion in both 2011 and 2013 (Myanmar alone received US$3 billion in debt relief in 2013).[5]

While total ODA disbursements have almost doubled since 2000 (up 97%), those to LDCs have risen by 111%, such that the proportion to LDCs had risen slightly from 28% to 31% by 2013.

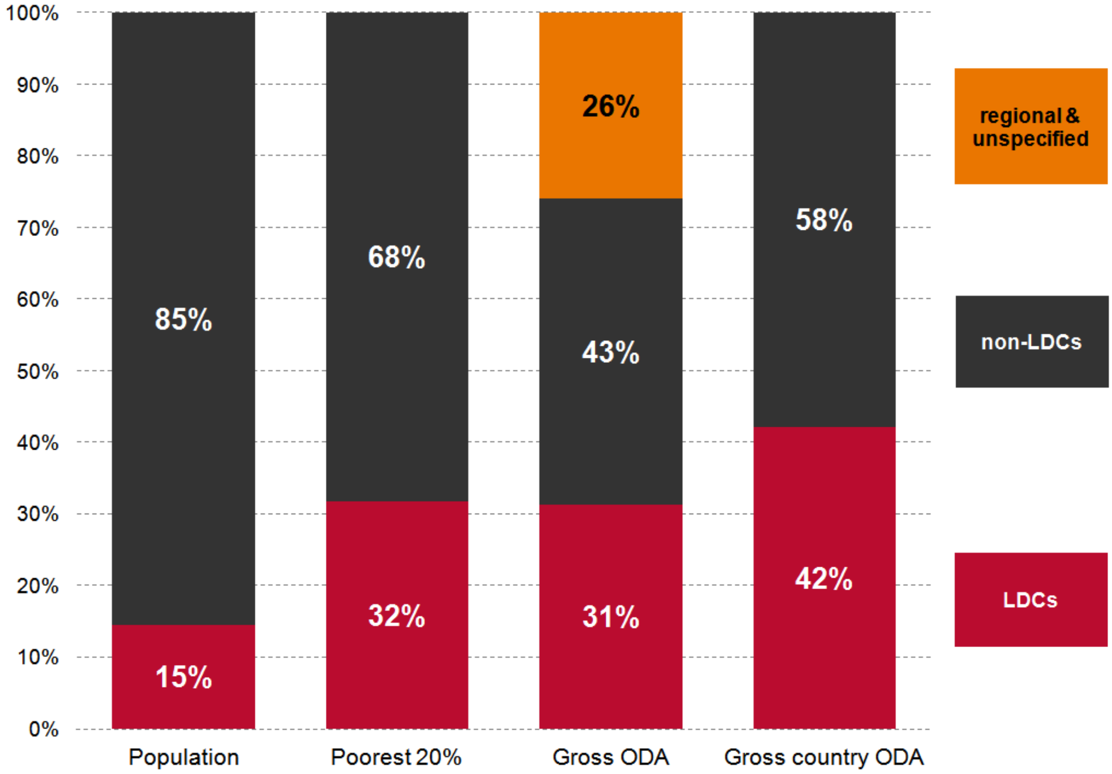
The latest preliminary data suggests the trend of incremental increases may have been reversed in 2014. Data is currently only available for net bilateral ODA from the 28 donor countries that are Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) members, compared with total aid from all donors in the chart above. DAC-28 aid to LDCs is thought to have fallen by 16% in 2014 (US$7 billion in 2013 prices), and even discounting exceptional debt relief in 2013 there was an 8% fall in aid to LDCs.[6] This compares with a slight overall fall of 0.5% in aid to developing countries.

What is LDCs' share of total ODA?

LDCs received 31% of the total gross ODA provided by all donors in 2013.[7] But this does not take into account that a significant proportion of ODA cannot be reasonably allocated to a particular country. Some of this is aid provided at the regional level, and much to support global public goods, such as research into communicable diseases that will benefit all countries – including LDCs.

FIGURE 5

A quarter of aid does not go directly to countries, but LDCs get 42% of that which does



Note: Shares of population and poorest 20% of people globally for 2011 and based on World Bank PovcalNet model coverage. Shares of total gross and gross county-allocable ODA disbursements from all donors (DAC, non-DAC and multilaterals) including debt relief in 2013. Source: DI calculations based on OECD DAC table 2a.

Three-quarters (74%) of total ODA disbursements in 2013 went to specific countries, while the other 26% cannot be allocated to specific countries: 9% was provided directly to regions and almost one-fifth (17%) cannot be geographically allocated. If 'country-allocable' aid only is considered, the share going to LDCs is much higher (42%) than the total aid figure (31%).

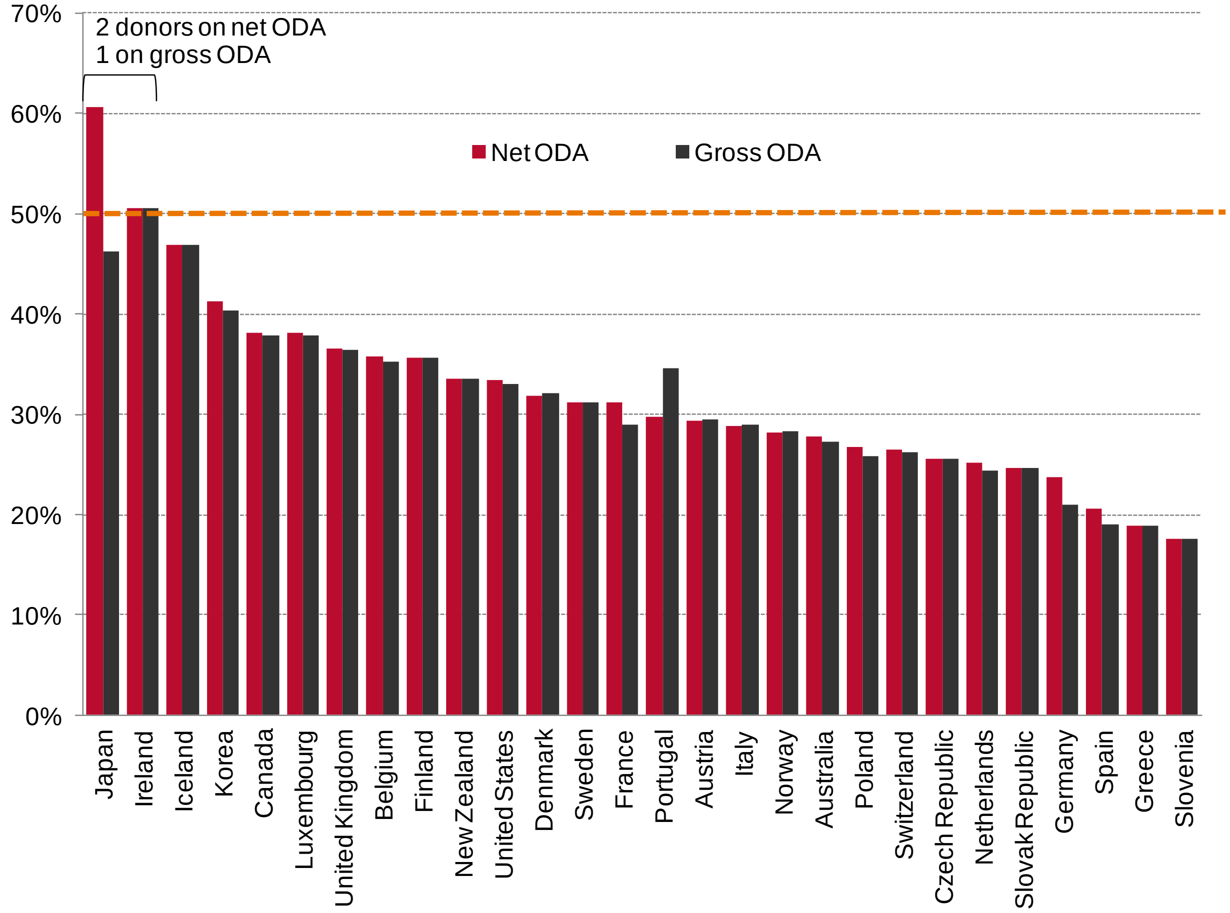
50% of ODA to LDCs target

In current discussions around the role of ODA in financing for development, one proposal is for a target of 50% of total ODA to go to LDCs, in the context of donors meeting their ODA target commitments.[8] Current performance against such a target depends on whether total ODA or ODA that is directly allocated to countries is considered.

Currently LDCs receive 42% of gross ODA that is allocated directly to countries. Based on current ODA levels, reaching the 50% target would imply a $5bn increase based on the US$50 of gross currently directed to LDCs by DAC donors,[9] a reallocation from non-LDCs to LDCs (if based on net ODA excluding debt relief a US$2bn increase on US$42 billion). If this target is applied to total ODA, with 31% currently going to LDCs, the increases required are more substantial: an additional US$25 billion over current levels (US$22 billion on net ODA excluding debt relief). Further, this would likely necessitate reallocations not only from other countries but other uses of ODA – namely shifts from global good-type investments to aid targeting specific countries.

FIGURE 6

Only 2 donors meet 50% on total net ODA, and just one on gross ODA

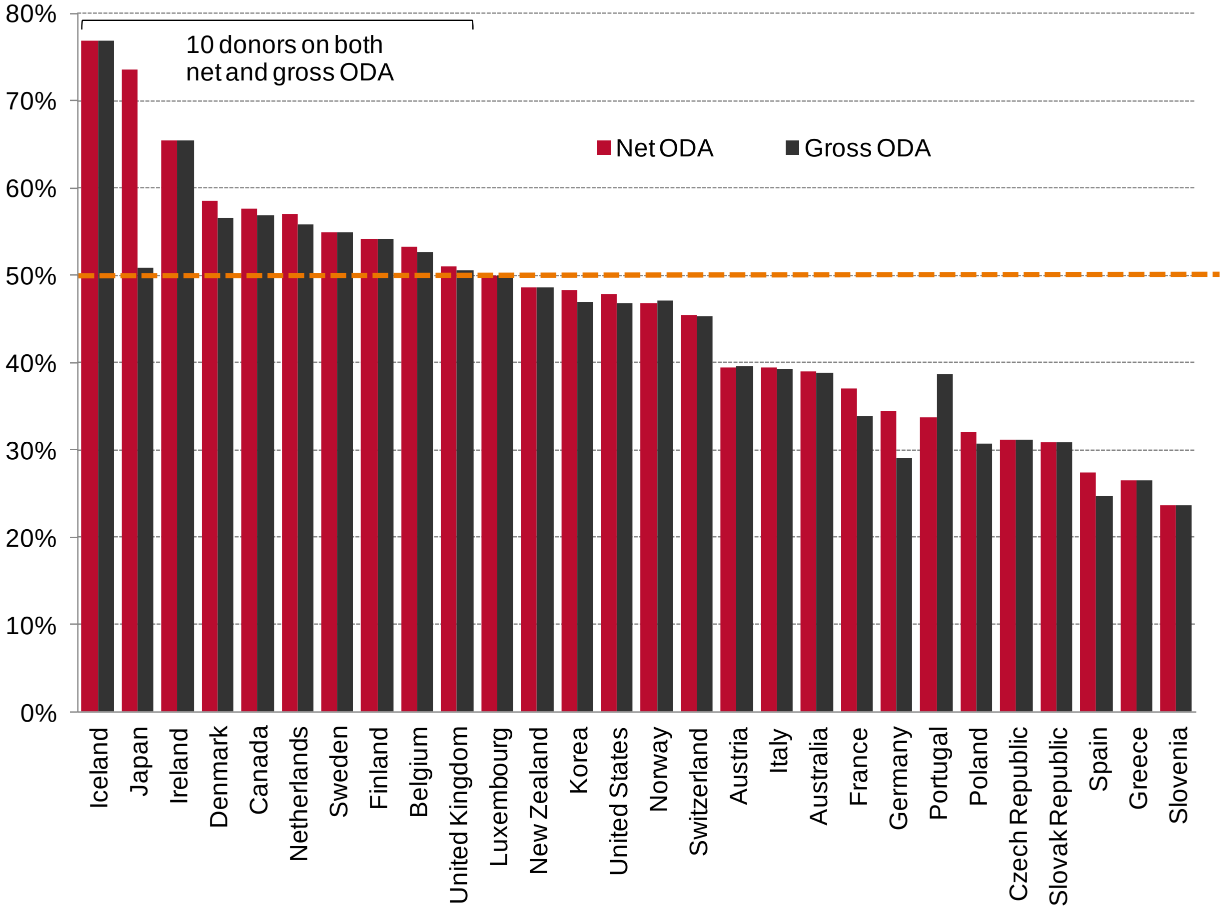


Note: Share of total net and gross bilateral from DAC-28 donor countries plus estimates of these donors' estimated shares of multilaterals' disbursements (imputed multilateral ODA) to LDCs, including debt relief, in 2013. ODA
Source: DI based on table 2a.

Based on total aid provided by DAC donors, just two donors met the 50% target in 2013: Japan (60.6% on gross ODA only), and Ireland (50.5% on both gross and net measures). Less than 20% of ODA from Greece and Slovenia went to LDCs (and gross ODA only for Spain).

FIGURE 7

On aid that goes only to countries, 10 donors meet the proposed 50% target



Note: LDC share of country-allocable net and gross bilateral and imputed multilateral ODA disbursements including debt relief for DAC-28 donor countries in 2013. Source: DI based on table 2a.

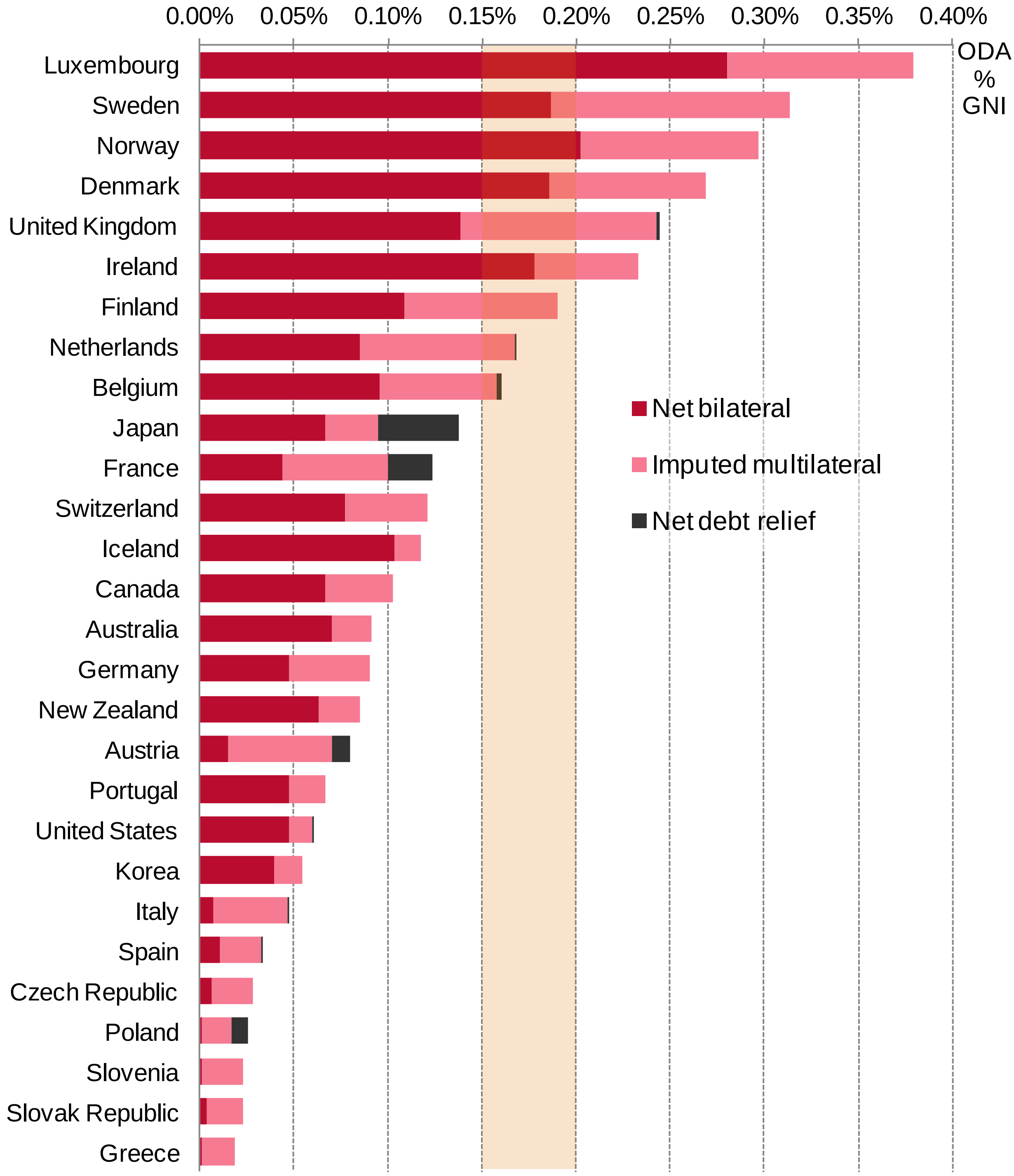
If shares of country allocable ODA are considered, a different picture emerges. The 50% target is met by 10 donors, whether net or gross is considered. Iceland and Ireland provide the highest proportion of their country-allocable ODA to LDCs (as does Japan on net ODA). Luxembourg is just below (49.9% on both measures), and a further five donors are above 40%. For three donors – Spain, Greece and Slovenia – less than 30% of aid goes to LDCs on either measure.

0.15–0.20% of GNI as ODA to LDCs target

The US$46 billion of net ODA that DAC country donors provided to LDCs represented 0.10% of their overall national income in 2013, up from 0.06% in 2000. This is around half of the US$91 billion that would be needed to meet the proposed 0.20% of gross national income (GNI). This target dates back to a UN resolution in the 1980s, set in the context of donors meeting the overall target of 0.7% of national income as aid, and reiterated and developed in international meetings since. It has generally been judged on net ODA.[10] DAC donors have reached about two-thirds of a secondary 0.15% target, a US$23 billion shortfall.[11]

FIGURE 8

6 donors have reached the 0.20% target on net ODA, 9 have reached 0.15%



Note: Net bilateral ODA, net bilateral debt relief and imputed multilateral aid disbursements for DAC-28 donor countries to countries classified as LDCs in 2013, as shares of 2013 donor GNI. Source: DI based on table 2a.

Country performance varies. Luxembourg provided 0.38% of its national income as ODA to LDCs in 2013, followed by Sweden and Norway (0.31% and 0.30%). Luxembourg and Norway exceeded the 0.20% target on bilateral aid alone. Including proportions of contributions to multilateral agencies that were subsequently disbursed to LDCs, Denmark, the UK and Ireland also met the 0.20% target, while a further three donors met 0.15%: Finland, the Netherlands and Belgium.[12]

Targeting the poorest 20% of people globally

Any approach to how best to target aid and other resources should focus on the poorest. Targeting the poorest 20% of people globally is one clear and practical option that can be sustained as targets such as the goal of ending $1.25 a day poverty are met. An explicit focus on poverty reduction and leaving no one behind would shift aid allocation incentives towards the people and the investments where it is needed most. There is good evidence that aid agencies with a more explicit mandate for targeting poverty reduction allocate their resources more effectively towards the goal of poverty reduction than do other agencies. Over 80% of ODA from aid agencies with a legal mandate to target poverty reduction goes to countries with above-average poverty rates, compared with only 31% from agencies that do not explicitly target poverty reduction.[13]

This approach would focus the mandate of ODA more explicitly on the investments needed to reduce poverty. ODA allocations would focus on the poorest people – considering where the poorest 20% of people[14] are, their depth of poverty and the vulnerabilities that the poorest people face – and making ODA work to its comparative advantage in the context of other resources, particularly domestic capacity.

While this does not advocate allocating a specific amount or share of development resources to LDCs or other any other country group, refining the mandate for providing ODA can shift incentives towards the investments needed to reduce poverty and benefit the poorest people. LDCs account for a disproportionate amount of the world's poorest people, poverty is deeper in LDCs and these countries have access to fewer domestic resources and face greater political and environmental vulnerabilities than other countries. Refining the mandate of ODA to focus on poverty reduction and leaving no one behind would create strong incentives to increase and strengthen ODA funding in LDCs.

What do we know about donors' spending plans?

The OECD has expressed concerns about trends in aid to LDCs in recent years. At the release of preliminary 2013 aid data it saw "a continuation of the worrying trend of declines in programmed aid to LDCs and low-income countries". When 2014 aid data was released the OECD said "aid to the poorest countries should recover over the next few years after several years of declines".

The OECD's survey of future donor spending looks at country programmable aid – that is aid that can be predicted and influenced or controlled by receiving countries.

The OECD's 2014 Global Outlook on Aid suggested that LDCs were the country grouping set to continue to receive the most country programmable aid: US$39 billion by 2017.[15] However, LDCs would also see the largest decline (7%) among these groups, compared with a 4% fall for non-LDC low-income countries, a 1% fall for lower-middle income countries and an 8% increase for upper-middle income countries.[16] The report states that two-thirds of LDCs are set to receive less CPA in real terms in 2017 than in 2014. These figures are partly based on projections, as survey data does not cover every donor's plans for every year.[17]

Initial data extending forecasts to 2018 suggests that after a 14% fall in country programmable aid to LDCs in 2014, it will rise by 3% in 2015 then 5% in 2016 before remaining stable over 2017–2018. Country programmable aid to LDCs in 2018 is forecast to be 7% lower than at its 2013 peak.[18]

Notes

[1] Samoa graduated from LDC status in 2014 and has been included as an LDC in this analysis as it was in this group at the time.
[2] This measure is provided by the World Bank's PovCalNet dataset, and represents the average gap for the whole population of each country, with everyone above the poorest 20% line (PPP$1.48) counted as having a zero gap.
[3] Among the 49 LDCs in 2011, 38 are classed as politically fragile, 3 as environmentally vulnerable (Kiribati, Samoa, Tuvalu), and 2 as both. The remaining 6 LDCs are in neither category.
[4] All ODA figures presented here are in constant 2012 US dollars, unless stated.
[5] On gross ODA to LDCs the picture is affected by debt relief in 2006, which led to a 'spike' in that year. Of the US$75 billion of gross ODA in that year, some US$43 billion scored as gross debt relief. Just US$3.5 billion scored as net debt relief. This difference is because much of this debt relief was on past ODA loans, and the principal value of these loans is deducted from the net ODA (on the basis that this was previously counted as ODA in the original year the loan was given, while it this debt relief still counts as gross ODA.
[6] OECD, 2014 preliminary ODA data release, 8 April 2015
[7] Gross ODA offers a guide to current allocation decisions, as net ODA deducts repayments on loans often made years before.
[8] See for example the 2014 Cotonou Agenda for productive capacity building in LDCs.
[9] The US$50 billion figure is based on gross country-allocable ODA from DAC donors, while the US$48 billion figure above is for net ODA from all donors.
[10] No aggregate was specified for the target, but generally donor targets have been assessed using net ODA, inclusive of debt relief. Examples include OECD, Targeting ODA towards countries in greatest need (2014), OECD, Future of Development Finance: Modernising Measures and Instruments (2015), and UN, Ten-year appraisal & review of the implementation of the Brussels Programme of Action for LDCs (2011).
[11] If donors are judged on their aid excluding debt relief, which can distort figures as it varies substantially from year to year, OECD DAC country members reached only 0.09% of its collective GNI in 2013, with the gap slightly larger: US$49 billion on 0.20%, or US$26 billion on 0.15%.
[12] The inclusion or otherwise of debt relief does not affect the number of donors meeting the target. Two donors provided 95% of debt relief in 2013, Japan (77%) and France (18%). If this is included, Japan reached 0.14% and France 0.12%, but if excluded the figures are 0.09% and 0.10% respectively.
[13] The proposal and evidence are from a study by Development Initiatives, commissioned by UNDESA for the Development Cooperation Forum, Improving ODA allocation for a post-2015 world.
[14] For further details on focusing on the poorest 20% of people see *Ending poverty by focusing on the poorest 20% of people globally*
[15] This figure is in 2013 prices (others in this note are 2012 prices). OECD, 2014 Global Outlook on aid (2014), figure 6, p20.
[16] DI calculations based on data in same figure.
[17] Around two-thirds (40 out of 60) of country programmable aid providers surveyed provided data for 2014 (DAC country donors and a number of non-DACs and multilaterals). The rest are OECD projections (see OECD, 2014 Global Outlook on aid (2014), pp42–44).
[18] Over 2013–2018 there is a 7% increase in country programmable aid to LDCs, but over 2014–2018 there is an 8% increase. All country programmable aid data is in constant 2013 US dollars. See datasheet accompanying OECD 2014 preliminary ODA data release, 8 April 2015 ('chart 4' tab). Detailed forward spending data for those donors that have consented to publication is also available.