

What if three quarters of the world's poor live (and have always lived) in Low Aid Countries?

By Jonathan Glennie

In 2007 Paul Collier published a seminal book calling on the international community to focus strongly on the roughly one billion people living in countries that were failing to take off economically (Collier, 2007). In 2010, Andy Sumner responded with a paper (on which the title of this Background Note is based) showing that three quarters of the world's poor live in middle income countries (MICs), compared with only 7% in 1990. He called this 'a startling shift' and defined what he called a 'new bottom billion' (Sumner, 2010).

These two contributions have helped shape our understanding of the new context of global poverty and both authors have developed recommendations for what their findings mean for aid policy. Collier argues that aid should be increasingly focused on his bottom billion countries, expressing the view that, 'the international community basically doesn't have a role in the MICs' (IDS, 2010). Meanwhile, Sumner thinks his findings imply that MICs should remain an important focus of aid, which should target 'poor people not poor countries' (Kanbur and Sumner, 2011), although he does concede that 'One read of the data is that poverty is increasingly turning from an international to a national distribution problem, and that governance and domestic taxation and redistribution policies become of more importance than ODA' (Sumner, 2010).

While at odds, both of these analyses are useful contributions to the debate about how to allocate scarce resources in a new era of development. Other analyses imply that the concentration of poor people

in MICs is a transitory phenomenon, assuming continued rapid growth, and that within a decade or so the vast majority of the poor will again be found in low income countries (LICs) (Chandy and Gertz, 2011).

This Background Note suggests a further important factor for aid policy-makers to consider when assessing how to contribute to poverty reduction; it looks at the geography of poverty in relation to country aid receipts as a proportion of GNI rather than in relation to country income. The proposition is that such an analysis is at least as useful, if not more so, for any reassessment of the role of aid. By analysing the levels of aid dependency in the countries that are home to the world's poorest people, this note implies lessons about the role of aid in these countries in the past, and how that role might change in the future.

The note finds that a large majority of poor people (around three quarters) live in Very Low Aid or Low Aid Countries (VLACs and LACs) – defined respectively as countries that receive less than 1% and 2% of their GNI in aid (Glennie and Prizzon, 2012) – and have done for at least two decades. This is a story not of change but of continuity: most poor people have long lived in countries which receive very little aid.

It is therefore wrong to suggest that there are now more poor people living in non-aid dependent countries; if anything the data presented here implies the opposite. While the total number of income poor in the world has declined, the proportion of poor people living in High Aid Countries (HACs), where aid is over 10% of GNI, has in fact increased in the past 20 years, from 10% to 15%.

These findings should not be taken to suggest that aid has been unimportant in development,

even in countries where it has been relatively low as a proportion of GNI. But they do imply that further thinking is required about the role and purpose of aid in different contexts. If aid is not a significant proportion of the overall economy, and hasn't been for decades, then what role is it playing, can that role be enhanced, and what other actions might be more important to support poverty reduction than giving aid?

These data are not, in general, appreciated by aid policy-makers. Consequently there risks being some confusion between graduation from middle income status and graduation from aid dependency. While income status and aid dependency are related, they are quite different concepts, and conflating the two may imply a misunderstanding of the role aid plays in different contexts.

The data and discussion presented here are preliminary and may provoke ideas for further study. Comments are invited. Future research could test if these results are robust across a range of checks; examine further the characteristics of LACs and HACs; and analyse the role of aid in different types of country. This may have implications for aid allocation and aid modalities. This last is the crucial task of aid analysts in the years ahead, as the context for international cooperation and aid-giving continues to change.

Data and definitions

Needless to say, there are serious difficulties associated with the predominant methods of categorising poor people, as well as with aid data, so all data should be taken as ball-park at best. Neither poverty measurements nor aid measurements are particularly robust and it is particularly hard to gauge the situation before 1990. In relation to estimates

Table 1: Proposed country categorisation by aid receipt

Classification	ODA/GNI (%)
Very Low Aid Countries (VLAC)	Under 1%
Low Aid Countries (LAC)	1.00-1.99%
Middle Aid Countries (MAC)	2.00-9.99%
High Aid Countries (HAC)	Over 10%

of poverty levels, I adopt the methodology used by Sumner in his paper, and discussed in his subsequent analysis (Sumner, 2011). Non-adjusted base year poverty data are considered; for 1990 data I use either 1990 data or the nearest available year from 1987 to 1999; 2009 data are on the basis of either 2009 data or the nearest year available from 2000 to 2008. As in Sumner (2011), I select the first non-zero value available after 1992 for those transition economies whose headcount poverty ratio equals 0% in 1990.

I classify countries by aid receipt using the categorisations shown in Table 1: Very Low Aid Countries (VLACs), Low Aid Countries (LACs) Middle Aid Countries (MACs) and High Aid Countries (HACs) (see Glennie and Prizzon, 2012, in which we also explain why aid/GNI is a critical factor in aid dependence).

Where do poor people live?

Where then are poor people concentrated? Figure 1 shows the proportions of poor people living in the different categories of country, while Table 2 gives the numbers.

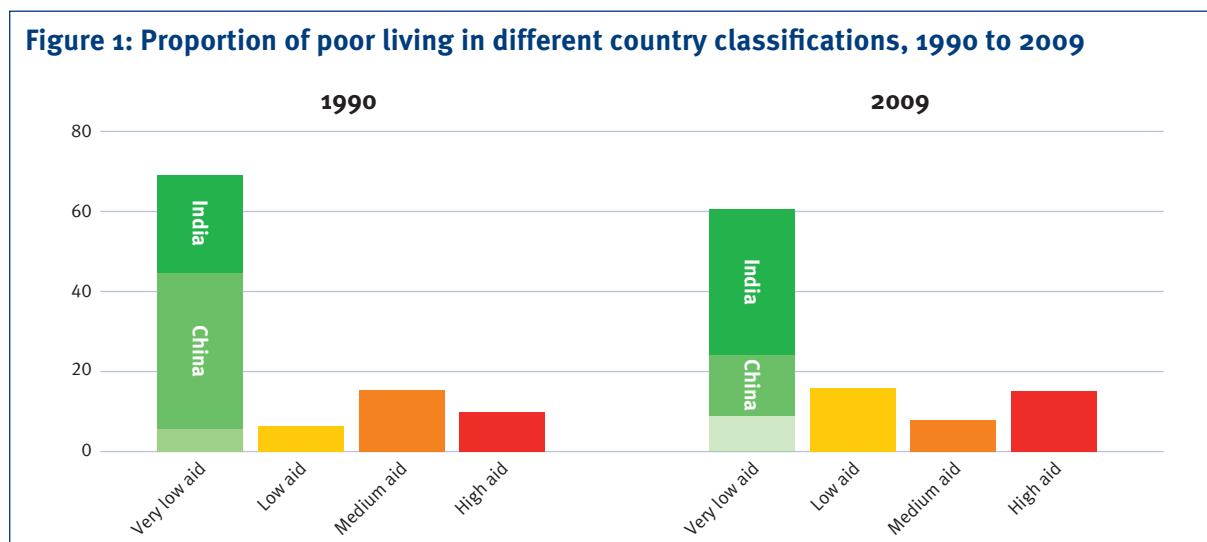


Table 2: Numbers of poor living in different country classifications, 1990 to 2009

Main categories	ODA/GNI	Millions poor in 1990	% of total	Millions poor in 2009	% of total
VLAC	Under 1%	1,193.3	69.3	808.2	60.5
LAC	1.00-1.99%	103.5	6.0	215.8	16.2
MAC	2.00-9.99%	256.1	14.9	107.5	8.1
HAC	Over 10%	168.9	9.8	203.3	15.2
Total		1,721.9		1,334.9	

Source: Author's calculations on the basis of World Bank (2011) World Development Indicators (net ODA and population data) and PovCal (poverty headcount ratio), accessed on 28 October, 2011. Poverty estimates are based on the poverty headcount ratio from one observation for: Angola (2000), Belize (1995), Benin (2003), Bhutan (2003), Bosnia and Herzegovina (2001), Botswana (1993), Cape Verde (2001), Chad (2002), Comoros (2004), Democratic Republic of Congo (2005), Congo (2005), Czech Republic (1993), Gabon (2005), Guyana (1992), Haiti (2001), Iraq (2006), Liberia (2007), Micronesia (2000), Montenegro (2008), Namibia (1993), Papua New Guinea (1996), Rwanda (2005), Sao Tome and Principe (2000), Serbia (2008), Slovak Republic (1992), St Lucia (1995), Suriname (1999), Syria (2004), Timor Leste (2007), Togo (2006), Trinidad and Tobago (1992) and Turkmenistan (1993).

In 2009 about 60% of the world's poorest people lived in Very Low Aid Countries (VLACs), while about 16% lived in Low Aid Countries (LACs), meaning that about three quarters of the world's poorest live in countries that receive less than 2% of their annual income in aid. This is an arresting statistic in itself, but when we make the comparison with 1990 an even more interesting story emerges. The proportion of poor people living in VLACs and LACs has remained remarkably constant since 1990, when 75.3% of the world's poorest people lived in countries that relied on aid for less than 2% of their income (69.3% in VLACs and 6.0% in LACs), almost exactly the same as in 2009.

If anything, the figures have moved in a direction contrary to that commonly assumed by policy-makers i.e. more poor people, not fewer, now live in countries more dependent on aid. While almost 70% lived in VLACs in 1990, only 60% did in 2009, with the remaining 10% living in countries marginally more dependent on aid. At the other end of the spectrum, the proportion of poor living in HACs increased from just under 10% to over 15% in that 20 year period – still a small proportion, but apparently growing rather than shrinking.

It is important to underline the roles played by India and China in these statistics, as shown in Figure 1 above. Both countries classify firmly as VLACs but, given the size of their economies and their populations, China and India account for the largest share of poor people: 41% and 25% respectively in 1990, and 17% and 40% in 2009. India has seen a limited increase in its number of poor people in the past 20

years (about 19 million), while China has seen a massive reduction (about 476 million). The reduction in poverty in China is balanced, in part, by the increase in absolute numbers of poor people in India, despite a reduction in its poverty headcount, but China's progress is still the major factor in the reduction of the number of poor people living in VLACs.

However, China and India are not the only two countries that merit special attention; the vast majority of the world's poorest people live in a handful of countries. In fact, 85% of the world's poorest people for whom data exist live in just 10 countries. Table 3 sets out poverty and aid levels in 1990 and 2009 for these 10 countries, and in Figure 2 we chart the history of their aid levels over the past two decades.

Table 3: Top 10 countries in 2009, in descending order of number of poor

	No. poor 1990 (m)	No. poor 2009 (m)	ODA/GNI 1990 (%)	ODA/GNI 2009 (%)
India	420	480	0.45	0.18
China	683	205	0.57	0.02
Nigeria	48	100	0.996	1.1
Bangladesh	55	73	6.8	1.3
Indonesia	55	44	1.6	0.2
Pakistan	72	38	2.7	1.7
Congo, DR	-	38	10.4	22.6
Ethiopia	29	32	8.4	12.0
Tanzania	18	30	28.6	13.7
Philippines	19	21	2.9	0.18

Four of the top six countries have become MICs in the last 10 years, and a fifth, China, became a MIC in the late 1990s. These five countries account for almost all the shift in the geography of poverty related in Sumner's paper. (This is not, obviously, because poor people have migrated to live in MICs, but because the countries that are home to most of the world's poorest people have become MICs in recent years.)

How has the level of aid shifted in these countries in that period? As Figure 2 shows, seven out of 10 have seen aid levels fall as a proportion of GNI, so there is certainly a story to be told about reduced aid dependency. But what else do the figures tell us? First, three countries have seen aid levels rise not fall, and they are all in Africa (Nigeria, DR Congo and Ethiopia). The fourth African country in the top ten, Tanzania, has more than halved aid levels, but remains highly aid dependent.

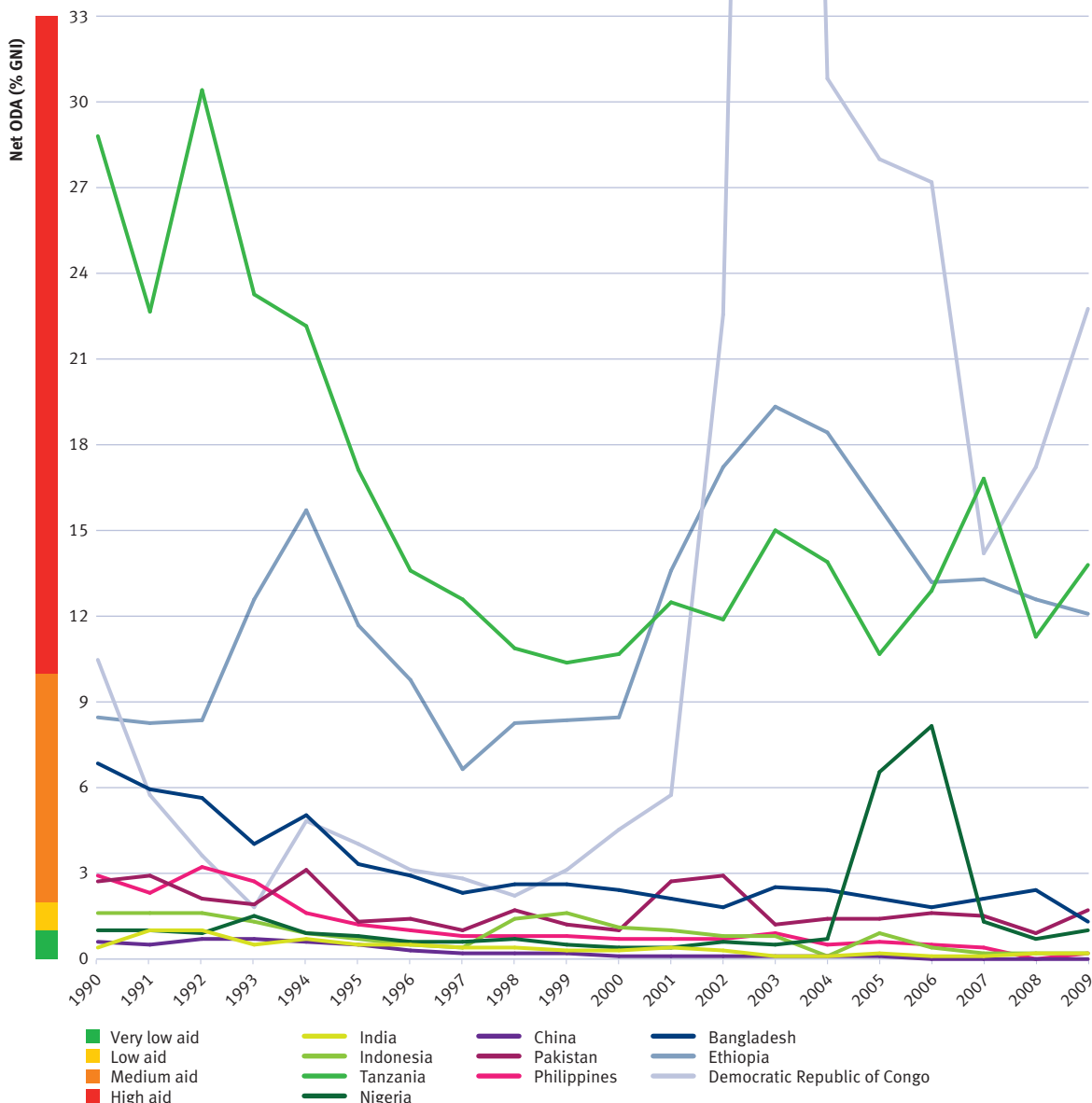
At the other end of the spectrum, the two countries that account for over half of the world's poor have

seen aid levels fall, but from an already very low base. They were VLACs in 1990 and continue to be so. It would be wrong, therefore, to imply that they were aid dependent but are no longer – they have never been aid dependent. The same is true of Nigeria, which has been a VLAC since 1990 with the exceptions of 2005, when it received a huge debt reduction, and the most recent year, 2009, when aid tipped over 1% of GNI.

Two countries have seen reductions in aid that could be described as fairly dramatic: Bangladesh and the Philippines. Indonesia and Pakistan have seen aid fall as a proportion of GNI in a less dramatic but still significant manner.

It is worth noting that the number of people living in poverty in the world, when measured by income, has fallen from about 1.7 billion to about 1.3 billion in the past two decades. Given the rising world population (from 5.3 billion to 7 billion), this translates into a significant ratio change, from almost one third to under one fifth. The nine countries in the top 10 for which we can compare data (i.e. not including DR Congo) have seen reductions in the proportion of people who are poor, but six have seen increases in absolute numbers of poor people because of growing populations. Nigeria, for example, has reduced poverty by one third, but has almost twice as many poor people as it did 20 years ago.

Figure 2: Shifts in the levels of aid in the countries with the largest number of poor people (1990 to 2009)



Source: World Development Indicators (2011). Note that debt cancellation for Nigeria in 2005 and 2006, and for Democratic Republic of Congo in 2003 led to large spikes in official development assistance (ODA), which includes debt relief.

Concluding remarks

Andy Sumner ends his important paper with a series of questions about the future of aid:

‘Is poverty reduction as a goal for aid achieved at the expense of societal change and thus future emancipation from aid? If the poor live in stable MICs, do those countries need aid flows or are domestic resources available? Whose ‘responsibility’ are the poor in MICs – donors or governments or both? If most stable MICs don’t need aid – judging by their aid dependency ratios – should aid flows be redirected to LICs, FCAS [fragile and conflict-affected] LICs and/or to global public goods? What should the donor-recipient partnership/strategy and aid instruments for MICs be? Do we need new/different aid objectives and new/different aid instruments?’ (Sumner, 2010)

There is no doubt that the progression of many countries to MIC status is relevant to these questions. To begin with, whereas aid was once defined as having a ‘poverty focus’ if it went to low income rather than middle income countries, such an easy definition now looks rather limited. The data presented in this paper may also help to answer these questions, while raising new ones.

There are two main implications for policy-makers. First, while aid is a large proportion of the economy in countries where about 15% of the world’s poorest people live, it is a small proportion in countries that are home to the vast majority of the poor. This implies that the focus by rich countries on aid as the key tool to help end poverty may need careful examination. A stronger focus on non-aid financial flows that can support development, and policy coherence more generally, may be more important. It is well known and often repeated that aid is a fraction of the world’s resources – it has remained fairly static at around 0.2% of global GDP since 1990, a little less than in previous decades. However, there is less recognition of just how small aid has been as a proportion of the overall size of the economy in the countries where most of the poor live.

Second, this is not a new phenomenon, despite some assertions that poor people live increasingly in less aid dependent countries. This is vital for an understanding of the role of aid quantity in relation to the geography of poverty. Some analysts say that MICs should no longer receive aid, and others even suggest that the international community no longer has any meaningful role to play in supporting their develop-

ment. But the implication, that aid has done its job and that these countries no longer need it, needs careful evaluation given the figures presented here.

The role of aid in VLACs and LACs is likely to be very different to its role in HACs. While it is commonly acknowledged in the literature that there are diminishing returns on high levels of aid, and that high aid can even have harmful impacts, is there evidence or theory to suggest that no aid is better than low aid? Small amounts (under 1% of GNI) can support particular projects or initiatives within or outside government to catalyse larger change, support the development of a civil society that may prove crucial in countries where the problem is wealth inequality rather than an absolute lack of capital, or provide targeted support to the poorest (Glennie, 2011).

There is much talk in the present aid debate about the pros and cons of spending aid in MICs, but in countries where aid has long been very low, such as India, Nigeria and most of Latin America, why should further reduction be necessary? Moving up to MIC status does not necessarily mean that the poor will be better off, certainly not in the short term. Even as countries grow richer they are still home to many poor people and even when people move above the \$1.25 or \$2 day ‘ceilings’ they may still be miserably poor compared with western standards. If aid has helped in the past, might it not help in the future? In other words, should we reconsider whether passing an arbitrary per capita income target should be such a critical factor in aid allocation decisions?

There is an important trend towards a reduction in aid dependence; more countries are now VLACs and LACs than in 1990, and there are fewer HACs than 20 years ago, though marginally more than 10 years ago (Glennie and Prizzon, 2012). The important group of ‘aid transition’ countries where aid is now of declining significance includes Angola, Bangladesh, Cote d’Ivoire, Egypt, Sri Lanka and Yemen. But while changes in some countries are certainly profound, the shifts in the overall ‘aidscape’ may not be as great as sometimes implied.

These questions and others could form the basis of a potential research agenda on where, why and how aid has the greatest impact in a fast-changing context for international cooperation.

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