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Global poverty, aid, and middle-income countries

Are the country classifications moribund or is global poverty in the process of 'nationalizing'?

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Abstract

The majority of the world's poor, by income poverty and multi-dimensional poverty, now live in countries officially classified by the World Bank as middle-income countries. Of course nothing happens when a country crosses a (somewhat) arbitrary threshold in per capita income but it does matter to traditional OECD donors because not only are those thresholds used in numerous and various ways, the crossing of that arbitrary line is viewed as cause enough for some donors to at least consider ending aid. In light of this, this paper considers two competing perspectives on this changing pattern of global poverty: the first is that the thresholds used to classify countries by the World Bank and extensively used by aid agencies, albeit with other indicators and in various ways, are moribund—meaning they do not represent 'poor' or 'non-poor' countries in any meaningful sense any longer (if they ever did) from the point of view of aid donors. The second, and by no means necessarily mutually …/

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exclusive, is that global poverty is gradually in the process of 'nationalizing', at least in terms of resources, meaning the bulk of extreme poverty is in developing countries with rapidly rising average incomes and where resource constraints are less pressing. This is not only because of additional resources produced by economic growth, but also because private capital markets can be accessed and thus official development assistance is becoming of lesser importance over time as domestic resources allocation becomes an ever more significant variable. This paper discusses both of these perspectives in turn and considers the implications for OECD donors, offering options for new/alternative country groupings and three avenues for continued OECD donor engagement with countries that have substantial domestic resources (however that is defined).

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Abbreviations

CAP	Common Agricultural Policy
CDI	Commitment to Development Index
CGD	Centre for Global Development
CSO	Civil society organizations
DAC	Development Assistance Committee
DFID	Department for International Development
FCAS	Fragile and Conflict-Affected States
GDP	Gross domestic product
GNI	Gross national income
GPG	Global public goods
HIC	High-income country
IMF	International Monetary Fund
LDC	Least developed country
LIC	Low-income country
LMIC	Lower middle-income country
MIC	Middle-income country
MLIC	Moderately low-income country
MPI	Multi-dimensional Poverty Index
MTR	Marginal tax rates
ODA	Official development assistance
OECD	Organization for Economic Co-operation and Development
OPHI	Oxford Poverty and Human Development Initiative
pc	per capita
PPP	Purchasing power parity
UMIC	Upper middle-income country
UNDP	United Nations Development Programme
WDI	World Development Indicators
WEO	World Economic Outlook

1 Introduction

A series of papers since late 2010 has discussed a shift in the location or 'geography' of global poverty.[1] The shift is quite simple: that the distribution of global poverty has shifted from countries officially classified by the World Bank as low-income countries towards countries recently classified as middle-income countries (MICs). This has led to the following stylized fact: three-quarters of the world's extreme poor (US$1.25) live in middle-income countries.

In short, there is a 'new bottom billion' of extreme poor (920m people under US$1.25/day).[2] And these people live not in the absolute poorest countries by per capita income, nor in low-income countries (LICs), nor the least developed countries (LDCs) but in countries—middle-income countries—which many donors treat differently and consider that middle-income country classification itself a reason to be reducing or even ending aid.

Of course the world's poor have not 'moved'. What has happened is that the countries where many of the poor live experienced drastically rising average incomes and poverty did not fall as much as one might expect in absolute numbers especially when China is excluded from estimates (see discussion in the section below). Further, there is no sudden change in countries when a line is crossed in per capita income. However, higher levels of average per capita income do imply substantially more domestic resources available for poverty reduction and greater access to private capital markets.[3] Further, the number of aid dependent countries has fallen to about 30 countries.[4]

This paper considers two angles on this changing pattern of global poverty. The first is that the thresholds used to classify countries by the World Bank and extensively used by aid agencies, albeit with other indicators and in various ways, are moribund—they do not represent 'non-poor' countries in any meaningful sense any longer (if they ever did) from the point of view of aid donors. The second, and not necessarily mutually exclusive, is that global poverty is gradually in the process of 'nationalizing' at least in terms of resources, meaning the bulk of extreme poverty is in developing countries with rapidly rising average incomes and where resource constraints are less pressing. This is not only because of additional resources produced by economic growth, but also because private capital markets

1 See in particular, Sumner (2010; 2012a; 2012b; 2013) for income poverty; Alkire et al. (2011; 2013) for multi-dimensional poverty; Glassman et al. (2011) for ill-health; and Kanbur and Sumner, (2011) or Sumner (2010) for nutrition and primary education.

2 This is only a 'new bottom billion' in the sense it is not the original 'bottom billion' originally discussed by Collier (2007), which was identified as the 960m or total population of 58 countries that were 'falling behind and often falling apart' (Collier 2007: 3) based on data from 'around the turn of the century'. The 58 countries were listed in the appendix of Collier's (2009) book *War, Guns and Votes.*

3 See Sumner (2012a) for data on new MICs and their capital market access.

4 If we take a broader scope than the (somewhat) arbitrary middle-income country threshold for income per capita, we find that 80 developing countries are converging with the OECD countries' per capita income by achieving GDP per capita growth of more than twice the OECD average over the past decade (OECD 2010). Further, of the 36 remaining LICs, 11 are 'convergers' with OECD average incomes (ibid.) and the number of aid-dependent countries has also fallen to just 40 countries of which ten are islands who have an an official development assistance (ODA) to (gross national income) GNI ratio of more than 10 per cent (Edward and Sumner 2013). Almost 130 developing countries have an ODA to GNI ratio of less than 2 per cent.

can be accessed, and thus ODA is becoming of lesser importance over time as domestic resources allocation becomes an ever more significant variable.

This paper discusses both of these competing perspectives in turn and considers the implications for 'traditional' OECD donors (noting that some MICs are already aid donors and at the same time still aid recipients). The paper is structured as follows: Section 2 considers the changes in the distribution of global poverty. Section 3 discusses the two perspectives outlined above. Section 4 considers implications for aid donors, offering three avenues for continued OECD donor engagement with countries that have substantial domestic resources (however that is defined). Section 5 concludes. What does this paper add? This paper reprises, reviews, and extends discussion in Sumner (2012a; 2012b; 2012c; 2013) and in particular explores further questions arising related to the country thresholds themselves and the extent to which there is a gradual process in the 'nationalization' of extreme poverty.

2 Where do the poor live? An update

2.1 Low- and middle-income countries

This section reprises the global poverty data.[5] There are, of course, a range of methodological questions about the use of income poverty lines per se, and the international poverty lines *in particular* (see discussion in Sumner 2012a; 2012b; 2012c). Table 1 shows the proportion of global poverty in LICs from 1990–2008. As a series of populous countries, most notably India, 'graduated' to MIC status in the mid- to late-2000s the proportion of global poverty in MICs drastically increased. This was somewhat inevitable because the country thresholds are only adjusted for inflation in an attempt to keep their 'real' value constant (see later discussion below and discussion in Sumner 2012a). This means that in real terms the threshold has been fixed for 40 years so, and as countries have grown, more and more have passed this 'fixed' line.

Table 1: Proportion of global poverty in LICs and MICs, 1990–2008

	1990	1995	2000	2005	2008
US$1.25					
LIC	93.6	89.0	67.2	71.9	25.7
MIC	6.3	11.0	32.8	28.1	74.3
US$2					
LIC	91.0	85.0	64.0	66.1	20.6
MIC	8.9	14.9	36.0	33.9	79.4

Source: Edward and Sumner (2013).

The overall shift is the result of almost 30 countries with rising income crossing the LIC/MIC threshold in the 2000s. And of those countries, five populous countries in particular—India, Pakistan, China, Indonesia, and Nigeria—that have graduated to MIC status are home to two-thirds of the world's poor.

5 The income poverty data used here is based on World Bank (2012) and is consistent with the global and regional estimates of Chen and Ravallion (2012). The data covers 84 per cent of the population of LICs and 98 per cent of the population of MICs (in 2008).

In those countries either already MICs or that become MICs, although the incidence of poverty (percentage of population poor) generally fell, the absolute numbers of poor people fell less than one might expect (see Table 2). The number of poor people (US$1.25/day) barely fell (or even rose) in India, Nigeria, and Angola. In China, Indonesia, Pakistan, Vietnam, and Sudan, US$1.25 poverty incidence did fall. However, when one considers US$2 poverty, there are only substantial declines in the number of poor people in China and Vietnam, and to a certain extent in Indonesia. Lower growth elasticities than might be expected are thus one explanatory factor.

Table 2: Poverty in the ten MICs with largest contribution to global poverty, 1990 vs. 2008 (all MICs in later period)

	% of population poor				Poor people (millions)			
	US$1.25		US$2		US$1.25		US$2	
	1990	2008	1990	2008	1990	2008	1990	2008
India	51.3	37.4	82.6	72.4	435.9	426.0	701.7	825.1
China	60.2	13.1	84.6	29.8	683.2	173.0	960.6	394.3
Nigeria	60.4	66.5	80.1	84.0	58.8	100.5	77.9	127.0
Indonesia	54.3	22.6	84.6	54.4	96.3	51.5	150.0	123.6
Pakistan*	61.9	21.0	87.0	60.2	66.9	34.9	93.9	99.9
Philippines	29.7	19.4	54.9	42.2	18.5	17.5	34.2	38.1
Vietnam	73.1	16.9	90.1	43.3	48.4	14.5	59.6	37.4
Brazil	17.2	6.0	30.0	11.3	25.8	11.5	44.9	21.7
Angola	46.7	55.9	62.9	71.6	5.0	10.1	6.7	12.9
Sudan*	56.2	20.4	82.1	45.0	15.2	8.4	22.2	18.6

Note: all data are derived from consumption surveys, with exception of China and Brazil which are derived from income surveys;*the poverty data listed in World Bank (2012) for these countries in 2008 appears lower than one might expect suggesting caution.

Source: Sumner (2012b) based on data processed from World Bank (2012).

Of course nothing happens when a country crosses a somewhat arbitrary threshold but it does matter to (some) 'traditional'—meaning OECD Development Assistance Committee (DAC) donors because those thresholds are used in numerous and various ways to make decisions on aid allocations. Indeed, the crossing of that arbitrary line is cause enough for some donors to at least consider ending aid.

Table 3 and Table 4 show in more detail the distribution, incidence and poverty rates for both the World Bank's income/expenditure poverty by US$1.25 and US$2 and for the OPHI/UNDP multi-dimensional poverty and severe multi-dimensional poverty measures. The global distribution of poverty is estimated by country income groups and other categories such as the UN Least Developed Countries and 'Fragile States' (using the 'non-official' OECD DAC list). The two methods of assessing global poverty—income and multi–dimensional poverty—produce different overall poverty counts. In Tables 3 and 4, US$1.25 poverty stands at 1.2bn and severe multi–dimensional poverty at 0.8bn. Thus LICs account for about 320m of the world's US$1.25 poor (or just over a quarter of the total) and 270m of the world's severe multi–dimensional poor (or almost a third of the total). In 2008 the proportion of the world's US$1.25 and US$2 poor accounted for by MICs is respectively 74 per cent and 79 per cent. And MICs account for 68 per cent and 73 per cent, respectively, of the world's severe multi–dimensional poor and multi–dimensional poor.

Table 3: Estimates of the distribution of global poverty, and poverty incidence by country categories, US$1.25 and US$2, 2008

	US$1.25 poverty line			US$2 poverty line		
	Millions of people	World's poor, %	Poverty incidence (% pop.)	Millions of people	World's poor, %	Poverty incidence (% pop.)
LICs	316.7	25.7	48.5	486.3	20.6	74.4
LMICs	711.6	57.7	30.2	1,394.5	59.2	59.1
LMICs minus India	285.6	23.1	23.4	569.4	24.2	46.7
UMICs	205.5	16.7	8.7	476.6	20.2	20.3
UMICs minus China	32.5	2.6	3.2	82.3	3.5	8.0
LDCs	324.0	26.3	46.4	505.0	21.4	72.2
Fragile states (45, OECD list)	412.3	33.4	40.3	684.0	29.0	66.9
India	426.0	34.5	37.4	825.1	35.0	72.4
China	173.0	14.0	13.1	394.3	16.7	29.8
Total	1,233.8	100.0	22.8	2,357.5	100.0	43.6

Source: adapted from data in Sumner (2013) based on data processed from World Bank (2012).

Table 4: Estimates of the distribution of global poverty, and poverty incidence by country categories, multi-dimensional poverty, 2008

	MPI severe poor			MPI poor		
	Millions of people	World's poor, %	Poverty incidence (% pop.)	Millions of people	World's poor, %	Poverty incidence (% pop.)
LICs	267.6	32.3	42.9	423.4	27.2	67.8
LMICs	497.4	60.0	22.4	941.9	60.4	42.5
LMICs minus India	156.8	18.9	15.3	302.4	19.4	29.5
UMICs	64.2	7.7	3.3	193.7	12.4	10.0
UMICs minus China	4.4	0.5	0.7	27.7	1.8	4.6
LDCs	278.5	33.6	44.7	433.3	27.8	69.6
Fragile states (45, OECD list)	320.0	38.6	34.9	525.1	33.7	57.3
India	340.6	41.1	28.6	639.5	41.0	53.7
China	59.8	7.2	4.5	166.0	10.7	12.5
Total	829.2	100.0	17.4	1,559.0	100.0	32.7

Source: adapted from data in Alkire, Roche, and Sumner (2013).

The shift from the US$1.25 poverty line to the US$2 poverty line is significant as it doubles the poor in MICs from almost 1bn to almost 2bn (meaning there are a billion people under US$1.25 in MICs and another billion between US$1.25 and US$2 in MICs). In contrast, the shift from US$1.25 to US$2 in LICs raises the total number of people in poverty less proportionally so (from 320m to 490m). There are somewhat similar contributions to global poverty from LDCs and fragile states which account for a third of world poverty.

Similar patterns are evident, but less pronounced by severe multi-dimensional poverty (compared to US$1.25) and multi-dimensional poverty (compared to US$2 poverty): LICs/LDCs account for a third of such poverty and fragile states slightly more (see Alkire, Roche, and Sumner 2013 for full discussion).

In spite of the global distribution of poverty shifting towards MICs, it is important, of course, to note that the average poverty incidence as a proportion of population in LICs or LDCs or fragile states is typically higher than in MICs by both income and multi-dimensional poverty (see Tables 3 and 4) and the total poverty gap larger too (see later discussion below). Thus, any discussion of poverty in MICs should not distract from higher rates of poverty in the remaining LICs or LDCs or fragile states.

What is surprising perhaps is that the average (population weighted) incidence of income poverty in MICs is almost one in five of the population at US$1.25/day, and 40 per cent at US$2/day. In the lower middle-income countries (LMICs), this rises to 30 per cent and 60 per cent respectively. In short, many MICs do have surprisingly high poverty headcounts (see, for example, Table 2) even at the higher average level of per capita income found in MICs.

Underlying the above pattern is potentially an even more startling issue when one sub-divides LICs and MICs by 'fragile' and 'non-fragile' status: in short, very few of the world's income or multi-dimensional poor live in what one could call 'old-type' poor countries—meaning stable LICs. Indeed, taking US$1.25 poverty, the world's poor are increasingly concentrated in stable MICs (60.3 per cent of world income poverty, of which China and India of course comprise a large proportion of the total) or fragile LICs (18.4 per cent of world income poverty). Just 6–7 per cent of world poverty (62m income poor or 77m severe multi-dimensional poor) is found in 'old-type' developing countries, meaning low-income and stable, e.g., Tanzania (see Table 5).

There are just over 400m income poor (US$1.25) people living in the 45 'fragile states' (320m severe multi-dimensional poor). Around half of the US$1.25 poor in those 45 fragile states are living in countries classified as middle-income and half per cent in countries classified as low-income. Two-thirds are in Sub-Saharan Africa. One issue which is evident is that, taking the OECD (2011) 'non-official' fragile states list, more than two-thirds of the US$1.25 poor in fragile states live in just five countries (see Table 6): Nigeria (100m poor), Bangladesh (76m poor), the DRC (55m poor), Pakistan (35m poor), and Kenya (15.7m poor). Similar patterns are even more pronounced if one uses the higher poverty measure of US$2/day.[6] The number of poor

6 How many poor people live in 'fragile states' depends on the definition of 'fragile states', as well as the definition of poverty. The above estimates are based on the 'non-official' OECD (2011: 1) list of 45

in fragile states has risen partially due to the revision of countries in the OECD (2011) list; most notably, the inclusion of populous Bangladesh in the group, which has a high poverty incidence but which was not in the 43 countries of the OECD (2010) 'Resource Flows to Fragile States' list.[7]

Table 5: Distribution of world poverty by low and middle-income and fragile states combinations, 2008 (US$1.25)

	LICs	MICs	Totals
% world US$1.25 poverty (% world total)			
Fragile states	19.5	14.0	33.5
Non-fragile states	6.2	60.3	66.5
Total	25.7	74.3	100.0
Poor (millions)			
Fragile states	240.2	172.1	412.3
Non-fragile states	76.5	745.0	821.5
Total	316.7	917.1	1,233.8
% world severe multi-dimensional poverty (% world total)			
Fragile states	24.9	13.7	38.6
Non-fragile states	7.4	54.0	61.4
Total	32.3	67.7	100.0
Poor (millions)			
Fragile states	206.1	113.9	320.0
Non-fragile states	61.5	447.7	509.2
Total	267.6	561.6	829.2

Source: adapted from data in Sumner (2012c) and Alkire, Roche, and Sumner (2013)

It should be noted that only about a third of those 45 fragile states are common across all sets of fragile states lists, although some of the lists have not been updated in recent years (see discussion in Harttgen and Klasen 2010; Sumner 2010). If one focuses on conflict and post-conflict countries, the use of the World Bank's list of 34 fragile states or 'fragile situations' reduces the count of fragile states in world poverty to around 12 per cent (Edward and Sumner 2013) primarily because Pakistan, Nigeria, and Bangladesh are not included in that group but are included in the OECD DAC list of fragile states. Thus the primary difference between the OECD and the World Bank, in terms of fragile states and poverty, becomes a question of whether it makes sense to conflate countries like Pakistan, Nigeria, and Bangladesh with conflict/post-conflict countries such as the DRC.

fragile states. The new World Bank (2012) PovcalNet data has high coverage of those 45 countries. Of those 45 countries 26 are low-income and 18 are (lower) middle-income countries (and one country is not classified).

7 The following countries were added: Bangladesh, Burkina Faso, Georgia, Lebanon, Malawi, Palestinian Adm. Areas, Sri Lanka, and Uzbekistan, while the following were removed: Djibouti, Equatorial Guinea, The Gambia, Rwanda, Tonga, and West Bank and Gaza. This earlier list was the product of combining three available lists of 'fragile states' at that time (Carlton, Brookings, and the World Bank's) thus producing the broadest possible list of 43 fragile states at that time.

Table 6: Distribution of US$1.25 poverty in fragile states (OECD list of 45 countries), 2008

	Millions of people (US$1.25)	% fragile states poor (US$1.25)
LICs	240.2	58.3
LMICs	172.1	41.7
Total in 45 fragile states	412.3	100.0
Total in 5 countries (Nigeria, DRC, Bangladesh, Pakistan, and Kenya)	281.2	70.5
Europe and Central Asia	1.4	0.3
Middle East and North Africa	4.6	1.1
Sub-Saharan Africa	276.4	67.0
East Asia and Pacific	3.2	0.8
South Asia	120.4	29.2
Latin America and Caribbean	6.3	1.5

Note: fragile states = 45 countries in OECD (2011).

Source: data processed from World Bank (2012).

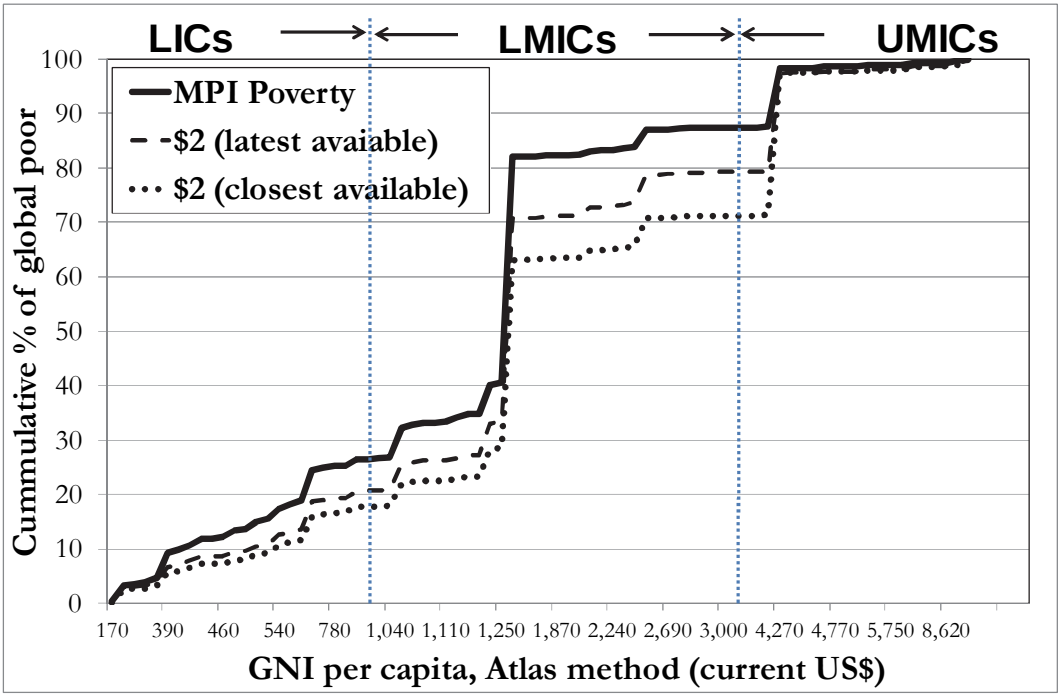
In sum, one way to think about the distribution of global poverty is thus: half of the world's poor (however defined) live in India and China (mainly in India); a quarter of the world's poor live in other MICs (primarily populous LMICs such as 'fragile' Pakistan and Nigeria, and 'stable' Indonesia) and a quarter (or less) of the world's poor live in the remaining 36 LICs (or the two-thirds of LDCs which are LICs).

2.2 Sensitivity analysis

There is the question of how sensitive the changes in the distribution of global poverty are to the LIC/MIC thresholds. Alkire et al. (2013) provide a set of figures that respectively show the cumulative poverty counts by GNI per capita with LIC/LMIC/UMIC (upper middle-income county) thresholds identified by both income and multi-dimensional poverty. The shift in the global distribution of poverty from LICs to MICs is, of course, a function of the thresholds themselves but the bulk of world poverty is well above the current per capita LIC threshold. Figures 1–3 consider the sensitivity and find that the poor by income and multi-dimensional poverty are not clustered near the thresholds for LIC/LMIC.

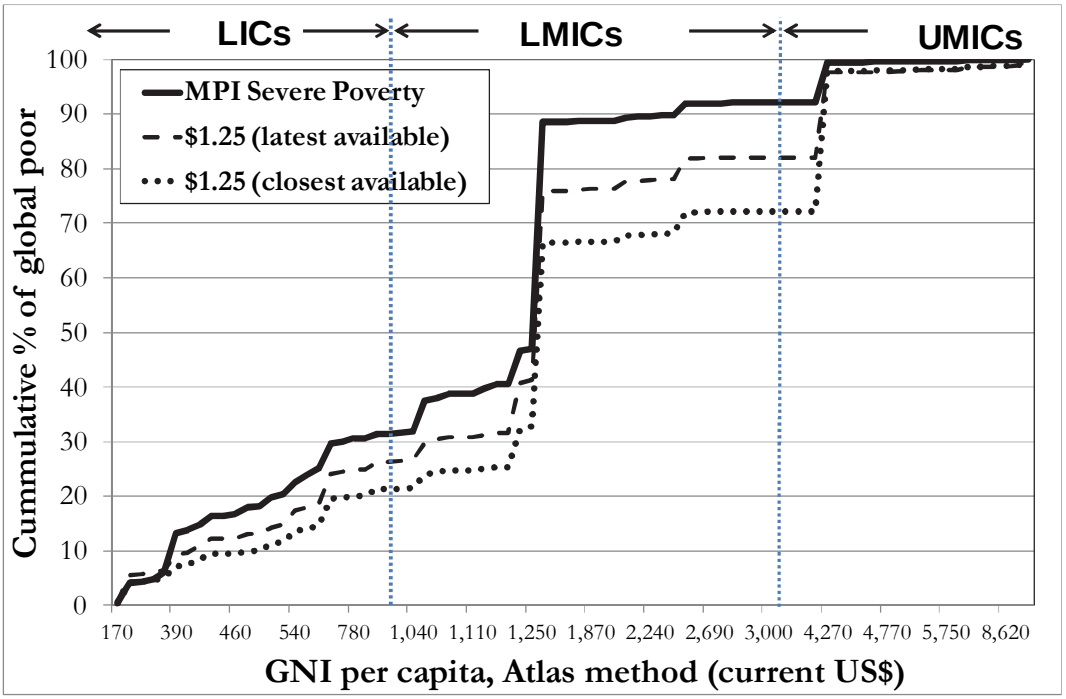
If India and China are removed (see Figure 3, in which the cumulative distribution starts from zero every time it passes the county income threshold), this makes a significant difference—not surprisingly—but there is still a significant proportion of world poverty in LMICs. The net outcome of this exercise is to see that even if China and India are removed MICs still account for substantial proportions of global poverty.

Figure 1: Distribution of MPI severe poor and US$1.25 poor by country classifications and GNI per capita



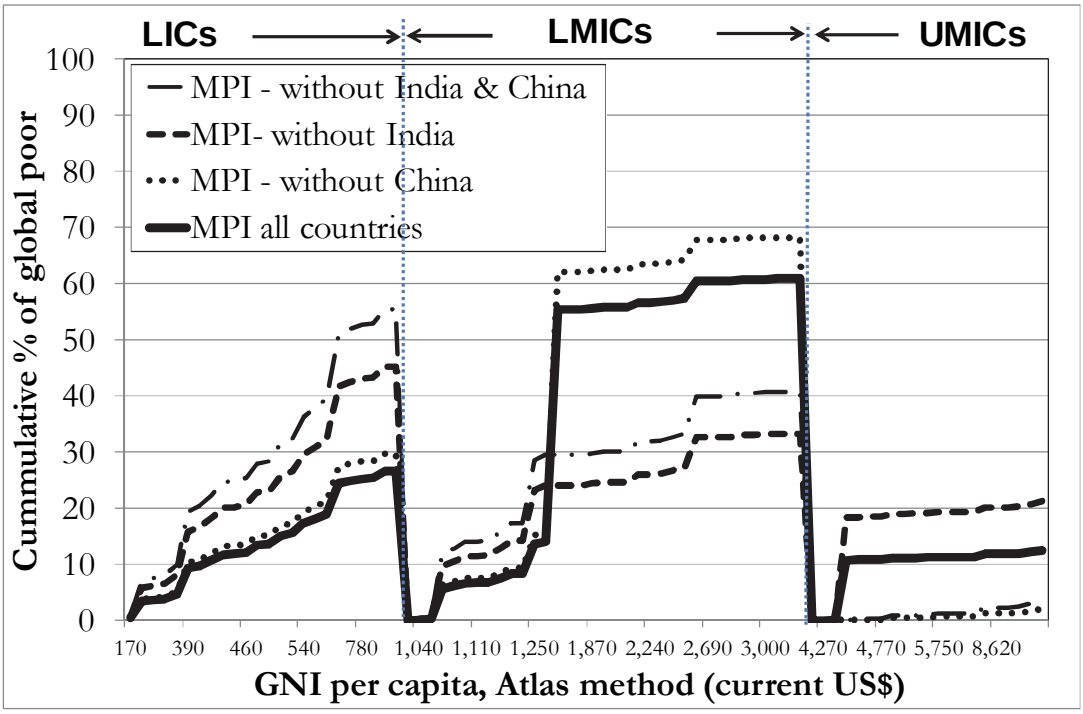
Source: Alkire, Roche, and Sumner (2013).

Figure 2: Distribution of MPI poor and US$2 poor by country classifications and GNI per capita



Source: Alkire, Roche, and Sumner (2013).

Figure 3: Sensitivity of the effect of India and China in the distribution of MPI poor by country classifications and GDP per capita



Source: Alkire, Roche, and Sumner (2013).

Analysis of the countries in each decile by GDP PPP pc (2005 constant US$) in 1990 and 2008/9 (poverty data 2008 and GDP pc PPP 2009) and the changing distribution of world poverty by deciles produces further insights (see Tables 7 and 8). Of course, this is a relative comparison in contrast to an absolute comparison of country thresholds. What is evident is that the vast majority of countries are in the same decile by GDP PPP pc in 1990 and in 2008/9. Analysis of the world's countries by deciles shows 25 countries moved deciles over the period. However, only two countries jumped more than one decile (China from D2 to D5 and India from D2 to D4).

In 1990 most of the world's poor were in the poorest two deciles of countries by GDP PPP pc. However, by 2008/9 that bulge in world poverty had moved away from the poorest two deciles to the slightly higher deciles, reflecting in particular the movement of India. However, it is the case that almost all of the world's poor are in the poorest five or six deciles (D1–D5 or D6 in Table 8) even in 2008/9, suggesting perhaps a relative poverty line for poor countries—meaning the poorest 50 per cent or 60 per cent of countries by GDP PPP pc are home to the world's poor (see later discussion on such a proposal).

In short, the shift in global poverty to MICs is largely due to a relatively small number of countries experiencing rapid growth in average incomes, notably almost 30 countries of which five populous countries where most of the world's poor live became better off in average per capita terms (by exchange rate conversion), attaining 'middle-income' classification, and thus the number of LICs fell from 63 in 2000 to 36 (and this could fall to 25 LICs in 2020 and as few as 16 LICs in 2030, see below).

Table 7: Estimates of the distribution of global poverty, and poverty incidence by GDP PPP pc deciles (decile 1 = poorest), US$1.25 and US$2, 1990 and 2008/9

	1990						2008/9					
	US$1.25 poverty line			US$2 poverty line			US$1.25 poverty line			US$2 poverty line		
	Millions	% global poor	Poverty incidence (% pop.)	Millions	% global poor	Poverty incidence (% pop.)	Millions	% global poor	Poverty incidence (% pop.)	Millions	% global poor	Poverty incidence (% pop.)
D10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D8	1.2	0.1	0.4	9.5	0.4	3.0	0.3	0.0	0.1	0.9	0.0	0.3
D7	38.2	2.1	8.2	76.3	2.8	16.3	3.3	0.3	0.9	13.4	0.6	3.9
D6	6.9	0.4	4.3	19.3	0.7	11.9	27.5	2.2	5.1	65.1	2.8	12.1
D5	24.3	1.4	17.5	51.0	1.9	36.8	189.7	15.4	12.2	432.2	18.3	27.8
D4	127.0	7.1	33.4	224.1	8.3	58.9	502.7	40.7	30.9	1,009.8	42.8	62.1
D3	150.6	8.4	47.8	217.5	8.1	69.1	174.7	14.2	30.9	322.0	13.7	56.9
D2	1,240.0	69.0	56.6	1,819.5	67.7	83.1	188.6	15.3	41.9	301.7	12.8	67.1
D1	209.3	11.6	62.4	271.1	10.1	80.9	146.9	11.9	47.0	212.3	9.0	67.9
Total	1,804.6	100.0	22.8	2,703.6	100.0	65.0	1,233.8	100.0	22.8	2,357.5	100.0	43.6

Source: data processed from World Bank (2012).

Table 8: Relative position of countries by GDP PPP pc decile, 1990 and 2009 (decile 1 = poorest)

	1990										
		D10	D9	D8	D7	D6	D5	D4	D3	D2	D1
2009	D10	14	3	0	0	0	0	0	0	0	0
	D9	3	11	3	0	0	0	0	1	0	0
	D8	0	3	12	2	0	0	0	0	0	0
	D7	0	0	1	10	5	0	0	0	0	0
	D6	0	0	1	4	6	5	0	0	0	0
	D5	0	0	0	1	4	9	3	0	1	0
	D4	0	0	0	0	0	3	9	4	1	0
	D3	0	0	0	0	0	0	5	8	3	0
	D2	0	0	0	0	0	0	0	2	7	6
	D1	0	0	0	0	0	0	0	0	5	10

Source: data processed from World Bank (2011) and World Bank (2012).

3 Are the income country thresholds moribund?

3.1 The thresholds

The LIC/MIC thresholds are based on GNI per capita (exchange rate conversion).[8] The World Bank has recently opened a review of the thresholds (Badee 2012). One could argue that thresholds are worthy of a substantial review, particularly because (i) the detailed methodology for original threshold setting has never been published;[9] (ii) some 40–50 years of new data are available since the thresholds were originally established; (iii) there are questions over whether 'international inflation' ought now to include China and other 'emerging economies' in its calculation, and indeed whether the use of 'international inflation' rates for the world's richest countries is an appropriate way to assess the LIC/MIC thresholds over time for the world's poorer countries, which may have had inflation rates above the 'international inflation' rate; (iv) whether the graduation of countries reflect higher per capita income in PPP terms or simply in exchange rate conversion; and (v) if the threshold should be fixed in real terms over time or linked to world GNI or GDP per capita (by Atlas or PPP).

The shift in the distribution of global poverty raises various questions about the thresholds themselves not least because the MIC group of 100 countries has considerable diversity. The LMIC and UMIC groups provide something of a split at US$4000 pc. However, within the group there are clearly other forms of differentiation with regard to ODA type criteria: for example, 19 MICs are fragile states (in the OECD DAC list) and 44 are 'non-convergers' with OECD average incomes (OECD 2012). Others are 'emerging' powers—meaning G20 members—such as India and Indonesia, who have limited need for ODA per se but still have substantial poor populations.

Why even have thresholds or country categories? Tezanos and Sumner (2013) outline two related reasons as follows: (i) *analytical reasons*, country classifications simplify a complex and diverse world into relatively homogeneous groups of countries that share some distinct features. From the point of view of aid agencies this means identification of specific development-related problems that ODA could address; and (ii) for *operational reasons*, country classifications serve a purpose for multilateral

8 The World Bank's thresholds are discussed in-depth in Sumner (2012a). See also Nielsen (2012). 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). In general there is a close correlation between GNI per capita by Atlas and PPP (see Sumner 2012). Although almost all of the new MICs since 2000 are better off in terms of GNI per capita (exchange rate conversion) compared to 1990 (or they wouldn't have crossed the LIC to MIC threshold), there are a very small number of countries (including Cameroon, Côte d'Ivoire, and Zambia), who although having higher GNI per capita, by GDP PPP per capita terms they were barely better off, or in some cases worse off. Further, some but not all of the 'transition' economies in the new MIC group, such as Georgia and Ukraine, are not better off in PPP per capita terms despite graduating by Atlas terms. However, for such countries, unreliable GNI per capita data for 1990 may be an issue in addition to questions related to PPPs.

9 Although a document that does have details is identifiable by its World Bank document number, see discussion in Sumner (2012).

and bilateral aid agencies in terms of resource allocations and differentiated policies towards different countries.[10]

One could ask the question: are the income thresholds a meaningful way of dividing the world into four groups of countries, in relative or absolute terms? On the former, the current thresholds for LIC, LMIC, UMIC, and HIC (high-income country) are somewhat similar to the quartile boundaries if one splits the world's countries with the necessary data into four equal groups. For example, in the 2011 classification, the threshold for LICs (<US$1005 GNI per capita in 2009) is reasonably close to the threshold for the bottom quartile (<US$1,180); the threshold for LMICs (US$1006–US$3,975) corresponds with quartile two (US$1,181–US$3,850); and the threshold for UMICs (US$3,976–US$12,275) corresponds with quartile three (US$3,851–US$10,120) (see Table 9).

Table 9: Country thresholds and quartile data, 1990 and 2009

	1990 Thresholds (US$ pc, Atlas)	Quartiles (US$ pc, Atlas)	2009 Thresholds (US$ pc, Atlas)	Quartiles (US$ pc, Atlas)
HIC or Q4	> 7,621+	7330–75810	> 12,276	> US$10,120
UMIC or Q3	2,466–7,620	1740–7260	3,976–12,275	3,851–10,120
LMIC or Q2	611–2,465	550–1720	1006–3975	1181–3850
LIC or Q1	<=610	< 540	<=1005	< 1,180

Source: Data processed from WDI (2012).

Are the current thresholds entirely comparable with the thresholds in 1990? This is a difficult question to answer. Whether 'international inflation' is a meaningful way to update the thresholds is open to discussion. To assess the comparability fully one would want to assess PPPs, although this too is contentious (see Deaton 2010; 2011; Deaton and Heston 2010). One way of looking at the issue is to compare, over time, changes by country group averages. If one considers GDP per capita measures (see Table 10), one finds that the 'average' for the LIC and MIC country groups is approximately the same as in 1990 by average GDP pc/day PPP (constant 2005 international US$). This comparison is interesting as the countries in each grouping have changed substantially, and yet the group average is (reasonably) comparable (and the degree of dispersion within country groups is not high).

An alternative is to make an assessment compared to world average GNI per capita as Nielsen (2012: 13) does. This shows that the low-income threshold fell from 15 to 11 per cent of average world income between 1990 and 2009. However, it is not immediately evident whether one would want these thresholds to move in tandem with global GNI per capita or not.

Table 10: Estimates of average GDP pc/day PPP, constant 2005 intl US$, pop. unweighted, LIC and MIC groups, 1990 vs. 2009

	1990	2009
LICs	3.2	2.8
MICs	17.1	17.7

Source: Processed from World Bank (2011).

10 See Tezanos and Sumner (2013) for a classification using cluster analysis.

One can consider other economic indicators of LICs and MICs in each time period.[11] It is not, though, clear how to interpret these, as the LIC group average reflects those countries 'left behind'. For example, comparing 1990 and 2009, the average for the LIC group saw little change in forex reserves but significant increases in aid dependency, primary export concentration, and weaker domestic savings; all of which likely reflects the LICs 'left behind' being structurally poorer LICs than those which saw average incomes rise over the period. Conversely, the LMIC group average was significantly better off by forex, and had lower aid dependency and lower primary export dependency.

3.2 Do the income categories of LICs and LMICs reflect absolute and relative 'poor' countries?

Seers (1963) provided the seminal discussion of developed country characteristics, and their divergence from the characteristics of developing countries. On this basis he could justify calling the developed, or industrialized, countries 'a special case' of 'a few countries with highly unusual, not to say peculiar, characteristics' (ibid.: 80). Seers (ibid.: 81–83) identified the characteristic features of the 'special case' or advanced economies in 'note form' including, for example, factors of production (e.g., literacy and the mobility of labour); sectors of the economy (e.g., manufacturing much larger than either agriculture or mining); public finance (e.g., reliance on direct taxes); households (e.g., very few below subsistence level and a moderately equal distribution of income); savings and investment (e.g., well-developed financial intermediaries); and 'dynamic influences' (e.g., slow population growth and high urbanization). How do LICs, LMICs and UMICs compare to such indicators? Table 11 outlines the data as per availability and reasonable country coverage.

In absolute terms, the group averages for LMICs suggest average per capita PPP income at almost five times the *higher* international poverty line of US$2 per day. In relative terms, the average for the LMIC group is considerably higher than the average income of the LIC group which, importantly, is barely above the higher international poverty line. Average per capita income in the LMIC group is typically three times the level of LICs and, notably, GDP per capita by PPP is approaching US$10 per person per day.

Overall, as noted previously, levels of extreme poverty as a percentage of population are lower on average in the LMIC group compared to the LIC group, although still surprisingly high in LMICs. For comparison, data for fragile and conflict-affected states (FCAS) and for LDCs are also presented in Table 11 below. This discussion is—evidently—overly focused on economic development. One could also pursue further dimensions of development such as governance and sustainability, among others.[12]

By considering the kind of structural indicators Seers identified in the *Limitations of the Special Case* (Seers 1963) one again finds that LMICs are unequivocally better off than LICs. Indeed, it might be argued that LMICs are not 'poor' countries by the LMIC group averages, with an aid/GNI of 1 per cent GDP, and an aid/gross capital

11 See discussion in Sumner (2012b).

12 See alternative clustering by Tezanos and Sumner (2013).

formation of just 3.5 per cent; compared to LICs with an aid/GNI of 12.6 per cent, and an aid/gross capital formation of 53.1 per cent. However, some caution is again required, as the degree of dispersion is significant in the country groups.

Indicators of GDP in agriculture, savings, export dependency on agriculture, and urbanization suggest that the LMIC group is, in general, qualitatively different to the LIC group. For example, GDP in agriculture is drastically lower in the LMIC group compared to the LIC group, and urbanization much higher (almost 50 per cent when India is removed). Overall, it is evident that LMICs have higher standards of living than LICs, and are far less aid dependent. The average, population weighted GNI per capita—by Atlas or PPP—in LMICs is three times that of LICs. However, it is worth remembering that the LMIC group average for GDP per capita PPP is still only 10 per cent of the per capita PPP income of OECD HICs, and in LICs just 3 per cent (see Table 11).

3.3 When might addressing MIC poverty be within domestic financial capacities?

One question arising is whether, or to what extent, economic growth in MICs will address poverty (i.e., poverty in MICs is a 'transitory' phenomenon). Another question is whether, or to what extent, poverty in MICs is currently or will be in the near future, within domestic financial capacity (i.e., poverty in MICs is 'nationalizing').

The chronic poor in middle-income countries could be just as disconnected from a country's growth due to spatial inequality or remoteness. For example, two-thirds of India's poor live in states within India that would be LICs applying the country thresholds.[13] The poor may also be relatively voiceless in domestic governance structures and potentially discriminated against in public services and public spending allocations regionally. And intra-country migration may be hindered or constrained by cost and administrative regulations.

Estimates below suggest the proportion of the world's poor in MICs could remain high in 2020. However, the projected total poverty gap is likely to fall to levels that are domestically affordable in principle. What exactly constitutes 'domestically affordable in principle' is contentious of course. One might suggest this is when the total poverty gap is within the range of 1–2 per cent of GDP based on the crude logic that a number of Latin American countries such as Brazil, Mexico, and Chile have mobilized those kind of levels for conditional cash transfers in recent years (Soares et al. (2011).[14]

13 See, for data, Sumner (2012b).

14 An alternative logic might be that data from WDI shows the average for military spending is, respectively, 1.6 per cent and 2.2 per cent in the LIC and LMIC groupings (estimated from data in World Bank 2011).

Table 11: Economic indicators by country groups, 2009

	LICs	LMICs	LMICs minus India	Fragile states (OECD list)	LDCs
Economic indicators by country groupings, 2009 (population weighted)					
GNI per capita/day (Atlas, current US$)	1.3	3.9	4.6	2.7	5.8
GDP pc/day (PPP, 2005 constant US$)	2.9	8.5	8.8	4.7	3.5
Poverty (% population, US$1.25, 2008)	48.5	30.2	23.4	40.3	46.4
Net ODA as % of GNI*	12.6	1.0	1.8	7.1	11.1
Net ODA/gross capital formation*	53.1	3.5	6.3	32.8	41.2
GDP in agriculture (%)	30.8	17.3	16.8	20.2	26.6
Gross domestic savings as % GDP	9.1	24.4	17.3	8.0	10.0
Agricultural raw materials as % exports*	9.7	1.9	2.6	3.8	4.4
Ores and metal as % exports*	7.4	5.9	5.5	2.0	5.4
Economic indicators as % OECD HICs, 2009 (population weighted)					
GNI per capita/day (Atlas, current US$)	1.2	3.7	4.3	2.6	5.5
GDP pc/day (PPP, const. US$)	3.2	9.5	9.8	5.3	4.0
GDP in agriculture (%)	2,008.9	1,127.9	1,095.5	1,361.6	1,796.7
Gross domestic savings as % GDP	50.8	136.3	96.6	43.1	53.7
Agricultural raw materials as % exports*	646.7	126.7	173.3	261.0	295.6
Ores and metal as % exports*	205.6	163.9	152.8	132.6	366.8

Note:*a high degree of dispersion within country groupings suggests some caution is required in interpretation of averages here. Further, some indicators have weaker coverage for Fragile States and LDCs—see Sumner (2012b) for data coverage.

Source: adapted from data in Sumner (2013) based on data processed from WDI (World Bank 2011)

However, constraints may remain and there are significant questions over economic growth patterns, and differing state and sub-national state capacities and capabilities, and further, the constraints of domestic political economy may mean support for redistributive policies is difficult to mobilize and/or maintain particularly so among the emerging but largely insecure new 'middle classes', many of whom are barely out of poverty themselves.[15]

One way to explore the question is to estimate poverty in the future by different scenarios in order to assess if poverty in MICs will be easily addressed by growth in those countries which are currently MICs. This can be done by drawing upon approaches to projections from Moss and Leo (2011) and Karver et al. (2012), the latter of which estimate poverty levels for a range of indicators in 2030. The approach is to generate three different growth scenarios (which goes some way to recognizing the range of possibilities).[16]

An optimistic scenario assumes that between 2009 and 2020, average incomes will rise at the average annual growth rate of the Gross Domestic Product PPP per capita data in the IMF's (2012) World Economic Outlook (WEO), for the period 2009–16 (2011–16 data are projections). A moderate growth scenario assumes that from 2009 average incomes will grow at an average annual growth rate of the Gross Domestic Product (PPP) per capita for the period 2009–16, minus 1 per cent on the basis that this is the average error historically observed in IMF growth estimates/projections (as per the empirical analysis of Aldenhoff 2007). A pessimistic growth scenario assumes that, from 2009, average incomes will grow at *half* of the average annual growth rate of the Gross Domestic Product (PPP) per capita for the period 2009–16.

These growth scenarios then generate, for each country, GDP PPP and GNI per capita forecasts for 2020. The former, GDP per capita PPP, can be used to estimate poverty in 2020 (although an assumption of static inequality must be made), and the latter, GNI per capita, can be used to estimate country classifications in 2020. And by taking the poverty and distribution survey data from PovcalNet (World Bank 2012), and the 2020 population estimates from the UN (medium variant), it is possible to make an estimate of the number of poor people in 2020 in each country, as well as the poverty gap as a proportion of GDP (PPPUS$ constant 2005 international US$).

Two essential caveats must be noted: first, such projections are *an inherently imprecise exercise* that merely illustrates possible future scenarios (see also discussion in Edward and Sumner 2013; Kanbur and Sumner 2011; Karver et al. 2012; and Kenny and Williams, 2001). Second, the approach likely overstates poverty reduction in fast growing middle-income countries, because it assumes static inequality in countries that are rapidly growing. Table 12 shows that only in two of the ten MICs with the largest current contributions to global poverty, did the share of the poorest four deciles actually rise notably over the last two decades (these were Pakistan and Brazil, and two countries do not have two data points).

15 See discussion in Sumner (2012b, 2012c)

16 For a systematic set of projections across scenarios and assumptions see Edward and Sumner (2013).

Table 12: Changes in share of GNI to rich/middle/poorest in ten MICs with largest contribution to global poverty, 1990 vs. 2008 (all MICs in later period)

	Richest decile (D10)		Middle five deciles (D5–D9)		Poorest four deciles (D1–D4)	
	1990	2008	1990	2008	1990	2008
India	27.0	28.3	51.6	50.9	21.4	20.9
China	25.3	32.0	54.5	53.2	20.2	14.8
Nigeria	31.5	38.2	55.7	49.1	12.8	12.7
Indonesia	24.7	28.5	52.7	51.1	22.6	20.4
Pakistan	27.1	26.1	52.6	51.4	20.3	22.5
Philippines	34.7	33.6	50.1	51.0	15.2	15.4
Vietnam	29.0	28.2	51.8	52.9	19.2	18.9
Brazil	48.4	42.9	44.2	47.1	7.5	10.0
Angola	n/a	44.7	n/a	47.6	n/a	7.7
Sudan	n/a	26.7	n/a	54.8	n/a	18.5

Note: all data are derived from consumption surveys, with exception of China and Brazil which are derived from income surveys.

Source: data processed from PovcalNet (World Bank 2012).

Even noting that such estimates likely understate future poverty in MICs, the data suggest that US$1.25 and US$2 poverty in those countries that are currently MICs will remain half of all world poverty in 2020 (see Table 13). And given that some countries that are currently LICs will move into the LMIC category, this suggests the structure of world poverty could remain split between LICs and MICs with up to two-thirds of global poverty still in MICs in 2020. The projections for 2020 show that the number of LICs in 2020 could be in the range of 24 to 30 (see Table 14) (and potentially as low as 16 in 2030, see Sumner, 2012b).

The projections suggest the cost to end poverty will be minimal for those countries that are currently LMICs and UMICs as a percentage of GDP by 2020 (see Table 13). In those countries that are currently LMICs the cost of ending US$1.25 poverty is estimated to be 0.2 per cent to 0.5 per cent of GDP in 2020, and the cost of ending US$2 poverty in 2020 is estimated to be 0.8 per cent to 2.3 per cent of GDP.

Table 13: Estimates of the global distribution of US$1.25 and US$2 poverty by country income groups and total poverty gap (% GDP PPP 2005 US$) in 2008/9 and 2020 (e = estimate)

	Global distribution of poverty (% world poverty)				Poverty gap as % GDP			
	US$1.25		US$2		US$1.25		US$2	
	2008/9	2020e	2008/9	2020e	2008/9	2020e	2008/9	2020e
Low-income (current group)	25.7	45.8 - 51.8	20.6	31.6 - 42.5	8.4	2.8 - 6.5	25.4	9.3 - 19.7
Lower middle-income (current group)	57.7	42.6 - 49.6	59.2	51.9 - 60.0	1.3	0.2 - 0.5	5.5	0.8 - 2.3
Upper middle-income (current group)	16.7	3.6 - 5.7	20.2	5.7 - 8.3	0.2	0.0 - 0.0	0.6	0.0 - 0.1
Estimated remaining LICs in 2020	--	44.8 - 46.9	--	32.5 - 33.8	--	4.9 - 6.2	--	14.9 - 19.0

Sources: adapted from data in Sumner (2013) based on IMF (2012), World Bank (2012), and no change in inequality

However, for the LICs, the estimated cost in those countries that are currently LICs of ending US$1.25 poverty would be 2.8 per cent to 6.5 per cent of GDP and for US$2 poverty would be 9.3 per cent to 19.7 per cent of GDP in 2020. This suggests that for a relatively small number of countries (24–30 LICs, see Table 14), external support for poverty reduction will remain essential in 2020.

In short, at least half of the world's poor could live in the kinds of countries where the cost of ending US$1.25 poverty is domestically affordable in principle and two-thirds of the world's poor might live in countries where the cost of ending US$2 poverty is close to or actually domestically manageable by 2020 or shortly after.

However, there is considerable variance in the LMIC group that suggests some nuance is needed at least for the immediate future. In the LMICs, the group average for the cost of ending poverty (in 2008/9) is 1.3 per cent of GDP PPP for US$1.25 poverty and 5.5 per cent for US$2 poverty (compared to 8.4 per cent and 25.4 per cent respectively for LICs). However, seventeen MICs have a total poverty gap of greater than 1 per cent of GDP (in 2008/9) even for US$1.25 poverty (PPP US$, constant 2005 international US$), ranging up to 8–13 per cent in MICs such as Nigeria and Zambia (see Figure 4).

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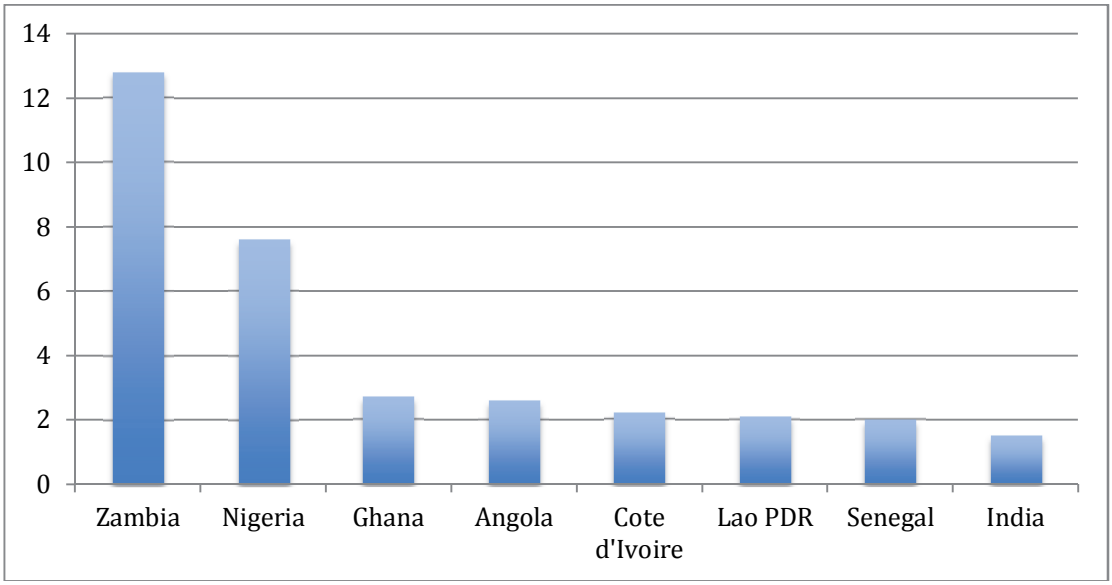
Table 14: Remaining LICs in 2020 by three growth scenarios (and static inequality)

Pessimistic scenario	Moderate scenario	Optimistic scenario
Bangladesh	Benin	Benin
Benin	Burkina Faso	Burkina Faso
Burkina Faso	Burundi	Burundi
Burundi	Central African Republic	Central African Republic
Cambodia	Chad	Chad
Central African Republic	Comoros	Comoros
Chad	Congo, Dem. Rep.	Congo, Dem. Rep.
Comoros	Ethiopia	Ethiopia
Congo, Dem. Rep.	Gambia, The	Gambia, The
Ethiopia	Guinea-Bissau	Guinea-Bissau
Gambia, The	Guinea	Guinea
Guinea-Bissau	Haiti	Haiti
Guinea	Kenya	Liberia
Haiti	Liberia	Madagascar
Kenya	Madagascar	Malawi
Kyrgyz Republic	Malawi	Mali
Liberia	Mali	Mozambique
Madagascar	Mozambique	Nepal
Malawi	Nepal	Niger
Mali	Niger	Rwanda
Mozambique	Rwanda	Sierra Leone
Nepal	Sierra Leone	Tanzania
Niger	Tajikistan	Togo
Rwanda	Tanzania	Uganda
Sierra Leone	Togo	
Tajikistan	Uganda	
Tanzania	Yemen, Rep.	
Togo		
Uganda		
Yemen, Rep.		

Note: see text for method.

Source: data processed from WDI (World Bank 2012) and WEO (IMF 2012).

Figure 4: Estimates for selected MICs with total poverty gap greater than 1 per cent GDP, 2008/9, descending order, US$1.25 poverty line (PPP US$, constant 2005 international US$)



Source: data processed from World Bank (2011; 2012).

4 Implications for OECD and donors

4.1 What are the (relatively simple) alternatives to income country groupings for aid donors?

If one accepts some clear link between global poverty and aid or development co-operation is desirable, three relatively simplistic options would be (i) applying the international poverty lines to average incomes of countries; (ii) use of the total poverty gap as a per cent of GDP, and (iii) the use of structural indicators as per the Seers list. From these three starting points one can construct either absolute threshold-based categories or categories relative to groups of countries.

Table 15 outlines such approaches in terms of absolute measures (threshold-based) and relative measures (relative to other countries) by absolute poverty and relative poverty *at country level* (and potential indicative levels for further investigation).

For example, in absolute terms (meaning thresholds) one might conceptualize 'poor' countries by: average incomes compared to the international poverty lines (US$1.25 and US$2 per capita per day); or the overall 'burden' of poverty, meaning the total poverty gap as a percentage of GDP, or structural indicators.

In contrast, one could also think of 'poor' countries in relative terms (relative to other countries). For example, in terms of: per capita income relative to per capita income in LICs (or LDCs or another grouping, such as the poorest 5 (or 6) deciles by GDP per capita where virtually all of the world's poor live; or overall levels of extreme poverty (per cent of population) compared to LICs; or various structural indicators (e.g. aid dependency, forex reserves, GDP in agriculture, or export dependency on primary sectors) relative to LICs; or such structural indicators relative to high-income countries (HICs) of the OECD.

Table 15: Conceptualising 'poor' countries: indicators and indicative levels

	Potential indicators	Typology of countries Absolutely poor countries	Relatively poor countries	Non-poor countries
Absolute measures (threshold based)	Average incomes compared to the international poverty lines (US$1.25 and US$2 per capita/day)	Average income in GDP PPP pc less than international poverty lines (either US$1.25 or US$2 per capita/day)	Average income in GDP PPP pc higher than international poverty lines but less than US$10/day (at which the risk of US$4 poverty drastically declines*) or US$13/day (the poverty line in USA**)	Average income above US$10 (at which the risk of US$4 poverty drastically declines*) or US$13/day (the poverty line in USA**)
	The overall 'burden' of poverty meaning the total poverty gap as a percentage of GDP (c.f. Kanbur and Mukherjee 2007)	Cost of ending poverty greater than 2% of GDP (which is average military spending in LICs and MICs)	Cost of ending poverty between 1–2% of GDP	Cost of ending poverty less than 1% of GDP
	Structural indicators (c.f. Seers 1963) (e.g. aid dependency, forex reserves, GDP in agriculture or export dependency on primary sectors)	Most or all of the following characteristics: Aid dependency above 10% of GNI; forex reserves of less than 3 months; more than 50% of GDP in agriculture; more than 50% of exports in primary sector	Most or all of the following characteristics: Aid dependency of 1–10% GNI; forex reserves of 3–6 months; 25–50% GDP in agriculture; 25–50% of exports in primary sector	Most or all of the following characteristics: Aid dependency below 1% of GNI; forex reserves of 6 months plus; less than 25% of GDP in agriculture; less than 25% of exports in primary sector
Relative measures (relative to other countries)	Per capita income relative to per capita income in LICs (or LDCs, FCAS or D1–D5 GDP pc PPP)	Per capita income less than average per capita income in current group of LICs (or other groups)	Per capita income less than average per capita income in current group of MICs	Per capita income comparable to OECD high-income countries
	Levels of extreme poverty (% of population) compared to LICs (or LDCs, FCAS or D1-D5 GDP pc PPP)	Levels of extreme poverty (% of population) more than average for current group of LICs (or other groups)	Levels of extreme poverty (% of population) more than average for current group of MICs	Levels of extreme poverty (% of population) comparable to OECD high-income countries
	Structural indicators (c.f. Seers	Structural indicators comparable to	Structural indicators comparable to	Structural indicators comparable

	1963) (e.g. aid dependency, forex reserves, GDP in agriculture or export dependency on primary sectors), relative to LICs (or LDCs, FCAS or D1–D5 GDP pc PPP)	current group of LICs (or other groups)	current group of MICs	to OECD high-income countries

Note:*source is López-Calva and Ortiz-Juarez (2011).**source is Ravallion (2010). FCAS = 45 Fragile and Conflict-Affected States of OECD (2011b); LDC = Least Developed Countries Group; *D1–D5* GDP pc PPP = poorest half of all countries by GDP pc PPP.

Source: author and those listed.

To explain further, taking the international poverty lines one might say there are:

- 'Absolute poor' countries or *very low-income countries* with an average income of less than US$1.25 per capita per day, and *moderately low-income countries* with an average income of less than US$2 or US$2.50 per capita per day;
- 'Relatively poor' countries: *lower middle-income countries* with an average income of less than US$5 per capita per day, and *upper middle-income countries* with an average income of less than US$13 per capita per day (which would be below the poverty line in the USA; see Ravallion 2009);
- 'Non-poor' or high-income countries: countries with an average income of more than US$13 per capita per day (which would be above the poverty line in the USA).

Alternatively, as previously noted, one could consider whether countries are 'poor' relative to the capacity to end poverty (see discussion in Kanbur and Mukherjee 2007), expressed as the cost of ending poverty as percentage of GDP as noted earlier. This then estimates the 'transfer' necessary as a percentage of GDP from the non-poor to the poor to end poverty. Using such an approach, absolute and relative poor countries might be estimated by a threshold—with absolute poor countries needing perhaps more than 2 per cent of GDP to close the poverty gap, and relative poor countries requiring 1–2 per cent for the reasons outlined earlier.

A variant of these approaches is Ravallion (2010) who has argued that most countries with an average per capita PPP income of over US$4,000 would require very small additional taxation to end poverty. Ravallion estimated the necessary marginal tax rates (MTRs) on the 'rich' (those earning more than US$13/day) in order to end poverty in each country. He argues that MTRs over 60 per cent would be prohibitive. Ravallion's data suggests that the MTRs necessary to end poverty are high in many of the 'new MICs' (in contrast, many 'old' MICs would require MTRs of under 10 per cent to end poverty). This is particularly due to large populations of poor relative to the number of 'rich' people in many new MICs.

4.2 How might aid donors engage with countries with substantial domestic resources (however that is defined)?

In general, development assistance to MICs or countries with substantial domestic resources may evolve considerably because ODA/resource transfer will be in demand less as domestic resources expand, if not now then over the next decade if economic growth continues. However, concessional loans will still be useful even if grants are not deemed appropriate in light of expanding domestic resources. One reaction would be for donors to simply disengage from MICs and there is evidence that this is currently happening. For example, the DFID withdrawal from India (in spite of working in low-income states within India), and South Africa and the European Commission's communication of 14 May 2012 to withdraw bilateral development co-operation programmes from 19 MICs that are either UMICs or account for more than 1 per cent of global GDP, which includes India and Indonesia.[17]

An alternative to the withdrawal of development co-operation would be a new kind of multilateralism on different terms that would not be even called 'aid' but either development

17 The remaining countries are: Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, the Maldives, Mexico, Panama, Peru, Thailand, Venezuela, and Uruguay.

co-operation or even 'global public policy', meaning a post-ODA type of development co-operation (Severino and Ray 2009; 2010).

Drawing upon Kanbur and Sumner (2012), it is possible to argue that one could construct an approach based on three foundations. First, OECD aid donors' negotiation of formal agreements on policy coherence with MICs and MICs' own policy coherence with LICs: the continuing dominant position of OECD countries in global trade and investment (although this is changing) and unfavourable development policies suggests traditional donors' most important engagement with MICs or countries with substantial domestic resources lies in policy coherence in areas such as trade policy, to give one example.

Second, OECD aid donors' support for inclusive growth by working in low-income provinces within MICs: in MICs or countries with substantial domestic resources there may be surprisingly large 'pockets of poverty' in otherwise prosperous countries—related to spatial and group inequalities in particular (see Sumner 2012a)—and OECD donors could work with national and sub-national governments and local civil society organizations (CSOs) on inclusive policy processes such as budget allocations, spatial patterns of economic growth to improve prospects for more inclusive development. How MIC central governments might perceive this is open to question—it could be seen as overly interventionist in domestic politics. An alternative would be the application of country thresholds to sub-national units. Thus donors would work in low-income provinces of MICs.

Third, co-financing global and regional public goods, such as infrastructure, where there are high up-front costs but long-term developmental benefits: in MICs or countries with substantial domestic resources, there will be growth spillovers (positive and negative) in neighbouring countries, and LICs and development co-operation can seek to focus on such spillovers via co-financed global and regional public goods, and this could extend to considerable banks of knowledge on poverty and development and the transfer/sharing of research between MICs and LICs (and potentially vice-versa).

OECD policy coherence with MICs and leveraging MICs' own policy coherence with LICs

'Policy coherence' is likely to be of considerable significance to MICs in areas of trade and migration, for example. As ODA becomes less and less significant over time as a proportion of GDP, such policies may be increasingly in demand or demanded by MICs.

The concept of 'policy coherence' in the development-related policies of traditional donors is of course not new—it has been discussed for some considerable time (see, for example, Forster and Stokke 1999). Since 2003 the Center for Global Development (CGD) in Washington has published the Commitment to Development Index (CDI) which scores the performance of developed countries in seven key areas—aid, trade, investment, migration, environment, security, and technology—awarding points for policies and actions which support poor countries' developmental efforts, broadly defined.[18]
Policy coherence is typically defined as developed or industrialized countries making their own national policies more consistent with their stated objectives to promote growth and reduce poverty around the world (Kapstein 2005: 120). Often the financial benefits are highly significant. For example, Berthelemy et al. (2009) found that for countries with a per capita

18 Scores are also adjusted in accordance with the size and characteristics of the country in question.

income of less than US$7,300 (PPP 2000 prices), a tightening of migration policy is equivalent to a reduction of the level of aid by about 24 per cent.

According to Picciotto (2005: 314), examples of potential policy incoherence, whereby developing countries are negatively affected by the policies of rich countries, include: EU farming subsidies and the Common Agricultural Policy (CAP); EU fishing subsidies; tariffs on industrial goods, such as steel and textiles, imposed by OECD countries; and patents and the protection of intellectual property rights. In short, a policy coherence analytical framework can also be used to highlight the contradictions of existing development co-operation. For example, there is little point in promoting aid for trade or trade facilitation schemes if the international structural constraints are such that aid recipient countries are disadvantaged by unfair market access terms.

There is a tension that MICs may not practice such policy coherence with LICs themselves, so perhaps policy coherence from OECD countries would be negotiable on MIC policy coherence with LICs. Further, this could potentially open the door to OECD donors and new donors from emerging MICs, working collaboratively on development co-operation with LICs. Such ways of working would all entail much more systematic working of OECD donors beyond aid ministries and perhaps even reorganization of aid ministries into cross-governmental bodies in OECD countries of some kind. Such changes might be more likely in countries with small aid ministries or units rather than donors with large, established aid ministries, and the use of the CGD Commitment to Development Index tool may help in providing a list of policy coherence domains that are quantifiable to negotiate around and to assess progress in achieving better policy coherence.

Supporting inclusive growth by working in low-income regions within MICs and with low-income groups within MICs

'Inclusive growth' is likely to be an important political/electoral issue for MICs in terms of spatial and group inequalities. Economic growth can be accompanied by rising inequality or the distribution of benefits skewed away from the poorest, and the poor may remain in low-income provinces within MICs or low-income groups within MICs.

'Inclusive growth' emerged as a concept from earlier discussions on 'pro-poor growth' which in turn emerged as a synthesis of 'growth with redistribution', 'broad-based growth' and 'growth with equity' (McKinley 2009; 2010). Pro-poor growth was generally defined as poverty-reducing growth and/or inequality-reducing growth, i.e. by outcomes (for overview and indicative references, see McKay and Sumner 2008). Inclusive growth, by contrast, is defined by the process of inclusion or participation in growth processes via employment, as well as by poverty reduction and/or inequality reduction outcomes (Rauniyar and Kanbur 2010).

Interest in such policies may be strong and growing among MIC civil society (as well as MIC governments) as they seek to influence their governments. Working with advocacy groups and civil society actors to influence policy on matters such as public spending priorities and regional planning and regional resource allocation, for example, is one avenue through which external development actors could pursue broader aims of poverty reduction. There is little point in pretending that this does not cross over into the political domain—indeed, this constitutes an explicitly political approach infused with subjective values, one could argue. Thus, how this is pursued by OECD donors will be important to how MIC governments

perceive such development co-operation. For some in MICs, such policies could be seen as unwelcome interference in domestic distribution questions (read domestic politics). Alternatively, donors working in sub-national low-income regions within MICs or low-income groups might be (more) welcome if it was accompanied with policy coherence commitments from OECD donors.

On the pursuit of this approach by donors, there is a considerable body of literature on civil society in developing countries to draw upon (see, for example, Frantz 1987; Hadenius and Uggla 1996; Howell and Pearce 2000; Robinson 1995), as well as the 'drivers of change' literature and case studies (for discussion, see Moore 2004). Such efforts of donors to support CSOs are not new. For example, strengthening and increasing the visibility of civil society in policy-making processes was a core element of the Poverty Reduction Strategy Papers (Molenaers and Renard 2002). Howell (2000: 7) outlines three broad approaches that donors have traditionally adopted in order to support and develop civil society: institution and capacity building; partnerships and coalitions; and financial sustainability. In practice, she explains, these approaches are not clear-cut and tend to overlap. The third donor approach outlined by Howell—(ensuring) financial sustainability—highlights the importance of the material bases of CSOs and other organizations. The performance and impact of many, if not most, CSOs tend to be constrained by insufficient resources (e.g., money and time).

How MIC governments view such development co-operation will be the question (not least any significant increase in foreign funding of CSOs). Again, such an approach entails a beyond-aid ministries approach for OECD donors and the long-term cultivation of stronger relationships with civil society in MICs who may or may not share the views of donors on specific policy changes to be sought. However, this is not to say inclusive growth is solely about working with CSOs. There could be a clear rationale for donors to work on inclusive growth in MICs with a focus on low-income provinces, and around structural change which entails connection of those areas to the broader growth process in that country, by a sub-national focus on the lagging provinces and with links to the earlier discussion. Potentially this could mean a focus on the aspects of public spending that are more long-term capital investments because MIC governments may face constraints due to large up-front costs or political economy constraints of public spending in certain regions.

Co-financing global and regional public goods, notably capital expenditures such as infrastructure, due to high up-front costs versus long-term benefits

Global public goods (GPGs) and regional public goods are particularly important with respect to MICs because MICs themselves constitute actors in the supply of global and regional public goods. One can therefore conceptualize GPGs in two ways: as a policy framework for engagement with MICs and as fundamentally contingent on the actions and co-operation of MICs themselves.

The main rationale behind providing GPGs is to regulate or compensate for the negative effects of global public 'bads', or 'products' which generate negative externalities across borders and reduce utility (Coyne and Ryan 2008: 5), such as air pollution, civil war and violent conflict, disease, HIV/AIDS, international terrorism, and financial shocks. According to Kaul et al. (1999: 2–3), GPGs must meet two key criteria. First, their benefits must have strong 'publicness' (i.e., they are characterised by non-rivalry in consumption and non-excludability). And second, their benefits must be at least quasi-universal in terms of countries, people, and generations. Meanwhile, Ferroni and Mody (2002: 1) argue that

international public goods are primarily about three things: the rules that apply across borders; the institutions that supervise and enforce these rules; and the benefits that accrue without distinctions between countries, i.e., the (quasi) universality criterion noted above.

GPGs are likely to be increasingly important in a world of collective action problems such as climate change and financial crises. Further, infrastructure (e.g., roads or airports) may be an important area to link sub-national low-income areas within MICs to wider growth processes. However, infrastructure can have high up-front costs versus long-term benefits, suggesting donors could have a co-financing role that would also support the connecting of growth to LICs within MICs and potentially be redistributive if low-income groups are in low-income areas. Complementary to the previous discussion, there is, of course, a big difference between groups trapped in poverty due to ethnic discrimination or social exclusion, working with whom donors may be seen to be taking on a political endeavour, versus working with groups trapped in poverty for spatial reasons, working with whom may simply mean building roads and bridges (which could be co-financed by donors and MIC governments).

Traditionally, donor assistance has typically done less to supply GPGs (Barrett 2002). However, te Velde et al. (2002) find that donors with large aid budgets tend to be those that also have a larger share of GPGs in their aid portfolios, too. Kaul et al. (1999: 450–1) argue that GPGs tend to be underprovided due to three 'gaps' within public policy-making processes: a jurisdictional gap (i.e., the discrepancy between the global boundaries of major policy concerns and the national boundaries of policy-making); a participation gap (i.e., we live in a 'multi-actor' world but international co-operation remains primarily intergovernmental); and an incentive gap (i.e., there is not a strong enough case for countries to address their international spillovers or to co-operate on a GPG agenda). The (potential) supply of GPGs also takes place within an 'anarchic legal setting', making agreements at the international level difficult to thrash out (Barrett 2002: 48). Further, the successful supply of GPGs may rest on the resolution of conflicting interests. Combating climate change is arguably one of the most widely discussed examples of a GPG, but past summits and conferences (e.g., Kyoto) have only seen limited success.

Resonating with the previous discussion too, the expansion of global and/or regional public goods as development co-operation will likely mean OECD donors working well beyond aid ministries and the cultivation in particular of relationships with MIC governments and international fora, such as the UN, and notably, the G20. This, again, could possibly extend into joint development co-operation programmes between OECD donors and new MIC donors in LICs. One could imagine the extension of development co-operation into regional public goods that were co-financed between OECD donors and MIC governments which would lay the ground for broader initiatives regionally in terms of working in LICs together.

5 Conclusions

At the outset this paper noted two interpretations on the shift in global poverty towards middle-income countries: first, that country thresholds used to classify countries are moribund. Second, that global poverty is gradually in the process of nationalizing. These lead to a question for aid donors: what do aid donors do in countries with substantial domestic resources and large numbers of poor people?

On the first point, this paper has argued that the country income categories have limited usefulness in identifying countries where most of the world's poor live and thus for aid donors to focus on those categories runs the risk of divorcing aid from the bulk of world poverty. This is to assume aid ought to be linked to the world's poor. However, one could argue that poverty in middle-income countries is no longer an international concern. Indeed, this paper has also argued that many of the world's extreme poor may already live in countries where the total cost of ending extreme income is not prohibitively high as a percentage of GDP and, by 2020, even with fairly conservative estimates, most of world poverty may be in countries that do have the domestic financial resources to end at least extreme poverty. However, constraints remain relating to the heterogeneity of new MICs and their economic growth patterns, as well as differing administrative state capacities and constraints of domestic political economy in terms of the taxation base and support for redistributive policies among the emerging but largely insecure new 'middle classes' (many of whom are barely out of poverty themselves).

All of the above would suggest a redefining of categories to emphasize countries with large poverty gaps relative to GDP amongst other indicators and an emerging, post-ODA relationship between OECD aid donors and countries with substantial domestic resources (whether they are labelled middle-income countries or categorized in some other way) in order to address those points noted above related to the non-resource 'bottlenecks' to ending poverty.

In sum, traditional donors may face a world where, for all but 15–25 countries, concessional lending and policy coherence is more in demand from the vast majority of developing countries than relatively small amounts of ODA (small relative to domestic GDP), where supporting inclusive growth could be increasingly important but a political tightrope; and where traditional donors could even consider co-financing of global or regional public goods with middle-income countries.

All of this may well imply some significant restructuring of OECD donor agencies at home in the domestic reorganization of aid ministries in OECD countries. The kind of administrative unit fit-for-pursuing engagement with MICs is unlikely to be large aid ministries with an existing portfolio of projects, programmes, and spending. Rather, one might imagine smaller, cross-governmental administrative units with unequivocal mandates across government, technical capacity, and staffed by those with 'soft skills', meaning strong political sensitivity. Such units may well be more fit-for-purpose to facilitate the shift from spending money on projects and sectors in MICs to cultivating quite new collaborative relationships that require careful negotiation of objectives, co-financing arrangements, policy coherence agreements between parties and working sub-nationally in MICs. Thus 'soft skills' and a premium on political sensitivity and negotiation would be the core skills rather than 'old school' project and programme planning, management, and evaluation, which will likely only matter in an ever decreasing number of aid dependent countries in the decades ahead.

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