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# **POOR COUNTRIES OR POOR PEOPLE? DEVELOPMENT ASSISTANCE AND THE NEW GEOGRAPHY OF GLOBAL POVERTY**

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## ABSTRACT

### Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty\*

Two decades ago, 93% of the world's poor lived in countries officially classified as Low Income (LICs). Now, 72% of the world's poor live in Middle Income Countries (MICs). The dramatic shift has been brought about by fast growth in a number of countries with large populations. On present trends, the poor in the MICs are likely to make up a substantial proportion of global poor for many years to come. This "new geography of global poverty"—with the mass of the poor living in stable, non-poor countries--raises important questions for the current model of development assistance, where national per capita income is a key determinant of the volume and composition of aid flows. What precisely is the nature of global moral obligation towards the poor in non-poor countries? Should aid allocation be targeted equally to the poor in poor and non-poor countries, or should special weight be given to the poor in poor countries? How, if at all, should international agencies with a focus on poverty reduction re-calibrate their engagement in MICs? The objective of this paper is to begin addressing these questions to spark greater debate on the new geography of global poverty.

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## 1. INTRODUCTION

The incidence of poverty in a country--the fraction of people living below an absolute poverty line—depends both on average income and on the inequality around this average. For given inequality, the higher the average, the lower is poverty. But if there is inequality, there can be poverty even if average income is above the poverty line. Beyond the incidence of poverty, the total number of poor depends also on the total population of the country.

In international poverty calculations, the standard poverty line used is the World Bank's \$1.25 per person per day in 2005 PPP. In some calculations, a higher poverty line of \$2.50 per person per day in 2005 PPP is also used (Chen and Ravallion, 2008). In international country classifications, a middle income country (MIC) is one whose average income exceeds a critical threshold. While the details of the calculation are elaborate, this threshold is roughly equivalent to \$2.70 per capita per day in 2008 exchange rates. This is nominally above the higher of the two commonly used poverty lines for international comparisons. Even given the differences between exchange rate and PPP conversions, MICs are countries that have crossed the standard international absolute poverty line on average.<sup>2</sup> But if there is within-country inequality, poverty will persist in these countries. And the larger is the population of these countries, the greater will be their contribution to global poverty.

The spectacular growth of a number of populous countries over the last two decades has changed the global map of poverty. On the one hand, growth in countries such as China and India has contributed to dramatic reductions in the incidence of global poverty—indeed the first Millennium Development Goal (MDG), of halving the incidence of poverty between 1990 and 2015, will be met at the global level. The sharp decreases in poverty in fast growing populous countries have more than exceeded the rise in poverty elsewhere, especially in the low income countries (LICs) in Africa. However, two decades of this process has led to another feature of the global map of poverty—more and more of the remaining poor now live in MICs. Indeed, by some estimates, 72% of the world's poor according to the lower global poverty line now live in countries whose average incomes exceed the higher global poverty line (Sumner, 2010).

This paper argues that the 'new geography of global poverty'—with the mass of the world's poor living in MICs-- raises important questions for the current model of development assistance, where levels and composition of aid flows are determined by national per capita income and the official country classifications that follow from it. What precisely are the global moral obligations towards the poor in non-poor countries? Should aid allocation be targeted equally to poor people in poor and non-poor countries, or should special weight be given to the poor in poor countries? How, if at all, should international agencies with a focus on poverty reduction re-calibrate their engagement with MICs?

The objective of this paper is to begin addressing these questions, to spark greater debate on the implications of the new geography of global poverty. Section 2 reprises earlier findings on the new composition of global poverty, and argues that these patterns are likely to continue into the coming decade. Section 3 takes up the questions on development assistance. Section 4 concludes with a discussion of areas for future research and policy debate.

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<sup>2</sup> In all MICs, the GNI per capita PPP is higher than the \$1.25 international poverty line.

## 2. WHERE DO THE POOR LIVE? A REPRISÉ

In Sumner (2010) data is presented to argue that the global poverty problem has changed because most of the world's poor (defined as those living under \$1.25 per capita per day at PPP) no longer live in poor countries (defined as those whose per capita income at official exchange rates are below the official cutoff defining low income countries, or LICs). This is because a number of the large countries that have graduated into the middle income category (MICs) still have large numbers of poor people. The paper argues there is a new bottom billion - 960m poor people or 72% of the world's poor- and they live not in poor countries but in middle income countries (and most of them in stable, non-fragile MICs). Only about a quarter of the world's poor – about 370mn people or so – live in the remaining 40 low-income countries (LICs), which are largely in sub-Saharan Africa. This is a dramatic change from just two decades ago when 93% of poor people lived in low-income countries.

The poor haven't moved of course. What has largely happened is that the countries in which many of the world's poor live in have got richer in average per capita terms and have been reclassified. With growth, countries transitioning from LIC to MIC status under World Bank classifications have led to a 'new bottom billion'. Since 2000, 27 countries have graduated and 707m poor people 'moved' into MIC countries because despite growth the absolute number of poor people hasn't fallen sufficiently in these countries.<sup>3</sup>

It is worth exploring this pattern in greater detail to check how much of it is due to the "China and India" contribution, and how much of it may be due to the "Fragile States/Stable States" distinction. Table 1 presents numbers for combinations of economic development (low income and middle income) and of political development (fragile and non-fragile states). Thus it is seen that stable MICs still account for 61% of the world's poor. However, most of this is because of Asia. Table 2 shows that within Africa, two thirds of the poor live in fragile states.

China and India, together account for 50% of the world's poor (about 663m) in 2007-8, down from 68% in 1990. However, the story isn't just that India and China have been 'upgraded' to MIC status. If one removes China and India the proportion of the world's poor in MICs has still tripled – this is a range of other countries like Nigeria, Pakistan, Indonesia but also some surprising MIC countries like Sudan, Angola and Cameroon. There is a concentration of the poor - 850m - in 5 populous MIC countries in particular (see Table 2). These are the Pakistan, India, China, Nigeria, Indonesia country group (henceforth the PICNICs). Figure 1 summarizes the evolution of poverty numbers for combinations of income level and fragility status.

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<sup>3</sup> The data presented here is that of Sumner (2010) and is based on non- adjusted data from World Development Indicators and country thresholds for World Bank FY2011 (and thus data for calendar year 2009). New estimates with adjusted and unadjusted base years calculated using PovCal are available in Sumner (2011a). Further, on 1 July 2011 the number of LICs fell to 35. An update for World Bank FY2012 thresholds and the latest PovCal data is available in Sumner (2011b, forthcoming).

**Table 1. Where do the US\$1.25 poor live?**

	1988-90 or nearest year	2007/08 or nearest year
Low income, stable (e.g. Tanzania and Zambia)	80%	16%
Low income, fragile conflict-affected state (e.g. DRC and Burundi)	13%	12%
Middle income, stable (e.g. India and Indonesia)	6%	61%
Middle income, fragile conflict-affected state (e.g. Pakistan and Nigeria)	1%	11%

Source: Sumner (2010) processed from World Development Indicators; FCAS definition = 43 countries of combined 3 lists as per OECD (2010). The same set of fragile states was used for both 1988-90 and 2007/08 calculations.

**Table 2. Global and regional distribution of the poor, US\$1.25, 2007-8**

	Fragile and conflict-affected	Not fragile or conflict-affected	Total
World			
Low income	12%	16%	28%
Middle income	11%	61%	72%
Total	23%	77%	100%
Africa			
Low income	37%	29%	66%
Middle income	30%	4%	34%
Total	67%	33%	100%
Asia			
Low income	2%	12%	14%
Middle income	4%	82%	86%
Total	6%	94%	100%

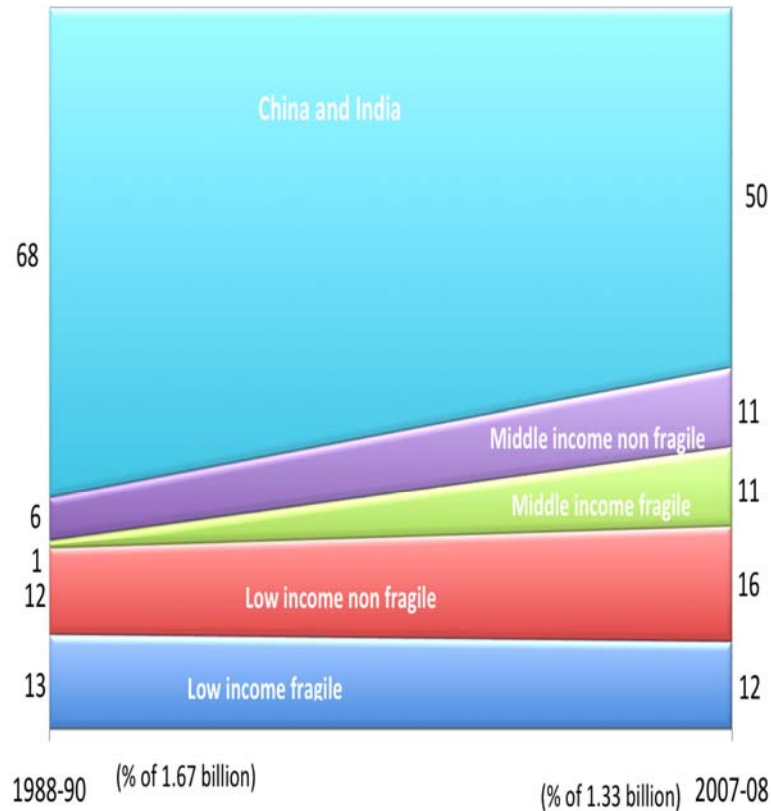
Source: Processed from World Development Indicators.

**Table 3. Where do the poor live?**

Ten countries with highest poverty (millions)	LIC or MIC in 2010 (basis is 2008 data)	Number of Poor People (millions, US\$1.25, 2007-8)
1. India	MIC	456
2. China	MIC	208
3. Nigeria	MIC	89
4. Bangladesh	LIC	76
5. Indonesia	MIC	66
6. DRC	LIC	36
7. Pakistan	MIC	35
8. Tanzania	LIC	30
9. Ethiopia	LIC	29
10. Philippines	MIC	20

Source: Processed from World Development Indicators.

**Figure 1. Where are the world's poor? 1990 vs 2007-8**



How do patterns of income poverty compare with patterns of deprivation in non-income dimensions? With the exception of children out of school, there is surprisingly little difference between different poverty measures and the global poverty distributions generated. As shown by table 4 for income and nutrition and MPI, LICs account for 28–29 per cent of the world's poor; MICs for 70–72 per cent; SSA for 24–28 per cent; China/India for 43–50 per cent and FCAS 23–30 per cent. However, the education measure – the global distribution of the world's poor by children who are not in primary school – does generate a more even split between LICs and MICs. Further, new IMR data released just before the MDG summit suggest a 40/60 LIC/MIC split on infant deaths too. This might suggest different poverty manifestations in LICs and MICs along some non-income dimensions.

**Table 4. Global distribution of world’s poor (percentage) by various measures, 2007–8**

	US\$1.25	Children out of primary school	Children below height	Children below weight	Multi-dimensional poverty (MPI)
<b>Middle-income country (MIC)</b>	<b>72</b>	<b>56</b>	<b>71</b>	<b>71</b>	<b>70</b>
MIC minus China and India	22	-	28	23	22
MIC FCAS	11	35	15	14	13
MIC NON-FCAS	61	21	56	58	57
<b>Low-income country (LIC)</b>	<b>28</b>	<b>39</b>	<b>28</b>	<b>28</b>	<b>29</b>
LIC minus China and India	28	-	-	-	-
LIC FCAS	12	26	16	16	15
LIC NON-FCAS	16	13	12	12	14
Fragile and conflict-affected states (43)	23	61	31	30	29
Sub-Sahara Africa	27	54	27	24	28
Least Development Countries (50)*	25	40	27	27	27
China and India	50	-	43	48	-
Total	100	95*	99*	99*	100
Countries with data as % global population	80	74	81	84	78

Source: Sumner (2010); Note: \* = does not add up to 100% exactly due to rounding up components and education poverty in HICs; Least Developed Countries = group of 50 countries although Cape Verde graduated in 2006 and some of these LDCs are now MICs.

Will this pattern of concentration of the poor in MICs continue in the future? The answer to this question depends upon: growth projections for individual countries; assumptions on exchange rate evolution; assumptions on international inflation and other aspects of the Atlas methodology for classifying countries as LICs or MICs; the evolution of income distribution within each country; any re-evaluation of PPPs in each country (and influence on \$1.25 poverty) and population growth in individual countries. Chandy and Gertz (2011) have recently provided an impressive and systematic set of poverty projections to 2015. We believe that some of their assumptions, for example concerning static inequality in MICs (and LICs), might overstate the extent of poverty reduction in MICs to 2015. However, even with these assumptions they find that the proportion of the world’s poor in MICs will still be 55% in 2015. So, it seems that the new geography of poverty will be with us for at least a decade or more.

### **3. Development Assistance in Light of the New Global Patterns of Poverty**

National per capita income is central to the allocation of development assistance—its levels and its composition. For example, it is an explicit component of the IDA-allocation formula, which combines needs and performance. Much has been written about the performance component of the formula (Kanbur, 2005, and Leo, 2010). For IDA, and for many other multilateral and bilateral donors, “low-income” classifications of countries are also central in targeting development assistance, the argument once again being one of greater need in these countries.<sup>4</sup> For those donors and multilateral agencies who continue engagement with MICs, there is the additional issue of how this engagement should differ, if at all, from their engagement with LICs. (Kanbur, 2010, and Independent Evaluation Group, 2007). What is the

<sup>4</sup> For example, DFID has a 90/10 LIC/MIC allocation ‘rule’ for aid allocation. See DFID (2010).



rationale for differentiated strategies between MICs and LICs and how would it be affected by the new reality that the bulk of the world's poor now live in MICs?

These questions are particularly important in the new geography of global poverty, where most of the world's poor live in non-poor countries. Why should development assistance flow to countries whose per capita income is now above the international poverty line, with the implication that poverty persists solely because of inequality in these countries? Kanbur (2010) argues that the development cooperation literature identifies three arguments for continued assistance—"pockets of poverty", "spillover effects" and "knowledge transfer". There is a fourth argument, drawn from the philosophical literature, on moral obligation based on exploitative relations (Miller, 2010). Let us take each of these in turn, focusing in particular on the poverty discussion.

### **3a. Assisting MICs to Minimize Global Poverty**

The pockets of poverty argument rests on the moral intuition that assistance is called for by poverty no matter where it occurs—whether in poor countries or in non-poor countries. It is poor people who matter fundamentally, and poor countries matter only indirectly, as a leading indicator of where the poor might live. And it is of course this indicator that might be brought into question in the new global patterns of poverty. But a counter to the argument that development assistance should still flow to non-poor countries because of the large numbers of poor people they contain, is the following: is not the fact of persistence of poverty despite high per capita income levels itself an indicator of the likely ineffectiveness of assistance in reaching the poor in these countries? This ineffectiveness might be either because of weakness of the poverty reduction objective in these countries, or weakness in the capacity to target the poor. But in fact it is often argued (e.g. Independent Evaluation Group, 2007) that MICs have greater capacity for implementing pro-poor interventions such as safety nets. How can these different strands be disentangled to develop a framework in which the claims of MICs versus LICs for development assistance can be assessed?

We begin exploring this issue by imagining that we have a fixed budget for poverty alleviation. How should it be spent? The answer depends on the precise objective, and on the constraints face by the policy maker. For concreteness, we will assume poverty to be measured by the  $P_\alpha$  class of poverty indices (Foster et al., 1984). As is well known,  $P_0$  is simply the incidence of poverty, the fraction of population below the poverty line;  $P_1$  is the poverty gap measure, the per capita proportional shortfall of the incomes from the poverty line;  $P_2$ , the squared gap measure, gives greater weight to the poorest of the poor and hence is a measure of the severity of poverty.

To start with, suppose there are no nation states, and that the poor can be targeted directly and costlessly. Then the allocation policy will be determined by the poverty measure that is to be minimized. If  $P_0$  is the objective then the marginal allocation goes to the person closest to the poverty line. If  $P_1$  is the objective, then the impact of the marginal dollar is the same whichever of the poor it goes to. Finally, with  $P_2$  as the objective, the very poorest should be targeted for the marginal allocation (Bourguignon and Fields, 1990).

Let us now introduce nation states into the story. This complicates the analysis in two central ways. Firstly, it raises the question of whether the poor can be targeted directly, or whether the targeting is only indirect, to be reached through allocation to the nation state in the first instance, and then from the nation state to the poor. Secondly, it raises the question of what exactly is the global objective function which the allocation of resources should be trying to achieve. One view is that it should still be minimization of global poverty, as measured by the  $P_\alpha$  family of indices, say. This view in effect denies any moral significance of the nation state per se. An alternative set of views tackles the issue of the moral salience of the nation state itself, and what this means for obligations to the poor who live in non-poor countries. We will take up these perspectives in turn.

Start with global poverty reduction as the objective, and suppose again that nation states have the same objective and that money given to them will be targeted to the poor as required by the objective. Thus, if the global objective is reducing  $P_0$ , and this is the national objective for each country as well, then the marginal allocation should go to the country where most poor are closest to the poverty line. If the objective changes to  $P_1$  then at the margin there will be indifference on which country will be favoured in the allocation of development assistance. In this situation an operational allocation rule in proportion to the numbers of poor would be consistent with the objective of global poverty minimization. Finally, if the objective globally and nationally is  $P_2$ , say, then each country will allocate the assistance it gets to benefit its poorest. Hence from the global perspective the marginal allocation should favour the country where the poorest of the poor in the world live.

Consider now the situation where each country's allocation rule can be characterized as simply equal division of the assistance received among all the people in the country, poor and non-poor. This may be because the country does not have the capacity to target, or because it has the capacity to target but its objective is insufficiently egalitarian to target towards the poor. Given this structure, what should a global allocation rule look like if the objective is reducing poverty? The answer (Kanbur, 1987, Dasgupta and Kanbur, 2005) is that if the objective is  $P_\alpha$ , countries with a high  $P_{(\alpha-1)}$  should be targeted. Thus, for example, if  $P_2$  is the global objective then at the margin funds should flow to countries with high  $P_1$ ; if  $P_1$  is the objective then funds should flow to countries with high  $P_0$ .

With the above framework in mind, let us assess the error that would be made by excluding MICs from development assistance (or at least reducing assistance to them drastically). If the objective is minimization of  $P_2$  and perfect targeting is implemented country by country, then excluding MICs hurts the global poverty reduction objective if the poorest in the MIC are also among the global poorest. If  $P_0$  is the objective then the answer depends on whether the numbers just below the poverty line in MICs are greater than those numbers in LICs. If perfect targeting is not possible, in fact if poor and non-poor benefit equally from assistance within each country, then if  $P_2$  ( $P_1$ ) is the global objective, excluding MICs hurts the global objective if MICs have a higher  $P_1$  ( $P_0$ ) than LICs.

The case for *excluding* MICs from development assistance is thus strongest if the central model of the impact of aid is one where targeting to the poor is weak, since the guiding criterion then is the level of  $P_1$  (if the objective is  $P_2$ ) or  $P_0$  (if the objective is  $P_1$ ). It is unlikely that MICs

will have higher  $P_0$  or higher  $P_1$  than LICs—there is in general a negative correlation between per capita income and poverty. The case for *not excluding* MICs from development assistance is strongest if the poor can be targeted effectively and if the global objective is  $P_0$  or  $P_1$ , or, when the objective is  $P_2$ , the poorest in MICs are at a comparable level to the poorest in LICs. This argument is strengthened if targeting is more effective in MICs. More generally, however, it seems clear that there cannot be a blanket argument for excluding MICs and the poor who live in them from development assistance. The argument has to be more detailed and country specific on the volume and nature of assistance given to individual MICs.

### **3b. Spillovers, Knowledge Transfer, and Exploitative Relations**

A class of arguments increasingly deployed for continued development assistance engagement with MICs is to do with cross-border and global spillovers, and global public goods. Thus even if there was no inherent reason to be concerned about MICs and their poverty, if the actions of MICs have negative spillover effects on LICs and their poor, this is an indirect reason for the concern. There are many examples of such spillovers, including global warming and other environmental externalities, financial crises and their spillover effects, the spread of infectious diseases, and migration. The flip side of these negative externalities is that attempts to address them are cross-national public goods, in some cases global public goods. There is clearly an argument for development assistance to be directed towards such public goods, and hence for aid flows to countries that are part of the solution to the underlying negative externalities.

However, as argued in Kanbur (2003), the detailed specification of the international public goods problem is important in assessing whether development assistance is warranted, and its precise nature. Many of the arguments (eg on financial crises), have nothing in particular to do with poverty in MICs. Other arguments, for example deforestation in MICs that is caused by poverty and the spillover effects of this onto neighbouring countries that are LICs, are indeed affected by the numbers of poor people in these MICs. Drawing the line from the new geography of global poverty to continued development assistance to MICs through international public goods thus needs country specific argument.

The knowledge transfer case for continued engagement with MICs is often advanced by international agencies such as the World Bank. This aspect of assistance is highlighted, for example, in a major assessment of World Bank assistance to MICs (Independent Evaluation Group, 2007). The basic argument is that by engaging with MICs the agency gains knowledge which can then be useful for development assistance to LICs. The specific case for continued engagement with poverty reduction in MICs would thus be that knowledge gained in this, for example on the operation of safety nets, would be useful in addressing poverty issues in LICs.

But two issues need to be confronted. First, is the knowledge transferable - are conditions similar enough for information to be useful in a different context? For example, if social safety nets succeed in MICs because of their greater implementation capacity, will this be useful in LICs without such capacity? Or will the knowledge of what specific types of capacity are need be useful in building such capacity in LICs? Secondly, is the agency in question, or the international community in general, geared up for such knowledge transfer across countries? Answers to these questions are country specific, and agency specific. It is only when they are

provided that we will have the basis for applying the general knowledge transfer argument to the case of continued development cooperation engagement with MICs in the new geography of global poverty.

All of the discussion so far has been on the basis of a moral obligation to transfer resources to the poor of the world simply because they are poor. The intervening fact of nation states, and the distribution of poverty across nation states, appears as a constraint, or as a set of instruments, to achieve global poverty reduction. However, nation states can have another role via the discourse on the salient moral community for obligations. This large literature has had a recent interesting, and powerful, addition and extension by Miller (2010). Miller's starting point is the Singer (1972) Principle of Sacrifice, a powerful call on the wealthy to support the poor and destitute no matter where they are: "If it is in our power to prevent something bad from happening, without merely sacrificing anything else morally significant, we ought, morally, to do so."

Miller constructs a detailed and intricate argument rejecting the Singer premise as being too demanding and, ultimately, not being morally compelling. He concludes that: "The moral demands of sensitivity to neediness...have turned out to be limited..., which could have an enormous impact on transnational duties to people in developing countries." (Miller, p. 2010, p. 29). Rather he builds the argument for development assistance on different foundations: "The vast, unmet global responsibility is not a duty of kindness toward the needy. It is, primarily, a duty to avoid taking advantage of people in developing countries. ...The crucial global interactions, in which power is currently massively abused, include transnational manufacturing, deliberations setting the institutional framework for world trade and finance, the global greenhouse effect and the efforts to contain it, the shaping of development policies, and uses of violence in maintaining influence over developing countries...."

Miller's argument, although perhaps somewhat at a tangent to the new global geography of poverty, supports continued development assistance to the poor in MICs, on the grounds of the abuse of transnational power towards the nations in which they live. The argument is focused neither on MICs nor on LICs, but rather on the extent to which the relationship between the country in question and developed countries is exploitative and abusive in nature. Country specificity matters once again.

#### **4. Conclusion**

The new geography of global poverty throws into sharp relief development assistance policy towards MICs. A policy of sharply reducing, or entirely stopping, development assistance to MICs needs to be examined closely when the bulk of the world's poor live in these countries. Our discussion shows that there is no justification for a blanket exclusion of MICs from development assistance. Rather, we argue that the policy has to be crafted on a country specific basis, taking into account the detailed nature of poverty in each MIC, and the specific institutional and implementation context of development assistance. More information and research is needed, in particular, on (i) how patterns of poverty differ across MICs and between MICs and LICs, (ii) how poverty in MICs may lead to cross-border negative externalities to other countries, especially LICs and the poor who live in them, (iii) how knowledge gained from addressing poverty in MICs could be used in designing poverty reduction interventions in other

MICs or in LICs, and (iv) the specific power imbalances in economic relationships between MICs and developed countries.

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