Horizon 2025: the future of aid (and a potentially epic nerdwar on poverty numbers)

July 13, 2012

All Economics Poverty Politics Reviews

I've been starting to feel like an unpaid publicist for the Overseas Development Institute recently. It's not my fault – ODI keeps publishing really interesting stuff (and anyway, I'm not always nice about it). You're likely to hear a lot about their latest paper, Horizon 2025: Creeping Destruction in the Aid Industry, by Henry Kharas (Brookings Institution) and Andrew Rogerson (ODI), so I urge you to read it, rather than just wringing it based on this blog (not that you would dream of it, of course).

The paper first takes the WCs's LICs' discussion on where poor people actually live, which Andy Sumner has been leading for the last couple of years, and projects it forward to 2025. Futures work usually offers several scenarios because the future is so difficult to predict, but Horizon 2025 opts for a single 'base level 2025 scenario', extrapolating recent trends as follows:

- High per capita income growth and falling population growth in large, dynamic, middle income countries (MICs) shrink the global poverty pool dramatically.
- Income stagnation and high fertility rates in selected low income and fragile countries re-establish them as the main locations of global poverty.
- Growth in emerging economies dominates global growth and they account for most new trade and foreign capital flows to poor countries, along with sizable increases in aid-like flows, competing for influence with traditional aid donors.
- Availability of public and private resources for development is flooded with the fall in global poverty, *imply that dramatically more funding* is potentially available for each poor person.

This is all good stuff but is arguably skating on fairly thin ice as the 'baseline' is at the optimistic end of possible scenarios. It uses IMF growth projections and average expenditure per person from GDP data (known as the national accounts), rather than the now burgeoning amount of household poverty survey data, and assumes that inequality remains constant as countries grow (when it often rises). That means that the 2025 baseline effectively maximises per capita income and minimises poverty, compared to other estimates such as that by Karver, Kenny and Sumner for CGD (here) and Andy for IDS (here).

Andy's new ubiquitous killer fact is that three quarters of the world's poor – well, 79% or 2 billion poor people (by $1 poverty) – now live in MICs. You hear this quoted everywhere, with the implication that internal politics and distributive struggles (rather than aid) will be key to future development. Kharas and Rogerson argue that the MIC thing is actually a blip (OK, a twenty year blip, but still). By 2025, growth in most MICs will have lifted almost all their poor citizens above the $2 a day poverty line (if said they were optimists). Instead, the vast majority of the world's remaining poor will live in LICs – fragile and conflict affected states (see chart 1) the long-term dividing line will between between fragile v stable states, rather than LICs v MICs, which chimes nicely with my own work on effective states. They will also largely live in Africa, which should please Paul Collier, as it endorses his Africanist Bottom Billion thesis.

Using a different source of data – household poverty surveys and multiple scenarios – Andy Sumner finds a quite different pattern. Across a range of scenarios, he finds it is 50:50 LIC:MIC split in poverty in 2020 and 2030. Given that some of today's LICs will be MICs by then, it implies that just one-third of the world's poor will be in the remaining LICs. Meanwhile, estimates for total global $2-a-day poverty by Andy's method in his paper with Charles Kenny and Jonathan Glennie drive at CGD (see here) run from as low as 600m to as high as 1.6bn (there's also multiple scenario data for other poverty measures such as malnutrition there too).

All in all, I'd say that Horizon 2025 is not the last word: there's plenty of room for doubt and arcane methodological debate over the numbers, with significant consequences for the way we think about the future of development. I see a nerd war approaching – wonderful!

But whatever the final outcome of that war, it seems to me that Horizon 2025 is really onto something. In terms of reducing poverty, the focus in most MICs will be domestic policy not aid. Donors and INGOs may play a minor supporting role in those domestic struggles, but the core and business is likely to retreat to fragile states, (where, incidentally, we will witness a titanic clash between the forces of aid, unpredictable nature of fragile states and the increasing demands for measurable, attributable impact).

Where Andy and Kharas and Rogerson do agree is on the affordability of ending poverty. Andy provides a set of estimates that suggests the costs of ending poverty might well be affordable (as a percentage of GDP) for most MICs by 2020 and certainly by 2030, leaving just 10-20 LICs in 2030 needing foreign aid to end poverty.

Kharas and Rogerson calculate the costs of eradicating poverty in a similar vump of fragile states, assuming a certain amount comes from domestic sources and the rest from aid. Their conclusion is that, in fragile states, multiple donor funding will be ubiquitous so it really will be possible to deliver cash direct to the poor, however dysfunctional the state. As poverty falls and GDP grows, a tech-based $2-a-day safety net becomes increasingly affordable, accounting for just a fraction of 1% of global GDP (see chart 2).

Next, the authors think through a further set of issues on the future role of aid. They look at three intriguing and believable 'divergences' to the traditional aid system:

1. New channels for aid via philanthropy or 'disintermediated' direct giving
2. The rise in South-South cooperation, and with it, the blurring of distinctions between aid and cooperation based on mutual interest
3. Climate change and the rise of climate finance (both for mitigation and adaptation) either in parallel to, or as a competitor to, poverty-focused aid

Going into any detail would be too much for an already overl-long blogpost (you really should read the paper), but they run a stress test against existing aid agencies to see who is best/worst prepared for this 2025 world. On the resulting 'traffic light' bar chart (below), red is the worst prepared. Bad news for Spain, but Canada (for once) is deemed to have got it right, and they'll be dancing in the corridors of CAVI and the Global Fund.

I suspect this may not be the last post on this.

admin

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4 comments

Heidi Mesh says:
July 13, 2012 at 4:08 pm

Hi Duncan,

Actually I quite appreciated both your post and the article:

I'm concerned with the GDP paper's understanding of development only being about poverty and poverty only being about money (therefore development is only about money). It is the subject of the paper and make only a cursory acknowledgement that there might be a lot more to the picture. Gin a side note, if they are going to spend so much energy talking about the quantity of financial resources, they should make some mention of the quality of those resources (I thought we'd established that quality of aid is equivalent to quantity of aid – no, Colin, Kevin, etc.).

I'd also like to hear your thoughts on the effect of grants above the CET or basic income (note: it is a way out of public provision of services!) Does that mean tiered services? The more money you have the better services you get? Or, if we go back to the Beveridge Report, it's a way to provide services to address equality issues. This was a slight tension in the paper: MIC governments will be doing more to address equality, development, and CCI/direct income transfers will increase. Do these not pull in different directions?

Cheers,

Heidi

Reply

Charles Jenny says:
July 14, 2012 at 10:42 am

Duncan: not for about out. Any estimate of 2030 poverty incidence depends hugely on growth estimates for a few big countries and growth estimates 20 years out are incredibly unreliable so I'd take all of them with a cloud of salt. Also, slowing too much over two more or two arbitrary lines (slow and fast) will incorrect and who is just below or just above them can be taken to far. Low middle income countries and people living on $2.50 a day are still poor…

Reply

Lawrence MacDonald says:
July 14, 2012 at 1:07 pm

There is something disconnected from reality about this paper by my friend Henry Kharas and his co-authors: the peculiar manner in which they consider (or don't) the impact of climate change. The impact of a rapidly destabilizing climate on economic growth is not included in the upbeat growth scenario through 2025. However, the impact of climate concerns on the aid system is considered in some detail. The authors write:

"Failure to avert rapid climate change could prove catastrophic in many ways, including unique and unbearable further burdens of adaptation on the weakest countries, with their respective emotionals such as forced migration and increased cross-border conflict over resources. In the aid sector, the impacts of climate change will be the massive decrease of national effort and external support toward spending needs for damage containment in such country contexts. This fact alone would rather quickly force development aid to refocus on disaster management and resilience programmes, to the exclusion of many of the priorities outlined elsewhere in this paper."

Well, yeah, but hello? the continued rapid economic growth in the MICs that the authors are counting on to lift hundreds of millions of people out of poverty between now an 2025 also seems mighty unlikely given that all indications are that runaway climate change DAS ALREADY BEGUN.

Thinking about the impact of climate disaster on aid flows without also considering more carefully the likely impact on growth itself seems to miss the (burning) forest for the (beetle-infested) trees.

Reply

Mart Berkley says:
October 1, 2012 at 10:51 am

Dr Gross writes,

"…there's plenty of room for doubt and arcane methodological debate over the numbers, with significant consequences for the way we think about the future of development. I see a nerd war approaching – wonderful!"

These views are perhaps part of the problem for the world's poor.

It is not "arcane" to point out that the numbers are on spending, not poverty.

It is not engaging in a "nerd war" to point out that the statistics are widely abused, by the World Bank, by economists, by charities and by politicians.

They are abused in all assertions and implications that they show lack among, or benefit to, real people. In reality there is zero assessment of either poverty or the prices faced by the poor or need.

You don't have to be a "nerd" to see the risks in ignoring food needs, rent needs, medical needs and so on when assessing progress or policies.

Which development experts can tell the difference between important and unimportant problems in the use of statistics to guide public policy?

Everyone agrees that poverty is lack. It isn't the level of resources whatever the needs. So resources – let alone the spending numbers – don't measure poverty.

Pointing that out is not just contributing to a "methodological debate", or an argument about "definitions of poverty". It is to state categorically that what the public is being told is not what is actually compiled.

If they were poverty numbers, or "absolute poverty numbers" or "how the world's poorest fared in the 1990s" or "consumption" in the ordinary sense of that word, or "consumption poverty" then there would have been some method for inferring from "spent more" to "got more in return" to "met needs more adequately" and perhaps to "fared better economically overall".

There is no such methodology.

Meanwhile, governments are on the basis that they have done an impact assessment when the poor, when there is no obvious risk of showing, and policies being adopted which harm people and/or cause unsustainable economic development through fundamentally unproductive transactions by ignoring food and rents and debts.

As can be seen in other comments on this blog, Dr Ravallion of the World Bank has failed to engage in a "methodological debate".

He has failed to explain how he knows, for example, that there is not a significantly increased need for spending on food in some countries.

He doesn't have a methodology for inferring global poverty.

He has spending numbers (mixed monetary value of rent consumption and an alternative to spending, in some cases numbers on income).

He can't say how he got from "spent more" to "filled needs better" because he has not looked at needs.

And if the World Bank which compiles the data don't have a methodology for inferring global poverty or poverty comparisons for policy purposes, neither does anyone else.

Is it hard to see how this is risky for the poor?

Reply

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Rinus van Kinken
That is indeed a very interesting article…

Sheila Wamuiku
Thanks Susan. Needless to say, I enjoyed…

Sheila Wamuiku
Thanks Kenyah. Yes, there are lots of…

Sam
I agree with the risk. I agree…

Anyone
Looking forward to see how the above…

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This is a conversational blog written and maintained by Duncan Green, senior adviser for Oxfam GB and author of From Poverty to Power. This personal reflection is not intended as a comprehensive statement of Oxfam's agreed policies.

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