



## Financing human development and the ending of extreme poverty in Africa

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The views expressed in this paper are those of the authors.

### KEY MESSAGES

- If past growth and inequality trends continue, growth alone is expected to halve poverty rates in sub-Saharan Africa (SSA) by 2030. But this still means that 340 million people will be left behind in extreme poverty. As many of them live in countries that are vulnerable to conflict and climate change, this may understate the future extent of extreme poverty.
- Interlocking investments in the three key human development sectors, i.e. education, health and social protection, could end extreme poverty in SSA by 2030. But many SSA countries cannot yet afford to invest on the scale required, even if they maximise tax revenues. If all the OECD Development Assistance Committee (DAC) donors met the UN target for Official Development Assistance (ODA), i.e. 0.7% of gross national income (GNI), and provided half of this to least developed countries (LDCs), there would be sufficient funds to end extreme poverty in SSA.
- The EU as a whole has reduced its aid as a percentage of GNI over the last two years and there has been no significant change in the proportion provided to LDCs over the last four years. This is despite clear commitments in the new European Consensus on Development to increase both ratios. Aid delivered through EU institutions is particularly poorly targeted, with an OECD DAC peer review in 2018 noting that only 27% went to LDCs.
- Moreover, the EU as a whole is not doing enough to target its aid on human development, which accounts for only 14% of its total ODA. The share of aid delivered by EU institutions is particularly low, at only 10%. This is despite the 20% target for human development set in the current Multi-annual Financing Framework (MFF) and which has also been proposed for the next MFF. And even the 20% target is way below the 50% share that ODI estimates is needed to end extreme poverty.
- A clearer focus in the next MFF on ending extreme poverty in SSA by targeting aid better at LDCs and human development would not only transform the lives of millions, it could also help reconnect EU citizens with EU aid.

## INTRODUCTION

The reduction and eradication of poverty has long been the primary goal of EU development cooperation.<sup>1</sup> As the new European Consensus on development stated in 2017, 'eradicating poverty, tackling discriminations and inequalities and leaving no-one behind are at the heart of EU development cooperation policy.'<sup>2</sup>

This briefing note draws on previous ODI research<sup>3</sup> to examine how the EU could play a more effective role in ending extreme poverty in sub-Saharan Africa (SSA) by better targeting support for human development in the poorest countries.

We first identify those SSA countries that are least able to afford the investment in human development that is needed to end extreme poverty, i.e. investment in education, health and social protection.

We go on to assess the targeting of aid to the countries that most need it to build their own human development and end extreme poverty.

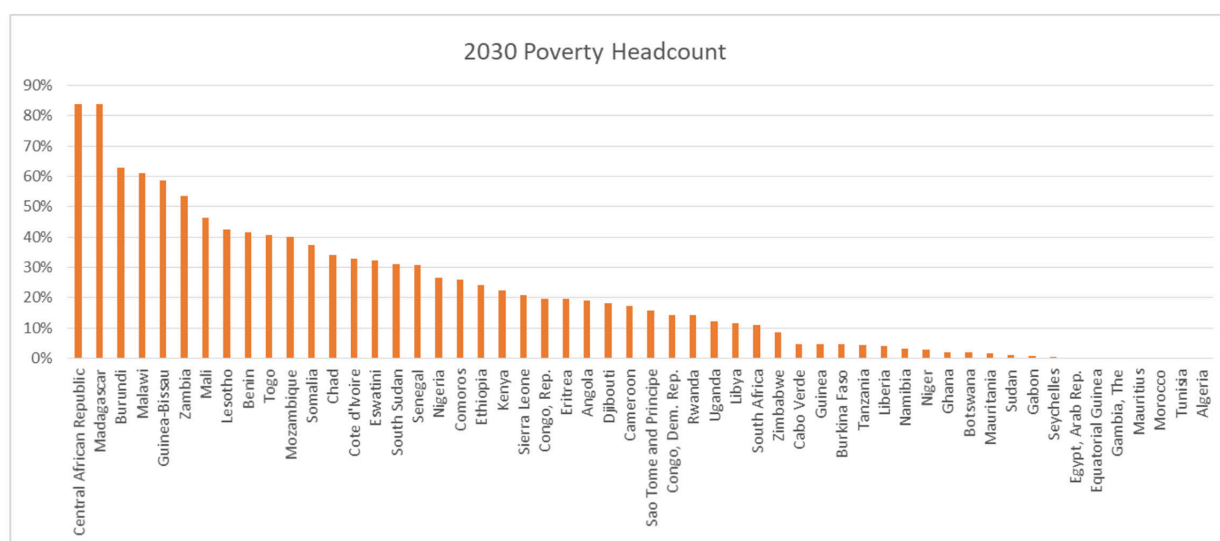
Finally, we explore the implications of this analysis for EU member states and institutions, including for the forthcoming negotiations on the Multi-annual Financial Framework (MFF) for 2021-2027.<sup>4</sup>

## IDENTIFYING THE SUB-SAHARAN AFRICAN COUNTRIES THAT CANNOT AFFORD TO END EXTREME POVERTY THEMSELVES

### Where do the poor live?

ODI estimates that, if growth rates and income inequality trends continue, poverty rates in SSA will be halved<sup>5</sup>.

Figure 1: Projected poverty rates in African countries



Source: ODI estimates

1. Article 208 of the Treaty on the functioning of the European Union (EurLex 2007).
2. New European Consensus on Development, *Our world, our dignity, our future*, [https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626\\_en.pdf](https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf)
3. Manuel, M., Desai, H., Samman, E. and Evans, M. Financing the end of extreme poverty. London: Overseas Development Institute, 2018. <https://www.odi.org/publications/11187-financing-end-extreme-poverty>
4. For a full guide to these, see Sherriff (ed.) (2019) <https://ecdp.org/publications/investing-europe-global-role-must-have-guide-negotiations-multiannual-financial-framework-2021-2027/>
5. The poverty estimates in this paper were prepared by Dr Emma Samman, ODI research associate.

But this will still leave 340 million people in SSA living in extreme poverty in 2030. Over 90% of them live in fragile states; two-thirds of them live in LDCs. Some of the SSA countries with projected high rates of poverty are long-term conflict-affected states such as the 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 others are countries where poverty has increased after a long period of decline, such as Uganda. A total of 22 SSA countries are expected to still have poverty rates exceeding 20% in 2030. If past growth and inequality trends continue, growth alone should halve poverty rates in sub-Saharan Africa (SSA) by 2030. But this still means that 340 million people will be left behind in extreme poverty. As many of them live in countries that are vulnerable to conflict and climate change, this may understate the future extent of extreme poverty.

### Which countries can afford to end extreme poverty

ODI has estimated how much it would cost a country to invest in the level of human development that is needed to ensure that everyone can be lifted out of extreme poverty without leaving anyone behind. The costs for universal education are based on research conducted by the United Nations Educational, Scientific and Cultural Organization (UNESCO)<sup>6</sup> and for universal health care on a study funded by the World Health Organization and the World Bank.<sup>7</sup> The costings for universal social protection transfers were calculated by ODI and are based on the total income shortfall of everyone 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 with disabilities, so that no-one is left behind.



if growth rates and income inequality trends continue, poverty rates in Sub-Saharan African countries will be halved in 2030.



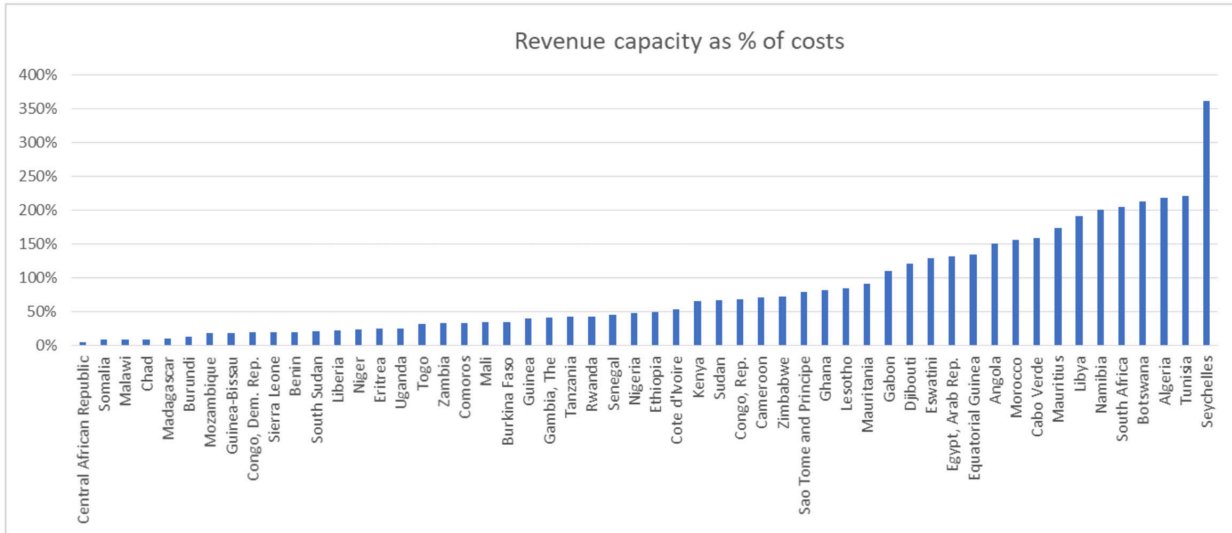
To assess what countries can afford, ODI has produced tax projections based on research by the International Monetary Fund (IMF) and the World Bank into what is economically feasible, given the structures of the economy and the overall level of economic development. These show that SSA countries have the collective potential to increase their revenues by an additional US \$80 billion a year to a total of US \$385 billion a year. But these additional revenues are not evenly distributed across the region: middle income countries (MICs) could generate 86% of the additional tax revenue. On average, the maximum revenue potential of SSA MICs is USD 3,200 per person – 16 times the USD 200 average for SSA LICs.

Increasing taxes to the maximum potential is not straightforward, however, and there are distributional risks that would need to be managed.<sup>8</sup> But even if all the SSA countries maximised their tax potential, while this would

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6. UNESCO, *Pricing the right to education: the cost of reaching new targets by 2030*. Policy Paper 18, Education for All Global Monitoring Report, 2015.  
7. Stenberg, K. et al., *Financing transformative health systems towards achievement of the health Sustainable Development Goals: a model for projected resource needs in 67 low-income and middle-income countries*, The Lancet, 2017, and Jamison, D.T. et al., *Universal health coverage and intersectoral action for health: key messages from disease control priorities*, The Lancet, 2017.

Figure 2: Maximum potential tax revenues as percentage of cost of ending extreme poverty



Source: ODI estimates

reduce their funding gaps, 37 of the poorest countries in SSA would still not be able to fully fund the three core social sectors needed to end extreme poverty. Assuming half of their potential revenues were made available for social sector spending (in line with international targets<sup>8</sup>), all upper middle income countries in SSA and a quarter of lower middle income countries could fully fund the costs. However, none of the SSA LICs could afford the full costs, even if they increased their taxation to the maximum possible level. SSA LDCs are also particularly vulnerable, with only two able to fully fund the costs (i.e. Angola and Sudan), and 26 not even able to fund half the costs.

## IS AID TARGETED AT ENDING EXTREME POVERTY IN AFRICA?

### Current global aid flows

Global aid flows fill only 13% of the financing gap in SSA. This is the result of both the limited volume of aid – few

countries meeting the UN target for the volume of aid – and the poor targeting at the countries that need it the most. Despite the recognition that LDCs need extra support and despite the SDG goal of increasing aid to LDCs, the LDCs' share of aid has fallen during the past seven years from 30% to [24]% in 2017. Preliminary figures for 2018 suggest a further fall. As the DAC chair noted in 2018, 'less ODA is going to least-developed and African countries, where it is most needed.'<sup>10</sup>

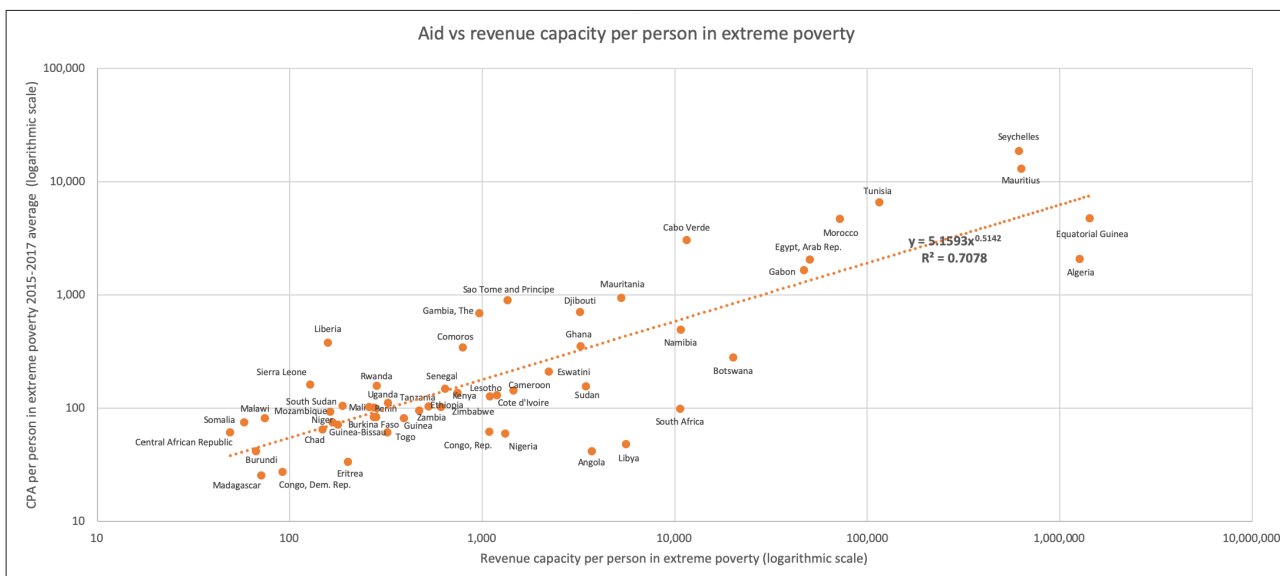
One stark illustration of the failure to prioritise the poorest countries is that a typical MIC now receives ten times more Country Programmable Aid (CPA)<sup>11</sup> per person in extreme poverty than a typical LIC. This is despite the fact that MICs have much greater potential to finance the ending of extreme poverty themselves (as part of wider efforts to reduce inequality). A typical MIC has one hundred times more taxation potential per person in extreme poverty than a typical LIC.

8. For a more detailed discussion, see Long, C. and Miller, M., Taxation and the Sustainable Development Goals: do good things come to those who tax more? ODI Briefing Note. London: Overseas Development Institute, 2017.

9. For a discussion of the targets, see Manuel, M. et al. (op. cit.).

10. <https://www.oecd.org/newsroom/development-aid-drops-in-2018-especially-to-neediest-countries.htm>.

Figure 3: Aid per person in extreme poverty versus tax revenue potential per person in extreme poverty in Africa



Source: ODI estimates

The failure to target the poorest is also clear from the distribution of aid to Africa: as a country's taxation potential increases, so the amount of CPA received per person in extreme poverty also tends to rise.

Recent trends in EU aid mirror global ones. As both the OECD DAC peer review reported in 2018 and the European Council noted in May 2019, the EU as a whole is providing less aid as a percentage of GNI and is failing to increase the share of aid given to LDCs. This is despite clear commitments in the new European Consensus on Development to increase both ratios. Aid delivered through EU institutions is particularly poorly targeted, with the peer review finding that only 27% went to LDCs. A very high share, i.e. 43%, went to upper middle income countries (UMICs), thanks to the large share of aid channelled through the European Investment Bank.

### Other financial flows

The failure to target aid at the poorest countries is particularly concerning, given they have limited access to the other sources of finance that were highlighted in Addis Ababa Action Agenda (AAAA). For example:

- While LICs and MICs could raise USD 2 trillion a year in additional domestic tax revenues, MICs would account for 99% of this<sup>12</sup>.
- Many LICs are close to the upper limit of the level of debt that the IMF judges to be sustainable (and a growing number have exceeded this limit).
- Of the US \$ 1 trillion of private finance invested in infrastructure during the past decade, 98% has been invested in MICs<sup>13</sup>.

11. Country Programmable Aid (CPA) is an aid measure defined by the OECD DAC that includes only those elements of ODA that can be programmed to be spent in the recipient country (and which therefore excludes spending on refugees in the donor country, debt relief and humanitarian aid).

12. Manuel, M. et al. (op. cit.).

- It is much harder for LICs to leverage private-sector funding through aid: the average amount of private-sector finance mobilised for every dollar of investment by development finance institutions and multilateral development banks is just USD 0.37 for LICs, compared with USD 1.06 for LMICs and USD 0.65 for UMICs<sup>14</sup>.
- LICs receive three times less foreign direct investment than other developing countries (US \$23 per person in LICs compared with US \$85 per person in MICs in 2016)<sup>15</sup>.
- LICs also receive three times less in remittances. In 2016, LICs received USD 27 per person compared with USD 74 per person in MICs)<sup>16</sup>.

### Impact of better targeting

There is considerable potential to improve the current country targeting of aid. Globally speaking, 45% of all aid is provided to 98 countries that are capable of fully funding their own costs of ending extreme poverty. If most of this aid were better targeted and if OECD DAC donors delivered on their commitment to spend of 0.7% of GNI on aid, all countries would be able to fund the cost of ending extreme poverty. This would require half of all country-allocable aid going to LDCs (as the OECD and civil- society organisations proposed for the AAAA). The 50% share-of-aid target also implies that LDCs should receive a 0.35% share of donors' GNI, compared with the 0.10% they are currently receiving and compared with the EU and SDG targets of 0.20% of GNI.

### EU targeting of severely financially challenged countries

The new European Consensus on Development calls for the most concessional public financial flows to be rebalanced towards those countries that are most in need, especially LDCs and fragile states. Most of these are in Africa. The Consensus also explicitly recognises that these countries have the least potential to raise finance.



Of the US \$1 trillion of private finance invested in infrastructure during the past decade, 98% has been invested in MICs.



ODI has developed a new index for assessing the extent to which donors are already targeting these countries. Given the inherent uncertainty surrounding the precise cost of ending extreme poverty and the potential for efficiency improvements, ODI deliberately focused on those countries that can afford only half the cost, i.e. the severely financially challenged countries (SFCCs). Most of these (29) countries are both LDCs and fragile states and nearly all are in Africa. ODI's index also indicates how well aid is matched to the precise needs of these countries. The tax potential of some of these countries covers only 4% of what they need, whereas others are close to 50%.

The index reveals that some EU countries have a high score. Of the major DAC donors (i.e. providing more than USD 500 million per annum in ODA), the top two in terms of efficiency in targeting extreme poverty are both EU member states, i.e. Ireland and Belgium. In the case of Ireland, this is due to its broad support for many of the SFCCs. In the case of Belgium, this is due to its focus on two SFCCs/LDCs, i.e. the Democratic Republic of Congo and

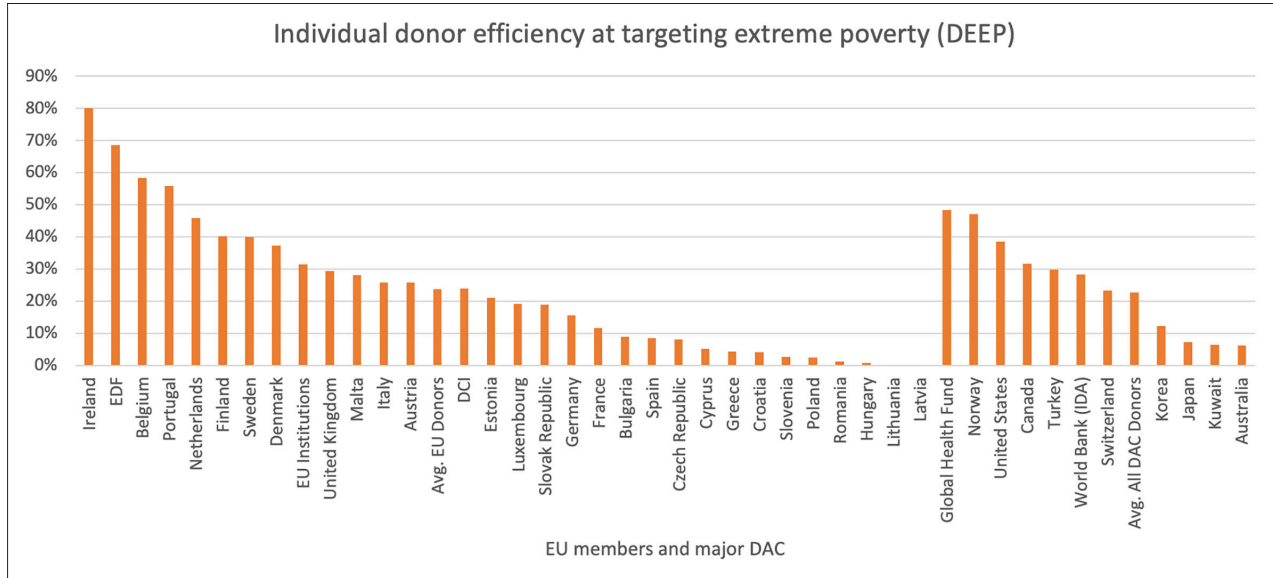
13. Tyson, J. *Private infrastructure financing in developing countries*. ODI Report. London: Overseas Development Institute, 2018

14. Attridge, S. and Engen, L. *Blended finance: can it deliver for the poorest countries?* London: Overseas Development Institute, 2019.

15. Development Initiatives, *Investments to end poverty: meeting the financing challenge to leave no one behind*. Bristol, UK: Development Initiatives, 2018.

16. Development Initiatives (op. cit.).

Figure 4: Individual donor efficiency at targeting extreme poverty



Source: ODI estimates

Burundi. Portugal, a smaller donor, also has a high score, reflecting its focus on two other SFCCs/LDCs, i.e. Guinea-Bissau and Mozambique. Neither of the bottom two major DAC donors are EU member states: Japan and Australia. However, many of the EU member states that joined after 2002 and currently distribute relatively little ODA have low scores.

EU institutions collectively score just above the average for the EU as a whole. This is due to the high score allotted to the European Development Fund (EDF), which is only just below Ireland's. This high score was replicated in an earlier analysis, which found that 75% of EDF resources were spent in LDCs.<sup>17</sup> By contrast, the other big spending instrument, i.e. the Development Cooperation Instrument (DCI), scores below the average for the EU as a whole.

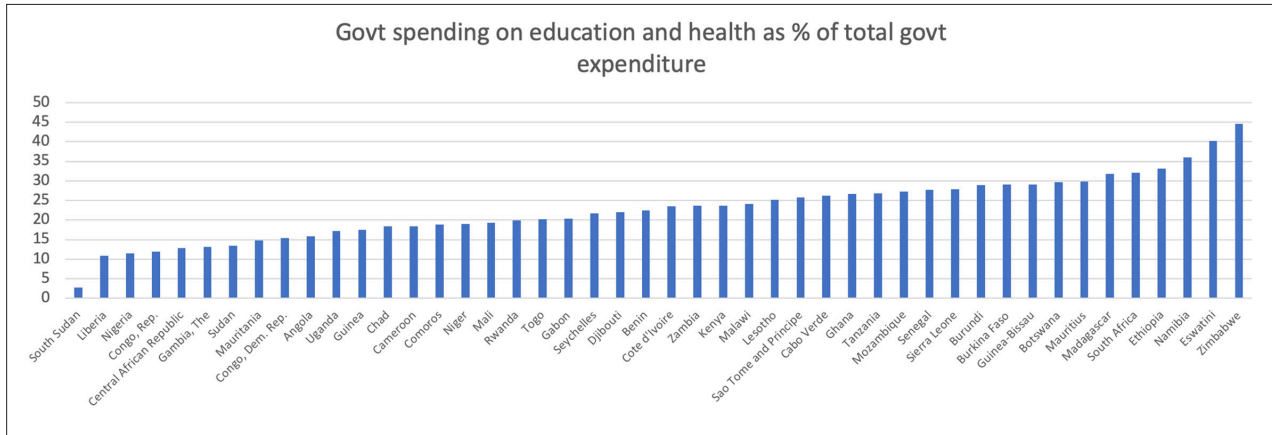
### EU targeting of human development

A key element of the new European Consensus on Development involves framing EU support in partnership with developing countries' own efforts. Internationally recognised targets imply that developing countries should spend half of their government budgets on human development, i.e. on education (accounting for 20%), health (15%) and social protection (15%).<sup>18</sup> While data on social protection spending is not readily available, ODI analysis for this paper revealed that, on average, SSA countries spend 22% of their budgets on education and health. While there is slight tendency for richer SSA countries to spend a higher proportion, ten SSA LICs spend more than a quarter of their budgets on education and health spending. The countries in question are Tanzania, Mozambique, Senegal, Sierra Leone, Burundi, Burkina Faso, Guinea-Bissau, Madagascar, Ethiopia and Zimbabwe.

17. Castillejo et al. in Sheriff (ed.) *Investing in Europe's global role: the must-have guide for the negotiations of the Multiannual Financial Framework 2021-2027*. Brussels: ECDPM paper, 2019.

18. Manuel, M. et al. (op. cit.).

Figure 5: Government spending on health and education as % of total expenditure



Source: ODI estimates

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Spend on education, health and population policies % total ODA																
DAC EU Members, Total	15.2%	18.2%	20.4%	14.9%	17.0%	20.5%	18.7%	21.6%	20.1%	19.7%	20.2%	20.7%	19.3%	15.1%	14.4%	14.7%
EU Institutions	8.2%	7.9%	11.0%	10.5%	12.5%	12.3%	11.5%	11.1%	11.1%	8.7%	7.9%	8.7%	7.6%	8.7%	9.3%	11.3%
Grand Total	14.7%	17.4%	19.5%	14.1%	16.2%	18.8%	17.2%	19.2%	18.2%	16.7%	16.6%	17.4%	16.2%	13.6%	13.2%	13.9%

The EU allocates a much smaller share of its aid to health and education, i.e. only 14% on average. EU institutions spend even less on human development: only 10% on average over the past three years. This is despite the requirement for the DCI to allocate at least 20% to basic services, with a focus on health and education.

The pattern of EU spending in sectors and countries is echoed by other donors, with the result that all social sectors in SFCCs are greatly underfunded. Social protection fares the worst, receiving less than half the level of aid spent globally on education and health, relative to the size of the financing gaps. Globally, only a fifth of extremely poor people in LICs currently receive social protection transfers. Where such programmes are funded, however, they account for over a third of those escaping from extreme poverty.<sup>19</sup> For example, a large-scale programme in Ethiopia has reduced the need for humanitarian crisis support and enabled farmers to make small-scale investments to help them adapt to climate change and

absorb carbon emissions (equivalent to the output of Ethiopia's transport sector).

## CONCLUSIONS AND RECOMMENDATIONS FOR THE EU

The European Consensus on Development is clear on the need both to increase EU aid and to focus more on the poorest countries. The challenge has been to deliver this. In May 2019, the European Council reported that it was:

***'increasingly concerned by the negative trend of EU collective ODA, which has decreased for the second year in a row, and regrets the deepening gap towards reaching the collective target of 0.7% of GNI as ODA.... [and] is seriously concerned that the EU has still not met its collective target to provide 0.15%-0.20% of GNI to LDCs in the short term....and reach 0.20% of ODA/GNI within the timeframe of the 2030 agenda.'***

19. World Bank, *The state of social safety nets 2018*. Washington, DC: World Bank, 2018.



The failure to meet these targets means that many countries have no prospect of ending extreme poverty and enabling every child to complete their education or giving everyone access to the healthcare services they need. A deeper analysis of financing needs also reveals why all DAC donors (including the EU) need to go beyond the SDG target which states that donors should provide 0.20% of ODA/GNI to LDCs. Ending extreme poverty globally (and hence also in SSA) will require donors both to meet the 0.7% ODA/GNI target and LDCs to receive half of this. In other words, LDCs should receive 0.35% of ODA/GNI.

Several aspects of the current MFF proposal<sup>20</sup> are concerning in this context:

- As others have noted, the proposal would appear to reduce the emphasis on poverty, replacing the Consensus phrase of 'eradicating poverty' with 'overcoming poverty'.<sup>21</sup>
- It is not clear how much, if any, targeting of the poorest countries will be included. The proposal envisages subsuming the EDF and the DCI (and other instruments) into a single new instrument, the Neighbourhood, Development and International Cooperation Instrument. As we have already seen, the EDF is much better targeted than the DCI, with 75% going to LDCs. It is therefore concerning that, while the proposal provides for three quarters of resources to go to geographical programmes and, within this, for Africa to receive nearly half the total, the only reference to the LDCs' share is that 'aid allocations should further the collective target of contributing 0.2% of EU GNI to LDCs'. Taken in conjunction with the 0.7% ODA/GNI target, this could be taken to mean that only 29% of funding should go to LDCs.
- Maintaining the 20% minimum level of spending on social sectors is inconsistent with the combined international spending targets of 50% for partner

countries' own budgets and ODI's estimate of a 50% share as being needed to end extreme poverty.

This briefing note also highlights the relative shortfall in funding for social protection in SSA – a key instrument that EU member states have used to address inequality and eradicate extreme poverty at home and a key tool for climate change adaptation (and mitigation).

Finally, this briefing note points to four key actions that the EU could take in order to exercise global leadership in financing human development and ending extreme poverty in SSA:

- 1) **Be more ambitious**, i.e. stipulate that the 0.7% EU aid target should be met by the end of the MFF period in 2027, rather than by 2030 as set out in the new European Consensus on Development.
- 2) **Ensure that the MFF is consistent** with delivering the 2030 Agenda and ending extreme poverty.
- 3) **Allocate at least 50%** of EU development aid to LDCs, and more than the 20% minimum share to social sectors.
- 4) **Ensure that the EU focus on leveraging private-sector funding** does not increase incentives to allocate ODA to middle income countries or away from social sectors.■

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20. For details of the proposed Multiannual Financial Framework, see COM 2018 321 final ([https://ec.europa.eu/commission/sites/beta-political/files/communication-modern-budget-may2018\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/communication-modern-budget-may2018_en.pdf)) and COM 2018 460 final ([https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-neighbourhood-development-international-regulation\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-neighbourhood-development-international-regulation_en.pdf)).

21. Jones et al. in Sherriff (ed.) (op. cit.).



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