HORIZON 2025

creative destruction in the aid industry

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This report was authored by Homi Kharas, Senior Fellow at Brookings Institution, and Andrew Rogerson, Senior Research Associate at ODI. The report benefitted from substantial research inputs from Annalisa Prizzon and Natasha Audrey Ledlie and text contributions by Romilly Greenhill. The authors are grateful to Judith Randel for a peer review of an earlier draft. The authors would also like to acknowledge valuable comments and suggestions from, among others, Alison Evans, Matthew Geddes, Jonathan Glennie, Romilly Greenhill, Edward Hedger, Maia King, Simon Maxwell, Andrew Norton, Rebecca Simson, Heidi Tavakoli and Leni Wild.

Parts of this text draw on Rogerson et al. (2012), a policy brief commissioned by the Danish International Development Agency (DANIDA) with contributions from several ODI staff. The present paper was generously supported by the UK Department for International Development under an Accountable Grant to ODI. Financial support from Australian Agency for International Development (AusAID) is also gratefully acknowledged. The authors remain solely responsible for its content, however.

Design: www.stevendickie.com/design

ISBN 978-1-907288-78-4

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This research was funded by UK aid from the Department for International Development. Its conclusions do not necessarily reflect the views of the UK Government.

Contents

	Acronyms	2
	Abstract	3
1.	Introduction	5
2.	Base case scenario: the changing face of poverty	7
2.1	*Poverty trends: fragility*	7
2.2	*The costs of closing the poverty gap*	8
2.3	*A focus on Africa*	9
3.	First disruptor: social well-being – is private aid dis-intermediating official aid?	10
3.1	*Service delivery effectiveness and philanthropy*	10
3.2	*Cash transfers and new technologies: building from the demand side*	11
4.	Second disruptor: growth, mutual interest and trade – the dynamics of South-South cooperation and private-public blends	13
4.1	*Global tectonic shifts*	13
4.2	*South-South cooperation*	14
4.3	*Heterodox 'blended' models of state engagement in the economy*	14
5.	Third disruptor: protecting shared space – climate change responses, climate finance and development cooperation	16
5.1	*Scenarios for multilateral and unilateral outcomes*	16
5.2	*Climate finance and aid: strange bedfellows?*	17
5.3	*Country differentiation: a quite different world map emerges*	17
6.	Implications for 'receive-mode' developing country governments	19
6.1	*Policy space*	19
6.2	*Complexity, demand-side funding and outsourcing of service delivery*	19
6.3	*Growth and climate change disruptors*	20
7.	Impact on today's main development agencies	21
7.1	*Main pathways for exposure: baseline 2025 scenario*	21
7.2	*Pathways of exposure: disruption through social enterprises and impact philanthropy*	22
7.3	*Pathways of exposure: SSC, trade-investment-aid blends*	22
7.4	*Pathways of exposure: climate change finance*	23
8.	Overall exposure ratings: a traffic light approach	24
8.1	*Methodology*	24
8.2	*Results*	25
9.	Key questions for further discussion and research	26
	Bibliography	27
	Annex 1: Overall exposure ratings – a traffic light approach	28
	Annex 2: CRS classification traffic light system	29
	Annex 3: List of high poverty countries in 2025	32

Acronyms

ADF	African Development Fund
AU	African Union
BRICs	Brazil, Russia, India, China
CCF	Climate Change Financing
CPA	Country Programmable Aid
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DFI	Development Finance Institution
DFID	Department for International Development
DRC	Democratic Republic of Congo
ECOSOC	Economic and Social Commission
EU	European Union
GAVI Alliance	Global Alliance for Vaccines and Immunisation
GDP	Gross Domestic Product
GNI	Gross National Income
IDA	International Development Association
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
INGO	International Non-governmental Organisation
LIC	Low-income Country
MDG	Millennium Development Goal
MIC	Middle-income Country
NGO	Non-governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
SSC	South-South Cooperation
UK	United Kingdom
UN	United Nations
UNFCCC	UN Framework Convention on Climate Change
US	United States

Abstract

The global economic landscape has evolved dramatically since 2000: developing and emerging economies have been driving global growth, new sources of development finance have mushroomed and the diversification of actors, instruments and delivery mechanisms has continued. Transformations in the poverty map and new forces on the supply side of development finance are challenging the international development architecture. This paper aims to stimulate debate on the future of this architecture.

We project that, by 2025, the locus of global poverty will overwhelmingly be in fragile, mainly low-income and African, states, contrary to current policy preoccupations with the transitory phenomenon of poverty concentration in middle-income countries. Moreover, a smaller share of industrialised country income than ever before will potentially close the remaining global poverty gap, although direct income transfers are not yet feasible in many fragile country contexts.

Against this backdrop, new institutions, business models and practices are challenging long-established 'aid industry' actors. Agencies providing development finance for improved social welfare, for mutual self-interest in growth and trade and for the provision of global public goods will find that, in each area, disruptors to their programmes may force a change in positioning. We focus on one such disruptor for each of these three complementary rationales for development cooperation. The key disruptor we discuss in the first area is high-impact philanthropy and non-governmental giving channels; in the second, South–South cooperation combining trade and finance, and blended public–private funding in general; and in the third, the power of climate change finance, particularly its quite different country and project allocation logic.

From this analysis, we look at how far some of today's major development agencies are likely to be exposed to the resulting pressures to change course, emulate the disruptors or face irrelevance. We construct an index of vulnerability, presented in a traffic-light ranking, based on recent shares of each agency's operations going to, first, middle-income and low poverty gap countries and, second, purposes linked respectively to social welfare, growth and global public goods, with appropriate weights. We offer these assessments not as predictions but as possible stress test tools for further, context-specific analysis. We end with questions for further research.

1 Introduction

This paper aims to stimulate debate on the future of international development cooperation, in particular development finance and the forces that will shape it. It is intended for a general audience of analysts and decision makers, who may already be familiar with some of the many facets of today's development 'architecture', yet value a broader and longer perspective.

We carry out a selective 'stress test' of selected development agencies to see how their current strategies might fit into the development cooperation ecosystem that we foresee at a given future time horizon: 2025.

We start by assessing the global poverty map, based on growth projections provided by the International Monetary Fund (IMF) through 2016 and extrapolated to 2025 using assumptions on capital accumulation, labour force and productivity experience (detailed in Kharas, 2010). These projections are independent of the composition of external finance flows as such. We base poverty projections on these growth forecasts by computing the distribution of the population spending less than $2 a day from the most recent household surveys and assuming that average per capita expenditure grows at the same pace as gross domestic product (GDP) (see Box 1 for methodology).

The 2025 horizon gives us latitude to go beyond incremental change. For instance, while there is some debate today about how many of the world's absolute poor still live in middle-income countries (MICs), the dynamics of growth and demographics suggest that, by 2025, most absolute poverty will once again be concentrated in low-income countries (LICs). Or, to take another example, access by the poor to basic financial services by 2025 appears inevitable, thanks to the very rapid penetration of mobile money. Such major long-term trends will inevitably give new shape to development cooperation.

Development cooperation is multidimensional and involves far more than aid, or even finance. Today, 'policy coherence', meaning the linkage of aid, trade, investment, migration, defence, foreign relationships, science, technology and other instruments, is conventional wisdom in tackling development challenges.

Nonetheless, to sharpen our focus, we ask specifically what will become of what is known as the 'aid industry', that is, the development apparatus of (mainly) Organisation for Economic Co-operation and Development (OECD) countries, their civil society and the international organisations they largely control. The intervening period between now and 2025 will be, we believe, characterised by 'creative destruction', as existing institutions have to adapt to new trends or wither away into irrelevance. We point to specific areas of exposure to such forces.

Our *base case scenario* through 2025 highlights the following four new features:

- High per capita income growth and falling population growth in large, dynamic, MICs shrink the global poverty pool drastically.
- 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, coupled with the fall in global poverty, imply that dramatically more funding is potentially available for each poor person.

We consider, against this backdrop, the three major enduring motivations for international development support: *improved social welfare* (e.g. the Millennium Development Goals, MDGs); *mutually beneficial growth and trade* (bilateral self-interest); and *equitably shared provision of global public goods*.[1]

Aid agencies providing development finance for social welfare, growth and the global commons will find that, in each area, there are disruptors to their programmes that will force a change in strategy or alliances. We describe just one significant disruptor for each motivation – acknowledging that there are several others that might be invoked:

- For social welfare, *new philanthropy and social impact investors*, delivering new constructs such as micro safety nets, social enterprises and bottom-of-the-pyramid businesses;

1. This three-way categorisation is our own, but is inspired by other discussions of global challenges, including, for example, Rischard (2003). The categories, though separable in principle, inevitably overlap. For example, bilateral trade expansion is not a zero-sum game and, ultimately, national economic inclusion in the global economy is a global good.

- For building mutual prosperity, *South–South styles of cooperation* linked to trade and infrastructure and, more generally, blended public–private finance;

- For common space, *supranational tax bases and pricing regimes to finance climate change*.

For each of the disruptors, we suggest what factors might drive their expansion and/or relative impact. We also look at what this landscape implies from the perspective of countries that are still for the most part receiving rather than transmitting resources and ideas.

The last section of this paper looks at major 'traditional' aid institutions and runs a stress test of their current business model. We offer a 'traffic light' ranking of the exposure of some of today's leading development agencies in terms of the declining need, by country or sector, for their operations, measured by the current level of net disbursements (details in Section 7.5). The index should be interpreted as an indicator of the need for an agency to reinvent itself and adapt its strategy and operations to remain relevant. Those agencies that are nimble and responsive can be expected to survive and thrive. Those that are caught unaware of the changing aid landscape, or that are too rigid to adapt, will face problems.

We conclude with a few open questions for policymakers and researchers.

A final health warning on uncertainty is in order: scenarios are not predictions. They can be blown off course by major shocks that we do not discuss here, for example global security incidents (consider pre- versus post-9/11 scenarios) or systemic economic crises, especially those impacting large emerging economies. We offer our framework as a tool for debate, not as a crystal ball.

2 Base case scenario: the changing face of poverty

Global poverty has declined sharply since 1990, owing to growth and demographic change in developing countries. Three features stand out in the 2025 horizon. First, internationally, poverty is increasingly concentrated in fragile and conflict-affected states, where governments cannot meet the expectations of their populations and, in some cases, may not even be perceived as legitimate representatives of the people.[2] This trend is already visible: for the first time, there are probably more poor people today in fragile states than in non-fragile states.

This evolution challenges the basic aid delivery model, which has traditionally focused on assisting well-governed countries. Aid will still be needed in fragile states in 2025, as time frames for development in fragile contexts are likely to be far longer than aid agencies recognise, and building blocks are needed in areas like security, demobilisation and social justice and reconciliation – areas in which only a few development agencies have a comparative advantage.[3]

Second, the first call on resources for the eradication of poverty will be national: global transfers will be required to fill a gap and to assist in areas where delivery and effectiveness challenges are high.

Third, global poverty by 2025 will be overwhelmingly an African rather than an Asian problem. Each of these features has important implications for the targeting of aid resources across countries.

2.1 Poverty trends: fragility

Regardless of the assumptions made (see Box 1), however, trends in poverty reduction are similar and yield a startling conclusion: global poverty has declined sharply, but only in states that are not considered fragile today (Figure 1).[4]

Box 1: Methodology – poverty estimates to 2025

We assess the global poverty map in 2025 starting with developing country growth projections provided by the IMF through 2016 and extrapolated to 2025 using assumptions on capital accumulation, labour force and productivity experience (detailed in Kharas, 2010). These are country-specific, but build in convergence elements for countries with a sustained record of per capita growth well above that of the OECD.

We base poverty projections on these growth forecasts by: 1) estimating the parameters of a generalised quadratic Lorenz curve, using the most recent available household survey; 2) assuming the mean per capita expenditure level is the same as that provided in the national accounts and that this grows at the same rate as GDP growth; and 3) computing the share of the population living in households spending less than $2 a day in 2005 purchasing power parity (PPP) terms.

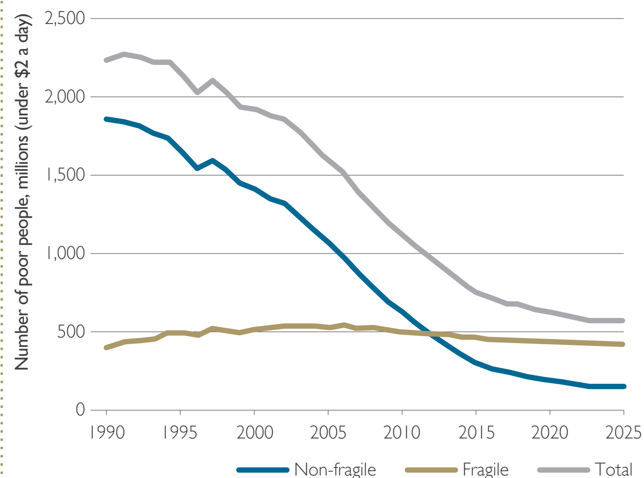
This methodology follows that of Sala-i-Martin (2002) in that it assumes that 'missing' household expenditures (the difference between the levels derived from household surveys and national accounts) are distributed across households in the same proportion as actual expenditures. (The World Bank, by contrast, assumes all the missing expenditure is consumed by those above the poverty line.)

The absolute level of global poverty today is subject to considerable debate because the available data have three core weaknesses: 1) in some countries, like India and Indonesia, household survey data point to mean consumption levels far below the national income accounts estimate of household consumption, sometimes by a factor of 2.5 or more; 2) in some countries, like China, the 2005 PPP conversions are questioned; and 3) in some countries, especially in Africa, there are simply no household data at all. Compounding this, poverty estimates for each country depend on modelling the distribution of expenditure in a fashion that becomes much more prone to error at each tail.

Our approach, which focuses on longer-term global trends, obviates some of these difficulties but is of course not without challenges; nor is it meant for detailed country-specific comparisons in the shorter run. For a fuller treatment and dynamic bubble graphs showing country evolution over a similar horizon, see Chandy and Gertz (2011).

2. Fragile states are defined here as states that are unable to meet their population's expectations or manage changes in expectation and capacity through the political process. See OECD glossary of International Network on Conflict and Fragility (INCAF) terms, http://www.oecd.org/document/13/0,3746,en_2649_33693550_49377421_1_1_1_1,00.html. The list of fragile countries is that used by the OECD and is a compilation of two lists: the 2009 World Bank, African Development Bank and Asian Development Bank Harmonized List of Fragile Situations and the 2009 Fund for Peace Failed States Index.
3. The World Development Report 2011 notes that best-case scenarios for development in fragile states are measured in decades and fragility can require sustained interventions of 30–50 years (World Bank, 2011a).
4. The figure holds constant the list of fragile states at its 2010 level. This is because early data for fragility do not exist and because the concept of fragility is taken as a long-run issue.

Figure 1: Global poverty has declined sharply in non-fragile states



Source: Authors' estimates

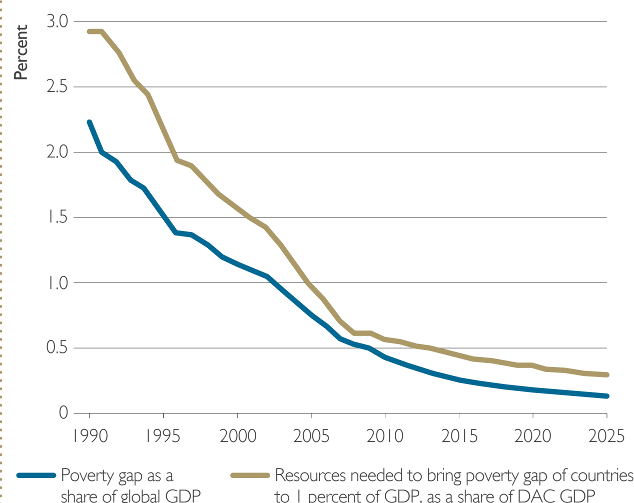
Indeed, a new feature of the poverty landscape today is the high share of poor living in fragile states. In 1990, four-fifths of the global poor lived in non-fragile states. But already in 2011, there were probably as many poor people in fragile states as in non-fragile states (Figure 1). And this trend towards a greater concentration of the global poor in fragile states is likely to continue, given economic and demographic trends. In most fragile states, long-term economic growth prospects are poor and population growth often still exceeds 3% per year. Prospects for significant and rapid poverty reduction in a few large countries, including Afghanistan, the Democratic Republic of Congo (DRC), and Nigeria, which account for a sizable fraction of the poor population in fragile states, are not bright.

Meanwhile, even though MICs today may have more poor people than LICs, the dynamics in these countries suggest this will be a transitory phenomenon. Over the next decade, the growth machine in the large MICs with substantial pockets of poverty, like India, Indonesia and Vietnam, should continue to reduce poverty in a major way. At the same time, their population growth has fallen to around 1%. By 2025, the number of poor in non-fragile, middle-income countries (using a poverty line of $2 a day) could be as low as 100 million out of a global total of 560 million.

2.2 The costs of closing the poverty gap

A consequence of the dramatic fall in the number of poor people is that the (notional) cost of eradicating global poverty has also fallen in absolute terms, and even more so as a share of industrialised country income. The poverty gap – the amount of money it would theoretically take to have a global safety net minimum expenditure level of $2 a day for every person in the world – looks 'affordable', at just one-third of 1% of global GDP (Figure 2). This of course does not mean we have in hand, or in sight, a 'shovel-ready' way of delivering this safety net. Equally, it does not mean all development efforts should necessarily be devoted to closing the (absolute) income poverty gap, as against other objectives, including multidimensional aspects of poverty, which may not shrink as rapidly with rising incomes. However, it provides a useful benchmark of the effort levels involved.

Figure 2: A shrinking global poverty gap



Source: Authors' estimates

Of course, not all countries have an equal focus on global poverty reduction, so global GDP may overstate the resources available for global poverty reduction. But equally, the international community does not need to shoulder the burden of poverty reduction by itself: each individual country also has a responsibility to its citizens. If it is assumed that countries provide at least 1% of GDP for their own poverty reduction programmes, then the amount needed from international aid shrinks. Figure 2 presents a second calculation of the international resources required to fill the poverty gap – after individual recipients have contributed 1% of GDP of their own domestic resources. This is expressed as a share of the GDP of the OECD Development Assistance Committee (DAC) donor countries. The result is similar: poverty eradication under these conditions is affordable, at around 0.5% of GDP today and falling to 0.3% of DAC country GDP by 2025 as poverty levels decline and the economies of DAC countries grow.

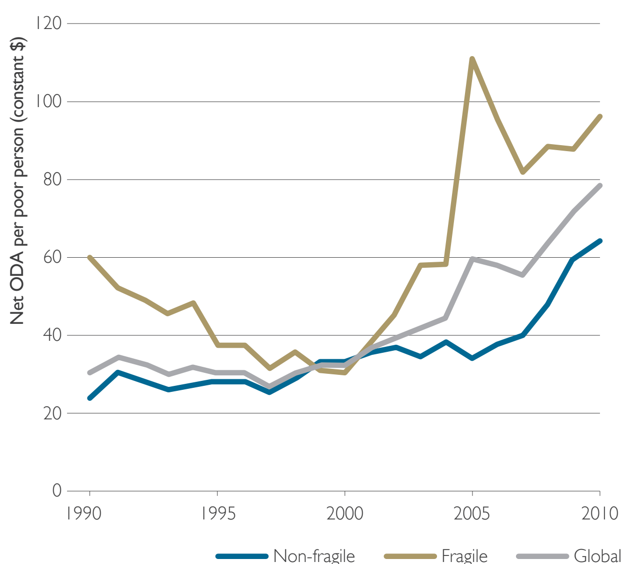
By 2025, we estimate the global poverty gap to be $166 billion, of which $35 billion could be filled by the domestic resources of recipient countries (assuming they take responsibility for a 1% gap on average), leaving $131 billion, or 0.3% of forecast DAC country GDP, to be filled by international assistance. Of course, social welfare programmes cannot be perfectly targeted to the poor. It might be expected that the non-poor will benefit from at least half the resources on average.

But even taking this loss of efficiency into account, income poverty eradication through the provision of a global safety net appears affordable. Doubling the total resources required to fill the global poverty gap, while keeping developing country contributions constant, would imply DAC countries need to contribute $297 billion, or 0.66% of their GDP.

In fact, given the expected growth in GDP, DAC donors could potentially provide $317 billion in aid (0.7% of GDP) by 2025, more than enough to fully fund a global safety net by themselves. Even if their aid share stayed at its 2010 level and aid grew just at the rate of GDP growth, net DAC bilateral and multilateral official development assistance (ODA) would reach $171 billion. It is probable that, with private philanthropic and non-DAC aid resources, the global safety net could still be funded.

Would a strategy of concentrating aid resources on high poverty gap countries help most of the world's poor? Yes. As the poor become concentrated in fragile states, they will also tend to become concentrated in countries with a high poverty gap, where the need for external assistance is strong but absorption capacity may be lacking. In 1990, almost all the poor (96%) lived in countries where the poverty gap exceeded 1% of GDP. By 2008, this had changed: MICs like China and India had low poverty gaps but still contained substantial absolute numbers of poor people. But by 2025, in our base case scenario, almost all poor people (90%) will again live in high poverty gap countries. If new technologies (see below) can be deployed so large-scale safety nets are administratively feasible, international aid could effectively eliminate global poverty if it is retargeted to high poverty gap countries. Proposals along these lines have already been advanced by a task force for the G20 headed by former Chilean President Michelle Bachelet.

Figure 3: Aid volumes per poor person have risen sharply[5]



Source: Authors' estimates

Falling poverty numbers coupled with aid increases since 2002 have meant that net ODA per poor person has started to rise sharply (Figure 3), reaching $80 per poor person per year in 2010 with an inexorable upward trend. This creates the potential for more rapid scaling-up of anti-poverty programmes. By 2025, official aid could grow to over $300 per poor person per year, if net ODA in each DAC country grows at the same rate as GDP (with multilateral agency aid growing at the rate of global GDP). Philanthropic and non-DAC donor aid resources could potentially double this amount.

2.3 A focus on Africa

A large fraction of additional aid since 2005 has been directed towards Iraq and Afghanistan, which alone received almost $90 billion between 2005 and 2010. Regardless of the merits of aid to these two countries, aid to Africa has not increased in proportion to the growing share the continent holds in global poverty. And yet the great challenge of poverty reduction today and especially tomorrow lies in Africa. In 1990, only one-sixth of the world's poor lived in Africa. Today, more than one-half of the world's poor live there. By 2025, on present trends, five-sixths of the world's poor will live in Africa. This is why donors agreed to focus efforts on Africa when they pledged to increase aid volumes at Gleneagles in 2005, and they have had some success. But given the challenges of poverty in Africa, it is disappointing that the continent receives only about one-third of total net ODA, and that total aid to Africa divided by the total number of poor people has only just returned to the level it reached in 1990.

5. The sharp ODA spike in 2004–2007 for fragile states owes largely to debt relief (e.g. Iraq and Nigeria), but per capita aid to fragile states remains significantly higher net of debt relief.

3 First disruptor: social well-being – is private aid dis-intermediating official aid?

Whilst we are accustomed to thinking of non-governmental development funding, including private philanthropy, as a complement to ODA, and often as a delivery vehicle or contractor for the latter, this section explores the possible evolution of impact philanthropy as a substitute for ODA in the longer term, as seen in citizens and investors being increasingly able to channel their support through channels that are not tax-based.

One component of this implied competition is in the perceived greater relative effectiveness of the channels through which they reach the poor. Another is the perception that they are more responsive to their contributors or 'investors' than are national aid bureaucracies to their underlying funders, the voters.

3.1 Service delivery effectiveness and philanthropy

Delivering services to the poor has been hampered by, among other things, inadequate domestic and foreign funding, poor policies and insufficient priorities and poor delivery capability. Until recently, total aid per poor person hovered around $60 per year, and, as a considerable fraction of this was in the form of studies, administrative overhead, debt relief and other efforts, the official funding actually available for development projects and programmes in poor countries (what the DAC calls country programmable aid, CPA) may have been as little as $40 per poor person per year. Out of this sum, partner country administration, corruption and leakage to non-poor beneficiaries have to be subtracted. The amount of aid money reaching poor people is therefore relatively modest.

In this space, private philanthropy has become an important source of finance. Private donations towards international development have been growing rapidly and could now amount to approximately $56-75 billion per year.[6] The lower end of the range is the estimate for 2010 by the Center for Global Philanthropy, which assessed the private giving of 15 developed countries, including the US. The upper end is an extrapolation based on surveys compiled by the Johns Hopkins University suggesting the US accounts for about half the global non-profit sector.

Because private donations tend to avoid high overheads, and are thought to be efficient providers, a larger share of their funding may also be available for poverty-reducing projects and programmes, although there is no standard reporting that permits a like-for-like comparison between official and private aid.[7]

Philanthropy has been growing at double-digit rates, thanks to large gifts, like the well-publicised Warren Buffett donation to the Bill and Melinda Gates Foundation, as well as small contributions from individuals through consumer-friendly internet sites such as www.kiva.org and www.globalgiving.org (see below). Private corporations have also become more active in development, through corporate social responsibility programmes and, increasingly, through corporate business strategies that embed development into global programmes and alliances.[8] Coupled with hybrid ventures, like social impact investments that offer financial returns with social or environmental benefits, the scale of resources for 'bottom-of-the-pyramid' ventures that target poor communities and households is exploding.[9]

Although the trend toward expansion is strong, some care is needed in extrapolating numbers on private philanthropy and social impact investments. Similar arguments were advanced in the past to suggest the private sector could take care of all infrastructure needs, and those assessments proved excessively optimistic. There is a similar risk of over-confidence here in the ability of the private sector to take care of social welfare problems in developing countries.

That said, they will surely play a large and significant role. In the past, many INGOs operated as conduits and implementers of government-funded programmes, but today they are more independent. In the US, the main source of INGO transfers, member organisations of Interaction, an alliance of US-based NGOs, report that, whereas they relied on official aid for 70% of their operations 20 years ago, today they raise 70%

6. Figures on private philanthropy are unreliable, as they have to be collected from numerous sources. In some instances, private philanthropy may be overestimated: for example, it includes the time of volunteer workers. In other cases, it may be underestimated. A Brookings study of private aid to education (van Fleet, 2011) suggests that actual funds being made available for this sector are double the amount included in the Center for Global Philanthropy calculations.
7. Over one-quarter of official CPA is now funnelled through international non-governmental organisations (NGOS) as contractors, suggesting these are increasingly being seen as efficient delivery channels for aid. This has risen from 5–6% in 2005. Charity Navigator, an organisation that rates private charities, found that 90% of charities provide over 65% of their resources for programmes and services; the median overhead is 10.3%. By comparison, the 2010 CPA/ODA ratio was 74%. However, some ODA items that do not score as CPA are not necessarily pure overheads either, but may bring countries real development benefits. One example, ironically, is core DAC donor contributions to non-governmental organisations (NGOs). Actual overhead costs of DAC donors are not reported in standardised, transparent ways, nor are those of NGOs. Such juxtapositions should be treated as purely indicative.
8. For example, consumer industries have formed the Global Alliance for Improved Nutrition; Coca-Cola has Community Water Partnership projects in 94 countries.
9. JP Morgan estimates that $400 billion to $1 trillion could be available by 2020 for services to poor households in five sectors: housing, rural water delivery, maternal health, primary education and financial services. This figure includes services to poor clients in OECD countries.

of their budget from private sources (see Worthington and Pipa, 2011). Because the agendas of private philanthropy have come together with those of ODA agencies, thanks to a convergence around support for the MDGs, it now seems that private philanthropies can be considered more as substitutes for official agencies. They provide similar services in many cases, but from an independent private sector funding base.

INGOs have large local staffs. For example, 90% of World Vision's 40,000 global staff are working in their own country. INGOs have also invested in building the capacity of local NGOs, which are now valuable partners in implementing programmes. In many countries, local NGOs are developing a reach and capability for service delivery in poor areas, in slums and among marginal communities even more rapidly than the national government. More recently, internet-based platforms such as www.kiva.org, www.globalgiving.org and www.givedirectly.org have been taking scalable approaches to provide funding to poor people identified by local partners with minimal overhead leakage.

3.2 Cash transfers and new technologies: building from the demand side

Direct targeting of poor people is also becoming more feasible thanks to the rapid spread of new technologies, especially mass mobile money and payment systems. Pioneered in Kenya, where a few years ago 50% of the poor had no access to financial services but did have access to a mobile phone, mobile money is opening up access to financial services for the poor at an unprecedented speed.

Globally, in 2010, only 10% of the poor (at $2 a day) had a bank account, but there were 5.3 billion mobile subscribers. By 2025, there could be near-universal mobile phone coverage, implying scope for near-universal banking for the poor. The MasterCard Mobile Money Partnership is a global initiative aiming to provide financial services to 2.5 billion underserviced people. Visa is also developing its own mobile money programme. Mobile phones, and hence financial services, are reaching the poor even in fragile and conflict-affected states.

Once mass money and payment systems exist, poverty reduction programmes in developing countries can focus more explicitly on safety nets and financial transfers to the poor (as they do in advanced countries) rather than on direct service provision, thereby changing the nature of aid from a supply- to a demand-driven process.

For aid providers, both public and private, the key issue then becomes who can transfer money most effectively to the poor, and who can respond most nimbly to the demand for services the poor will then be able to pay for. On both counts, private philanthropies could have an edge. In fragile states, mobile money offers the attractive prospect of transferring funds to the poor without having to go through ineffective, and often corrupt, national governments. In more effective states, national resources will be sufficient to fund safety nets.

Already, many more developing countries are introducing safety net programmes, mostly funded domestically. Private NGOs are using mobile money to implement programmes in Haiti, Kenya and the Philippines. But official aid agencies have been slow to respond and, as yet, have few programmes that use mobile money for social transfers.

Private philanthropies and social impact investors are innovating in scalable social welfare delivery platforms. Consider Global Giving (www.globalgiving.org), which invites you to select projects, countries and amounts using simple drop-down menus. Or Give Directly (www.givedirectly.org), which goes further to use Kenya's advances in mobile banking, M-PESA. You decide how much to give and the poorest families in the poorest villages are selected at random through census data to receive your money instantly and regularly via cell phones. Kiva, the microcredit clearinghouse (www.kiva.org), provides a similar service for ethical lenders. This matters, with over $2 million a week in new loans raised from the general public.[10]

Such platforms are not in themselves magic bullets for poverty reduction, although they do provide scalable platforms with low overheads for delivering resources to the poor. While they are powerful facilitators of engagement from the general public, they may not yet have the ability to screen underlying project proposals and they depend on effective targeting by the wholesale local institutions that they sponsor/fund (key functions which official aid agencies arguably perform better). Absent such value-added by the wholesaler, individual 'social' investors could be disappointed, especially where their contribution is not literally earmarked to the target of their choice but instead refinances earlier commitments. As yet, private internet-based platforms have not achieved the scale necessary to bring concern about overlap and waste; given that such challenges grow with scale, we believe market-based responses will need to evolve, including in terms of the transparency of their impact, in ways that are not yet self-evident.

The benefits of transparency, better targeting, lack of corruption, low overheads and immediate impacts on poverty give cash transfers and other safety net programmes considerable advantages over other types of development programmes (World Bank, 2009). Even in disaster areas, studies suggest cash transfers or vouchers are a superior way of delivering services. By 2025, it is possible that cash transfer systems will become the principal mode of providing assistance to poor people.

10. We do not imply here that micro lending, as such, generates wider societal benefits. For a thoughtful evidence-based contribution to the debate on the economic impact of microfinance, see Banerjee and Duflo, 2011, especially chapter 7.

If this happens, people-to-people international transfers could look more attractive and efficient than intermediation through foreign governments.

For the most part, safety net programmes in developing countries will continue to be met through resources raised within those countries, with a legitimate role for governments in regulation, funding and sometimes provision, of course. Many of the goods and services the poor will purchase will, however, be provided by the non-profit and for-profit private sector. The range and quality of these services should improve with greater competition for bottom-of-the-pyramid business, expanding in scope to compete with many traditionally public sector services, such as education, health and even distributed electricity and other forms of small-scale, yet efficient, local production.

The biggest risk to the evolution of these trends will be the temptation for vested interests in government to block their rapid progression. This could come from large public sector unions (of, for example, teachers, nurses and extension workers), from local governments (which might want safety net funding to be channelled through them rather than directly to poor people), from contractors (who do not want to be subjected to local community supervision) and from so-called development experts (who think they know better what goods the poor should receive in order to become 'better-off'). This last category includes both local and international experts.

As these trends unfold, official aid agencies could find their role in social welfare provision restricted to the funding of a few large schemes like those for unemployment benefits or old-age pensions. Their aid delivery platforms are too expensive to be efficient channels for targeted transfers, and more efficient private sector providers will challenge their social sector projects.

If social welfare programmes can be financed and delivered more efficiently and effectively using national governments' own resources supplemented by private philanthropists and social impact investors, then official aid agencies delivering such programmes face a high risk of disintermediation. If taxpayers perceive a greater poverty 'bang for the buck' through individual giving, which at the same time provides a greater measure of choice and individual participation, they will no longer be as supportive of the paying of taxes for official aid agency programmes.

4. Second disruptor: growth, mutual interest and trade – the dynamics of South-South cooperation and private-public blends

4.1 Global tectonic shifts

Aid has long been considered a prime instrument for advancing economic growth. Indeed, the initial estimates for aid needs (the famous 0.7% ODA target) were the result of calculations as to what would be needed to generate growth of 5% in developing countries, the level set for the first UN Development Decade in 1960 (Clemens and Moss, 2005).

Today, however, the means for accelerating developing country growth are no longer viewed simply in terms of aid. Development cooperation involves aid, trade, foreign investment and remittances, among other factors. For years, the primary source of all these flows has been in the advanced (OECD) countries, but by 2025, the emerging economies will be at least equally important, considering the sum of the flows, and very significant even considering only concessional aid.

Emerging economy donors, like traditional aid donors, are using aid to leverage mutually beneficial trade and investment links with other developing countries and, as these ties become stronger, their aid will become an even more significant competitor to that from advanced countries.

By 2025, the developing and emerging economies' (as now defined) share of world GDP and exports will have surpassed 50%, and between now and 2025 their growth rates will likely be three times greater than those of current advanced countries. The BRICs (Brazil, Russia, India, China) already have a combined output matching that of the Euro Area (World Bank, 2011), and could be more than double the Euro Zone size by 2025, given current growth trends. China will have overtaken the US economy in PPP terms in 2017 (IMF, 2012) and at market exchange rates by about 2025 or earlier.

In addition, a more numerous second tier of emerging economies, which may self-identify with the OECD, with developing countries, with both or with neither, will confirm their convergent status (defined as exhibiting a decade or more of growth at twice the pre-2008 crisis OECD rate).

Proximity and the propensity to trade: Developing and emerging countries are increasingly trading with each other, and this is why their share in world trade grew to 40% in 2010 from 30% in 2000. South–South trade is expanding more rapidly than global trade and, of the more than 300 free trade agreements enforced worldwide in 2010 (up from 70 in 1990), two-thirds involved South–South partners. According to HSBC (2011), 73% of China's exports and 83% of India's exports in 2050 could be with other Southern countries.

Trade is also closely linked with proximity, falling off roughly proportionately to increased distance. As large, dynamic markets emerge in the South, they provide a growth pole for Southern trade. In 2025, there could be seven developing countries with economies larger than $1 trillion, in every region of the world, with several others not far behind (Iran, Malaysia, South Africa and Thailand). With this spread of global markets, a large number of developing countries will be within a 500-mile (two-hour flight) radius of a major emerging market, further decreasing the relative 'pull' of the North as it was once known.

A **burgeoning middle class** in dynamic developing countries will by 2025 dominate global demand for most goods and services. Using a metric of $10–100 per day in PPP terms, the developing country share of a global middle class of just under 4 billion people in 2025 (compared with 2 billion today) is projected to increase from 55% to 78%, and its spending share from 35% to 60%. The world's consumption centre of gravity is shifting East by over 100 miles a year. By 2025, it will be over central India, with strong pulls from South-East Asia, as well as from China and India itself.

Table 1: 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.

Investment opportunities: Developing countries are already the source of much of the world's savings. They hold a cumulative $1.8 trillion in foreign direct investment abroad, with $0.85 trillion from the BRICs countries alone.[11] At present, most of these savings (via sovereign wealth funds and foreign exchange reserves) are now flowing into advanced and upper-middle-income countries. However, the balance of opportunities will gradually shift in line with risk-adjusted returns, which over our longer horizon favour faster-growing, slower-ageing, lower-income countries.

These new 'Southern' investors are typically accustomed to riskier environments in their home markets than are some of their OECD competitors. Thus, they may be willing to accept higher risk-return profiles, mostly to the benefit of the target countries. They are also more likely than their OECD counterparts to value stability, long-term funding (smoothed by home government support and guarantees) and predictable infrastructure and natural resource investment, which can readily be projectised for high return.

4.2 South–South cooperation

Financial assistance is one element of South–South cooperation (SSC) but represents a minor share of total SSC, which 'bundles' financial assistance with trade, investment and (often trade-related) technical cooperation. Emerging economies may already provide about $15 billion in aid (or aid-like flows) each year and could provide over $50 billion by 2025.[12] But their larger disruptive impact is coming from the blending of aid with commercial support, in ways that many traditional ODA agencies have eschewed. China is providing large non-concessional loans for infrastructure, natural resource development and industrial parks in poor countries;[13] India provides sizable export credit lines; Brazil's Embrapa has spread the tropical soil management technology with which it transformed its agriculture to countries with similar environments.

Many argue (ECOSOC, 2008; Paulo and Reisen, 2010; Woods, 2008; The Reality of Aid Network, 2010) that SSC delivers faster, with fewer conditions (few or none in broad macro or governance terms), and at lower cost, although transparent comparisons are hard to come by. China is today the pre-eminent SSC player, but is by no means alone, with India, Brazil and Venezuela among the other major partners, as well as Arab countries (the latter mainly through financial aid). While all of these are self-branded as SSC, some of them have more in common with DAC aid in terms of relative power relationships.

Meanwhile, greater 'horizontality' can be found in a growing group of medium-sized providers, such as Colombia, Cuba, Indonesia and Turkey. These are usually active in their immediate neighbourhood, where they seek to exploit spill-overs and mitigate conflict and instability – a case in point being the key peace-keeping roles of South Africa in, for example, Burundi, and of Brazil in Haiti.

This process of building out from the 'neighbourhood', incidentally, characterised the early years of several DAC donors. The future roles of the BRICs, China egregiously, in anchoring international security in collaboration with other guarantors will do a great deal to determine viable solutions for fragile states – a subject that deserves fuller treatment than we can provide here.

4.3 Heterodox 'blended' models of state engagement in the economy

There are changed perspectives in 2012, let alone 2025, both on the respective roles of the public and private sectors in promoting inclusive economic growth, and on the desirable relationship between aid, trade and investment.

Gone is the broad (Washington) consensus in which the role of the public sector was to promote macroeconomic stability, establish a favourable regulatory environment, invest in essential services and leave the rest to the private sector. This paradigm, while arguably necessary (no country prospers from chronic instability), has not proven sufficient: it has delivered relatively little on its own in terms of sustained development in diverse country contexts.

In many emerging countries, the state has always played a far more important role in the domestic economy (and in foreign trade and investment); there are fewer hard-and-fast restrictions on its effective remit. This blurring of public–private boundaries, and the unapologetic way in which emerging partners express their mutual interest motives for cooperation, already pervades the discourse on South–South development cooperation and its similarities and differences with DAC aid. In the 1990s, a few DAC donors made efforts, including through self-imposed legislative restrictions, to disentangle their poverty reduction objectives from trade and foreign policy considerations. However, as the rhetoric of SSC rises in importance, there are questions as to how long such distinctions can last (Natsios, 2006).

We predict that, by 2025, mutual (bilateral) foreign trade and investment interests will be powerful and transparent determinants of 'development' cooperation for most countries.

11. See https://www.cia.gov/library/publications/the-world-factbook/rankorder/2199rank.html.
12. On the basis of Park's (2011) methodology.
13. China's Eximbank is estimated to have provided $115 billion in non-concessional credits to support the export of mechanical and electronic equipment, new and high-tech products, overseas construction contracts and foreign investment projects. http://english.eximbank.gov.cn/annual/2010/2010nb23-34.pdf.

In such an environment, it is natural to consider that official aid will also be used increasingly to promote expansion of markets and investment opportunities.

Emerging economy donors already embrace this philosophy, but they will not grow large enough to overwhelm traditional aid agencies. The scale of investment needs for development is simply too great. To see this, consider that developing countries may need an incremental $1 trillion per year in investment capital in order to finance the backlog of infrastructure needs and maintenance, and the greening of infrastructure required by climate change (Bhattacharya et al., 2012). This is on top of the $0.8–0.9 trillion in annual investments in infrastructure they are currently making. Southern cooperation can help, but cannot fill this gap completely.

There will be ample room for traditional aid agencies to assist in this area, although they will face increased competition from Southern providers, especially in countries with desirable natural resources or other strategic advantages. Thus, the risk of a collapse in demand for growth-related financing is modest overall. It may be more substantial in selected countries, which choose to align with SSC providers, but many others are likely to welcome a sustained parallel engagement with advanced country aid agencies as they struggle to cope with the scale of the challenge.

Advanced countries are also more likely to promote public–private partnerships and blends, involving a discrete role for aid agencies, rather than integrated public solutions like SSC. It is estimated that the private sector provided $1.4 trillion in finance for public infrastructure projects in developing countries from 1990 to 2008 (World Bank, 2012). In 2008, Sub-Saharan Africa received around $13.5 billion in private finance for infrastructure, about 9% of the total. However, overall, the private sector is not expected to provide more than about 20% of total infrastructure financing needs.

Furthermore, the evidence on public-private partnerships in Africa shows mixed results, and governments should not expect them to be a 'magic bullet' (Farlam, 2005). The process can be complex, requires appropriate legislation and regulatory frameworks and is quite demanding in terms of time and skills. Fully 80% of PPPs have been subject to re-contracting before commissioning. Nonetheless, donors could 'catalyse' private financing, including by providing partial credit guarantees to investors and relevant technical assistance to governments to safeguard the public interest.

Increasingly, plausible arguments on the catalytic use of public funds in a public-private partnership context should be subject to proper evidence-based scrutiny (Rogerson, 2011). It is genuinely hard to demonstrate the counterfactual that private investment would not have been forthcoming in the absence of public intervention, especially some form of subsidy. However, some simulations have shown, for example, that private investment levels are significantly lower in scenarios without engagement by international development finance institutions (DFIs) (Massa, 2011).

The rise of MICs as trade and investment competitors, alongside growing pressures for other countries to justify themselves to their home lobbies, suggests that substantial further untying of aid in the OECD/DAC context is unlikely. However, many of the benefits of untying come from the active use of country systems and development of local markets. Building on these areas of progress may be a more productive way to accommodate the new geopolitics.

5 Third disruptor: protecting shared space - climate change responses, climate finance and development cooperation

Climate change responses to keep the global average temperature rise to below 2°C by 2035 (an ambitious but still barely feasible mitigation path, viewed from 2012) will impact international development collaboration far more than the latter will shape climate change responses.

If anything, the *less* progress there is by 2025 on agreed emissions reductions and carbon pricing structures, the *more* pressure, relatively speaking, there will be on conventional public sector financing for climate change, including ODA. In addition to the directly disruptive effect of climate change financing (CCF) on the balance of development aid priorities and country allocations, as discussed below, the quite different rationale for CCF will have the further effect of reinforcing the case for destination country control over uses of funds, which is unfinished business in development aid.

5.1 Scenarios for multilateral and unilateral outcomes

The Rio+20 Summit in June 2012 held out the promise of agreement on selective new global sustainability goals, but progress still faces big obstacles. On the one hand, climate change has made the concept of global limits more visible and pressing. On the other, the topic's prominence is constantly challenged by shorter-fuse concerns for growth, jobs and better management of intervening economic crises. Similarly, the private sector is optimistic about its capacity to roll out new, green technology, but still depends on government subsidies that are hard to fund over long enough investment horizons.

By 2025, the shape of this game is largely over, for better or worse. Failure could prove catastrophic in many ways, including unjust and unbearable further burdens of adaptation on the weakest countries, with their negative externalities such as forced migration and increased cross-border conflicts over resources. In such a dead-end scenario, one minor corollary will be the massive diversion of national effort and external support toward spiralling 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.

We take instead an *upbeat 2025 scenario*, in which sufficient mitigation actions and carbon-pricing frameworks are (just barely) in place to achieve the 2035 goal, but much remains still to be done. We also assume the Copenhagen goal of an 'additional' $100 billion a year in finance by 2020 will be met, albeit probably a couple of years late, and with lingering disagreement on what additionality actually means (see below). Climate finance in 2025 thus involves a blend of private and public resources, shifting progressively towards the former, using leverage of say 5 to 1, also rising steadily.

A major uncertainty until about 2020, we assume, will be the likely share of supranational resources (such as levies on carbon trading) within the public resource pool. By 2025, this share should be rising rapidly, but conventional onshore taxes would still finance over half of public international flows for climate change. The vast majority of all CCF, however, is within, not across, countries, and privately sourced (see, for example, World Bank et al., 2012 and Table 2).

Table 2: Illustrative scenarios for potential elements of international climate finance flows in 2010

	Revenue base ($ bn)	Illustrative CCF allocations (%)	Climate change flow ($ bn)
Sources of public finance			
Carbon pricing ($25 per ton CO2) in Annex II countries	250	10(a)--20	25--50
Market-based instruments for international aviation/maritime fuels ($25 per ton CO2)	22(b)	33(a)--50	7--11
Fossil fuel subsidy reform (c)	22(b)	10--20	4--12
Instruments to leverage private and multilateral flows			
Carbon offset market flows (various scenarios) (d)			20--10
Private flows leveraged by public policies and instruments (e)			100--200
Multilateral development bank finance – pooled arrangements and/or capital (f)			30--40

Source: World Bank et al. (2012). Note: (a) Consistent with AGF assumptions of 10% allocation for carbon pricing and 25–50% for market-based instruments. (b) Revenues accruing to developing countries only. (c) Not all support mechanisms are necessarily inefficient and in need of reform. Precise revenue potential will depend on demand effects of reforms and interaction among tax expenditures, among other factors. (d) $20 billion consistent with $20–25 per ton CO2 scenario; $100 billion with 2°c pathway scenario. (e) Gross foreign private flows to developing countries. (f) Reflects assumption that every $10 billion in additional resources could be leveraged three to four times in additional multilateral development bank climate flows.

Unilateral and private sector responses: Many groups think unilateral action is worth trying, including individual governments that have set themselves high targets for emissions reductions (e.g. Denmark: 40% below 1990 levels by 2020); introducing emissions trading schemes (Korea by 2015; China on a pilot basis in 2012 and a nationwide carbon price by 2015); and investing in green businesses. The private sector has showed enthusiasm in sectors as diverse as shipping, lighting, windows and wind power. While large and volatile national subsidies for wind and solar power make many headlines, in fact much of this rapid early growth in renewables (as much as 78% projected between 2012 and 2020 (Beurskens and Hekkenberg, 2010)) is likely to be neither state-assisted nor specifically regulated.

Responding to the huge climate challenge means 'disruptive innovation': systemic change more akin to the technological upheaval of the Industrial Revolution, not just a patchwork of individual technologies. New funding sources will be needed, as well as imaginative uses of finance: blending, risk instruments, co-financing, equity investments and the like. Interestingly, many groups have come to see the main driver of 'climate enthusiasm' as growth and jobs, not necessarily climate change itself. Governments and businesses see big opportunities in being first movers. The 'green economy' will be about industrial policy; climate policy is no longer the preserve of environment ministers alone.

5.2 Climate finance and aid: strange bedfellows?

Despite creative appeals to markets and blended instruments, the bulk of the publicly subsidised contributions to international climate finance before 2025 are likely to be drawn from ODA budgets, given the persistence of competing fiscal priorities throughout the 2010s 'decade of de-leveraging'.

It also will become clear in this transition that, with very limited exceptions (e.g. carbon storage and capture), all mitigation action, in energy supply, transport, forestry etc., has a legitimate dual development/climate change purpose – as do virtually 100% of adaptation investments. So ingenious attempts to 'score' many public climate change flows outside of development aid, or even to set clear baselines against which to judge their 'additionality' to aid, may ultimately prove futile. The political necessities of providing climate finance (also more legally binding) will far outweigh the political incentives for protecting the boundaries of ODA (a more voluntary and opaque paradigm), now and in the foreseeable future.

As aid and climate finance overlap, developing countries will look for dominant 'direct access' modalities for CCF, which follow the earlier logic of (increasingly) unconditional budget support and 'cash on delivery aid', based on sovereign national strategies and linked (*ex-post*) to verifiable results. Implementation will increasingly be in the hands of national institutions, such as Green Fund national affiliates. Some of these channels will have indirect implications for development aid practice, which hitherto has afforded less control to destination governments in practice.

In this 2025 scenario, we also see developing countries as successfully resisting external funders' initial attempts to extend to climate change the kind of intrusive assessment processes and monitoring of sovereign performance by international institutions that characterised the 1990s and 2000s era of poverty reduction strategy papers.

Climate lending terms, probably set well below market rates, will also require creating a generation of 'third windows' for loan access, of such size and cost as to risk undermining other concessional funding windows and severely constrain the capital adequacy of the main market-related windows of development banks for all other uses, unless the additional equity is properly funded, presumably from aid sources.

5.3 Country differentiation: a quite different world map emerges

Allocation rules for public international finance will by 2025 prioritise climate change impact. Given that the prime **mitigation** objective is to reduce emissions tonnage as fast as possible, mitigation funding will be concentrated on the largest emitters, which are the more populous MICs, mostly in Asia and Latin America.

This concentration, however, runs directly counter to many development agencies' (and the broader international community's) declared poverty focus, which must increasingly shift towards low-income, fragile Africa, as described in our baseline 2025 scenario. It is not yet clear how this fundamental tension can be resolved without considerable further disruption, absent a huge expansion of the overall development and climate change funding base.

Great financial creativity in 'blending' market and concessional funding terms, so that they generally harden in line with rising (implementing) country income, will alleviate this tension to some extent. However, blending tactics cannot entirely sidestep the basic public policy challenge of allocating a finite pool of public resources equitably and efficiently against two separate, sometimes conflicting, objectives.

The **adaptation** of funding preferences, on the other hand, will be based on vulnerability to irreversible climate change, which tends to correlate better with lower per capita income and overall fragility status. However, it also correlates with

other attributes, such as low elevation above sea level, associated with relatively wealthier and/or higher-aided small island economies and more sophisticated trading nations with a coastline metropolis pattern of development and consequent exposure to climate risks. Again, such understandable allocation pressures could make it harder to tackle the baseline 2025 poverty scenario, centred as it is on larger and to a large extent landlocked African states.

How climate change shapes development durably. What emerges by 2025 as well is a much stronger sustainability orientation for the remaining, minority parts of development collaboration not directly driven by climate change. Development programmes will probably need to, for example, internalise responsibility for global sustainability and the sustainable local management of natural resources. Development cooperation will need to give greater weight to increases in resource productivity. While economic growth will remain one legitimate objective for collaboration with LICs, the resource intensity of that growth will have to be minimised. Integrating environmental sustainability more generally into economic policymaking, at national level and locally (for example mechanisms to internalise environmental costs or payments for ecosystem services), will be a prime focus for technical assistance, both from OECD countries and from South–South partners.

6 Implications for 'receive-mode' developing country governments

Terms like 'donor' and 'recipient' are ambiguous, and even jarring, in a world where even relatively low-income countries can increasingly project their expertise, trade opportunities and associated funding far afield, while at the same time benefiting from similar links on their home turf.

This 2025 vision has quite profound implications for many developing country governments as they seek to manage development finance inflows. Here, we are referring mainly to the significant minority for whom 'receive mode' for these links remains far more important than 'transmit mode'. We therefore use this 'receive mode' and 'transmit mode' language as a stopgap, as so many countries will be capable of both and their durable categorisation as one or the other will make no sense by 2025.

Our analysis suggests that ever more sources of funding will need to be influenced through active development cooperation efforts of receive-mode countries and that the longstanding technocratic distinction between aid and other concessional and non-concessional flows will become increasingly irrelevant. The experience of partner countries is likely to be highly variable according to country characteristics, including income and fragility categorisation; strategic importance to DAC and non-DAC donors; natural resource and skills endowment; and climate relevance, in terms of both mitigation potential and vulnerability to climate change impact.

6.1 Policy space

With development finance becoming even more diversified than it is today, some countries will have much greater access to finance and greater choice/negotiation power, but others may be left struggling. These differences are even less likely than today to be determined by either underlying poverty needs (based on the MDGs or their successor) or policy performance, as such.

Countries are also likely to be less able to ensure from the outset that development finance is necessarily aligned with their national priorities, with the underlying nature and composition of flows more determined by global priorities (especially climate change) and the convergence of bilateral interests.

A much larger share of development finance than today is likely to bypass governments (on both sides of the link) altogether, with key officials having only cursory knowledge of them at best. As a consequence, receive-mode governments may try even harder to control the aid that does come through their systems, for example through the development of aid management strategies and aid information management systems.

The reshaping of the current aid apparatus may, however, also lead to greater policy space for governments at the destination end. Aid-like finance may respond less to government priorities, and less of it will be channelled through government or with government oversight; at the same time, partner countries will have much more freedom to develop their own policies in managing their own resources.

This will be the case particularly where ODA, as such, is likely to fall continuously as a share of both gross national income (GNI) and government budgets. Apart from climate change, this phenomenon affects most of the MIC spectrum. In our basic scenario, it is assumed that per capita aid to fragile and low-income states generally rises as the poverty pool shrinks, but there could be major risks of aid fatigue along the way, discussed in the next section.

6.2 Complexity, demand-side funding and outsourcing of service delivery

The other big trend will be the greater complexity of sources of finance, in terms of both the number of providers and the complexity of financial instruments, including the blending of public and private sources through public-private partnerships, which are not necessarily transparent.

Countries with higher levels of capacity to negotiate these arrangements will fare well. Other countries may find themselves even more dependent on advice and technical assistance from traditional donors, both bilateral and multilateral. At the same time, it will be harder to obtain truly disinterested and frank advice in both cases, as underlying national interests are always present to some extent in their governance.

The disruptive trends discussed in this paper imply quite profound impacts for receive-mode governments, particularly in the area of service delivery. They suggest, for example, a pronounced decline in donor-government support for specific projects in social sectors, particularly health and education, but also rural water supply and other dispersed infrastructure, which is not easily projectised for public-private partnership-type deals.

Instead, governments are likely to find their public services subjected to strong competition from either NGO or pure private sector providers, which may be able to respond more nimbly to demand from the bottom of the pyramid which will grow through cash transfers.

This trend will vary according to country circumstance. It will be much less profound in MICs, most of which are anyway not heavily reliant on aid to support social service delivery; meanwhile, many fragile states, which have weak social services at present, may already find the public sector bypassed. The biggest impacts are likely to be felt in non-fragile LICs, some of which have become quite heavily dependent on donor support to run social sectors.

This progressive shift towards outsourcing and demand-side funding of social services will have several implications. On the positive side, it could lead to greater competitive pressures on public provision, and potential for greater innovation and learning. Civil society engagement in social sectors could also be combined with more advocacy for better public sector provision.

On the risk side, the stronger role for NGOs and the private sector in service delivery could lead to patchy coverage, poor coordination and problems of sustainability and local ownership. Depending on the balance between NGO and private sector provision, there could also be issues of equity in access to services, with some of those least able to afford such services excluded. This puts a premium on developing national safety net systems.

6.3 Growth and climate change disruptors

While the social welfare disruptor discussion (Section 3) suggests a declining role for external official actors in social service delivery, the **growth** disruptor story (Section 4) suggests a role for a more active receive-mode state in promoting growth and private sector development.

While external private sector flows will become increasingly important in funding investments, for example in infrastructure (including climate-resilient infrastructure), these governments are likely to have a stronger role in creating the right incentives and policy frameworks to support such private investment and in negotiating packages of assistance, including blended finance, with external players.

There are also concomitant risks for these governments. First, there is a risk of another debt crisis, as they may be unable to service loans directly contracted, or to guarantee the returns required by private investors involved in public-private partnerships or similar packages. Second, there is a risk that the requirement to generate returns for private investors will skew investments towards more obviously cash-generating areas, at the expense of governments' other developmental objectives. Moreover, the sheer complexity of many of these deals could lead to a loss of overall governmental control over policymaking because of lack of capacity to oversee numerous parallel arrangements with a variety of different agents.

The impact of the **climate change disruptors** (Section 5) will be highly variable according to country circumstances and the specific outturn of negotiations. For climate change mitigation, one major challenge will be the technical and absorptive capacity of lower emissions countries to produce bankable schemes to attract proportionately adequate funding in an environment of cross-country competition. For adaptation, there will be protracted negotiation about the nature of vulnerability entitlements and their geographic distribution, especially as some of the likely impacts (changed range of vector-borne tropical disease, for example) may be less well established than others (coastal flooding).

In general, funding for global public goods will be more supply-driven and less responsive to country circumstances and priorities. For example, the evidence on climate finance suggests that, at country level, it is the international financing architecture, and not local needs and priorities, that is driving the response to climate change (Agulhas, 2011).

7 Impact on today's main development agencies

This section reviews how some of the major traditional aid actors of the 2010s might fare in the 2025 scenario we have described, in emulation, collaboration and/or competition with the three main disruptors:

1. *Social enterprises and impact philanthropy* (for better social outcomes);
2. *South-South cooperation and trade-aid-investment blends* (for mutual benefit);
3. *Climate change financing* (for shared global space).

The main categories of aid industry participants today (other than the disruptors themselves) are:

1. Bilateral aid agencies, delivering in their own right;
2. Multilateral banks, including DFIs;
3. The UN development system;
4. European Union (EU) institutions;
5. Global (purpose-earmarked) funds; and
6. INGOs (operating outside their country of origin).

Note that bilateral agencies can operate in their own right and/or (core and non-core) fund the other five. They can therefore limit their exposure by changing the mix of these channels, as well as changing the shape of their own-managed operations. The following preliminary ideas are necessarily speculative, and intended to spark wider discussion.

7.1 Main pathways for exposure: baseline 2025 scenario

The reduction by two-thirds of the global absolute poverty headcount and its overwhelming concentration in fragile African countries (Section 1) has profound implications for these six groups.

For taxpayer-financed aid, there will be an historic opportunity to try to double or triple per capita spends by holding aid levels constant with respect to a shrinking target population. However, there will also be big pressure at home for reduced aid when this perspective becomes obvious, based on actual or perceived absorption difficulties, corruption and related delivery problems in such environments. Above all, there will be those who want to 'declare victory and go home', perhaps prematurely.

This overall **downside volume risk** affects principally actors 1 through 4. Also, the mandates of their concessional windows will increasingly overlap, given the Africa–low-income–fragility nexus. Consider, for example, the future value-added of the African Development Fund (ADF) as against an International Development Association (IDA) which by 2025 is at least 90% African by destination (Moss and Leo, 2011). The IDA may have a superior local office and thematic knowledge infrastructure, but the ADF has the mandate to pursue regional integration and may be viewed more sympathetically by African governments and other political bodies such as the African Union (AU).

In terms of **geographic reach**, bilaterals that as of now map relatively poorly onto the new configuration – for example those with a narrow portfolio within Africa and/or those specialising in the remaining poverty areas in Asia – will lose global relevance unless they shift the balance of their spend quite radically.

However, this does not mean that those, like Australia, which have, and will presumably retain, a resolutely regional/ neighbourhood focus elsewhere will not have an alternative rationale which resonates strongly with the public – but the balance of arguments may shift for them.

Bilaterals are unlikely to achieve such a shift efficiently by expanding their direct country presence, so may choose instead to channel a **greater share through multilaterals** that already have the right global footprint. This includes some of the larger donors, like the UK Department for International Development (DFID), which already face this classic build-or-buy choice, for example in how to adjust to a growing poverty share in non-Anglophone countries.

However logical the multilateral option may look in the abstract, it inevitably faces opposition from domestic interests who fear that 'creeping multilateralism' brings a weakening of political accountability and influence and a loss of the ability to shape 'whole-of-government' development solutions at home, where the bilateral aid budget may be a crucial lubricant to others that are relatively harder hit by austerity.

The growing prevalence of low-income **fragile contexts** will also call for different agency competencies, to the advantage of those few bilaterals that retain (or have recently acquired) a significant regional and global security presence over the many that, by and large, can only hold onto their coat tails. Within the multilateral spectrum, the fragile–conflict nexus speaks to the comparative advantage of parts of the UN system, and also the multidisciplinary approach of the EU, maybe less so to the mixed track record of the multilateral development banks in such countries.

Purpose-earmarked funds are likely to continue to thrive in this scenario, relatively speaking. These present cost-effective ways to stay engaged in middle-income and fragile countries without some of the difficulties of direct country programming.

They are also more easily marketed as providing valuable global public goods, that is, serving the enlightened self-interest of contributors, even where this is not strictly the case in narrow technical terms (e.g. non-communicable disease, climate adaptation). Moreover, they offer the advantages of pooling across countries, spreading the costs and risks of engagement across multiple contexts, including fragile ones which may be beyond smaller donors' reach. Finally, they remain, for the most part, especially relevant to Sub-Saharan Africa.

INGOs will also tend to benefit (absent competition from the new disruptors, see below) by appealing increasingly as indirect contractors to bilateral programmes in both MICs and fragile states and as efficient service providers in remote areas.

7.2 Pathways of exposure: disruption through social enterprises and impact philanthropy

Bilateral aid for social outcomes will be increasingly exposed to public perceptions that new ethical giving channels provide a better delivery service and/or greater opportunities for direct engagement by contributors. This will be more pronounced where private voluntary and ethical giving/lending is high relative to tax-financed aid, like the US. It is not clear that European publics will treat taxes for aid and voluntary giving as real substitutes (and hence will vote against the former) even in the 2025 horizon, but the risk cannot be excluded either.

An exception to this moderately risky trend could be for **DFIs**, be they multilateral or bilateral, which can credibly focus on seeding and/or scaling up social enterprises, and can effectively partner international philanthropic investors.

Conversely, some **broader-based multilaterals** (for example the classic concessional windows of the multilateral development banks) might be even more exposed than the bilaterals, being relatively more remote from individual givers, yet ultimately dependent on the same domestic tax-and-spend choices as bilateral aid. In addition, some agencies (parts of the UN, EU institutions perhaps) could be further exposed, through their arguably lower institutional ability and agility to engage with fast-moving social enterprises.

The impact on **earmarked funds** is not clear, but probably will be neutral or mildly positive, even for those linked primarily to social outcomes as against, say, climate change. Essentially, these are likely to prove more flexible in building partnerships with social enterprises and their impact investors, and some of these partnerships are hard-wired into their governance arrangements (for example in the case of the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Alliance for Vaccines and Immunisation, the GAVI Alliance).

These disruptors could also gradually begin to expose **classic INGOs**, as they share some of the disadvantages of bilateral aid at the delivery end. That is to say, citizens freely choose which ones to support individually, which is not the case with taxes. However, they have much less obvious and structured say in how and where this money is ultimately spent than when routing it through some of the new philanthropy channels. They are typically givers, not investors, in the traditional NGO paradigm.

Granted, some of the new channels for peer-to-peer lending, for example, give more the appearance than the reality of contributor influence over end use, but perceptions matter nonetheless. Intermediary NGOs may choose to respond in kind, by offering web-based selection of alternative uses of contributor funds.[14]

7.3 Pathways of exposure: SSC, trade–investment–aid blends

There will be pressure on **bilateral programmes**, particularly those with a mercantilist tradition and ambitions, to emulate some features of SSC in support of their home investors and traders. However, many commodity-trading multinationals in the OECD have diversified their ownership far beyond their original or current headquarter country, unlike the new global corporations from, say, China, so this match is by no means exact.

There should be a competitive advantage for institutions specialised in leveraged and blended finance, again including **DFIs**, bilateral and multilateral. Expect a proliferation of new instruments 'between aid and markets', which some institutions will be much more adept at developing than others.

There will be considerable interest by some bilaterals (Spain, Japan etc.) in **triangular cooperation**, as a way of both maintaining a greater presence in Latin American and Caribbean and Asian MICs, and co-opting the growing power of emerging economy donors.

14. In 2010, it was publicly suggested by (UK Secretary of State for International Development) Andrew Mitchell that UK citizens could be asked to 'vote' online for programme preferences for bilateral aid. This illustrates both the political power of greater direct contributor engagement and (as the idea has not been implemented since) the practical difficulties of operating in such a mode in a large bureaucracy with other lines of accountability.

Conversely, this is likely to mean **greater exposure for the UN** and, by implication, others not attempting to work the bilateral trade–growth axis, like, by and large, **INGOs**.

Finally, there could be a serious distributional problem for non-commodity-exporting LICs, arguing for the future specialisation/conversion of some traditional agencies (presumably large multilaterals, given their geographic reach and pooling abilities) as balancing wheels for such 'finance orphans'.

7.4 Pathways of exposure: climate change finance

Our scenario sees a sharp divide in terms of the future share of supranational resources in public international CCF. The higher and sooner this is, the less pressure there will be to divert existing ODA. Our scenario has at least half of public CCF still coming out of ODA up to 2025 (and almost all of it until 2020, or whenever a global carbon framework is put in place).

This outcome (say $130 billion in constant terms by 2025) will seriously undercut ODA for everything else, and make African and LIC poverty targeting harder (because mitigation is MIC- and Asia-/Latin America-focused).

Within this picture, **the World Bank and other DFIs** generally should benefit from their ability to put together leveraged solutions and blends, but they may need much more capital, or their regular (non-CCF-related) operations will quickly be constrained.

If there are large new supranational CCF resources, *and* these are mostly **UN**-administered (UN Framework Convention on Climate Change, UNFCCC, or a derivative), the latter could become the largest 'aid' patronage machine the world has ever seen.

In practice, the likely tussle between the competing legitimacy and effectiveness merits of alternative World Bank- and UN-based implementation solutions might be resolved cleanly in favour of the latter only if and when supranational resources are seen to dominate. Both are likely to remain engaged for the foreseeable future, in changing ways.

Bilaterals will tend to suffer in this scenario, the more so as more of the funding base goes 'offshore', unless they are able to mount large bilateral concessional loan programmes to promote their green technology exports – which is not a realistic option for many bilaterals.

Earmarked funds. This is a question of balance: obviously, a few climate-earmarked funds, maybe one or two in particular, whether existing or new, would be growing at staggering rates in the base scenario. However, many others among the 27+ current earmarked international climate change funds, some of which are operating at extremely small scale, are likely to face strong pressure to consolidate, the more so if sources also become concentrated and multilaterally pooled.

Impact on **INGOs** as funding channels, not as advocacy platforms, may tend to be somewhat negative, to the extent they are positioned neither as a credible funding conduit in their own right nor as specialised implementers of 'direct access' solutions to CCF at country level, of which national institutions and local civil society may tend to represent the lion's share.

8 Overall exposure ratings: a traffic light approach

Finally, we look quantitatively at the current portfolio of each DAC donor and major multilateral institution and run a simplified 'stress test' of their current business model, looking at their potential exposure to the baseline scenario for 2025 and each of the disruptors. (Exposure does not necessarily equate to impact, of course: what comes in between is the institution's relative ability to adapt, and its resilience in the face of new challenges, which we do not develop further here. However, exposure is a starting point for such discussions.)

8.1 Methodology

We consider first the current shares of each agency's operations going to non-fragile, low poverty gap countries, as symptomatic of a mismatch with likely future priorities. The larger the share of portfolio going in this direction, the higher the exposure. Put another way, the lower the share of fragile and high poverty gap countries, the less *relevant* the agency risks being. Call this A.

Next, we consider the share of the portfolio, counted on a CPA basis, going to the areas most affected by each of the three disruptors. The first relates to improved social welfare (represented by the share going to the MDGs), call this B. The second is the share going to growth and infrastructure, C. And the third is the share going to global challenges, including humanitarian assistance, D.

Agency activities related to global challenges are assigned the least (zero) relevance risk; those related to growth a medium risk; those related to social welfare a high risk. We use a weight of 2 for A and B, 1 for C and 0 for D, and construct a risk rating index based on the following:

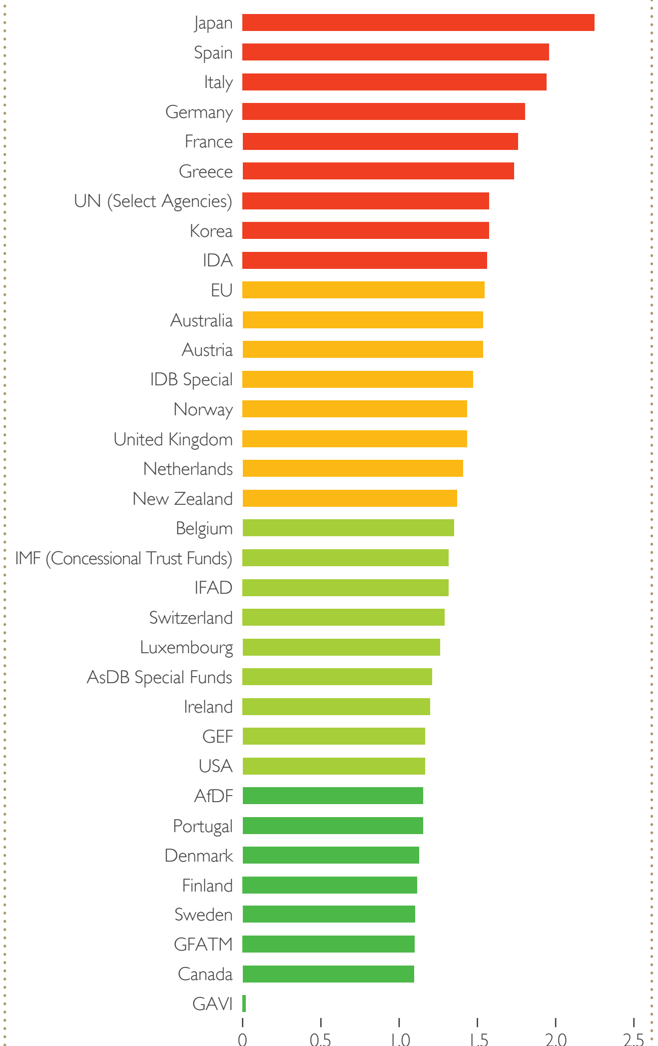
Exposure rating (E)= A*2 +B*2 +C +D*(0)=2A+2B+C

By assumption, B+C+D should add up to 100% of portfolio by purpose, that is, we exclude the possibility that a programme can score simultaneously as both a growth and an MDG spend, or both an MDG and a global challenge.[15] (This feature makes it hard to decide on the fit, notably, of large specialised funds for health that provide, to varying extents, international public goods which are at the same time MDGs, like the fight against AIDS).

The maximum possible score is 4, as, for any level of D, when B tends towards 1, C automatically tends to 0.

We then divided the index scores by quartiles, from highest exposure to lowest, represented in the traffic lights by the colour gradient from red (riskiest) through amber to light and dark green (least risky) (Figure 4).

Figure 4: A traffic light approach



Source: Authors' calculation.

15. Annex 1 gives the individual scores for A, B, C and D and Annex 2 provides the DAC Creditor Reporting System (CRS) codes combined to derive each, so readers can try alternative combinations and weights if they wish.

8.2 Results

Their portfolio of activities weights the risks for each agency using DAC Creditor Reporting System (CRS) data for 2010, considering only the direct bilateral programmes for DAC donors and the multilaterals' CPA in their own right.

The least exposed agencies are those that are engaged most heavily in the provision of global public goods (like the GAVI Alliance and the Global Fund) and those whose activities are focused in the high poverty gap and fragile countries (most DFIs). In the case of the former, scores are sensitive to the interpretation of their activities as 'true' global public goods or not.[16]

Highly exposed agencies are those now focused heavily on social welfare programmes as compared with either growth or global goods (the UN, the IDA, the UK to some extent) and MICs (Spain, Norway, France, the European Commission, the US to some extent).

The exposure index should be interpreted as a measure of the need for an agency to reinvent itself and develop a new strategic plan to maximise its impact. Those agencies that are nimble and responsive can be expected to survive and thrive. Others, caught unaware of the changing aid landscape, or too rigid to adapt, are likely to face problems.

16. If most Global Fund spending on communicable diseases was instead associated uniquely with the MDGs, or much of the GAVI Alliance 's work was related to the delivery of existing vaccines rather than the development of new ones, as these agencies have virtually no growth-oriented portfolio, their concentration would go from overwhelmingly global challenges to overwhelmingly social welfare, so they would shift quite rapidly up the risk scale. However, particularly in the case of the GAVI Alliance, their substantial focus on high poverty gap countries and fragiles would limit this effect.

9 Key questions for further discussion and research

1. Effective development solutions for hardcore fragile states. Absolute poverty's dense concentration by 2025 in fragile states, mostly low income and mostly African (Section 1), elevates tackling fragility into a global as well as regional public good – indeed, perhaps the next frontier of globalisation. What new approaches and new actors are likely to emerge that can or could be part of a definitive solution? What is the role of new actors (such as SSC) in contributing to the solution?

2. How fast will impact investing in social enterprises really develop and from where will the resources come (Section 2)? There is a lively debate in 2012 about the current scope and rate of growth of private giving and ethical investment in developing country contexts; data and definitional problems abound. Using the broadest definitions, this already represents over half of ODA and is expanding at a much faster rate. What factors are most likely to spur or restrain this growth? And will such funding be at the expense of tax-supported development finance, or of private giving via classic non-profit NGO intermediaries, by 2025, and to what extent?

3. To what extent will DAC donors emulate trade and investment-focused assistance (mutual interest logic for aid) espoused by the larger South–South sources (Section 3)? Will this tendency further dilute 'traditional' aid disciplines such as untying, competitive restrictions on subsidised export credits, etc.? Will 'blending', especially via DFIs, of market terms and concessional instruments rise a great deal?

4. Will international public CCF prove more a complement to or a substitute for ODA, on balance? This breaks down into (1) how independent of national budgets the dominant sources of public CCF will be and (2) whether current major channels of ODA (like bilateral agencies and multilateral development banks) will represent a major delivery channel for CCF. Finally, (3) the outcome is crucially dependent on how much CCF is focused on mitigation and hence large carbon emitters. Presumably, all three factors can be modelled.

5. Which LICs will benefit most and least from these scenarios? Apart from fragility and prominence in climate change settlement, country outcomes will be differentiated by: their commodity export potential, infrastructure options and size of domestic and proximity markets; and their knowledge of and ability to engage with some of the new actors. What policy options are there for those least endowed/capable, and who might champion their cause?

6. Which agencies will prove more and less resilient, for any given exposure? Starting from any given exposure scenario, as attempted above, creative destruction will impact differentially based on resilience (adaptability, risk mitigation and learning skills) at the country and institutional level – which argues for those most knowledgeable about these factors to deepen the analysis for their own context, using this paper as a springboard.

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Annex 1

Overall exposure ratings – a traffic light approach

Donor	Share of aid to non-fragile, low poverty gap countries	Share of aid to MDGs	Share of aid to growth	Share of aid to global public goods
GAVI	0.01	-	-	1.00
Global Fund	0.25	0.30	-	0.70
Portugal	0.01	0.30	0.54	0.16
ADF	0.00	0.21	0.74	0.05
GEF	0.58	0.00	0.01	0.99
ADB Special Funds	0.03	0.18	0.81	0.02
Denmark	0.06	0.38	0.41	0.20
IFAD	0.05	0.24	0.75	0.02
Sweden	0.15	0.32	0.39	0.29
IMF (Concessional Trust Funds)	0.16	-	1.00	-
Canada	0.08	0.36	0.44	0.17
US	0.21	0.25	0.45	0.30
Finland	0.07	0.41	0.42	0.15
Ireland	0.05	0.47	0.36	0.16
IDB Special	0.15	0.24	0.70	0.06
Switzerland	0.18	0.31	0.53	0.08
Belgium	0.17	0.33	0.50	0.15
New Zealand	0.07	0.45	0.49	0.06
Luxembourg	0.10	0.49	0.38	0.07
IDA	0.14	0.35	0.58	0.07
Norway	0.23	0.31	0.50	0.19
Netherlands	0.11	0.50	0.34	0.15
UK	0.15	0.42	0.45	0.13
Korea	0.18	0.32	0.61	0.07
Austria	0.22	0.39	0.43	0.09
Australia	0.22	0.33	0.57	0.09
UN (select agencies)	0.15	0.53	0.36	0.11
EC	0.26	0.30	0.62	0.08
France	0.41	0.28	0.40	0.22
Greece	0.24	0.52	0.30	0.05
Germany	0.37	0.34	0.45	0.21
Spain	0.41	0.46	0.34	0.20
Italy	0.38	0.41	0.51	0.07
Japan	0.59	0.25	0.62	0.13

Annex 2 CRS classification traffic light system

MDGs	Growth	Global public goods
Agrarian reform	Advanced technology and managerial training	Agricultural research
Agricultural alternative development	Agricultural cooperatives	Anti-corruption organisations and institutions
Agricultural land resources	Agricultural development	Biodiversity
Basic drinking water supply	Agricultural education/training	Biomass
Basic drinking water supply and basic sanitation	Agricultural extension	Biosphere protection
Basic health care	Agricultural financial services	Child soldiers (prevention and demobilisation)
Basic health infrastructure	Agricultural inputs	Democratic participation and civil society
Basic life skills for youth and adults	Agricultural policy and administrative management	Educational research
Basic nutrition	Agricultural services	Energy education/training
Basic sanitation	Agricultural water resources	Energy research
Civilian peace building, conflict prevention and resolution	Agro-industries	Environmental education/training
Cottage industries and handicrafts	Air transport	Environmental policy and administrative management
Culture and recreation	Basic metal industries	Environmental research
Early childhood education	Business support services and institutions	Fishery research
Education/training: water supply and sanitation	Cement/lime/plaster	Forestry research
Education facilities and training	Chemicals	Geothermal energy
Education policy and administrative management	Coal	Infectious disease control
Emergency/distress relief	Coal-fired power plants	Landmine clearance
Family planning	Communications policy and administrative management	Medical research
Flood prevention/control	Construction policy and administrative management	Multilateral trade negotiations
Food security programmes/food aid	Debt forgiveness	Narcotics control
Health education	Decentralisation and support to subnational government	Non-agricultural alternative development
Health personnel development	Education/training: transport and storage	Nuclear power plants
Health policy and administrative management	Education/training: banking and financial services	Ocean power
Housing policy and administrative management	Elections	Power generation/renewable sources
Human rights	Electrical transmission/distribution	Research/scientific institutions
Low-cost housing	Employment policy and administrative management	River development
Malaria control	Energy manufacturing	Site preservation
Medical education/training	Energy policy and administrative management	Solar energy

Annex 2 - continued

MDGs	Growth	Global public goods
Medical services	Engineering	Statistical capacity building
Multi-sector aid for basic social services	Ferrous metals	Sexually transmitted disease control including HIV/AIDS
Personnel development: population and reproductive health	Fertiliser minerals	Technological research and development
Population policy and administrative management	Fertiliser plants	Tuberculosis control
Post-conflict peace building (UN)	Financial policy and administrative management	Water resources protection
Primary education	Fishery development	Water supply – large systems
Reproductive health care	Fishery education/training	Wind power
Rural development	Fishery services	
Sanitation – large systems	Fishing policy and administrative management	
Secondary education	Food crop production	
Security system management and reform	Forest industries	
Social mitigation of HIV/AIDS	Forestry development	
Social/welfare services	Forestry education/training	
Teacher training	Forestry policy and administrative management	
Waste management/disposal	Forestry services	
Water resources policy/administrative management	Formal sector financial intermediaries	
Water supply and sanitation – large systems	Fuelwood/charcoal	
Women's equality organisations and institutions	Gas distribution	
	Gas-fired power plants	
	General budget support	
	Higher education	
	Hydroelectric power plants	
	Import support (capital goods)	
	Import support (commodities)	
	Imputed student costs	
	Industrial crops/export crops	
	Industrial development	
	Industrial minerals	
	Industrial policy and administrative management	
	Informal/semi-formal financial intermediaries	
	Information and communication technology	
	Legal and judicial development	
	Legislatures and political parties	
	Livestock	
	Livestock/veterinary services	
	Media and free flow of information	
	Mineral prospection and exploration	

Annex 2 - continued

MDGs	Growth	Global public goods
	Mineral/mining policy and administrative management	
	Monetary institutions	
	Multi-sector aid	
	Multi-sector education/training	
	Non-ferrous metal industries	
	Non-ferrous metals	
	Offshore minerals	
	Oil and gas	
	Oil-fired power plants	
	Pharmaceutical production	
	Plant/post-harvest protection and pest control	
	Power generation/non-renewable sources	
	Precious metals/materials	
	Privatisation	
	Public finance management	
	Public sector policy and administrative management	
	Radio/television/print media	
	Rail transport	
	Regional trade agreements	
	Relief of multilateral debt	
	Rescheduling and refinancing	
	Road transport	
	Small and medium-sized enterprise development	
	Storage	
	Telecommunications	
	Textiles – leather and substitutes	
	Tourism policy and administrative management	
	Trade education/training	
	Trade facilitation	
	Trade policy and administrative management	
	Trade-related adjustment	
	Transport equipment industry	
	Transport policy and administrative management	
	Urban development and management	
	Vocational training	
	Water transport	

Annex 3

List of high poverty countries in 2025

Country	Number of poor in 2025 (under $2 a day, millions)	Share of global poor in 2025 (%)
DRC	89	16
Nigeria	61	11
Tanzania	33	6
Ethiopia	30	5
Uganda	24	4
Madagascar	21	4
Kenya	21	4
Niger	19	3
Malawi	19	3
Sudan	16	3
Total number of poor in top 10 countries	**333**	**59**
Global	**562**	**100**

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ISBN 978-1-907288-78-4

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