



Shaping global policy

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Horizon 2025

Creative Destruction in the Aid Industry

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Basic framework

Visioning the future development landscape- a bird's eye view.
A stress test: today's actors in tomorrow's scenarios.

1. Part 1, demand: shifting locus of *global poverty*
2. Part 2, supply : *new business models* disrupt old ones
3. 1+2 = Exposure to Change

Caveats:

- Exposure is not impact: resilience and flexibility will vary.
- Scenarios are not predictions: not risk or shock-adjusted.

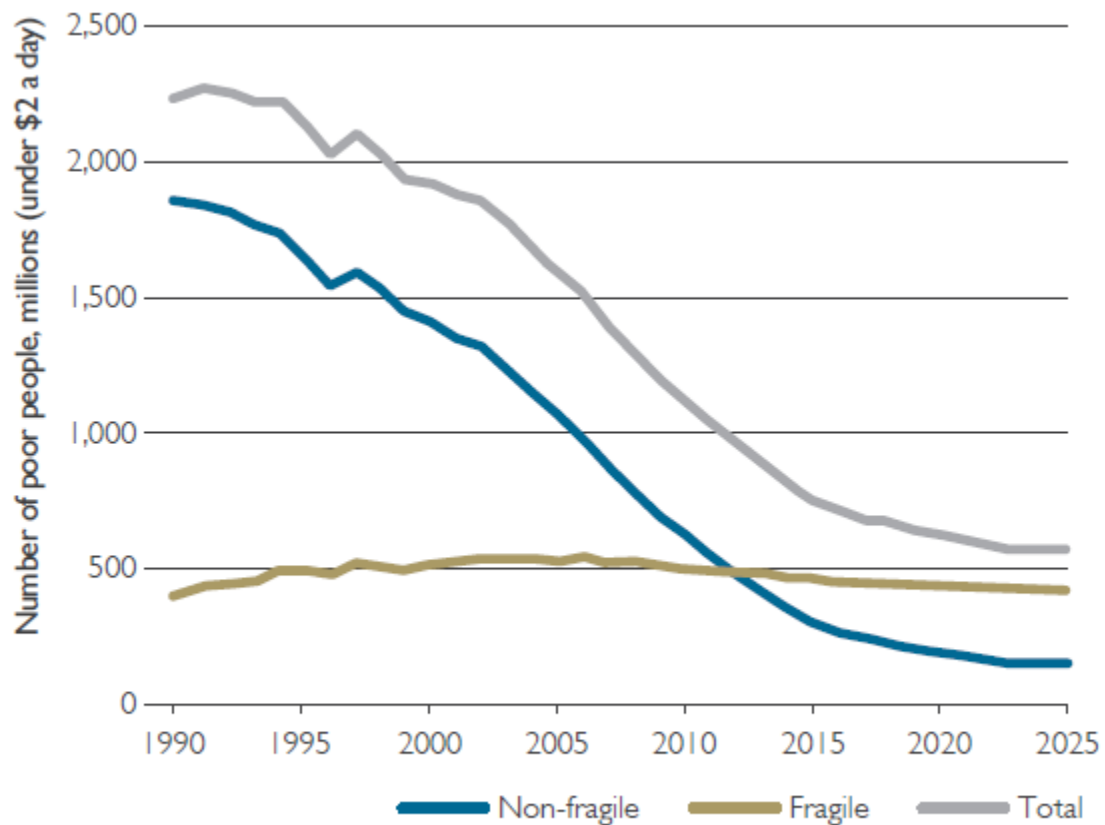
Part 1 : Shifting geography of poverty

- Long term dynamics of growth, population and inequality
- “Convergent” countries progressively reabsorb absolute poverty
- “Fragile states” (low and middle-income) struggle.

Hence:

- Global poverty concentrates in fragile states, mostly in Africa .
- Most of these also have high poverty gaps relative to GDP.
- IF eradication of poverty is overriding goal of aid, here is its future focus.

Global poverty has declined sharply in non-fragile states



Source: Authors' estimates

Good news - if the politics works

A paradox:

1. Closing global poverty gap becomes *more affordable than ever*.

However

2. Rising aid spends per capita, in tougher country contexts,

imply

3. *Risk of losing domestic political support*, just as the “final frontier” is in sight.



Part 2 . Multiple motives for development finance (In the public interest)

- I. Improved social welfare (poverty reduction, MDG)
- II. Mutual interest in growth, trade and investment
- III. Shared Global Commons (global public goods)

Three game-changers or “disruptors”

1. For social welfare: **Impact philanthropy and private giving.**
(Challenge to public aid at both collection and delivery ends)
2. For mutual interest: **Blended packages of trade, investment and finance**
(as OECD countries emulate South-South cooperation)
3. For collective interest: **Climate change financing**
(radically shifts development priorities and practice, not vice versa)

Part 3: Exposure: Implications for countries

1. ++ Diversity and choice offer more policy space
 - - But also bring more complexity and earmarking
 - ?? Net benefit heavily depends on national strategy, capacity.

2. - - Aid pendulum shifts away from social service provision
 - ++ And toward private-public deals and infrastructure
 - ?? Can philanthropy and social enterprise fill the gap
 - ?? Are deals transparent enough for rational public choice

- 3 Most countries can “transmit” and “receive” finance, trade links, know-how.
No more donor-recipient divide. And what is a “partner”?



Implications for “traditional” actors : a traffic-light index

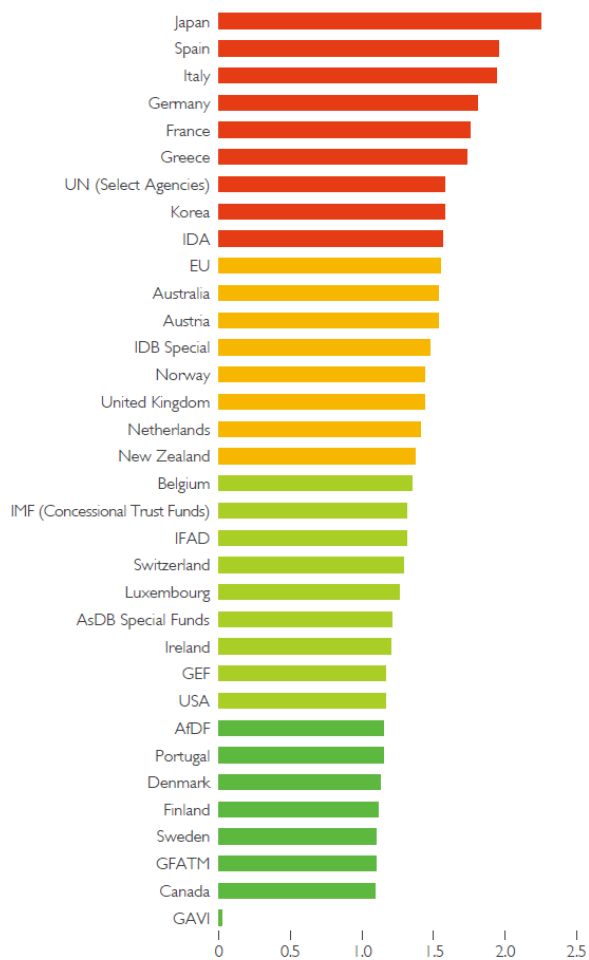
Exposure to lack of relevance assumed to **rise** with:

1. Agency share of non-fragile, low poverty gap countries
2. Their share of social service delivery in portfolio

And **fall** with

1. Their share of growth and infrastructure activities
2. Their share of global public goods

A 'traffic light' approach



Source: Authors' calculation.

Questions for further research

1. What approaches and tools could be most effective and sustainable to help address chronic fragility?
2. How might new forms of private giving and philanthropy interact with ODA?
3. Blended aid + investment approaches: how might they affect OECD behaviour over time?
4. How could international public finance for climate change impact on development aid?



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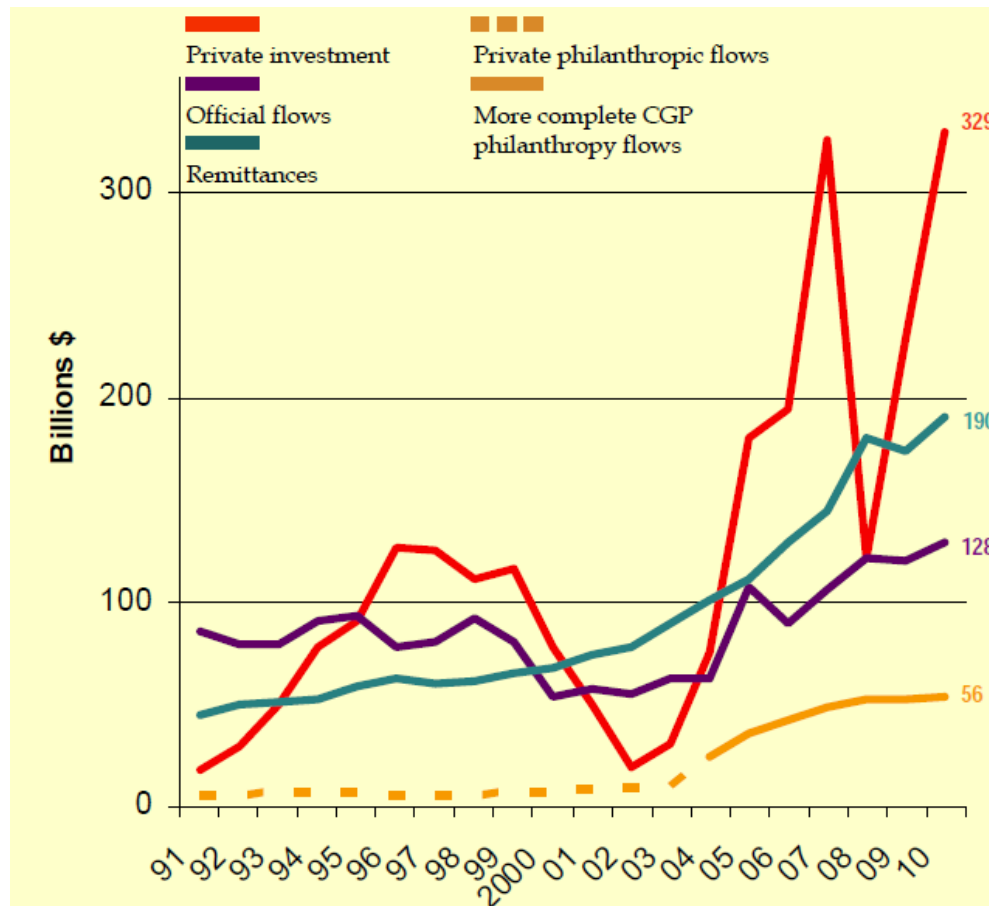


Climate Change Financing

Three game-changing propositions:

1. Pressure on development budgets rises until supranational tax-like resources in place.
2. CCF logic + focus are intrinsically different to “aid”.
3. Development objectives will eventually internalise environmental scarcities.

Development finance flows to developing countries 1990-2010



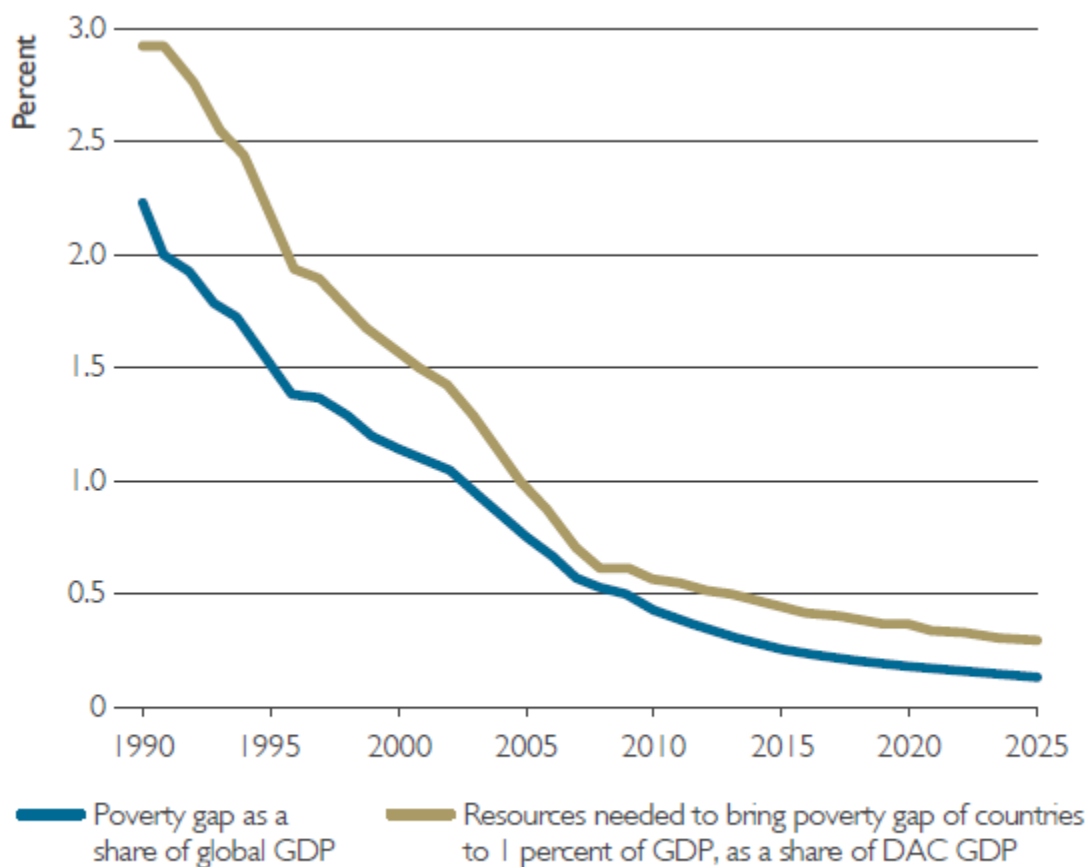
Source: OECD; Hudson Institute's remittances calculations from DAC donors to DAC recipients based on data from the World Bank's Migration and Remittances Team's *Bilateral Remittance Matrix*, 2010; Hudson Institute, 2005-2012.

Spending by the global middle class 2010 and 2025

	2010		2025	
	2005 \$ billions PPP	% of world total	2005 \$ billions PPP	% of world total
North America	5,580	25	6,037	15
Europe	8,642	39	11,205	28
Central and South America	1,724	8	3,049	8
Asia Pacific	5,161	24	18,185	45
Sub-Saharan Africa	251	1	573	1
Middle East and North Africa	547	3	1,166	3
World	21,905	100	40,215	100

Source: Kharas (2010), updated by the authors.

A shrinking global poverty gap



Source: Authors' estimates