# Gaps in financing poverty eradication and how to increase domestic resource mobilization

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**Abstract:** This paper examines poverty eradication efforts in low and lower-middle-income countries, focusing on the effectiveness of strategies deployed over recent decades, existing financing gaps, and recommendations for enhancing domestic resource mobilization. Poverty eradication is framed as a multifaceted endeavor aimed at addressing the root causes of poverty and ensuring access to basic necessities and opportunities. However, persistent challenges hinder progress, including inadequate funding, inequality in resource allocation, and the volatility of external financing. High debt burdens, limited investment in productive sectors, and climate change impacts further complicate poverty eradication efforts. Moreover, governance issues such as corruption and weak financial management exacerbate these challenges. To address financing gaps, progressive taxation, broadening the tax base, and improving tax compliance are recommended. Leveraging digital finance initiatives, promoting economic growth, and enhancing governance and accountability mechanisms are also crucial. Additionally, social protection programs and private sector engagement are highlighted as avenues for mobilizing domestic resources effectively. By implementing these strategies in a coordinated and inclusive manner, governments and societies can work towards achieving sustainable poverty eradication and shared prosperity.

**Keywords:** Poverty eradication, Covid-19, Digital finance.

## I. Introduction

Poverty eradication refers to the collective efforts aimed at eliminating poverty in all its forms and dimensions. It involves addressing the root causes of poverty and implementing strategies to lift people out of poverty, ensuring that everyone has access to basic necessities, opportunities, and resources needed to lead a dignified and fulfilling life.

Sustainable Development Goal 1, one of the 17 Sustainable Development Goals established by the United Nations in 2015, aims to eradicate poverty in all its forms. SDG-1 outlines several key targets to be achieved by 2030[2]. These targets include eradicating extreme poverty globally, halving the proportion of men, women, and children living in poverty according to national definitions, implementing and expanding nationally appropriate social protection systems, ensuring equal rights to economic resources and access to basic services for all, particularly for the poor and vulnerable, and enhancing the resilience of impoverished and vulnerable populations to climate-related disasters and other economic, social, and environmental shocks. However, it is unlikely that most of the targets will be achieved within the stipulated timeframe. This is primarily due to the impact of the Covid-19 pandemic, escalating geopolitical conflicts, rising food prices, the exacerbating consequences of climate issues on poverty, and the insufficient resources available to low-income and lower-middle-income countries.

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[2] https://www.undp.org/sustainable-development-goals/no-poverty

This paper focuses on low and lower-middle-income countries and aims to examine the effectiveness of poverty eradication strategies over the last few decades identify persisting gaps in financing poverty eradication, and recommend steps to increase domestic resource mobilization[3].

## II. Current Status of Poverty Eradication in the Post Covid-19 Pandemic Era

During the two decades preceding the Covid-19 pandemic, the global extreme poverty rate was declining, and the income of the poorest nations was advancing. By 2015, the global extreme poverty rate had been reduced by more than half. However, since then, poverty reduction has slowed down due to subdued global economic growth. The combined impact of the Covid-19 pandemic and, later, the war in Ukraine has led to an outright reversal in progress. The World Bank has forecasted that, given the current trend, nearly 7 percent of the world population will live below the USD 2.15 a day threshold level in 2030, with the majority residing in Africa[4].

The Poverty and Shared Prosperity report 2022 also reveals that the income loss of the poorest 40 percent of the world's population was as high as that of the richest 20 percent. Additionally, the poorest faced disproportionate setbacks in education and health, experiencing massive learning losses and shortened life spans.

Though fiscal policies and other emergency support measures have helped reduce Covid-19's impact on poverty, success rates differ among different groups of countries. According to the report, the wealthiest countries generally managed to fully offset Covid-19's impact on poverty through fiscal stimulus, while upper-middle-income countries offset around 50 percent, and lower-middle-income economies only offset a quarter of the impact. The lower availability of resources in low and lower-middle-income countries constrains their ability to spend, ultimately reflecting their poorer performance in poverty eradication initiatives.

The current scenario of poverty eradication reveals a substantial increase in poverty and inequality in lower-income countries. This necessitates a critical examination of the poverty eradication policies adopted by these countries to identify gaps in financing poverty eradication and recommend possible alternatives for domestic resource mobilization.

## III. Gaps in financing poverty eradication

Financing poverty eradication in low and lower-middle-income countries faces several significant gaps and challenges. Their poverty eradication initiatives are usually inadequate primarily due to low earnings. With smaller economies and substantial informal sectors, these countries have lower revenue, and they also face constraints in international borrowing. As a result, they cannot afford to spend sufficiently to eradicate poverty and ensure related necessities such as quality education, safe drinking water, and sanitation, as well as continuous improvement in human development. Moreover, tax collection and transfer payments in these countries are often not well-targeted, favoring the rich at the

[3] The World Bank's income categorization for 2024 has been utilized in this article to select low and lower-middle-income countries.
[4]Source: Overview: Poverty and Shared Prosperity Report 2022, World Bank.

expense of the poorest. Low-earning countries often have to make trade-offs between short-term and long-term goals. These constraints need to be understood, and poverty eradication initiatives need to be customized based on them to ensure that poverty reduction strategies remain effective in these countries. This section discusses some of the issues in detail.

- **Challenge of raising funds for poverty eradication without hurting the poor in low and lower-middle-income countries:** Low-income and lower-middle-income countries lack adequate financial resources to effectively implement poverty eradication programs. The tax-to-GDP ratio in these nations is much lower compared to higher-income countries. In 2021, the median tax revenue to GDP ratio in low-income countries was 11.92 percent, while in lower-middle-income countries, it stood at 16.78 percent[5]. Limited domestic revenue, combined with external debt burdens, restricts governments' ability to allocate sufficient funds to social welfare programs, education, healthcare, and infrastructure development. Moreover, due to a large informal sector, taxes are predominantly collected indirectly, and income transfers often fail to reach the targeted groups. Additionally, the combination of taxes, subsidies, and transfers often does not effectively benefit the poor. Policies should be designed and implemented to reduce the informal sector and tax evasion, ensuring that poverty reduction efforts through fiscal policies do not exacerbate the plight of the poor in lower-income countries.
- **Challenge of reducing inequality in resource allocation to ensure poverty eradication:** Within countries, there is often a disparity in resource allocation, with marginalized communities and regions receiving disproportionately less funding for essential services and poverty reduction initiatives. This exacerbates existing inequalities and perpetuates cycles of poverty. World Bank data reveals that after the COVID-19 pandemic, half of all spending on energy subsidies in low- and middle-income countries went to the richest 20 percent of the population, who also consume more energy. Such policies will increase poverty and inequality rather than improving them. Targeted cash transfers are a far better alternative in this regard. The Poverty and Shared Prosperity Report 2022 also reveals that more than sixty percent of spending on cash transfers goes to the bottom forty percent, and cash transfers also have a larger impact on income growth than subsidies, which are often determined by political pressure groups.
- **Challenges imposed by the volatility of financing:** Low and lower-middle-income countries heavily rely on external sources of financing, including official development assistance (ODA), foreign direct investment (FDI), and remittance inflows. However, these sources can be volatile and subject to fluctuations in global economic conditions, geopolitical factors, and donor priorities, making it challenging for countries to plan and sustain poverty eradication efforts. In 2022, the per capita average net ODA receipt in low-income countries was \$79.59, ranging from \$0.5 to \$374.12. For lower-middle-income countries, this indicator ranged from \$0.5 to \$1317.32, with an average of \$141.97. In lower-income countries, high levels of debt servicing, even from domestic borrowing, can divert resources away from poverty reduction programs, limiting governments' ability to invest

[5] The data for these indicators is sourced from the World Bank's World Development Indicators (WDI), with computation conducted by the author.

in social and economic development. The debt burden can also constrain access to additional financing and credit for development initiatives.

- **Challenge of making long term investments in productive sectors:** Lower-earning countries often make suboptimal investments in short-term objectives. However, the COVID-19 pandemic showed that progress achieved in the past can vanish quickly. Limited investment in productive sectors, such as agriculture, infrastructure, and small and medium-sized enterprises (SMEs), hinders economic growth and job creation, perpetuating poverty cycles. Without adequate investment in these sectors, countries may struggle to generate the revenue needed to fund poverty eradication programs sustainably. It is essential that low and lower-income countries continue to make and adhere to long-term, high-return investments in education, research and development, and infrastructure projects.
- **Challenge of addressing the impact of climate change on poverty eradication initiatives:** Climate change and environmental degradation disproportionately affect lower-income countries, exacerbating poverty and undermining development gains. Climate change affects poverty reduction initiatives through direct impact on the poor and through factors that influence poverty reduction, such as achieving inclusive economic growth[6]. Climate change impacts are also particularly severe in those countries where the intensity of climate-related changes is high and significantly affecting people's livelihoods. Addressing these challenges requires substantial investment in climate resilience, sustainable resource management, and adaptation measures, which may strain already limited financial resources in lower-income countries.
- **Managing Corruption and Governance Challenges:** Weak governance structures, corruption, and lack of transparency in financial management can undermine effective resource allocation and implementation of poverty reduction programs. Addressing governance challenges is essential to ensuring that funds are used efficiently and effectively to benefit those in need.

Addressing these gaps in financing requires coordinated efforts from governments, international organizations, civil society, and the private sector to mobilize resources, improve governance, and prioritize investments in poverty eradication and sustainable development.

### IV. Ways to increase domestic resource mobilization for poverty eradication

The previous section highlights that insufficient resource mobilization is hindering poverty eradication initiatives in lower-income countries. Increasing domestic resource mobilization for poverty eradication requires a multifaceted approach that involves both government actions and broader societal efforts. Here are some strategies to consider:

- **Progressive Taxation:** Implementing progressive taxation systems can help generate revenue from those who can afford to pay more, thereby reducing income inequality and providing funding for poverty eradication programs. Unfortunately, due to the presence of a large informal sector, low and lower-middle-income countries rely on indirect taxes for revenue collection. These countries

[6] Source: Climate change and Poverty: An Analytical Framework, WB, Climate Change Group working paper.

may focus on relying more on property tax and other direct taxes and make the tax rate progressive so that the tax burden is shifted towards more wealthy individuals. This may include increasing taxes on high-income individuals and corporations while providing tax relief or exemptions for low-income earners.

- **Broadening the Tax Base:** Expanding the tax base by bringing informal economic activities into the formal sector and reducing tax evasion and avoidance can increase government revenue. This may involve improving tax administration, implementing electronic tax filing systems, and combating illicit financial flows.
- **Improving Tax Compliance:** Enhancing tax compliance through public awareness campaigns, simplified tax filing procedures and measures to address tax evasion and corruption can help increase government revenue without imposing additional tax burdens on compliant taxpayers.
- **Fund utilization from micro-finance schemes and other financial inclusion initiatives:** Poverty eradication can be accelerated by using microfinance and financial inclusion schemes in low and lower-middle-income countries. However, the success of microfinance (widely used in Bangladesh and many other developing countries) and other formal financial inclusion initiatives depends on the managerial skills of the borrowers, and success is not always guaranteed as the poor are not always expected to be good entrepreneurs.
- **Capitalize opportunities offered by digital finance:** Digital finance can help expand access to financial services for low-income individuals and communities, many of whom are unbanked or under banked. Mobile banking, digital wallets, and other digital financial tools allow people to conduct transactions, access credit, and save money more conveniently and affordably, even in remote areas where traditional banking infrastructure is lacking. Digital finance can lower the cost of financial transactions and help low-income households manage their cash flow and cope with financial shocks more effectively. Digital savings accounts, insurance products, and microcredit platforms enable people to build financial resilience by saving for emergencies, accessing credit when needed, and protecting themselves against unexpected expenses or income loss. The World Bank report confirms that digital cash transfer programs in India and Brazil have been very successful during the COVID-19 pandemic.
- **Promoting inclusive Economic Growth:** Fostering inclusive economic growth through investment in infrastructure, education, healthcare, and entrepreneurship can expand the tax base and generate additional revenue for poverty reduction efforts. Supporting small and medium-sized enterprises (SMEs) and creating employment opportunities can also reduce dependency on social welfare programs.
- **Enhancing Governance and Accountability:** Strengthening governance structures, promoting transparency, and combating corruption are essential for effective resource mobilization and allocation. Implementing anti-corruption measures, establishing independent oversight mechanisms, and engaging civil society in budgetary processes can help ensure that resources are used efficiently and effectively.
- **Private Sector Engagement:** Encouraging private sector participation in poverty eradication efforts through corporate social responsibility initiatives, public-private partnerships, and investment in

socially responsible projects can mobilize additional resources and expertise for sustainable development.

By implementing these strategies in a coordinated and inclusive manner, governments and societies can mobilize domestic resources effectively to combat poverty and promote shared prosperity for all.

**V. Conclusions**

The challenges facing low and lower-middle-income countries in financing poverty eradication efforts are formidable, encompassing issues such as inadequate resources, limited revenue streams, and inequalities exacerbated by ineffective tax systems and transfer payments. Moreover, the volatility of financing sources and the growing impact of climate change add further complexity to these endeavors. Addressing these challenges demands a comprehensive approach, including measures to boost domestic resource mobilization through progressive taxation, broadening the tax base, and enhancing tax compliance. Leveraging funds from microfinance schemes and embracing digital finance can also play a pivotal role in fostering financial inclusion and resilience among marginalized populations. Additionally, promoting inclusive economic growth, strengthening governance and accountability, and engaging the private sector are vital for sustainable poverty reduction efforts. By embracing these strategies collectively, governments, international organizations, civil society, and the private sector can effectively mobilize resources and work towards alleviating poverty and fostering shared prosperity worldwide.

**Some Reference Documents:**


- **Sustainable Development Goal 1: No Poverty, UNDP Website (https://www.undp.org/sustainable-development-goals/no-poverty).**
- **Poverty and Shared Prosperity 2022, World Bank (https://www.worldbank.org/en/publication/poverty-and-shared-prosperity)**
- **Poverty and Shared Prosperity 2020, World Bank (https://www.worldbank.org/en/publication/poverty-and-shared-prosperity-2020)**
- **Climate change and Poverty: An Analytical Framework, WB, Climate Change Group working paper. (https://documents1.worldbank.org/curated/en/275231468331203291/pdf/WPS7126.pdf)**