

The New Bottom Billion: What If Most of the World's Poor Live in Middle-Income Countries?

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CGD Brief

Most of the world's poor no longer live in low-income countries. An estimated 960 million poor people—a new bottom billion—live in middle-income countries, a result of the graduation of several populous countries from low-income status. That is good news, but it has repercussions. Donors will have to change the way they think about poverty alleviation. They should design development aid to benefit poor people, not just poor countries, keep supporting middle-income countries, think beyond traditional aid to craft coherent development policies, and work to help create space for more inclusive policy processes in new and old MICs.

What's changed?

Most of the world's poor no longer live in low-income countries (LICs). Seventy-two percent live in middle-income countries (MICs), and most of them in stable, non-fragile countries.¹ This is a dramatic change from just two decades ago when 93 percent of poor people lived in low-income countries, and the shift is likely to continue through 2015 if not beyond.² Even though MICs now have an average income per person (in PPP) greater than US\$1.25/day, they are still home to millions of poor people because of inequality and demographic trends.

How did it happen?

Since 2000, over 700 million poor people have “moved” into MICs by way of their countries' graduating from low-income status (see figure 1). And this is not just about China and India. Even without them, the proportion of the world's poor in MICs has still tripled, not only from a range of other countries like Nigeria, Pakistan, Indonesia, but also from some surprising MIC countries such as Sudan, Angola, and Cameroon. The total number of LICs has fallen from 63 in 2000 to just 40 in the most recent data (see figure 2), and this trend is likely to continue.³ India and three other countries (Pakistan, Indonesia, and Nigeria) account for much of the total number of the new MIC poor (see figure 3). Among all MICs (new and old), five populous countries are home to 854 million poor people, or two-thirds of the world's poor. These are Pakistan, India, China, Nigeria, and Indonesia.

One might ask how sensitive the shift is to the thresholds themselves? Of the new MICs, several are very close to the threshold—notably, Lesotho, Nicaragua, Pakistan, Senegal, Vietnam, and Yemen. India is only US\$180 per capita per year over the threshold, but it is reasonable to assume that growth in India will continue and keep it out of danger of slipping back. It is important to recognize, however, that a significant number of the new MICs still fall under the threshold for the International Development Association (IDA), the World Bank's concessionary lending window for poor countries.

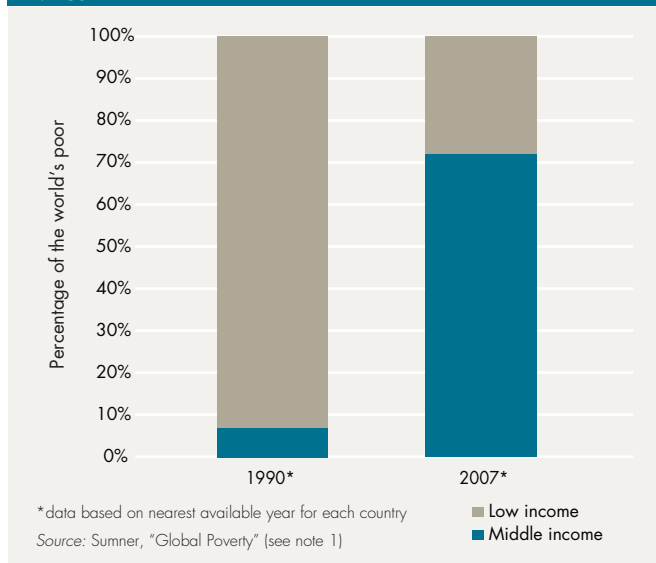
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1. A. Sumner, “Global Poverty and the New Bottom Billion: What if Three-quarters of the World's Poor Live in Middle-Income Countries,” IDS Working Paper 349 (Sussex, UK: IDS, 2010).

2. L. Chandy and G. Gertz, “Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015,” Global Views Policy Brief 2011-01 (Washington DC: Brookings Institution, 2011).

3. T. Moss and B. Leo, “IDA at 65: Heading Toward Retirement or a Fragile Lease on Life?” CGD Working Paper 246 (Washington DC: Center for Global Development, 2011).

Figure 1. The World's Poor Have "Moved" from LICs to MICs



Policy implications for development assistance

Traditional donors' partnerships and aid relationships are likely to be very different in low-income, middle-income, and fragile countries, but it is clear that they will need to rethink their approaches and strategies.

1. Aid objectives: It's time to rethink official development assistance—from poor countries to poor people

If the objectives of ODA are to reduce poverty, as it is for many donors,⁴ a new aid allocation model might usefully be based on a formula that accounts for "needs to end poverty" and "potentially available domestic and global resources" as well as indicators from the World Bank's Country Policy and Institutional Assessments for the government's "commitment to poverty reduction" and "capacity for poverty reduction."

"Needs to end poverty" can be assessed by multiplying the number of poor people by their average distance from the poverty line (the poverty gap). This gives the total resources needed to end poverty, which can then be estimated as a percentage of GDP.

"Potentially available domestic and global resources" can then be assessed using proxies such as foreign exchange reserves, access to capital markets, and capacity for domestic taxation of the "rich." In most new MICs, the domestic resources remain quite low relative to resources required to end poverty.

4. O. Barder, "What Is Poverty Reduction," CGD Working Paper 170 (Washington DC: Center for Global Development, 2009).

Although the poverty gap as a percent of GDP is relatively small in most MICs, it is still a substantial amount of resources to redistribute by simply placing higher taxes on the rich, especially given the small numbers of the rich relative to vast numbers of poor in some countries.⁵ If domestic taxes are not yet enough, access to global resources will be especially important; poverty alleviation in middle-income countries will have to be a shared responsibility between traditional donors and new MICs for the immediate future but not in the medium or long term.

2. Aid allocations: There are still good reasons to continue ODA to MICs—both for donors and for MICs—but not all MICs are the same

To reduce global poverty, traditional donors will need to continue work in the new MICs. There are four reasons to continue ODA to new MICs on a case-by-case basis: pockets of poverty, spillover effects, knowledge transfer, and moral obligations.⁶ First, pockets of poverty call for aid no matter where they occur. Second, spillover effects of MIC growth, such as climate change, may negatively affect LICs and their poor and provide an argument for directing development assistance toward public goods and aid flows toward countries that can help solve the underlying negative externalities. Third, by engaging with MICs, aid agencies gain knowledge that can then be useful for development assistance to LICs, such as implementing social safety nets. Fourth, there is a moral obligation to give development assistance, given that MICs are still part of global power relations that may disadvantage them to some extent until those global relationships change (e.g. trade and finance patterns).⁷

Although aid as percentage of GNI may be insignificant in many new MICs and many will have access to private capital markets, they may still need ODA because they are only just above the income thresholds and are still IDA eligible. However, development assistance will increasingly need tailoring. MICs are a very diverse group and require more detailed subcategories to aid decision making—recognizing that these categories may overlap somewhat. Emerging powers such as India and Indonesia, for instance, have little need for ODA but have substantial poor populations. Large

5. M. Ravallion, "Do Poorer Countries Have Less Capacity for Redistribution?" World Bank Policy Research Working Paper 5046 (Washington DC: The World Bank, 2009).

6. R. Kanbur and A. Sumner, "Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty" (grey paper, Institute of Development Studies, Brighton, UK, 2011), available at www.ids.ac.uk/go/idsproject/the-new-bottom-billion.

7. R. Miller, *Globalizing Justice: The Ethics of Poverty and Power* (New York: Oxford University Press, 2010).

Figure 2. The Number of LICs Has Fallen Drastically since 2000

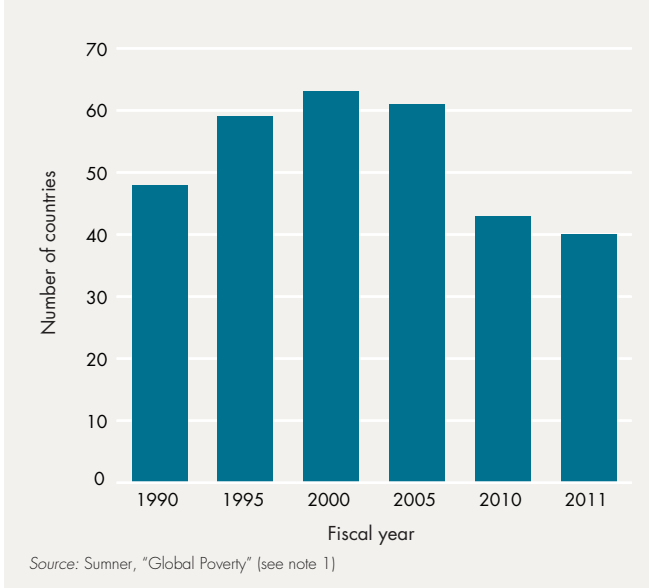
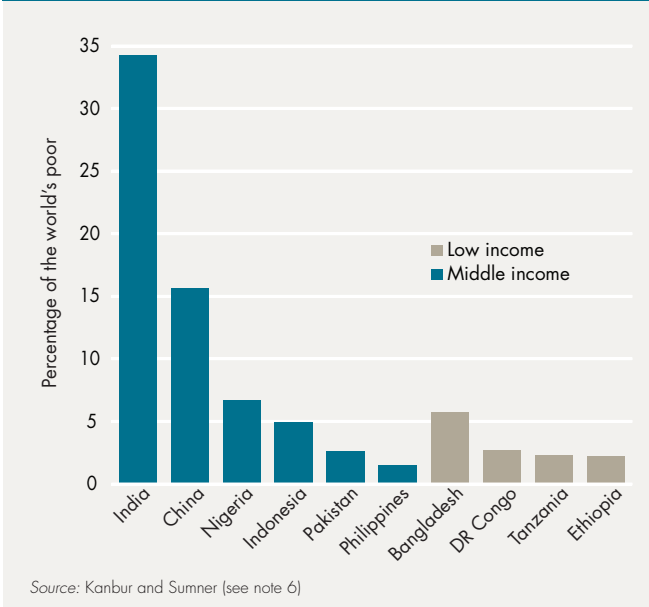


Figure 3. Most of the World's Poor Live in Just a Few Countries



fragile MICs such as Nigeria and Pakistan also have large numbers of poor people and may have limited need for ODA, but state capacity for poverty reduction may be a significant constraint. Stagnant, non-fragile MICs need ODA to support productive capacities, and there are also fast growing LICs such as Ghana that will likely be MICs soon.

3. Aid instruments: Thinking beyond traditional aid

One read of the data is that world poverty is turning from an international to a national distribution problem, and that

governance and domestic taxation and redistribution policies are becoming more important than ODA. Another is that a new kind of multilateralism is needed not only because the responsibilities to reduce poverty are shared, but also because new MICs may not want development assistance of the traditional bilateral sort. Aid to low-income countries will still be about resource transfers and increasingly about fragility, conflict, and post-conflict, but this will be for a minority of countries.

Middle-income countries are less and less likely to need or want resource transfers over time; instead, they will likely be more concerned with "policy coherence." MICs may be more concerned with the designing favorable and coherent development policies on remittances and migration, trade preferences, and climate negotiations and financing, as well as tax havens. At the same time, "traditional" donors are likely to be increasingly concerned about equity and governance issues—and drivers of progressive change.

It is unlikely that taxpayers in donor countries will be comfortable with resource transfers to countries that have substantial domestic resources. It is true that many middle-income countries may be able to support their own poor people to a certain extent, but inequality remains an important issue. The poor often lack a voice in governance structures, and their governments may lack political will, even when domestic resources are on the rise.

In such cases, traditional donors might seek to direct their activities toward supporting inclusive policy processes and the media, social movements, civil society organizations, and other drivers of change. Doing so may not be well received by MIC governments; many of them will be donors themselves and perhaps less interested in "progressive change" and more in their foreign and economic policy interests as noted above.

The main area of agreement might be in global public goods, where interest in collective action on security, climate change, and other global issues is shared. The other issues could include defining global poverty as a global public "bad" that requires collective action, although specific political and economic interests over who contributes and who benefits differ among countries.

The emergence of more MICs is a good news story but with repercussions. Donors need to adapt quickly to changing contexts and rethink aid objectives, allocations, and instruments to meet the "new geography of global poverty."

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