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

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Abstract: Two decades ago, most of the world's poor lived in countries officially classified as low income. Now, most of the world's poor live in middle-income countries. The shift has been brought about by fast growth in a number of countries with large populations. This 'new geography of global poverty'—with the mass of the poor not living in the world's poorest countries—raises 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. This paper reprises the changes in global poverty and discusses the case for continued development assistance to middle-income countries. Copyright © 2012 John Wiley & Sons, Ltd.

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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 purchasing power parity (PPP).[1] In some

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[1]The international poverty lines have been subject to considerable contention (for critical review see Fischer, 2010). Most notably, such contention has centred on purchasing power parity (PPP) related issues (see Deaton, 2010; 2011; Deaton and Heston, 2010; Klasen, 2010). Deaton (2010, p. 31) concludes that the reweighting of the PPPs matters less than might be thought and instead, the quality of underlying household surveys and national accounts is a more urgent area for improvement:
PPPs for the poorer countries in Africa or in Asia may be *good enough* [emphasis added] to support global poverty counts, at least *provided the uncertainties are recognized* [emphasis added]. (Deaton, 2010, p. 31).

calculations, a higher poverty line of $2 per person per day in 2005 PPP is also used as the median poverty line of all poverty lines of developing countries (Chen and Ravallion, 2008). In international country classifications, a middle-income country (MIC) is one whose average income exceeds a critical threshold. Although the details of the calculation are elaborate, the current threshold is equivalent to $2.75 per capita per day.[2] 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.[3] 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 has contributed to dramatic reductions in the incidence of global poverty—indeed the first Millennium Development Goal, of halving the incidence of poverty between 1990 and 2015, will be met at the global level (Chen and Ravallion, 2012). 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, 71–76 per cent 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, 2012). This pattern is reflected in multi-dimensional poverty and in the global disease burden (Alkire *et al*., 2011; Glassman *et al*., 2012). Further, although the thresholds do not mean a sudden change in countries when a line is crossed in per capita income, the international system does treat countries differently and at higher levels of per capita income substantially more domestic resources are likely to be available for poverty reduction.

This paper argues that this '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.[4] What precisely are the global moral obligations towards the poor in MICs? Should aid allocation be targeted equally to poor people in the poorest countries and in MICs, or should special weight be given to the poor in poorest countries?

[2]The country thresholds are based on gross national income (GNI) per capita (exchange rate conversion): The World Bank's 'Atlas method' takes GNI in national currency and converts it to US dollars using the three-year average of exchange rates (taking the average of a country's exchange rate for that year and its exchange rates for the two preceding years), adjusted for the difference between national inflation and that of 'international inflation' (the weighted average of inflation in the Euro Zone, Japan, the UK, and the USA as measured by the change in the IMF's Special Drawing Rights deflator).

[3]Furthermore, in all MICs, the average income in GDP per capita PPP is higher than the $1.25 international poverty line. There is of course an inherent issue of classification, categorisation and labelling taking a Foucaultian lens to such definitions of 'poor' countries. Such labelling can lead to what Wood (1985) called 'de-linking'—the de-linking of the story or history of why people have become poor.We focus solely on the LIC–MIC classification developed by the World Bank in particular to determine eligibility for types of funding notably IDA. There is a range of approaches used by various donors. For a detailed discussion of how the thresholds are used by UNICEF, UNDP, UNFPA, WFP and the Global Fund to Fight AIDS, TB and Malaria, see UNICEF (2009, p. 76–80).

[4]When we use 'geography' we do not mean poor people have moved, rather the geographical distribution of world poverty has shifted because of the world's poor being concentrated in a relatively few number of countries who have got better off in average per capita terms and become MICs.

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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 on the implications of the new geography of global poverty. Section 2 briefly reprises findings on the changing composition of global poverty and argues that these patterns are likely to continue in the coming decade. Section 3 takes up the questions on development assistance. Section 4 concludes.

2 WHERE DO THE POOR LIVE? A REPRISE

In Sumner (2010; 2012), data are 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 the world's poorest 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 MICs still have large numbers of poor people. In fact, there is a 'new bottom billion' 850–950 million poor people or 71–76 per cent of the world's poor—and they live not in the world's poorest countries (meaning LICs) but in middle-income countries (and most of them in stable, non-fragile MICs). Only 24–29 per cent of the world's poor—about 300–350 million people—live in the remaining 35 LICs, which are largely in sub-Saharan Africa. This is a dramatic change from just two decades ago when 93 per cent of poor people lived in LICs.

The poor have not 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 this 'new bottom billion'.[5] Since 2000, 28 countries have graduated, and over 700 million poor people 'moved' into MIC countries because despite growth, the absolute number of poor people has not fallen sufficiently in these countries.

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. China and India, together account for half of the world's poor in 2007–2008, down from two-thirds of the world's poor in 1990. However, the story is not 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 such as Nigeria, Pakistan, Indonesia and also some surprising MIC countries such as Sudan, Angola and Cameroon. There is a concentration of the poor—700–850 million—in five populous MIC countries in

[5]Of course there are various other classifications of 'poor countries' such as the UN category of 'least developed countries' which has a sophisticated methodology that combines human assets (including nutrition, child mortality, school enrolment and adult literacy), economic vulnerability (including measures of the instability of agricultural production, population displaced by natural disasters, instability in exports, the share of agriculture in GDP and exports), and proxies for economic 'smallness' (less than 75 million people),'remoteness' and GNI per capita. However, the graduation criteria make it very difficult to leave the category and as a result a third of the 49 least developed countries are now MICs.

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particular. These are the Pakistan, India, China, Nigeria and Indonesia country group (henceforth the PINCIs) (Table 1).

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 2 for income poverty and malnutrition and multi-dimensional poverty, LICs account for 28–29 per cent of the world's poor; MICs for 70–71 per cent; Sub-Saharan Africa (SSA) for 24–31 per cent; China/India for 43–48 per cent and Fragile and Conflict-Affected States (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. This might suggest different poverty manifestations in LICs and MICs along some non-income dimensions.

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

Table 1. Distribution of world poverty (per cent total world poverty)

	Adjusted base years		Nearest available data	
	1990	2007	1990	2007
LICs	93.1	29.1	94.5	24.1
MICs	6.9	70.9	5.5	75.9
China and India	64.1	47.6	67.4	53.2
PINCIs	76.4	60.2	80.0	67.4

Source: Sumner (2012).
LICs, low-income countries; MICs, middle-income countries; PINCIs, Pakistan, India, China, Nigeria and Indonesia country group.

Table 2. Estimates of the global distribution of world's poor (percentage) by various measures, 2007–2008

	$1.25 (adjusted)	Children below weight	Children below height	Children out of primary school	Multi-dimensional poverty
Middle-income country	71	71	71	56	70
Low-income country	29	28	28	39	29
Fragile and conflict-affected states (43)	23	30	31	61	29
Sub-Sahara Africa	31	24	27	54	28
Least development countries	25	27	27	40	27
China and India	48	48	43	-	-
Total	100	99*	99*	95*	100

Source: Sumner (2010; 2012).
*does not add up to 100 per cent exactly because of rounding up components and education poverty in High-Income Countries (HICs).

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in each country (and influence on $1.25 poverty) and population growth in individual countries. Chandy and Gertz (2011) have recently provided a 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 per cent in 2015. Further, projections by Moss and Leo (2011) suggest the number of LICs is likely to fall to about 20 by 2025. 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 International Development Association (IDA)-allocation formula, which combines needs and performance. Much has been written about the performance component of the formula (Kanbur, 2005; 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 (Kanbur, 2011).[6] 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 MICs. (Independent Evaluation Group, 2007, Kanbur, 2010). What is the 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 do not live in the poorest countries eligible for IDA (Moss and Leo, 2011). Why should development assistance flow to countries whose average per capita income is nominally 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.

3.1 Assisting Middle-Income Countries 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

[6]For example, DFID used to have a 90/10 LIC/MIC allocation 'rule' for aid allocation. See DFID (2010).

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argument that development assistance should still flow to MICs 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_α 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_α 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 MICs. 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

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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_α, 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.[7]

With the aforementioned 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, because 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 with the poorest in LICs. This argument is strengthened if targeting is more effective in MICs.[8]

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.

3.2 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

[7]The basic argument is that the marginal impact of a transfer on poverty is the first order derivative of poverty with respect to the transfer. However, given the 'constant elasticity' specification of deprivation in the poverty measure, the derivative of the deprivation raised to the power α is proportional to the deprivation raised to $\alpha-1$. This together with the linear additive structure of the measure produces the result.

[8]The issue of whether the aid process itself can serve to strengthen effectiveness of aid, or whether, to the contrary, it undermines aid effectiveness, is an important issue that is not discussed here. This issue would be present no matter what the needs based rational for aid, which is our focus here. A related issue which is not discussed here but which is important operationally is the type of instrument used for development assistance—grant or loan, investment or policy based and the like. The issue of identifying need through per capita income, which is the focus of this paper, cuts across these other important debates in the literature.

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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 (e.g. 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 needed 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 Peter 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, 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

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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. However, given the shifting geography of global wealth these points might be open to further discussion as 'emerging economies' such as China take on new positions in global trade and investment. 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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