Two Trends in Global Poverty

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We are living through a period of rapid global poverty reduction. According to recent estimates, high, sustained growth across most of the developing world allowed nearly half a billion people to escape $1.25-a-day poverty between 2005 and 2010. Never before have so many people been lifted out of poverty over such a brief period.

While the overall prevalence of poverty is in retreat, the global poverty landscape is changing. This transformation is captured by two distinct trends: poor people are increasingly found in middle-income countries and in fragile states. Both trends – and their intersection – present important new questions for how the international community tackles global poverty reduction.

The increased prevalence of poverty in middle-income countries is in many ways a trend of success. Over the past decade, the number of countries classified as low-income has fallen by two fifths, from 66 to 40, while the number of middle-income countries has ballooned to over 100. This means 26 poor countries have grown sufficiently rich to surpass the middle-income threshold. Among those countries that have recently made the leap into middle-income status are a group of countries - India, Nigeria and Pakistan - containing large populations of poor people. It is their "graduation" which has brought about the apparent shift in poverty from the low-income to middle-income country category.

Yet shouldn't developing countries have escaped poverty by the time they reach middle-income status? A quick review of past experiences suggests otherwise. Take three very different countries: Guyana, China and the Republic of Congo. Each of these countries graduated out of low-income status between 1995 and 2005. However, they did so with very different rates of poverty: Guyana, 9 percent; China, 36 percent; and Republic of Congo, 54 percent.

Many might assume that higher levels of poverty among some middle-income countries must be a result of inequality between rich and poor households, as captured by a high Gini coefficient. But this is just one of several factors and arguably not the most important. Indeed, Guyana and the Republic of Congo had almost identical Gini scores when they graduated into middle-income status, despite their markedly divergent poverty rates. A broader notion of inequality, reflecting imbalances in the distribution of income between households, government and corporations in an economy (and revealed in a low share of national income devoted to consumption), may be an equally important factor. Another is the difference between an economy's purchasing power parity (PPP) and market exchange rate – in other words, how much a dollar can buy in a given country.

While the rise of middle-income countries can be considered a trend of success, the growing share of poor people in failed and fragile states is a trend of failure. Unlike the exodus from the low-income country grouping, too few countries are succeeding at breaking out of fragile status. According to at least one classification, the number of fragile states across the world has risen from 28 in 2006 to 37 today. Furthermore, in a number of critical countries, the degree of fragility is increasing. Countries that remain locked in fragility are unsurprisingly not recording the same rates of poverty reduction achieved by stable countries. Rapid poverty reduction is directly undermined by the failure of the state to perform its core functions.

Whereas a decade ago, the international development community approached fragile states with a degree of ambivalence, recent years have seen a marked, but measured, increase in engagement with these countries. This reflects a recognition that the scale of development needs faced by fragile states and the negative external effects associated with fragility, conflict and state failure are too great to ignore.

Nevertheless, the challenges of supporting fragile states remain vast and increased resources have yet to translate into a lower incidence of fragility worldwide. Moreover, based on current projections, the share of the world's poor living in fragile states is expected to continue rising into the future.

The combination of these two trends illustrates the evolution of the global poverty landscape since 2005. The two charts show the trajectory of 20 developing countries along three dimensions: number of poor people, degree of fragility and real income per capita. These 20 countries collectively account for 90 percent of the world's poor in 2005, and thus largely define the evolving state of global poverty.

Since 2005, nearly all of the 20 countries have seen significant increases in per capita income, reflecting the strong overall economic performance of the developing world. Additionally those that enjoy the highest gains see the most rapid decrease in poverty, affirming the central role of economic growth in poverty reduction. Contrary to expectations, rising incomes do not appear to be associated with increasing levels of stability. Indeed, in many cases, the level of fragility is also on the rise. Taken together, the result is a non-uniform but discernible shift in the global poverty landscape away from stable, low-income environments.

These changes are particularly evident if we pay attention to the position of the poor vis-à-vis the

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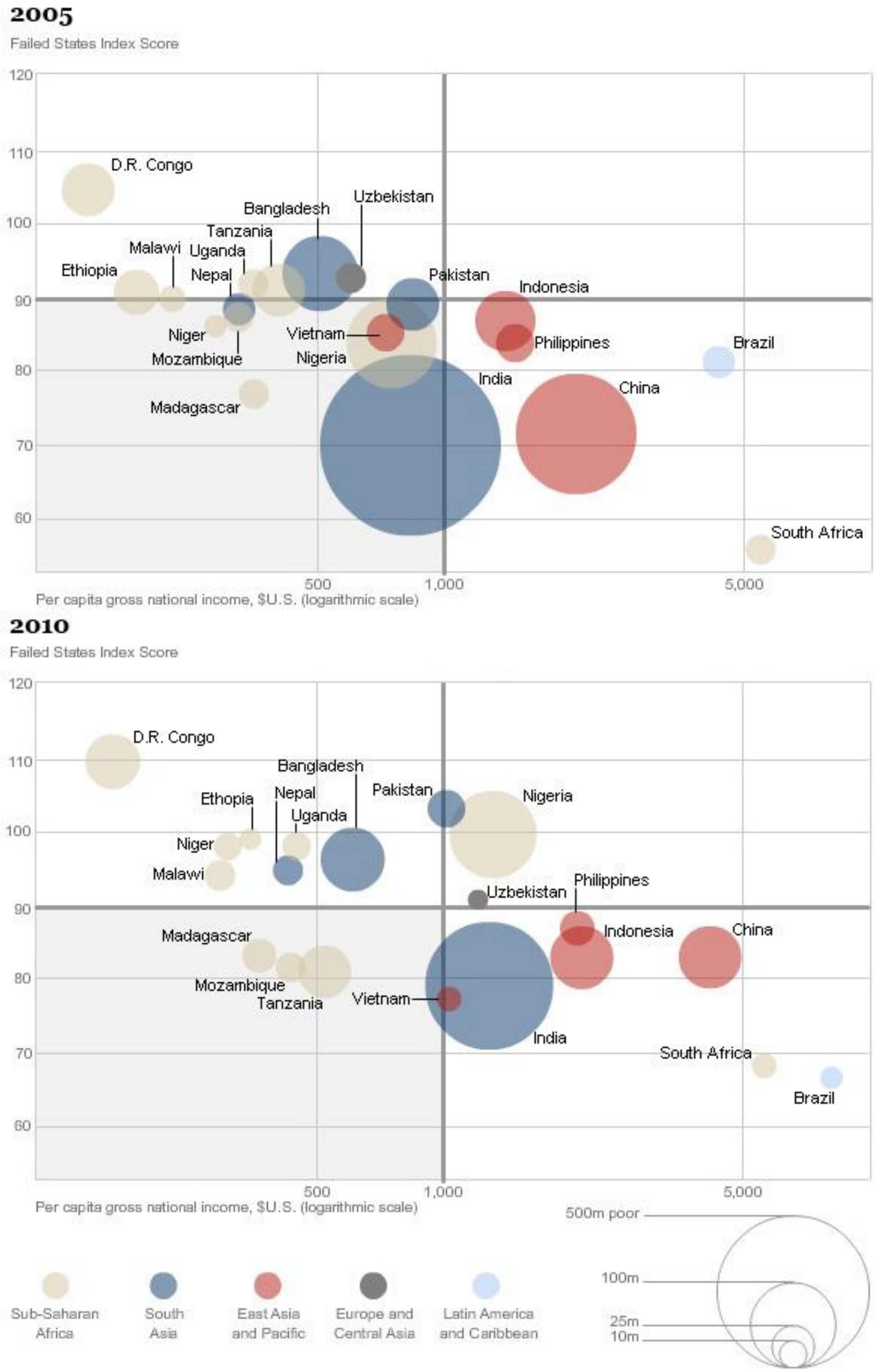
The charts below illustrate the development trajectory of the 20 countries with the largest number of poor people. Each country is measured along three dimensions: number of poor people (circle area), degree of fragility (y-axis), and real gross national income per capita (x-axis). Countries that score 90 or above on the Fund for Peace's Failed States Index are classified as fragile (or "Alert"). Countries with real GNI per capita above $1,000 are classified as middle-income. Between 2005 and 2010, the share of the world's poor population living in stable low-income countries collapses from over 50 percent to 10 percent. Poverty estimates are from the Brookings Policy Brief "Poverty in Numbers" (2011).



two thresholds marked on the horizontal and vertical axes. These thresholds transform the charts into 2x2 matrices, in which the poor are classified according to whether they live in countries that are low-income or middle-income, and fragile or stable. The poverty shares attributable to each group in 2005 and 2010 are given below.

At the start of the series, the majority of the world's poor are accounted for by stable low-income countries. Over time, as countries change category and poverty reduction occurs at different speeds in different countries, poverty becomes increasingly dispersed among the other three groups. By 2010, stable low-income countries account for only a tenth of the world's poor while every other group sees its share of global poverty rise.

Share of world's poor by country category

2005

	LIC	MIC
Fragile	19.6%	0.9%
Stable	53.9%	25.6%

2010

	LIC	MIC
Fragile	23.7%	17.1%
Stable	10.4%	48.8%

The shifting distribution of the world's poor among these four groups demands new thinking and differentiated approaches for poverty reduction. We focus our attention here on two key priorities.

Breaking the Paradigm

In light of the evolving poverty landscape, it is time to shift the focus of global poverty reduction beyond the needs and circumstances of stable low-income countries.

In 2005, when more than half the world's poor lived in such countries, it made some sense to think about fighting poverty in terms of a single developing country paradigm, based on what worked in countries such as Ghana, Tanzania, Mozambique or Vietnam. This logic was evident in two of the major events of that year which continue to shape today's development agenda: the G8 meeting at Gleneagles and the High Level Forum on Aid Effectiveness in Paris. It was also apparent in Jeffrey Sachs' influential 2005 best-seller, *The End of Poverty*. The legacy of these ideas is scattered throughout the work of the international development community in the design of traditional aid instruments and the standard methods of country engagement.

While this approach remains relevant for some countries, with 90 percent of the world's poor living in different settings today, its broader application can no longer be justified. Yet such an admission poses a dilemma. One of the reasons the stable low-income paradigm has persisted is because it characterizes an environment in which the international development community feels most comfortable and has the most experience. The role of external actors in supporting poverty reduction in stable low-income countries is well understood and the standard tools of external assistance – financial and technical assistance – are well suited to them.

The same cannot be said for other environments. Middle-income countries do not face the same financial constraints (in particular, access to capital markets) as low-income countries do, which makes the case for financial assistance less compelling. As for fragile states, many of the development challenges they face are strictly political, as opposed to technical. Technical assistance is hard to justify if existing technical know-how is deliberately underemployed. Moreover, external actors are less likely to find willing and reliable partners with which to work in fragile states. Moving beyond the stable low-income paradigm will require a re-evaluation of the core of the international development enterprise.

Working with Fragile Middle-Income Countries

The emergence of fragile middle-income countries as home to a large number of the world's poor presents a new and important challenge. To be clear, poverty has existed in this group for many years, but in small enough numbers that they remained under the radar. It is the entry of new, large countries into this category – notably Pakistan, Nigeria and Yemen – which now draws attention to this issue.

The notion of a country being both fragile and middle-income is contrary to traditional narratives in development. The first widely-used classification of fragility was the World Bank's Low Income Country Under Stress (LICUS) category, which made low-income a pre-condition for eligibility. Thus, fragility was considered a pre-developmental stage, with an improvement in the functioning of the state seen as a first step toward broader development progress.

Fragile middle-income countries clearly do not fit this mold. They have succeeded in attaining a level of economic development beyond several more stable countries, but have not been able to translate this success into stability and improved capacity and governance. In this sense, these countries are not following a linear development trajectory from fragility to stability to income growth, which orthodox development theory predicts.

Now home to nearly one in five of the world's poor, fragile middle-income countries are of critical importance to global poverty reduction. Many also happen to be important for strategic geopolitical reasons. However, external actors may have difficulty finding workable strategies to fight poverty in fragile middle-income countries.

In stable developing countries, donors are generally concerned with supporting the efforts of the recipient government; but in fragile states, which tend to be poorly-governed, donors often find themselves in the difficult position of trying to convince governments to pursue a different direction through political and policy reforms. Such attempts to use aid to "buy" better policies always face weak prospects, given that policy formation is driven primarily by domestic factors. In the case of fragile countries that are also middle-income, the chances of success are likely even more remote. External actors cannot expect to exert the same degree of leverage in middle-income countries as the funding they offer is typically overshadowed by the scale of other financial flows.

Committed to seeing success in these countries, many donors are working through these difficulties, adapting their strategies to the challenges posed by these environments and experimenting with new approaches. Yet a broader understanding of what tools are available to external actors seeking to promote pro-poor policy reforms in fragile middle-income countries remains elusive and presents an important area for new research.

To see a dynamic version of the chart on page 2, visit www.brookings.edu/projects/development-assistance.aspx