The Bellagio Initiative

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Poverty in Middle-Income Countries

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What's changed?
In 1990, 93 per cent of the world's poor people lived in low-income countries (LICs). Now, more than 70 per cent – up to a billion of the world's poorest people or a 'new bottom billion' – live in middle-income countries (MICs) (and most of them in stable, non-fragile middle-income countries) (see Table). Furthermore, and contrary to earlier estimates that a third of the world's poor live in fragile and conflict-affected states (FCAS), based on data from the early 2000s, a 'ball-park' estimate (taking the broad definition of 43 countries from combining the Fragile States lists), is that in 2007 about 23 per cent of the poor lived in FCAS and these were split fairly evenly between fragile LICs and fragile MICs.

Why?
Many of the world's poor people live in countries that have got richer in average per capita terms and have been subsequently been reclassified as MICs. After rising considerably in the 1990s, the total number of LICs has fallen significantly since FY2000. According to the Atlas GNI per capita data and country classifications (for World Bank FY2011), over the last decade the number of LICs fell from 63 to just 35 countries in FY2011. Most of the world's poor people live in countries that have moved from low- to middle-income country status since 1999 when China graduated to MIC status – notably Pakistan (2008), India (2007), Nigeria (2008), and Indonesia (2003) (henceforth, with China, the PINCIs). China is now an Upper MIC as of July 2011. This concentration of the world's poor people in relatively few countries is a key part of the story. Although 28 countries have transitioned from LIC to MIC since 2000, about 60 per cent of the world's poor now live in just five populous new MIC countries – the PINCIs noted above. Indeed, of the top ten countries by contribution to global poverty, only four are LICs – Bangladesh, DRC, Tanzania and Ethiopia.

In sum, most of the world's poor do not live in countries classified by the World Bank as LICs and most of the world's poor do not live in FCAS.

So what?
The shift in the distribution of global poverty can be viewed in three possible ways. First, it could all be a sleight of hand – the world's poor still live in 'poor' countries, albeit slightly less poor than before. Second, it is business as usual because there are limits to domestic taxation on the rich and expanding middle classes in developing countries. Or third, this shift could mean that a fundamental reframing of global poverty is required, 'traditional aid' (resource transfer) is no longer relevant and global poverty is now about equity/inclusion/exclusion, advocacy coalitions and is 'beyond traditional aid' questions such as global public goods.

If we accept that the third view will increasingly be the case in years ahead and if external development actors want to reduce global poverty, they will need to work in MICs but with new objectives and policies and partnerships (or alternatively, focus on LICs alone and the quarter of the world's poor who live in LICs). Working in MICs will inevitably lead to more political tension – on spending priorities, political voice, policy coherence; this will mean that external development actors will need more political analysis.

The analysis of the data that world poverty is turning from an international to a national distribution problem, means that governance and domestic taxation and redistribution policies are becoming more important than ODA (and 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 probably be more concerned with 'policy coherence' from traditional donors. MICs may be more concerned with designing favourable and coherent development policies on remittances and migration, trade preferences, and climate negotiations and financing, as well as tax havens. Further, it is unlikely that taxpayers in donor countries will be comfortable with resource transfers to countries that have substantial domestic resources.

At the same time, external development actors are likely to be increasingly concerned about equity and governance issues – and drivers of progressive change. 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. Poor people 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 towards supporting inclusive policy processes and the media, social movements, advocacy groups and civil society organisations, 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 (domestic) 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.

What can external development actors do in the short term?

In the meantime continued donor relationships with MICs are justified on the grounds of: high levels of exclusion and inequality; domestic constraints (e.g. inadequate tax systems); need for technical expertise; and international and regional public goods. However, external development actors may lack financial leverage in MICs, so will need to find alternative means of supporting poverty reduction. This might involve engaging with civil society and NGOs. Such engagement is likely to be highly politically sensitive and donors will need to tread carefully, employing detailed understanding of political and economic conditions. External development actors will increasingly need to recognise that MICs have moved from being passive recipients of aid to being active participants in the international architecture. Indeed, many of the MICs may well be foreign aid donors themselves. The changing dynamic entails a need to rethink development assistance from a focus on poor countries to poor people and tailored to different types of context.

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The Future of Philanthropy and Development in the Pursuit of Human Wellbeing

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