A narrative of inequality

The new bottom billion

The new bottom billion has reshaped the demographics of poverty. This calls for a renewed development narrative, one that focuses on inequality and shared responsibility.

There is a new 'bottom billion', recent research shows, consisting of 960 million poor people or 72% of the world's poor. The new 'bottom billion' live not in poor countries but in middle-income countries. This is a dramatic change from just two decades ago, when 93% of poor people lived in low-income countries. The rise of average per capita income in these new middle-income countries has occurred at the same time as large majorities of the populations of these countries still live below the poverty line.

A new development narrative

A new development narrative will be needed to address these changes. A start might be made in the run-up to the 2011 Forum on Aid Effectiveness in South Korea. A new narrative might eventually result in a new development consensus at the 2013 UN Special Session, where a post-Millennium Development Goals (MDG) framework could be laid out.

Donors usually focus on the poorest countries. Many of these countries are no longer 'officially' poor according to World Bank classifications. Since 2000, 27 countries have 'graduated' to middle income, including India, Indonesia, Pakistan and Nigeria. China was upgraded shortly before the millennium.

China and India accounted for 50% of the world's poor (about 663 million people) in 2007-08, down from 68% in 1990. However, this story is not just about India and China having been 'upgraded' to middle-income country status. If one removes China and India from the list, the proportion of the world's poor in middle-income countries has still tripled.

They are found in countries such as Nigeria, Pakistan and Indonesia, but also in some surprising middle-income countries such as Sudan, Angola and Cameroon. There is a concentration of poor people – just over 850 million – in five middle-income countries in particular (see box on concentration of poor people). These are Pakistan, India, China, Nigeria and Indonesia, also known by the acronym the PICNIC group.

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summary

- There is a 'new bottom billion', consisting of 960 million poor people, or 72% of the world's poor, living in middle-income countries. In 1990, 93% of the world's poor lived in low-income countries.
- This raises new questions for aid and development policy.
- A new development narrative is needed that focuses on poor people, rather than poor countries. It will need to go beyond Millennium Development Goals and the Paris and Accra Declarations.
- Increasingly, this poverty reduction narrative will need to address inequality, via a new multilateralism and shared responsibility, as much as the absolute lack of resources in the poorest countries.

There is also an important nuance in the regional picture when compared to the global one (see box on distribution of poor). While it is true to say most of the world's poor live in stable middle-income countries, which is clearly evident in Asia, it is quite different for Africa. The surprisingly low numbers of Asian poor in fragile conflict-afflicted states relates in part to the high numbers of poor people in China and India because both are non-fragile conflict-afflicted states. In Africa, two-thirds of the poor live in low-income countries and two-thirds in fragile states. In short, Paul Collier's 'Bottom Billion' thesis (see box, 'Old versus new') may be true for Africa but not for the global poverty picture.

What is going so wrong that 10-20 years of strong, perhaps even sizzling economic growth and expanding aid budgets in both low-income and middle-income countries have not managed to reduce the number of poor people to a greater extent? And why does it matter if most of the world's poor today live in countries that have become richer? It matters because it raises a lot of questions for development policy, for aid allocation and strategy, and for aid beyond official development assistance (ODA).

A new, post-Paris Declaration, post-MDG narrative needs to be developed to accommodate this changing situation. It needs to address at least three issues. First, it needs to focus

Reuters / Arko Datta

Mumbai, India

on poor people rather than on poor countries. Second, a greater focus on equity and shared prosperity is needed. Third, traditional donors should work with middle-income countries by thinking beyond traditional ODA and focusing on aid as a catalyst for real change.

Poor people, not poor countries

Development needs to create an approach that looks to poor people, wherever they live, and establishes new partnerships between governments based on a shared responsibility to the poor. The concepts of human development, human security and human rights are examples of concepts that do this. In other words, something is needed in the vein of the Responsibility to Protect norm (known as R2P in humanitarian aid). Perhaps we need a Global Responsibility to the Poor norm, rather than a straightforward donor and recipient view of the world.

This approach could be viewed as an international commitment, which could be laid down in an international agreement. It would provide a minimum level of income, health care and education for citizens, with the financial responsibility shared between rich and poor countries on a sliding scale, depending on the wealth of the country where groups of poor people are living.

There is a real need for this new kind of multilateralism because new middle-income countries may not want development assistance of the traditional sort – bilateral ODA. To cite but one example, in response to discussions in the United Kingdom about whether it should give ODA to India, India's response in a leaked memo was: do we want or need UK development assistance?

Sharing prosperity

Inequality is one elephant in the room. When researchers and policy makers talk of a governance trap, one could argue they are really referring to inequality as an underlying cause of poor or unresponsive governance.

This is a difficult topic to debate. Jan Vandemoortele, one of the architects of the MDGs, has called for a 'serene debate' on inequality. This is important. Inequality is highly emotive. And any attempt to discuss it internationally is likely to be viewed as an infringement of sovereignty. Langauage matters. Reaching the poorest or, even better, sharing prosperity are more effective ways of framing this charged subject. And there are good reasons for all governments to discuss shared prosperity because poverty could be reduced more quickly and for less money if there was more focus on equity.

Why would focusing on equity make it cheaper and faster to reduce poverty? One of the main factors that determines how effectively growth will reduce poverty is 'initial inequality'. As Martin Ravallion, head of research at the World Bank, wrote in his 2005 paper, *Inequality is Bad for the* >

Old versus new

Paul Collier's best-seller *The Bottom Billion* was published in 2007. It uses data from around 2000, but the world has changed since then. The 'bottom billion', according to Collier, are the total population (not the poor population) of 58 countries that show weak economic growth or are classified as fragile states. Donors have channelled a great deal of aid to these countries, assuming they were helping the poor.

About 70% of today's poor people are not in Collier's 'bottom billion'. Collier believes that these poor will be helped by growth and their own governments. However, the most recent poverty data suggests otherwise. This does not invalidate Collier's point that his 'bottom billion' are trapped and without hope, so development does need attention there. But one might ask whether all or some of the new 'bottom billion' are trapped too. Imagine a lower caste woman in one of India's poorest states – is she not 'trapped' in poverty, just like someone in Collier's fragile, low-income countries?

Where do the poor live?

Recent research shows that most of the world's poor live in stable, non-fragile countries. Only a little over a quarter of the world's poor lives in 39 low-income countries, which are largely in sub-Saharan Africa. And only one in every four or five of the world's poor live in fragile and conflict-affected states, split evenly between low-income fragile countries and middle-income fragile countries. We can say the world's poor live in four places. Only12% of the poor live in low-income fragile states. Examples are the Democratic Republic of Congo (DRC) and Burundi. Another 16% of the poor live in stable low-income countries, such as Tanzania and Zambia. Another 61% of the world's poor live in stable middle-income countries, such as India and Indonesia, while a further 11% live in fragile middle-income countries, such as Pakistan and Nigeria.

Breakdown of where the poor live

	1990	2007-08
Low income, stable (e.g. Tanzania and Zambia)	80%	16%
Low income, fragile conflict-affected state (e.g. DRC and Burundi)	13%	12%
Middle income, stable (e.g. India and Indonesia)	6%	61%
Middle income, fragile conflict-affected state (e.g. Pakistan and Nigeria)	1%	11%

Concentration of the poor

Country	Low income or middle income?	Poor people (millions, US$1.25, 2007-08)
1. India	MIC	456
2. China	MIC	208
3. Nigeria	MIC	89
4. Bangladesh	LIC	76
5. Indonesia	MIC	66
6. DRC	LIC	36
7. Pakistan	MIC	35
8. Tanzania	LIC	30
9. Ethiopia	LIC	29
10. Philippines	MIC	20

Poor, 'the higher the initial inequality in a country, the less the poor will share in the gains from growth'. Put another way, growth reduces poverty faster in countries with more favourable income distributions.

Ravallion illustrates this by way of example, using two hypothetical countries, one with low initial inequality and one with high inequality. If it takes a low-inequality country 10 years to halve poverty, a high-inequality country growing at the same rate and with the same initial poverty level, would need 57 years to halve the poverty rate. In short, poverty responds slowly to growth in high-inequality countries. Or, to put the same point slightly differently, high-inequality countries will need unusually high growth rates to achieve rapid poverty reduction. The upshot is that devoting attention to equity could drastically reduce the overall cost of ending world poverty by making growth more effective in poverty reduction.

Various international agencies are heeding this call and have argued in favour of taking equity more seriously. There is a sense that the growth agenda or 'growth-only delusion' that emerged from Collier's work, which states that growth is expected to be the primary driver of poverty reduction, simply takes too long for some countries. Growth is fine when there is no rush. Even if the income of the poorest rises in line with an average growth of 2% per capita at US$100 per capita, it is going to take some time to reach a nominal US$1.25/day, not to mention the MDG target of reducing by half the proportion of people living on less than a dollar a day.

The percentages and averages cited in the MDGs can be misleading. Take, for example, poverty in India and in Africa between 1990 and 2005. It fell as a percentage of the population that is poor, but it actually rose in terms of millions of poor people. Furthermore, there is often a considerable gap between the average and the poorest.

The fact that gross domestic product (GDP) growth often happens without social, economic or political transformation might begin to explain the continuing levels of absolute poverty in new middle-income countries (and in the remaining low-income countries).

This all points to the fact that in many countries, and especially in middle-income countries, poverty may be increasingly turning from an international to a national distribution issue. This could potentially make governance and domestic taxation and redistribution policies more important than ODA. This is not to say that the global

A street in Rio de Janeiro, Brazil

distribution of wealth and assets is no longer important. It is merely less so than was once the case.

However, most middle-income countries do not have the scope to achieve this redistribution by themselves because the required taxation would be prohibitively high. Therefore, there will continue to be a role for traditional donors to work on poverty reduction with governments in middle-income countries. The question is, how should this be achieved?

The birth of global public policy?

What could development and aid policy do differently? To be sure, aid and 'aid effectiveness' in particular are already going through a major rethink, which suggests that deep changes are afoot. There is the transparency revolution, which among other things led to the Access to Information Policy that came into force at the World Bank in July 2010.

Questions have been raised asking whether aid effectiveness debates have missed the point by focusing on quantity rather than quality of aid, and there are even suggestions – in Jean-Michel Severino and Olivier Ray's two papers on *The End of ODA* published by the Center for Global Development in Washington, DC – that traditional ODA is dead.

The authors question the validity of the current definition of ODA in terms of loans and grants from governments and base this on the 'triple revolution' in ODA that is happening – with goals, players and instruments of aid all mushrooming.

There are several key drivers behind the rethinking of aid. One is the changing landscape of donors – notably the new non-Development Assistance Committee donors, such as China and India, which already account for 15% of global ODA, and the big foundations, such as the Gates Foundation. The nature of aid is also changing, exemplified by new and innovative finance mechanisms such as the GAVI Alliance.

Finally, the likely dwarfing of traditional ODA by climate financing, as well as new institutions such as cash-on-delivery and output-based aid, has also put the very definition of what aid is, and what it hopes to achieve, up for discussion. Add to this mix some pressing timelines – the Paris Declaration is due to run out in December 2010 and the post-MDG debates are likely to kick off in 2011 – and we have additional fundamental questions that need to be resolved.

Global and regional distribution of the poor

2007-08	Fragile and conflict-affected	Not fragile or conflict-affected	Total
World			
Low income	12%	16%	28%
Middle income	11%	61%	72%
Total	23%	77%	100%
Africa			
Low income	37%	29%	66%
Middle income	30%	4%	34%
Total	67%	33%	100%
Asia			
Low income	2%	12%	14%
Middle income	4%	82%	86%
Total	6%	94%	100%

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Travelling by taxi, Udaipur, Rajasthan, India

The possible answers to these questions suggest new directions for donors to take:

- A focus on 'aid beyond-ODA'. This means that donors take seriously a 'do no harm' agenda and design favourable and coherent development policies on remittances and migration, trade preferences, climate negotiations and climate financing, as well as tax havens.
- Make ODA increasingly multilateral, especially in middle-income countries and where aid might be channelled through the United Nations Children's Fund, for example, or a new global fund for cash transfers to households as a direct poverty and redistribution measure.

Real transformation

More generally, a new focus is needed on development as real transformation. A bit of GDP growth and a few more children in primary school will not suffice. Real changes in the economy and in governance are needed, coupled with a focus on equity and shared prosperity. Changes in governance can be helped by supporting an emerging middle class of consumers and by boosting political transformation, which comes as tax systems develop.

Definitions

The definitions of low- and middle-income countries, and how they are calculated, need further probing. Are the original formulas for calculating a country's status from the early 1970s still relevant in 2010? What is a low-income country in 2010? Do most of the new middle-income countries actually exhibit the structural characteristics of low-income countries, such as high inequality and high poverty?

Clearly, one can take issue with the World Bank's view that a per capita income of around US$1000 per year constitutes the threshold for low- and middle-income countries. If shared equally that would mean around US$2.70 per person per day. The low- and middle-income country threshold is consistent over time though, if one accepts that international inflation is an appropriate way to estimate the line each year.

Many middle-income countries may in principle be able to support their own poor people to a certain extent. But often the poor lack a voice in governance structures, while their governments lack political will, even when domestic resources are on the rise. In such cases, donors could direct their aid towards support for civil society organizations, media, social movements and indigenous 'pro-poor coalitions' that demand economic, social and political change. Inevitably, this raises ethical questions of just how political aid can be. Facing up to these questions will bring us further than continuing to pursue the 'good governance' agenda under a technocratic cover.

The emergence of a new 'bottom billion' living in middle-income countries does not mean we should stop giving aid. Some of these countries have only just passed the threshold and we should not forget that 28% of the world's poor still live in low-income countries. What the new bottom billion does mean is that we need a new development narrative based on a new multilateralism of shared ownership, a greater focus on equity and real transformation, and aid beyond traditional ODA.

Donors will need to differentiate their approaches and strategies even more, because the range of partnerships and aid relationships they will engage in is likely to be different in low-income, middle-income and fragile countries. And do not forget, even if the MDGs are met, there will be almost one billion poor people, many of whom will not be living in 'poor' countries, but increasingly in middle-income countries. ■

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