

**UNEQUAL WORLDS**  
**POVERTY, GROWTH, INEQUALITY AND THE ROLE**  
**OF INTERNATIONAL COOPERATION**

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<b>Executive Secretary</b>	T.D.J. Oostenbrink

P.O. Box 20061  
2500 EB The Hague  
The Netherlands

telephone + 31 70 348 5108/6060  
fax + 31 70 348 6256  
aiv@minbuza.nl  
www.aiv-advice.nl

## **Combined committee poverty reduction and shifting patterns of poverty**

**Chair** Professor R. van der Hoeven

**Members** F.A.J. Baneke  
Dr B.S.M. Berendsen  
Professor M.E. de Bruijn  
Ms G. Crijns  
Ms M. Monteiro  
Professor E.B. Zoomers

**Executive Secretary** Ms D.E. van Norren

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## Foreword

On 16 March 2012 the AIV received a request for advice on poverty reduction and shifting patterns of poverty (see appendix 1). One of the reasons for this request was a study showing that three-quarters of the world's poor now live in middle-income countries. This suggests that poverty has undergone a shift, which has implications for poverty reduction. The central question in the request for advice concerns the possible consequences of shifting patterns of poverty for the Netherlands' post-2015 development agenda. The request also includes a number of subsidiary questions on the empirical reality of shifting patterns of poverty and income inequality, the relevant principles and considerations relating to poverty reduction and development cooperation in middle-income countries and the consequences for Dutch policy. These questions are also addressed.

The AIV has chosen to present the summarised answers to the central and subsidiary questions at the beginning of this report. The summary is followed by a more analytical examination of worldwide poverty patterns, country classifications, poverty, growth- and income inequality, the post-2015 development agenda, and the policies of other Western donors. This is followed by a section on the policy implications of this analysis and the recommended choices of channel for cooperation.

The draft report was drawn up by a drafting committee, chaired by Professor R. van der Hoeven. The committee members were F.A.J. Baneke, Dr B.S.M. Berendsen, Professor M.E. de Bruijn, Ms G. Crijns, Ms M. Monteiro and Professor E.B. Zoomers. The Executive Secretaries were Ms D.E. van Norren and J. Smallenbroek, supported by trainees Ms M.J. van der Stelt and R. van Kampen. In addition, the members of the Development Cooperation Committee made an active contribution.

The drafting committee consulted the following experts: Professor S. Ellis, Professor G. Dijkstra, Dr C. Koonings, Dr A. Sumner, Ms A. van Wezel and P. Verschuren. The AIV also visited and was provided with further information by a number of donors.

The AIV adopted this advisory report at its meeting of 7 September 2012.

## Summarised answers to the central and subsidiary questions

In this summary, the AIV briefly answers the government's central question (what are the possible consequences of observed shifting patterns of poverty for the post-2015 agenda and potentially, related changes in inequality within and between countries?) on the basis of the analytical part of the advisory report. It also addresses the subsidiary questions:

### Empirical reality

1. Does the AIV agree that poverty has indeed 'migrated' to middle-income countries (MICs), as described in articles like the one by Andy Sumner? If so, what are the most important causes of this? Are there reasons for rethinking the definition of poverty or the criteria for distinguishing between low- and middle-income countries?
2. What should we realistically expect for the development of the global scope and distribution of poverty (in terms of geography, type of country, demographic trends, the rural/urban divide, etc.) in the next 5-15 years? What role will scarcity (of natural resources, energy) and environmental degradation (water pollution, soil exhaustion, loss of biodiversity) play in this?
3. Is there any systemic connection between growth (from a low- to a middle-income country) and increased income inequality within countries? If so, what factors underlie this link, besides the government's involvement in poverty reduction (differences between, say, China and Brazil)?
4. In the view of the Council can middle-income countries become self-reliant with respect to poverty reduction? Is it prudent to recognise differences in fiscal and implementing capacity of governments in different (categories of) middle-income countries?
5. Are there structural differences as regards poverty and inequality in low- and middle-income countries? Is there, for example, in one of these types of countries a greater incidence of chronic poverty? If such differences exist, do they have different impacts on the degree to which the countries in question are capable of combating poverty effectively?

### Relevant principles and considerations

6. What role can development cooperation play in reducing poverty in middle-income countries? What are the most important moral, social and economic principles and considerations that go into making such an assessment?
7. What relevance does poverty in MICs have for the objectives of Dutch foreign policy (prosperity, stability and security, energy and raw materials security, the international legal order)?
8. Do the different channels (multilateral, bilateral, private sector and nongovernmental sector), and possibly also the various modalities, operate from the same principles and considerations?
9. If self-reliance and poverty reduction are both goals of development cooperation policy, and (certain) middle-income countries are deemed capable of combating poverty in their country but are partly or completely unable to do so, which of the two goals carries the greater weight? Self-reliance and thus local responsibility? Or poverty reduction and the continuation of Dutch involvement in such efforts?
10. What role should the changing relations in international cooperation (the rise of new donors with sometimes different objectives, the decreasing importance of ODA (Official Development Assistance) in funding flows, the increasing importance of international public goods, the increasing emphasis on policy coherence, etc.) and

the connection to the fundamental goals of Dutch foreign policy (security, freedom, prosperity) play in assessing the advisability of outside involvement in poverty reduction in middle-income countries?

#### Impact on development cooperation

11. Have other donors (bilateral, multilateral or private) or other types of development organisation already altered their policy to reflect the fact that the world's poor are increasingly to be found in middle-income countries?
12. What are the possible implications for the Dutch approach to the post-2015 development agenda of the shifts in the patterns of global poverty, primarily as a result of the growing number of countries that have attained middle-income status?
13. Is it helpful in this connection to distinguish between the various channels (or modalities)?
14. Are the present instruments suitable for middle-income countries or should additional requirements be imposed on programmes (for example, those run by companies) in order to amplify their focus on poverty?

Regarding the central question, Dutch development policy is facing a major challenge. The traditional approach focuses on providing aid and expertise in the poorest countries. In the AIV's view, many countries that have developed into MICs have sufficient governance and financial capacity to take on more responsibility. A first response to this is the oft-repeated call to stop providing such countries with aid. However, rather than terminating development ties with MICs, the AIV argues for a different approach. One reason for this is that the dividing line between low- and middle-income countries is very arbitrary. Countries that are just above the line are not always more developed than those just below it. MICs also include a number of fragile states and countries in conflict, where aid remains necessary. In addition, reaching deprived groups in MICs requires a constructive policy dialogue with these countries.

Such a dialogue with middle-income countries offers benefits to all parties. For these countries the AIV recommends a shift from pure bilateral development policy to a policy of international cooperation, based more on multilateral cooperation and the civil society and private sector channels. The bilateral channel can continue to be of great importance to low-income countries, though in light of rapid geopolitical changes it will need to be more flexible and less focused on rigid country choices, and where possible the aid should be provided in cooperation with a number of large middle-income countries (trilateral). The AIV advises the Dutch government to take the lead in setting up a dialogue with other donors, large MICs and low-income countries on a trilateral approach of this kind.

The summarised answers to the subsidiary questions are presented in the same order as the questions in the request for advice:

#### Empirical reality

1. The AIV believes that the image of poverty shifting to middle-income countries requires some qualification. It is true that more than two-thirds of the world's poor, according to the World Bank's definition of poverty, live in middle-income countries. The reason for this shift is that a limited number of large countries are now classified as MICs, with the result that the number of poor in low-income countries has decreased as a percentage of the global population, but not in absolute terms. For example, the reduction in global poverty from 1.7 billion people in 1990 to 1.3 billion in 2008 can be attributed almost entirely to the fall in the number of

poor in China. The AIV sees no reason to change the World Bank's criteria for distinguishing between low- and middle-income countries. It is, however, important to realise that both LICs and MICs are relatively heterogeneous groups. Some middle-income countries have a sound socioeconomic basis and reasonably functioning institutions, while others are fragile states and states in conflict. The AIV also sees no reason to change the income definition of poverty of \$1.25 a day, as this is internationally accepted. It does, however, consider this poverty line to be very low and highly arbitrary. In addition, the AIV observes that the concept of poverty extends much further than income poverty alone and in this report presents a number of elements illustrating this broader perspective, including cultural poverty, lack of access to social services, environmental degradation and the capacity to escape poverty through one's own efforts. These elements are equally important when analysing poverty and pursuing development cooperation policy. The AIV therefore attaches great importance to the use of multidimensional measurements of poverty. These should be taken into account in policy decisions on which development cooperation instruments to use and which countries to provide with aid.

2. The AIV does not consider it possible in a concise report to present realistic expectations of how the scale and distribution of global poverty will develop in the coming five to 15 years. On the basis of estimates by research institutes and the World Bank we can expect income poverty in large MICs like China, India and Brazil to decrease. Just how much poverty will decline cannot be predicted accurately, however – especially in these countries – as much depends on how rapidly income inequality decreases. It is also clear that poverty is, and will remain, a major urban problem. Some countries can benefit from having a relatively large labour force, the 'demographic dividend'. The 2011 Human Development Report (HDR) indicates that the current trend of rising prosperity in various groups of developing countries may decline if environmental degradation and social inequality continue to increase. The HDR also points out that the poorest groups suffer most from environmental degradation and have a disproportionate lack of political power to bring about change.
3. There is a clear link between growth and income inequality in large middle-income countries. Income inequality is rising rapidly in China and India and without a change in policy that trend will certainly continue. In recent years, Brazil has pursued an active policy of supporting the poorest groups within and outside the labour market and income inequality in the country has somewhat declined, though it remains among the highest in the world. Persistent income inequality can also present an obstacle to poverty reduction in the future.
4. The AIV believes that the observation that middle-income countries can be considered self-reliant in terms of poverty reduction presents a distorted picture. It is true that donors' traditional anti-poverty projects can contribute less in large middle-income countries. However, the emphasis in these countries should lie on enabling the poor to benefit from structural progress and to assert their right to a better distribution of the rising national income. That requires better access to rights for citizens, workers and small business owners and farmers, which in turn will require the introduction of a guaranteed minimum income and more balanced taxes and public expenditure. None of the current MICs have as yet taken all these measures. International cooperation, often multilateral in the areas of (human) rights, social security and fiscal instruments for redistribution, and private or bilateral in support of various specific groups, can still play a major role in these efforts.
5. It is questionable whether there are structural differences in poverty and inequality between low- and middle-income countries. Because there are great differences among both low- and middle-income countries it is difficult to give a clear answer



to that question. If a country is struggling to develop and its agricultural sector, for example, remains very undeveloped, those who work in the sector may suffer from chronic poverty. Yet chronic poverty can also occur in a middle-income country like India, where certain castes are excluded from the development process, or Pakistan, where a lack of rights and education for women mean they are restricted in their development, especially in isolated areas. As a country becomes wealthier, it can do more to address chronic poverty, but whether it actually does so depends on political, cultural and social changes which will largely have to be driven from within the country itself, but which can nevertheless be effectively supported by the international community and donor countries.

#### Relevant principles and considerations

6. The AIV believes that international cooperation can play a major role in poverty reduction in middle-income countries. A fundamental assumption of development cooperation is that poverty does not stop at our borders. A poor family in a middle-income country deserves our attention as much as a family in a low-income country. A world in which there is less poverty and more equality is also safer and more stable. However, as indicated above, different instruments are available (and required) to reduce poverty in middle-income countries.
7. It is also essential to devote attention to poverty and inequality in middle-income countries in light of the goals of the Netherlands' foreign policy, including enhancing prosperity, stability and security, energy and resource security and the international legal order. The importance of this has already been mentioned above. The significance of energy and resource security must primarily be seen in the context of the emerging debate on global public goods, a debate in which middle-income countries must play a more active part. This can be encouraged through a multifaceted and intensive development relationship – in other words by broadening development cooperation into *international cooperation*, as the AIV has argued in earlier advisory reports.
8. When engaging in international cooperation with countries as diverse as large MICs and small LICs, the choice of channel is important. In international cooperation with middle-income countries, the AIV foresees a greater role for the non-governmental sector, the private sector and the multilateral channels, and a smaller role for traditional bilateral channels. As far as boosting the role of the private sector is concerned, it should be noted that this also includes promoting a good business climate through legislation, and promoting corporate social responsibility (supply chain responsibility). With respect to promoting individual investment and cooperative ventures between the private sector and other social groups, the preferred strategy in the AIV's view is one of risk mitigation. In more stable economies, venture capital and modified credit are more appropriate models for mitigating risk than government grants.
9. A focus on international cooperation also avoids the dilemma posed by some commentators between self-reliance and poverty reduction in middle-income countries. As already indicated, the key to poverty reduction, and international efforts to support it, lies not so much in income transfers to middle-income countries as in promoting the rights of poorer groups, and access to decent work and to public economic and social services. Various instruments are available, including human rights and labour rights conventions, various forms of technical cooperation in the fields of social security and taxation, as well as support through the non-governmental channel to help deprived groups in different countries assert their needs and rights. Human rights violations like discrimination and exclusion are often at the root of inequality. Increasing global interdependence means that these

problems also affect us. Economic growth does not automatically lead to respect for human rights. International cooperation is therefore also concerned with people's basic right to socioeconomic security.

10. Geopolitical changes in the past 20 years have also resulted in changing dynamics in international cooperation, including the emergence of new donors whose goals may differ, the declining importance of ODA within expanding funding flows, the increasing importance of global public goods and a greater emphasis on policy coherence. It is important for the Netherlands to maintain or promote close bilateral and multilateral relations with emerging middle-income countries in order to achieve the main goals of foreign policy. MICs will acquire an increasingly important voice in discussions on global public goods and policy coherence, as can already be seen at the G20 and climate summits. The Netherlands can play a significant role in these developments if it pursues a clear and well-founded policy of international cooperation and diplomacy. Investing in such a policy may reap rewards. Another important topic is the emerging debate on large-scale investment in agricultural land in low-income countries. Large MICs are buying or leasing land in poorer countries, often leading to poor farming families being driven from the land. Statistics show, however, that this is a worldwide phenomenon, in which Western countries are just as active. The AIV therefore considers an international approach necessary, rather than one aimed solely at middle-income countries.

#### Consequences for development cooperation

11. Other bilateral, non-governmental or multilateral donors are currently also thinking about how to respond to the fact that the poor increasingly live in MICs. Consultations with the largest bilateral donors show that most have not yet worked out a clear policy, although it is clear that all donors are devoting greater attention to rising income inequality.
12. The AIV indicated back in its advisory report no. 74, 'The Post-2015 Development Agenda: the Millennium Development Goals in Perspective', that the Netherlands' policy should be geared more to international cooperation, strengthening economic, labour, social and cultural rights, and promoting guaranteed minimum incomes. At the same time it should be aimed at increasing policy coherence and securing the provision of global public goods. This can be supported financially by expenditure falling under the ODA norm for development cooperation for social public goods and by additional financing for other global public goods, for which other national resources and innovative international funding mechanisms will have to be mobilised. The AIV believes that implementing this policy is also the best option in respect of middle-income countries.
13. As indicated above, it is important to differentiate choices of channel when applying policy to different countries, taking account not only of the income criterion but also of a country's institutional and sociocultural dimensions.
14. The development cooperation instruments currently used in MICs must be updated. As indicated above, more attention should be given to international cooperation, particularly in relation to middle-income countries. That means, for example, examining whether private-sector programmes in MICs can reach poorer groups or purely contribute to economic growth. Some components of the private-sector programme, whose impact on poverty is still assessed on a project basis, could be more specifically targeted as a whole on the poorest groups and regions.

On the basis of these considerations, the AIV foresees the following priorities with respect to policy aimed at rapidly growing middle-income countries: to work together *with* these countries to achieve policy coherence in international cooperation and involve

them in the provision of global public goods. This could be achieved by introducing trilateral cooperation between high-, middle- and low-income countries. Such a multilateral and trilateral effort could then foster corporate social responsibility (including for the environment) and a better business climate *in* these countries. It could also promote human rights, including labour rights and a guaranteed minimum income, with a view to achieving a better distribution of income. Dutch policy on middle-income countries should be developed on the basis not only of an income poverty index, but also of multidimensional poverty indices. These show that each country has differing needs.

# I Worldwide patterns of poverty

## I.1 Income and poverty patterns

According to World Bank estimates, approximately 1.33 billion people lived below the poverty line of USD1.25 a day in 2008.<sup>1</sup> Around 1990 that figure was 1.67 billion. This fall in poverty can primarily be attributed to the reduction in the number of poor in China. As the AIV has already pointed out in an earlier advisory report, a poverty line of USD1.25 a day is extremely low and not enough for a decent human existence.<sup>2</sup> A higher, but still precarious, poverty criterion of USD2 a day would mean that two-fifths of the world's population (2.47 billion people) are living in poverty. Sumner has divided global poverty statistics into four categories: low-income countries (LICs), middle-income countries

### Estimates of the change in global distribution of world's \$1,25/day poor (percentage) 1988 versus 2007-8

	% of world's poor		Millions	
	1988-90	2007-8	1988-90	2007-8
<b>Middle-income country (MIC)</b>	<b>7</b>	<b>72</b>	<b>120.88</b>	<b>956.57</b>
MIC minus China and India	7	22	120.88	293.18
MIC FCAS	1	11	18.25	143.51
MIC NON-FCAS	6	61	102.64	813.06
<b>Low-income country (LIC)</b>	<b>93</b>	<b>28</b>	<b>1,547.13</b>	<b>370.76</b>
LIC minus China and India	31	28	406.68	370.76
LIC FCAS	13	12	210.08	156.38
LIC NON-FCAS	80	16	1,337.05	214.38
Fragile and conflict-affected states (FCAS = 43)	14	23	228.83	299.90
Sub-Sahara Africa	13	27	223.99	355.07
Least Development Countries (50)*	14	25	241.06	334.98
China and India	68	50	1,138.45	663.39
Total	100	100	1,668.02	1,328.69

Source: A. Sumner (2010), *Global Poverty and the New Bottom Billion: What if Three-quarters of the World's Poor Live in Middle-income Countries?*, IDS Working Paper 349, Sussex, IDS.

1 This poverty line of USD1.25 a day is based on 'Purchasing Power Parity Dollars' from 2008. For a discussion on this issue, see: Sumner, A., 'Where do the Poor Live?' *World Development*, Vol. 40-5, 2012.

2 AIV, 'The Post-2015 Development Agenda: The Millennium Development Goals in Perspective', Advisory Report no. 74, The Hague, April 2011.

(MICs), fragile states and conflict-affected states. On the basis of this categorisation, he makes the following observations: poverty in China and India has fallen by approximately 480 million people, while in Africa it has risen by 90 million people. In the least developed countries it has also risen by around 90 million people and in fragile states and conflict-affected states by 60 million people.<sup>3</sup>

These statistics show that income poverty has declined sharply in a small number of middle-income regions, but that a large proportion – the majority, in fact – of the world's poor still live in these countries. In Africa and in fragile states in other parts of the world the number of poor has increased.

#### Relative poverty in different regions of the world

<b>Regions:</b> between 1981 and 2008 income poverty declined as follows:	<b>Below the USD1.25 line</b>		<b>Below the USD2 line</b>	
	<b>1981</b>	<b>2008</b>	<b>1981</b>	<b>2008</b>
<b>Region/year</b>				
East Asia	77%	14%	92%	33%
South Asia	61%	36%	87%	71%
Sub-Saharan Africa	51%	47%	72%	69%
Middle East	10%	3%	30%	14%
Latin America	12%	6%	24%	12%
Eastern Europe / Central Asia	2%	0.5%	8%	2%

Source: World Bank, 2012.

#### Global poverty (in millions of people)

<b>Region/year</b>	<b>Below the USD1.25 line</b>		<b>Below the USD2 line</b>	
	<b>1981</b>	<b>2008</b>	<b>1981</b>	<b>2008</b>
East Asia	1096.5	284.4	1312.9	659.2
South Asia	568.4	570.9	810.6	1124.6
Sub-Saharan Africa	204.9	386.0	287.6	562.3
Middle East	16.5	8.6	51.8	44.4
Latin America	43.3	36.8	86.6	70.5
Eastern Europe / Central Asia	8.2	2.2	35.7	10.4

Source: World Bank, 2012.

3 In June 2012 Sumner adjusted these statistics slightly on the basis of new World Bank data. For 2008 he now estimates that 1.24 billion people were living below the poverty line of USD1.25 a day and 2.36 billion under the line of USD2 a day. These new estimates do not affect the relative distribution of poverty and the conclusion that three-quarters of all poor people live in middle-income countries. A. Sumner, 'Where do the Poor Live? A New Update', IDS Working Paper 2012-393, Sussex, IDS.

## 1.2 Projections of poverty

Several authors, including Chandy and Gertz, have extrapolated the poverty statistics for 2008 to the present or to 2015.<sup>4</sup> India changes from a stable, low-income country into a less stable middle-income country, and the number of poor falls. Nigeria and Pakistan become more prosperous but also more fragile. On the other hand Ravallion, for example, believes that Chandy and Gertz are too optimistic about the fall in poverty, because they do not take sufficient account of the increasing inequality that accompanies economic growth, such as in China and India.<sup>5</sup>

Projections aim to provide a picture of poverty in the future, based on a number of explicit and implicit policy assumptions. The 2010 Global Monitoring Report (GMR), for example, analyses the risks to the Millennium Development Goals (MDGs) on the basis of three scenarios relating to Gross National Product (GNP) in developing countries after the financial crisis:

- Post-crisis trend. The expectation is a trend of relatively rapid economic recovery after the crisis in 2010, with strong growth that will continue in the future. This is the basic prediction of the GMR.
- Pre-crisis trend. The pre-crisis trend (high growth) presents the predicted outcome for the MDGs if developing countries had continued the impressive growth levels they enjoyed between 2000 and 2007, the period preceding the economic crisis. The impact of the crisis on the MDGs could then be measured by comparing the post-crisis trend with the situation just before the crisis.
- The low-growth scenario assumes that the situation will worsen because the crisis will continue in the medium to long term. There will be little or no growth in the coming five years and after that it will only recover slowly.

The GMR predicts the following developments in relation to poverty:

- In all of these growth scenarios it is likely that, if poverty is measured on the basis of a poverty line of USD1.25 a day, the MDG to halve poverty will be achieved, or has already been achieved.
- Even in the low-growth scenario East Asia and the Pacific will achieve the poverty MDG. This can largely be attributed to China's success in reducing poverty.
- South Asia will, depending on India's performance, achieve the poverty MDG in the post-crisis trend, unless economic growth remains low.
- Middle-income countries in Europe and Central Asia will not achieve the poverty MDG, whether the poverty line is set at USD1.25 or at USD2 a day.

The AIV shares Ravallion's criticism of the overly optimistic projections by Chandy and Gertz and believes that the high growth figures for Africa must also be viewed critically. This growth is largely the result of the exploitation of raw materials (and rising commodity prices), tourism and the service sector, factors which often increase inequality. Such

4 L. Chandy, G. Gertz, 'Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015', Global Economy and Development, Policy Brief 2011-01, Brookings Institution, Washington, January 2011 and <[http://www.brookings.edu/opinions/2011/0517\\_global\\_poverty\\_trends\\_chandy.aspx](http://www.brookings.edu/opinions/2011/0517_global_poverty_trends_chandy.aspx)>.

5 M. Ravallion, 'New Brookings Study is Overly Optimistic on Progress Against Poverty', 18 February 2011, <<http://blogs.worldbank.org/developmenttalk/new-brookings-study-is-overly-optimistic-on-progress-against-poverty>>.

growth can therefore occur without economic transformation (diversification of the economy, improvement in the productivity of land and work, and an increase in technical capacities), or indeed social and political transformation. Without such change, growth is unlikely to be sustainable.

During the writing of this advisory report Karver, Kenny and Sumner (KKS)<sup>6</sup> and the Overseas Development Institute (ODI)<sup>7</sup> published projections of poverty up to 2025 and 2030 on the basis of various assumptions. In KKS' optimistic scenario the growth in GNP from 2009 to 2014 estimated by the IMF continues until 2030; in their moderately optimistic scenario there is 1% less growth; and in their pessimistic scenario, growth up to 2030 will be half of that estimated by the IMF. These scenarios produce rather varied projections of poverty in 2030. Based on the poverty line of USD2 a day there will be 558 million poor under the optimistic scenario, 790 million under the moderately optimistic scenario and 1,574 million under the pessimistic scenario. The problem with these estimates is that they take no account of possible (negative) changes in income distribution and their possible social consequences. The ODI's projections are based on rapid growth and a faster decline in poverty in India and Indonesia, and focus mainly on the difference between fragile and non-fragile states. On the basis of these assumptions the ODI concludes that after 2025 most of the world's poor will live in fragile states. With these various projections in mind, the AIV observes that although the conclusion that almost three-quarters of the world's poor currently live in middle-income countries may be generally accepted, projections based on widely varying assumptions differ considerably regarding where the poor will be living in the future. Viewed as a whole, then, these rough projections can contribute little to general policy insights. It is therefore advisable to assess the reliability of all these different projections of poverty from year to year.

### **1.3 Some qualifying comments on the poverty figures**

The image of shifting poverty patterns stems largely from the fact that a number of large developing countries are now classified as middle-income countries. This classification is based solely on financial indicators, both in terms of how poverty is measured (income lower than USD1.25 a day) and the criterion for middle-income country status (per capita GDP higher than USD1,040 a year), and not on other indicators of poverty, as will be discussed in the following sections. These poverty statistics, however, do not provide a complete picture of the changes experienced by the various groups of poor people: families classified in the past as poor may later have risen above the poverty line, while others may have fallen below it. This creates a static picture of poverty that does not distinguish between long-term and temporary poverty, while this distinction is important to economic, social and cultural policy. In addition the poverty figures show absolute poverty. Besides absolute poverty, it is also important to address relative poverty, i.e. poverty in relation to the incomes and prosperity of others. Prosperity and income poverty have a significant impact on relative poverty, as is argued later in this report.

6 J. Karver, C. Kenny & A. Sumner 'MDGs: What Goals, Targets and Timeframe?', CGD Working Paper, Center for Global Development, Washington, 2012.

7 ODI, 'Horizon 2025 Creative Destruction in the Aid Industry', London, 2012.

#### **I.4 Changing views of poverty**

For a long time poverty research laid a heavy emphasis on structural factors. The assumption was that poor groups would have difficulty extracting themselves from their unfavourable circumstances because of the structural conditions in which they lived.<sup>8</sup> This emphasis on unfavourable structural circumstances meant that the poor were often seen as victims.

Current poverty research focuses less on what people do not have and more on what they do have.<sup>9</sup> According to Bourdieu households possess various kinds of capital: financial and physical capital, which can easily be expressed in terms of money; natural capital, like land; human capital, including skilled and unskilled labour; social capital (social networks), and cultural capital (knowledge, norms and values, etc.).<sup>10</sup> They make active use of these different kinds of capital. In theory, though often not in practice, these forms of capital are interchangeable.

The following factors have helped improve the situation of the poor in a number of countries in the recent period:

1. Rapid economic growth, especially in Brazil, Russia, India and China (the BRIC countries) but also in a number of other, usually resource-rich, countries.
2. Especially in Latin America: new programmes, such as ‘bonos’ – direct income transfers to the poor by the government, government expenditure on education, conditional money transfers, and other social security transfers (as in Brazil, Venezuela and Bolivia).
3. In some countries, empowerment of indigenous groups, combined with a redefinition of the concept of development (‘vivir bien’ in Latin America, and the ‘happiness index’ in Bhutan). In its advisory report no. 74 (p. 54), the AIV referred to useful recommendations for broadening the measurement of development in the report by the Stiglitz-Sen-Fitoussi Commission.<sup>11</sup> Sustainability plays an important role in this respect. The AIV will examine this issue in greater detail in its upcoming report on environmental global public goods.
4. Migrants transfer large amounts in remittances to their countries of origin: the Asian diaspora is estimated at upwards of 70 million people and the Latin American at more than 25 million. African migrants mainly come from Nigeria, Senegal and South Africa.<sup>12</sup>

8 O. Lewis, ‘The Culture of Poverty’, *Scientific American*, 215(4), 1966, pp. 19-25.

9 A. Bebbington, ‘Capitals and Capabilities: A Framework for Analyzing Peasant Viability, Rural Livelihoods and Poverty’, *World Development* 27 (12), 1999, pp. 2021-2044.

10 P. Bourdieu, *Distinction. A Social Critique of the Judgement of Taste*, Cambridge Mass. Harvard University Press, 1984.

11 J. Stiglitz, A. Sen, J. Fitoussi, ‘Report by the Commission on the Measurement of Economic Performance and Social Progress’, Paris 2009.

12 G. Sheffer, *Diaspora Politics: At Home Abroad*, Cambridge: Cambridge University Press, 2003.



These new insights into the origins of poverty and how it is declining have led to diverse methods for measuring and achieving a more accurate picture of poverty's multidimensional aspect. These will be discussed in the next section.

### **1.5 Measuring a broader concept of poverty**

A multidimensional method of measuring poverty and social deprivation used since 1990 is the Human Development Index (HDI), which is compiled on the basis of indicators of health, education and income. According to the HDI, in 2011 countries like China, India, South Africa and Indonesia belonged in the category of 'medium human development' countries. Nigeria, a middle-income country, is classified as having 'low human development' while Brazil, together with Turkey and Tunisia, is a 'high human development' country. There is also a 'very high development' category. In its report no. 74, however, the AIV indicated that a high score on the HDI does not necessarily mean a high level of democratisation, as developments in the Arab world have shown.

The recently developed Inequality Adjusted HDI (IHDI) and Gender Inequality Index (GHI) correct the HDI in respect of inequality and gender inequality. As a consequence the US ranks 19 points lower in the IHDI than in the HDI. Only Colombia falls more sharply – by 24 points. In the GHI, Saudi Arabia falls from 56th place to 135th, while Liberia rises from 184th to 139th.

Income inequality is greatest in Latin America. Education inequality is largest in South Asia and the Middle East, while health inequality is most prevalent in Sub-Saharan Africa. East Asia, the Pacific, Eastern Europe and Central Asia are relatively egalitarian.

The MDGs, too, have led to measurement of the different dimensions of poverty. Various reports by the UN and, for example, the Gates Foundation provide similar overviews and country maps. It is therefore important to determine what form of poverty is being referred to and whether it can be reduced simply by increasing income.

A more recent index is the Multidimensional Poverty Index (MPI), developed by Alkire and Foster.<sup>13</sup> The MPI combines three factors of poverty (prosperity, health and education) in 10 detailed sub-factors in a different way to the HDI. According to this index there were 1.65 billion poor people in 2011, of which 1,189 million lived in MICs and 459 million in LICs. 35% of the poor (586 million) live in fragile states (according to the OECD classification); that is more than live in LICs. In 25 fragile states the MPI calculates the number of poor as one-and-a-half times higher than the statistics based on the USD1.25 a day norm. The MPI also has twice as many poor people living in MICs, and shows that different countries combat poverty in different ways: for example, Bangladesh fights poverty on all fronts, Kenya focuses on standards of living, while Bolivia is aiming at improvements in water and sanitation and in education.<sup>14</sup> The MPI provides new insights that can be used together with the different variants of the HDI to acquire a better picture of a broader concept of poverty. However, because the MPI is new, there are as yet no figures available covering a period of time.

13 S. Alkire, J. Roche, M. Santos and S. Seth, 'Multidimensional Poverty Index', Oxford Poverty and Human Development Initiative, 2011.

14 See <<http://www.ophi.org.uk/policy/multidimensional-poverty-index>>.

On the basis of these and more detailed data we can obtain a better insight into where poverty is especially difficult to address and where new forms of poverty and inequality arise:

1. Young people: they often aspire to move to the cities, but there is a lack of employment opportunities.
2. Urban poverty: with the emergence of mega-cities, a growing proportion of the urban population lives far from their work and spends a large part of their income on commuting.
3. In areas with a lot of temporary international migration: children and parents remain behind, and family relationships have to be conducted at great distances.
4. Cultural poverty: means of cultural expression of marginalised groups are often not recognised.
5. Women: they still form a relatively large proportion of the poor, especially in areas where it is the men who leave in search of work (recently, however, it is increasingly the women who leave to seek work).
6. Indigenous groups: these remain the poorer groups in their societies. In many countries (e.g. Bolivia and Ecuador) these groups are now achieving greater equality (see AIV advisory report number 74, p. 32 for more on indigenous groups and poverty).
7. New vulnerabilities and insecurity resulting from globalisation and/or climate change: in response to the climate and energy crisis, large-scale investment is being made in land (food and biofuels). This is often at the expense of land and water use by local groups.<sup>15</sup>

## **1.6 Poverty in the light of a number of current themes**

Further to the government's request, the relationship between poverty and a number of important themes is outlined below. This outline cannot possibly cover all themes. The absence of a theme (for example, industrialisation) thus does not mean that the AIV does not consider it important in the context of poverty.

### **1.6.1 Demography, migration, and rural and urban poverty**

Almost half (48.5%) of all young people (up the age of 24) live in families in the lowest 40% of global income distribution groups and have to make do with only 9% of worldwide income.<sup>16</sup> This can result in 'youth bulge', large numbers of young people frustrated by the lack of opportunities, which can cause instability and thus poverty.

Studies at household level show that the risk of poverty is lower in families with fewer children, but there is no evidence to support the assumption that poverty leads to greater reproduction. The global fall in reproduction has also occurred in areas affected by poverty, partly as a result of targeted programmes. It is therefore necessary to continue investing

15 K. Deininger, D. Byerlee, 'Rising Global Interest in Farmland. Can it yield Sustainable and Equitable Benefits?' Washington DC: The World Bank, 2010; A. Zoomers, 'Globalization and the Foreignization of Space: The Seven Processes driving the Current Global Land grab', *Journal of Peasant Studies*, 37:2, 2010, pp. 429-447.

16 I. Ortiz and M. Cummins, 'Global Inequality: Beyond the Bottom Billion – a Rapid Review of Income Distribution in 141 Countries', in: *Child Poverty and Inequality*, UNICEF, New York, 2012.

in reproductive health. There is also a consensus on the 'demographic dividend'.<sup>17</sup> Some African and Arab countries need to reap the benefit of the dividend now, as the opposite effect will emerge later: demographic ageing will quickly have a disadvantageous impact on the ratio between active and non-active groups, with a negative impact on prosperity. This effect is drawing ever closer in large middle-income countries like China and Indonesia.

Significant variations in poverty are related to the living environment. In countries with a high or very high HDI score more than 75% of the population live in cities, while in countries with a moderate HDI score that figure is 41%, and in countries with a low HDI score, 34%.<sup>18</sup> Cities can be large and efficient sources of prosperity.<sup>19</sup> Contributing factors include better access to education, social services and infrastructure.

Nevertheless a third, or one billion, of all urban dwellers in developing countries currently live in slums. Whereas development efforts used to focus on rural areas, they now concentrate on urban slums, especially in MICs. Donors should also take this into account.

The distinction between the rural and urban population in terms of poverty is, however, not absolute or static. Most urban population growth is no longer caused by migration from the countryside, but by the endogenous growth of the urban population itself. What is more, people increasingly live in both worlds and their households reflect this.<sup>20</sup>

Extreme international migration can create areas in which only the old and the children remain behind, as a result of which the areas cannot develop adequately.

### **1.6.2 Cultural poverty**

In the era of accelerated globalisation cultural poverty is becoming an increasingly widespread problem. Cultural poverty is a lack of access to information and communication, and the right to possess and express one's own identity. People who are economically marginalised often have less access to culture, knowledge and information, making them less able to defend their cultural identities. Cultural poverty is also expressed in cultural rights, as laid down in the Fribourg Declaration on Cultural

17 AIV, 'Demographic Changes and Development Cooperation', Advisory Report no. 66, The Hague, July 2009.

18 UNDP, Human Development Report 2011, Statistical Table: 'Population and Economy', New York 2011.

19 UNFPA, World Population Report 2007 Unleashing the Potential of Urban Growth; S. Bartlett, 'Children in Urban Poverty: Can They Get More than Small Change?' in: Child Poverty and Inequality, New Perspectives, UNICEF, New York 2012.

20 D. Bryceson, 'Peasant Theories and Peasant Policies: Past and Present', 2000, in: D. Bryceson, C. Kay and J. Mooij (eds.), *Disappearing Peasantries? Rural Labour in Africa, Asia and Latin America*, London, Intermediate Technology Publications, 1-36. T. Reardon, J. Berdegue and G. Escobar, 'Rural Nonfarm Employment and Incomes in Latin America: Overview and Policy Implications', *World Development*, Vol. 29, 3, 2001, pp. 395-409.

Rights (2007).<sup>21</sup> The cultural expressions of marginalised groups like refugees, migrants, farm labourers, the urban unemployed, ethnic minorities, etc., are often not recognised. They often have little or no access to good education and limited rights to use their own language. The production of culture and knowledge is a process that is led by the institutions in a society, including the education system. The MDGs focus primarily on the importance of access to education.<sup>22</sup>

### **1.6.3 Poverty and gender**

In addition to material dimensions like personal consumption and access to public services and capital goods, the model of the poverty pyramid also contains the dimensions of dignity, autonomy and free time.<sup>23</sup> These immaterial dimensions usually remain invisible in development agendas and statistics because issues like violence against women and a lack of reproductive and sexual rights classically manifest themselves in the 'private' domain of the household and family or in the division of labour between men and women, where women perform the lion's share of unpaid work. Nevertheless these issues present significant obstacles to women's economic and political development, and are therefore dimensions of poverty. For women a non-static definition of poverty is crucial, as the statistical definition conceals important elements of poverty. As data on country-specific gender trends in poverty and unequal development are often lacking, it remains difficult to measure the 'feminisation of poverty' identified by the Beijing Platform for Action (1995).

The feminisation of poverty aside, the patterns and causes of poverty are different for men and women. Divorce, for example, has greater adverse effects on women if they only acquire access to resources through marriage. In other contexts women are actually better off without a husband who benefits from her labour. This observation, too, indicates that the income classification ignores the context of women's poverty.

International gender policy is often focused on the economic participation of women, through education for girls and through promoting their access to paid work, land and credit. Analysis of quantitative data from the World Bank and the OECD, however, shows that stricter gender norms and practices sometimes prove more important in promoting women's participation than legislation.

The 2012 World Development Report has therefore partially abandoned the instrumental approach of equal rights and opportunities for women as an intermediate goal in promoting access to resources: equal rights and opportunities is now a goal in itself. That is not to say that the instrumental approach is irrelevant. Sustained gender inequality results in a loss of productivity, lower economic growth, and unhealthier and less well-educated subsequent generations.

21 'Violations of one's cultural rights are a negation of one's capacities to live freely the lifelong ongoing process of self-identification. Cultural poverty, then, is the basis of all other forms of poverty, as it prevents from escaping the never-ending cycle of precariousness and is an obstacle to both individual and collective development. Therefore, considering the cultural resources and cultural rights of the destitute should be the priority in the struggle against poverty.' (Fribourg Declaration).

22 F.B. Nyamnjoh, 'Eradicating "cultural poverty"', *The Broker*, 2010.

23 UNIFEM, 'Progress of the World's Women 2000', New York, 2000.

## II Country classifications

The observation that most poor people no longer live in poor countries is of course closely related to the distinction between low-income countries and middle-income countries.<sup>24</sup> According to Kaplan this distinction presents a distorted picture as it determines the status of a country on the basis of a single indicator: per capita income.<sup>25</sup> This indicator can be misleading in many ways. If, for example, a country possesses oil or other natural resources which can be exploited in small enclaves, average national income says little about the country's progress in pursuing development or the general prosperity of the population as a whole. Nigeria, Angola and Sudan are middle-income countries according to the World Bank, but all have problems that are typical of less developed countries. A substantial fall in commodity prices would have a direct impact on their average income. Another situation occurs when a country's national debt rises out of control, as happened in many developing countries in the 1970s. It then often becomes impossible to maintain the income level of the country concerned, irrespective of how incomes are distributed. Between 1978 and 2003 25 countries fell back from middle- to low-income status. Most of the countries that have risen to middle-income status in the past ten years have already held that status at some time in the past. If countries with a low HDI score were to be indexed, there would be 46 in the lowest category, rather than 35.<sup>26</sup>

The reduction in the number of low-income countries can therefore certainly be qualified to some extent. First of all because of developments in densely populated China, which according to the World Bank displayed some of the characteristics of a low-middle-income country long before it officially received that status in 1999. The HDI indicators and capacities of the government were much stronger in China than in most LICs. In addition the number of poor people fell sharply in the 1980s and 1990s (a number of countries that later rose to the status of MIC have yet to succeed in reducing poverty). Furthermore, Indonesia has once again risen to the level of MIC, after falling back as a consequence of the Asian financial crisis. On the other hand, Nigeria and Pakistan should not actually have middle-income status: both countries have enormous governance problems and a very low HDI score, which makes the rise to a higher classification misleading. Nigeria is only a middle-income country because of its oil exports. Consequently, of the five most heavily populated countries that have risen to middle-income status (China, India, Indonesia, Nigeria and Pakistan), India is the only one that has genuinely achieved it through consistent development. However, the rise still conceals the great discrepancies in development between different parts of the country: northern India could still be seen as a low-income area. Lastly it is worth emphasising again that the major shift in global poverty is based almost entirely on developments in a small number of large, heavily populated countries. If these countries are left out of the equation there are no percentual changes in numbers of poor in middle-income countries.

24 The classification of countries affects their access to cheap loans from multilateral banks, to donor funds (see 2006 European Consensus on Development) and to markets.

25 S. Kaplan, 'Do World Bank Country Classifications Hurt the Poor?' Carnegie Council, 2012, <<http://www.policyinnovations.org/ideas/innovations/data/000208>>.

26 *Ibid.*

As the above discussion makes clear, although a country classification is important in analysing poverty patterns it is of little use for international cooperation because the differences between middle-income countries are too great. Both LICs and MICs include fragile countries and countries in conflict, as well as countries with a good administrative infrastructure or a functioning democracy. Sociocultural factors are also important.

The AIV therefore believes that it is not really feasible to pursue detailed policy on the basis of non-detailed country classifications. Policy will require access to a wide range of instruments and assessments can be made of what mix of instruments makes sense in each country. Some countries may require more focus on good governance, while in others different issues might demand greater attention.

In the first instance policy should be targeted at the level of development and not at income levels. This entails taking political, social and economic developments into consideration, and specifically taking a more nuanced view of economic developments. Secondly, a greater variety of social, economic and political indicators should be taken into account, following the example of the United Nations' HDI. These could include, for example, the quality of public services, the country's macroeconomic status, and the degree of export diversification and of social conflict. Income levels are of course also taken into account but weigh much less heavily in the classification.

Thirdly a more accurate indexing system would contain more categories for classification, doing greater justice to the world's complexity. These could be selected on the basis of countries' unique properties (for example, countries that are largely dependent on petrochemical exports and achieve little progress in human development), as well as on the basis of regional factors. A non-detailed national indexing system says little, for example, about the current unstable situation in a country like Mali, where the only solution appears to be cooperation at international level, for instance by supporting regional organisations like ECOWAS.

### III Poverty, growth and income inequality

The AIV has already noted that global poverty has declined significantly in percentage terms, largely because of the reduction in poverty in China. However, income inequality remains unchanged, despite the fall in poverty worldwide and in the inequality of GDP between states.<sup>27</sup> This is the result of growing income inequality within countries themselves.

Consequently, inequality within countries is returning as a theme in the current development debate. Tinbergen devoted a great deal of attention to this issue in the 1970s but since the introduction of the market forces approach and related structural adjustment programmes in the 1980s, income inequality has played almost no part in the debate on international cooperation on development. In 2010, however, the government sent a letter to parliament on the issue.<sup>28</sup> There are a number of reasons why this theme is making a comeback. Firstly, some groups are worse off, or have been left behind, as a result of the worldwide economic changes that have led to more rapid growth and the associated reduction in poverty. That calls for a policy of redistribution in favour of the groups and families that have not benefited from these processes. Secondly, there is scope for achieving a level of growth whereby income inequality does not increase, or even decreases, as occurred in the past in South Korea and in the case of other 'Asian tigers'. Between 1965 and 1980 these countries achieved rapid development through a combination of redistribution policies (access to land and economic resources), access to education and other social services, and rapid industrial development. An important example today is Brazil, where poverty reduction has been achieved in combination with economic growth, largely due to a rapid rise in the income of the poor. Ricardo Paes de Barros states that the lowest incomes are growing at 'Chinese speed' while the highest are growing at 'German speed'.<sup>29</sup>

Research shows that persistent inequality can have a negative impact on countries' development prospects.<sup>30</sup> It can restrict the access of poorer groups to credit, liquid assets, health care and education, basic infrastructure, employment and political representation. Inequality also expresses itself in an unfair distribution of the revenues from resources, as a result of which structural changes occur more slowly. In addition richer groups can create institutions that maintain this unequal distribution of prosperity and status, which in turn has a negative impact on innovation, risk-taking and progressive

27 P. Olinto and J. Saavedra, 'An Overview of Global Inequality' in World Bank, *Inequality in Focus*, Vol. 1.1, Spring 2012.

28 Ministry of Foreign Affairs, Policy Memorandum on Growth, Poverty and Inequality, Parliamentary Papers, 31 250, no. 72, session 2009-2010.

29 R. Paes de Barros, M. de Carvalho, S. Franco, and R. Mendoca, 'Markets, the State, and the Dynamics of Inequality in Brazil,' in *Declining Inequality in Latin America: A Decade of Progress?* eds. L.F. Lopez-Calva and N. Lustig., Washington DC, The Brookings Institution Press, 2010.

30 R. van der Hoeven, 'Income Inequality and Employment Revisited: Can one make sense of economic policy?', *Journal of Human Development and Capabilities: A multi-disciplinary journal for People Centered Development*, 11 (1), pp. 67-84, (2010).

investment.<sup>31</sup> In East Asia there are concerns that rising inequality (despite being lower than in Latin America and Africa) is having a polarising effect on society, generating social tensions and undermining growth. In Latin America there are growing concerns about the lack of opportunities for many citizens and about the social conflict that could arise from major differences in living standards. Equal opportunities mean that factors like gender, caste, ethnicity, place of birth and family background have no impact on one's access to basic services and therefore have very little influence on one's chances of success in society.

31 World Bank, World Development Report, (Washington 2006).



## **IV Post-2015 development agenda**

The fact that most of the poor now live in middle-income countries and that economic growth and redistribution are not progressing evenly has consequences for the development agenda after 2015. In the above-mentioned advisory report,<sup>32</sup> the AIV described the clear outlines of a post-2015 development agenda. The main points of that report, which are also relevant to this report on the emergence of middle-income countries, are as follows.

A consultative process for the post-2015 system must take account of the position of developing countries and involve them. The recent High-level Panel on a Post 2015 Development Agenda set up by the UN Secretary-General should take the lead in this respect.<sup>33</sup> In addition, a post-2015 system would have to be based more firmly on the capabilities approach of Nobel Prize winner Amartya Sen, in which development means more freedom. A post-2015 system can contribute to this, by improving ways of measuring prosperity, striving to reduce inequality within countries and paying more attention to human rights principles, peace and security, and effective state institutions.

Three principles inherent in the human rights approach are especially relevant to a post-2015 system: non-discrimination, participation and accountability. It is also important to refer to general human rights conventions with a view to ensuring compliance with other relevant human rights obligations.

One of the tasks of global governance in a post-2015 system lies in the area of global public goods, which increasingly can also be produced and consumed by middle-income countries. Middle-income countries are concerned, however, about erosion of their national sovereignty, while developed countries are afraid that they will have to finance many of the global public goods. Although the debate on global public goods should be conducted with due care, it is important to establish a clear link between goals in a post-2015 system and global public goods, because no one can or may be excluded from either. In funding global public goods, a distinction should be made between socially oriented global public goods (with the 0.7% ODA norm as guiding principle) and other public goods, for which national resources other than ODA and innovative international funding methods will have to be mobilised.<sup>34</sup>

### **IV.1 Changing geopolitical relations**

The increased economic and political weight of middle-income countries will be expressed more and more through an expanded role in global organisations. China, India, Brazil and South Africa are either permanent members or hold rotating seats on the governing

32 AIV, 'The Post-2015 Development Agenda: The Millennium Development Goals in Perspective', Advisory Report no. 74, 2011.

33 United Nations press release, 31 July 2012, <[http://www.un.org/millenniumgoals/Press%20release\\_post-2015panel.pdf](http://www.un.org/millenniumgoals/Press%20release_post-2015panel.pdf)>.

34 AIV, 'The Post-2015 Development Agenda: The Millennium Development Goals in Perspective' Advisory Report no. 74, 2011, p. 12.

boards of the World Bank and the IMF. These countries could, realignment of voting powers notwithstanding, use their positions to act jointly and so influence decision-making. They could even change the rules and become the collective voice of the developing countries. India and Brazil have already done this at the World Trade Organisation (WTO). They also acted jointly at the climate conference in Copenhagen, and they are knocking at the door of the UN Security Council, of which China is a permanent member.<sup>35</sup> Their increasingly influential role is also recognised in their membership of the G20, along with Argentina, Mexico, Indonesia and Turkey, among others. These countries are formulating their own development corporation policies with poor countries outside the traditional framework of the OECD Development Assistance Committee (DAC), often deploying different criteria than those of the DAC. That makes it important for middle-income countries to be more closely involved, within the various international fora, on a number of crucial international issues, including the identification, control and financing of global public goods, international policy coherence and in the field of human rights. In short, what is needed is better international cooperation. The Netherlands has recently made a small contribution to that end by sharing its seat at the IMF with Belgium, so as to give developing countries a greater voice.

#### **IV.2 Financial flows**

The funding of development in a post-2015 agenda remains inherently linked to changing geopolitical relations.<sup>36</sup> The European sovereign debt crisis and the uneven global economic recovery have generated a great aversion to risk, which in turn has led to an increase in volatile private capital flows. Volatile capital flows from developed economies continue to pose a threat to the growth cycle in developing economies. At the same time, ODA and other forms of capital flows are being disrupted by enormous government cutbacks and national debt problems in developing countries. Like private capital flows, aid capital depends on cycles and has therefore become volatile. The effects of development financing are being seriously disrupted by shortcomings in international cooperation in terms of increases in ODA and the absence of adequate mechanisms to tackle internal financial problems, as the current debt crisis and lack of economic growth in Europe show.<sup>37</sup> Reforms in the international financial system must focus on risk reduction and reducing volatile official and private capital flows. Mechanisms to achieve this, including improved legislation and reform of the global reserve system, are crucial to preserving policy freedom in developing countries and safeguarding development funding.

#### **IV.3 Coherence**

Effective poverty reduction is the sum of many different factors. A very important and often underexposed factor is the external impact of all kinds of policies pursued by rich countries on development and poverty reduction in low- and middle-income countries. High protection requirements for intellectual property rights, high tariffs on imports

35 D. Nayar, 'The Financial Crisis, the Great Recession and the Developing World', *Global Policy*, Volume 2 (1), January 2011, p. 29.

36 United Nations, *World Economic and Social Survey 2012*, Washington, 2012.

37 P. van Bergeijk, A. de Haan and R. van der Hoeven, *The Financial Crisis and Developing Countries*, Edward Elgar, Cheltenham, 2011, Chapter 1.

from developing countries, export subsidies on agricultural products and other forms of extensive trade-distorting agricultural support are all good examples of this. Not only LICs, but also the poor in MICs are vulnerable to such negative external effects.

The consequences of instability for financial markets, climate change and erosion of the multilateral trade system are also felt by poor people in low- and middle-income countries. They are often confronted more strongly in their daily lives with the scarcity of the above-mentioned global public goods while they, and often their governments, do not bear responsibility for it and little or no account of their views is taken in international efforts to tackle it.<sup>38</sup> The consequences of erosion of food security, peace and the legal order (such as the failure to regulate the arms trade) are examples of other 'global public goods' that can have a severe negative impact on poverty reduction.

#### **IV.4 Global public goods**

In its advisory report on the post-2015 development agenda the AIV notes that, in the international arena, the debate is being further determined by whether or not the political will exists to put certain themes on the agenda. Partly for this reason it is necessary to elaborate two important arguments when forming the conceptual basis for the post-2015 development agenda: one based on human rights and the other on global public goods. Given that the government submitted a separate request for advice to the AIV this year on global public goods, and on environmental goods in particular, this issue is examined only summarily in this report.

#### **IV.5 Sustainability, environment and inequality**

UNDP's 2011 Human Development Report devotes considerable attention to the relationship between sustainability and equality, and indicates that the current trend of increasing prosperity in various groups of developing countries could be reversed if unfavourable environmental conditions and social inequality continue to increase. The poorest groups in both low- and middle-income countries suffer most from adverse environmental conditions and lack the political power to bring about change.

A recent phenomenon is the emergence of new processes of displacement.<sup>39</sup> A worldwide land rush has been underway since 2009, focused on Sub-Saharan Africa, but also in Asia and Latin America. In response to the food, climate and energy crises, relatively capital-rich businesses from countries with limited land at their disposal, such as the Gulf States (including Qatar), Saudi Arabia, South Korea, Japan and China have been trying to gain access to land in Sub-Saharan Africa to cultivate food and biofuels. Businesses from other middle-income countries like Brazil, India and South Africa, as well as a substantial number of European and American businesses, are also investing in cheap farmland in African countries.<sup>40</sup> This new form of agriculture abroad is controversial because,

38 See the policy memorandum 'The Development Dimension of Priority International Public Goods', Parliamentary Papers 33000 V no. H, 4 November 2011.

39 A. Zoomers, 'Grootschalige landverwerving in Afrika' (Large-scale Land Acquisition in Africa), *Internationale Spectator*, vol 66. No. 7/8, Clingendael, July 2012.

40 W. Anseeuw, M. Boche, T. Breu, M. Giger, J. Lay, P. Messerli and K. Nolte, 'Transnational Land Deals for the Global South; Analytical Report based on the Land Matrix Data', April 2012.

although it generates new development opportunities (e.g. infrastructure, technology and employment), critics claim that large-scale land acquisition often occurs at the expense of local groups, who are threatened and excluded.<sup>41</sup> There is as yet little clarity about just how much land is being affected. Estimates of the extent of large-scale land acquisitions range from 47 million hectares in 2010 to more than 200 million hectares in 2012. The wide variation is partly because of significant differences in definition.<sup>42</sup>

The AIV believes that this phenomenon, in which both developed and middle-income countries are involved, should be the subject of international debate and legislation, and is willing, if requested, to produce an advisory report on the issue.

#### **IV.6 Inequality and the importance of a human rights approach**

In the AIV's view, making inequality visible is only a first step towards a post-2015 development agenda. Human rights violations like discrimination and exclusion are underlying causes of inequality, together with the absence of opportunities for political and economic participation and the lack of governments' accountability to their own peoples. Explicitly identifying these underlying structural causes of inequality creates scope for a specific focus on the issue and for a tailor-made approach. As the AIV wrote in a recent advisory report, 'there is no automatic positive correlation between economic growth and respect for human rights, or between prosperity and its even distribution among the entire population.'<sup>43</sup> Economic freedoms can quite easily co-exist with a lack of respect for citizens' rights or political freedoms. The human rights perspective offers a principles-based framework for action and promotes sustainable progress based on the rights of individuals and groups and the obligations of states.

A human rights approach does not make reaching consensus any easier, especially when it comes to seeking solutions to distribution issues. Prevailing distribution patterns are usually based on existing national and international power relations and are maintained by means of human rights violations. It will be difficult if not impossible to change these unjust relations without a political struggle. Such political engagement will initially have to come from the citizens of the middle-income countries themselves. An active civil society is a precondition for achieving change, and support from the international community (both bilateral and multilateral) is of crucial importance.<sup>44</sup>

A human rights approach in middle-income countries also calls for an active policy on the part of the government in respect of companies located in the Netherlands that invest in MICs or conduct business with them (supply chain responsibility).<sup>45</sup> These

41 Critics include NGOs like Via Campesina and Oxfam/Novib, as well as the UN Special Rapporteur on the right to food, Olivier de Schutter.

42 World Bank 2011, see, for example, <<http://www.grain.org> and [www.landcoalition.org](http://www.landcoalition.org)>.

43 AIV, 'The Human Rights Policy of the Dutch Government: Identifying Constants in a Changing World', Advisory Report no. 73, The Hague, February 2011.

44 AIV, 'The Receptor Approach: A Question of Weight and Measure', Advisory Letter no. 21, The Hague, April 2012.

45 See also SER, 'Development through Sustainable Enterprise', The Hague, 2011.

businesses can make an important contribution to economic development, growth and redistribution, as long as they comply with standards, agreements and guidelines relating to corporate social responsibility (CSR). They can be expected to respect the basic labour standards of the International Labour Organization, the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises, and to incorporate them in their business policies. They should also apply the 'Ruggie framework', the guidelines adopted in 2011 by the UN on business and human rights.<sup>46</sup> The current policy of promoting and facilitating CSR should be extended to encompass the government's role as legislator and its associated supervisory tasks. The government writes that it 'will campaign for the Ruggie framework to become part of existing international business standards [...]' and that 'the Netherlands will also actively foster the further acceptance and implementation of the Ruggie framework, both within the UN and at national level'.<sup>47</sup> In respect of redistribution issues, the AIV would strongly advise that the first pillar of the framework (the government's duty to protect) be elaborated in more detail in, for example, trade and investment agreements and in export and credit guarantee arrangements.

#### **IV.7 New media: greater perception of inequality (relative inequality)**

Especially in the wake of recent developments in the Arab region the discussion surrounding the role of social media has become an important part of the wider debate on development policy and democratisation. Further development of this technology has potential in many areas of development cooperation. An important component of what is known collectively as ICT for Development (or ICT4D) focuses on the potential for political change that this technology offers. ICT has significant democratic potential, giving many people a voice and playing a role in early warning systems.

This new technology reveals inequality more quickly since it unlocks information, e.g. via the internet, that was previously inaccessible. This increases perceptions of relative poverty among the poor. It also means that more is communicated about poverty to the richer parts of society. Although this presents opportunities for better cooperation, it also contains hidden risks. This pattern is clearly observable in middle-income countries.

46 UN Guiding Principles on Business and Human Rights, UN Doc. A/HRC/177/31, 21 March 2011.

47 Policy memorandum 'Responsible for Freedom: Human Rights in Foreign Policy', July 2011, p. 32.

## V Policies of other Western donors

Other donors also ask themselves what policy can best be pursued to address poverty in middle-income countries. In the framework of this report the AIV below provides a few brief examples.

*Denmark* focuses primarily on the poorest countries and on a number of low middle-income countries (per capita GNI: USD1,006-USD3,975). Its new policy foresees no specific interventions in high middle-income countries. Denmark is, however, active in a number of middle-income countries in the Middle East and Europe. Its new development policy will concentrate more on redistribution and inequality in priority countries.<sup>48</sup>

*Finland* takes a human right human rights approach to development policy. That includes devoting attention to non-discrimination and equality. Reducing inequality is one of the crosscutting themes of its policy, together with gender equality and climate sustainability. Finland has chosen to focus more on (bilateral) aid to low-income countries in Africa and Asia and less on assistance to MICs. In doing so, it applies the OECD definitions. High middle-income countries are considered capable of reducing inequality themselves. In low middle-income countries like Vietnam, however, Finland aims to reduce the level of aid, with a gradual transition (3-5 years) to other forms of cooperation, including commercial, cultural and scientific cooperation. It is also exploring the options for triangular cooperation (between Finland, Vietnam and a poorer Asian or African country), in which the donor provides the funds and the MICs experts to implement the activities. In Nicaragua, Finland provides aid only through civil society organisations. It also supports Afghanistan and the Palestinian Territories.<sup>49</sup>

*Germany* has selected a number of middle-income economies as 'global development partners'. These are countries that (1) have an impact on global developments (as members of the G20); (2) play an important role in achieving the MDGs; (3) have an economy with a regional or global impact; and (4) play a key role in regional integration and cooperation. The MICs with which Germany currently has a development relationship (one it wants to expand in the future) are Brazil, India, Indonesia, Mexico and South Africa. In addition to its development ties with these countries, Germany will work with them to shape global development agendas. As countries may have different interests and values, Germany considers it important to reach agreement on fundamental issues. Besides project financing, cooperation in the partner countries themselves includes providing loans (as far as possible according to market principles), infrastructure projects and private sector development. The objective is sustainable development (green, social and economic) and a focus on social inequality and employment. Other goals include developing knowledge clusters, providing technical assistance and possibly setting up a fund for emerging countries. Global partnership is shaped by supporting regional integration processes, contributing to multilateral fora like the UN,

48 See <<http://amg.um.dk/en/policies-and-strategies/countries-and-regional-strategies/regional-strategies/regional-strategy-danish-arab-partnership/>> and <<http://um.dk/en/danida-en/activities/countries-regions/eu-neighbours/>>.

49 Government of Finland, 'Development Policy Programme', Helsinki 2012. Other partner countries are Ethiopia, Kenya, Mozambique, Nepal, Tanzania and Zambia.

the OECD-DAC and the G20, promoting triangular cooperation (donor, emerging country and developing country) and establishing programmes that promote dialogue on global themes. In addition to bilateral and multilateral cooperation Germany envisages a role for the private sector (through corporate social responsibility and private-public partnerships) and civil society (promoting good governance, human rights and self-reliance). Multilaterally, Germany aims to promote the global public goods of climate, environment and financial stability and supports reform of the World Bank and the IMF. It explicitly states that its broad range of instruments across various policy areas and the flexibility of their application give it a comparative advantage.<sup>50</sup>

*Japan* sees inequality as one of the most important elements of a post-2015 development agenda. In its view, this is important because (1) inequality remains concealed behind national averages; (2) relative poverty is a source of human insecurity; (3) inequality generates social unrest and instability; (4) middle-income countries often have large populations; and (5) the problem of inequality is neglected, seen as a problem for the governments of MICs. Japan believes that this issue deserves greater attention, and that it is necessary to examine how inequality is measured and whether income inequality is the right point of reference.

*Sweden* does not as yet have a specific policy aimed at MICs. The focus of its development policy is on Africa and LICs, and the discussion in Sweden centres on whether this focus should be stepped up. Sweden does however work on a limited scale and on the basis of historical involvement with a small number of middle-income countries (India, China and South Africa). Traditional aid is being phased out in favour of participatory cooperation. This entails promoting self-perpetuating relationships between non-governmental Swedish and foreign actors on the basis of common interests, joint management and shared responsibility. In China cooperation is targeted at environmental degradation, inequality between poor and rich and between cities and rural areas, and at political and civil rights. Cooperation with India concentrates on the environment and a number of projects on reproductive health have been set up. In South Africa the focus is on reducing poverty and inequality, strengthening democracy and combating HIV/AIDS.<sup>51</sup>

*The United Kingdom* currently has no separate policy on middle-income countries, although a team is being set up to explore the scope for one. The UK is, however, active in a number of MICs (Ghana, India, Nigeria, Pakistan, South Africa and Vietnam).<sup>52</sup>

50 German Federal Ministry for Economic Cooperation and Development, 'Strategy for Development Cooperation with Global Development Partners', (2011-2015), BMZ Strategy Paper 6/2011e, pp. 8-9.

51 See <<http://www.sida.se/English/Countries-and-regions>>.

52 See <[www.dfid.gov/documents/MAR/BAR-MAR-country-summaries-web.pdf](http://www.dfid.gov/documents/MAR/BAR-MAR-country-summaries-web.pdf)>.

## **VI Implications for Dutch policy**

### **VI.1 Implications**

As the AIV has observed a large proportion of global poverty can be found in middle-income countries. That presents Dutch policy with a great challenge. The number of poor people in the least developed countries continues to rise (especially in countries in conflict) but addressing poverty on a global scale calls for a different approach to that pursued in the past. The traditional approach has focused on providing aid and expertise in the poorest countries. However, most middle-income countries now have the financial and governance capacity to take on more responsibility themselves. Though a different approach is required, this does not mean that all development relationships with MICs should be terminated. After all, as mentioned above, the dividing line between low- and middle-income countries is very low. Countries just above the line are not very developed at all. The category of middle-income countries also contains fragile states and countries in conflict, where aid remains necessary.

Reaching disadvantaged groups in MICs calls for a constructive policy dialogue with these countries; a dialogue based on equality and mutual respect for different norms and values, which are irrevocably connected to differences in development and cultural background. Such a dialogue with MICs could benefit all parties. Three focal points can be distinguished in this respect.

The first is that Dutch policy must help reduce income inequality within middle-income countries. That requires more support from the Netherlands and, in a multilateral context, more attention for human rights, labour standards, minimum wages and social security. The playing field cannot be limited to governments; a contribution to strengthen civil society in MICs is also needed. This is no longer so much a matter of supporting anti-poverty projects but more of strengthening the capacity of organisations of small farmers and entrepreneurs, trade unions, women's organisations, etc. Without a strong civil society there is a high risk that the results of rapid economic growth and greater productivity in MICs will benefit only a small group.

A second focal point is devoting more attention to developing policy on global public goods, as outlined above.

The third point is that Dutch policy must continue to help reduce the income gap between the richest and poorest countries. The most effective way to contribute is to step up trade and investment relations on a fair basis. This is especially important in Africa as many African countries are not yet properly integrated into the world trade system and will benefit from necessary structural social, political and cultural change processes.

There is therefore no reason at all to reduce development cooperation efforts on the basis of the observed shift in poverty patterns. Another good reason for maintaining aid at the current level is that international cooperation is an area of diplomacy in which the Netherlands plays a prominent role (and, in the light of this report, should continue doing so to draw attention to human rights and inequality). The Netherlands is not a member of the G20, and the position of the smaller European countries is under considerable pressure at the IMF, where the Netherlands has already agreed to share its seat with Belgium.



## **VI.2 The importance of policy coherence for Dutch policy**

As stated in advisory report number 74, the AIV considers coherence on development cooperation a central component of 'new' development policy. Coherence will become even more important as classical development aid (ODA) declines and the emphasis shifts more towards international cooperation. For effective poverty reduction it is important not only that the Dutch government avoids the adverse external effects of its policies as much as possible, but also that (from a general government-wide perspective) broader Dutch policy contributes to international development and poverty reduction. In most areas, this involves not only domestic policy but, since some competences are shared with (or are even the sole responsibility of) the EU, also to efforts at European level. The EU and the OECD both underline the importance of coherence; the main thing now is that existing legal obligations and commitments to action are put into practice. In addition it is important to draw up concrete, measurable goals and indicators, to monitor and evaluate activities, to identify their consequences at the level of individual developing countries, and to include them as a regular part of the dialogue with the partner countries. Recent conclusions by the Foreign Affairs Council have given this process a further boost.<sup>53</sup>

Shifting patterns of poverty also make coherence more important. After all, policy coherence promotes a level international playing field, so that both the economic integration of countries and the integration of social groups within them can be encouraged. It is therefore also important to pay increasing attention to the possible adverse effects of external policy.

The Netherlands has been pursuing a proactive policy in respect of policy coherence for development cooperation for some time. This can be strengthened by maintaining knowledge and capacity in this area with a clear political mandate that guarantees a government-wide effort, and by improving the development and introduction of indicators for coherence. Dutch knowledge institutions can play a role in achieving this. Many Dutch civil society organisations are active on coherence-related themes, such as fair trade, migration and the transparency of international financial flows. It is advisable to conduct a regular dialogue with these organisations. That could take the form of a coherence platform where current coherence-related issues and possible policy adjustments can be discussed, analogous to the dialogue between the NGO confederation CONCORD and the European Commission in Brussels.

<sup>53</sup> Foreign Affairs Council, 'Council Conclusions on Policy Coherence for Development', 14 May 2012.

## **VII**      **The use of different channels in the light of shifting patterns of poverty**

Dutch development cooperation works through various channels: bilateral, multilateral, the private sector and civil society. Resources are divided equally between the bilateral, multilateral and non-governmental channels. Each channel is unique, but is also closely related to the others. Besides continuing this multi-channel policy, the Netherlands could also promote coherence between them in the context of its broader foreign policy.

Regarding cooperation with middle-income countries the AIV foresees a shift from bilateral development policy to a policy of international cooperation, based more on the multilateral (including the European), civil society and private sector channels. The bilateral channel can continue to be of great importance to low-income countries although, in light of the rapid geopolitical changes, it will need to be more flexible and less focused on rigid country choices. Furthermore, where possible, aid should be provided in cooperation with a number of large middle-income countries (trilateral). The AIV advises the Dutch government to take the lead in setting up a dialogue with other donors, large MICs and low-income countries on a trilateral approach of this kind.

### **VII.1      Bilateral and multilateral cooperation**

Traditionally, development cooperation is divided between bilateral (government-to-government) and multilateral aid, which entails the Netherlands contributing funds to multilateral organisations so that they can conduct aid programmes and perform other tasks within their mandates, such as advising the governments of developing countries. Another division in traditional aid is between poverty reduction and increasing economic self-sufficiency or self-reliance. The former covers aid activities aimed at directly improving the position of the poorest groups in developing countries. The latter aims to improve the capacity of countries, organisations and individuals to solve their own development and poverty problems themselves.

Because governments are sometimes not able (or willing) to reach the poorest groups, activities aimed at helping these groups directly are carried out by NGOs, which are in a position to reach them through partner organisations in developing countries.<sup>54</sup> Multilateral organisations also run these kinds of programmes. Examples include the ILO's Special Public Works programme, the UNCDF (United Nations Capital Development Fund) and UN agencies that support vulnerable groups, like UNHCR (United Nations High Commissioner for Refugees).

Because, in practice, poverty reduction through bilateral development projects proved less effective (as separate agreements and facilities were required to achieve results for each project), aid was increasingly provided in the form of programme financing, in which structural agreements were made with recipient governments on the policy to be pursued. Since poverty reduction remained the main goal of Dutch development cooperation, programmes were usually focused on improving the position of the poorest groups in the population (e.g. through integrated rural development programmes), and supporting social sectors like primary health care and basic education or vulnerable

<sup>54</sup> As stated in section VII.3, NGOs can also play other important roles in influencing policy and protecting human rights.

groups, such as the victims of war and violence, famine, etc., if necessary in the framework of emergency aid.

New insights led to new policy, based for example on the principle that poverty reduction can better be achieved through job creation (private sector development) rather than focusing only on the social sectors. Emphasising the importance of industrialisation in some cases and social sectors in others led, however, to agriculture and the countryside being neglected, especially in Africa. New insights based on research into the relationship between economic development and poverty reduction led to the conclusion that the policy priorities of the countries themselves determine to a large degree how successful they are in achieving economic growth and poverty reduction. That policy had to fulfil a number of conditions:

1. Good macroeconomic policy characterised by a stable currency, low inflation and predictable government behaviour.
2. Farmers and small entrepreneurs must have the freedom to decide for themselves what crops they grow, to whom they sell them and when, and at what price.
3. Government spending must be targeted consistently at the poor, with an emphasis on the long term, and on reaching the mass of poor farmers in rural areas.
4. When pursuing policy, the priority for governments should be on reaching as many people as possible in the shortest time possible, if necessary at the expense of quality.
5. The policy priorities must be genuine and actually be implemented, rather than plans and grand-sounding documents.
6. It is results that are important, not rules and institutions themselves.<sup>55</sup>

These conclusions are even more relevant in the light of the observation that most poor people now live in middle-income countries. Where, in the past, the Netherlands chose to focus its poverty-reduction efforts on giving aid to the poorest countries, and within these countries on the social sectors, that approach is no longer sufficient to reach the world's poor. Attention has to be devoted to poverty reduction more indirectly, for example by deploying instruments that help reduce income inequality within and between countries. In addition policy must continue to pay explicit attention to new and persistent forms of poverty (caused, for example, by increasingly widespread forms of land acquisition, continued discrimination against women and the victims of civil war and violence in fragile states, climate and environmental problems, et cetera).

Clearly, and especially when it comes to solving global problems, it is necessary to work through multilateral organisations like the ILO (combating child labour), the World Bank and the IMF (financial stability), the FAO (food and agriculture), WHO (epidemics caused by increased globalisation), UNFCCC (climate) and the WTO (trade agreements). As stated in the 1991 policy document on multilateral aid: 'The scale at which multilateral organisations can operate and their political neutrality and universal character enable

<sup>55</sup> J.K. Van Donge, D. Henley and P. Lewis, 'Tracking Development in South-East Asia and Sub-Saharan Africa', *Development Policy Review* vol. 30, Supl. 1, February 2012.

them to act in situations where unilateral and bilateral efforts fail'. The cross-border nature of many problems also calls for an international strategy.

The AIV also endorses the view that it is important for cooperation with emerging middle-income countries to be conducted at European level. A large and effective Europe can clearly exert greater influence in areas like international trade, financing flows, trade unions, and women's and human rights than the Netherlands can on its own.<sup>56</sup>

## **VII.2 Private sector**

In addition to their normal role, businesses act as 'agents of change'. The Netherlands has developed a number of instruments in the context of development cooperation to encourage companies to go further than simply complying with legislation and to look beyond maximising their market share and short-term profits. They are urged to take account of all groups of stakeholders in their investment and trading activities. The Netherlands has also developed instruments to help improve the business climate, including the local financial sector, in developing countries.<sup>57</sup> Programmes for cofinancing public-private partnerships (PPPs) in sectors like food security and safe water are under development. Multilateral instruments include the International Finance Corporation (IFC) of the World Bank Group and the Private Infrastructure Development Group (PIDF).

The thinking behind these instruments is that they help provide better opportunities for the private sector and thereby promote economic growth, which is indispensable in reducing poverty. That is why the results they generate are listed under the section on MDG 1 (halving poverty) in the Results in Development report.<sup>58</sup> The AIV concluded in 2006 that this rationale is valid if a number of conditions are met.<sup>59</sup> The SER also endorses these principles in a recent report.<sup>60</sup>

Investment in the local private sector has a lower risk profile in stable societies with growing markets. Investment instruments and programmes aimed at the development of value chains and improving the business climate are therefore also suitable for stable low- and middle-income countries, with the qualification that, for individual project interventions, cofinancing in the form of venture capital and modified credit is more

56 AIV, 'The Netherlands and European Development Cooperation', Advisory Report no. 60, The Hague, May 2008.

57 An overview of the Private Sector Development Programme can be found on the websites of the Ministries of Foreign Affairs, Economic Affairs, Agriculture & Innovation, NL Agency and the FMO. See also the brochure 'From Aid to Investment', Ministry of Foreign Affairs, Ministry of Economic Affairs, Agriculture & Innovation, October 2011. Important and well-known instruments include ORIO, PSI, CBI, PUM, the FMO and the international cooperation programmes of employers and trade unions.

58 Ministry of Foreign Affairs, 'Results in Development 2009-2010', 9 September 2011.

59 AIV, 'Private Sector Development and Poverty Reduction, Advisory Report no. 50, The Hague, October 2006.

60 Social and Economic Council of the Netherlands (SER), 'Development through Sustainable Enterprise', 11/10, September 2011.

appropriate than government grants.<sup>61</sup> Some other components of the private sector development programme, such as the Infrastructure Development Facility (ORIO), can also be deployed in fragile states.

Economic growth can exclude marginal groups. It is therefore important to monitor to what extent private sector instruments are also suitable for helping reduce poverty among marginal groups in middle-income countries.

To investigate this, the following questions have to be addressed.<sup>62</sup>

- Do the companies fulfil the criteria for corporate social responsibility?
- Are possible adverse effects recognised and are measures being taken to prevent or mitigate them?
- Are the consequences for various stakeholders recognised and, if possible, managed?
- Are the indirect consequences for society as a whole recognised and are measures being taken to mitigate and manage them where possible? (Influence on local legislation, business climate).
- Can targeted decisions be made based on the poverty profile of the stakeholders and/or location (an agri-enterprise in a remote region has a different impact than a high-tech company in the capital).<sup>63</sup>
- And equally important: how is all this monitored?

It is beyond the scope of this report to examine each of these dimensions in detail for each instrument individually. In recent years, there has been a strong focus on whether businesses explicitly endorse the principles of sustainability and corporate social responsibility. It can be concluded from recent reports that major, tried and tested instruments devote plenty of attention to how their activities contribute to development, and have developed sophisticated methods for measuring and assessing their impact and for effectively monitoring compliance with all agreements. By working with NGOs, companies can help prevent or mitigate the negative effects and strengthen the positive effects of their activities. NGOs act as watchdogs and are themselves increasingly involved in productive activities. There has been a noticeable shift in recent years in the way the two sectors deal with each other. NGOs talk to large companies about sustainability and sometimes conclude agreements with them. Companies feel the influence of NGOs on their consumers and their reputations, and this makes them more accommodating. Companies that benefit from a constant supply of high-quality products from developing countries – products for Western supermarkets, for example – sometimes ask NGOs to organise and help train small farmers locally. After all, this is not part of companies' core business.

61 AIV, 'Private Sector Development and Poverty Reduction', Advisory Report no. 50, The Hague, October 2006.

62 See also Scientific Council for Government Policy (WRR), 'Less Pretension, More Ambition', section 7.4 'Businesses for development', 2010.

63 Targeted decision-making may not, however, result in central planning of business investment. Instruments to promote business investment are only effective if the initiative for a specific investment remains with the businesses concerned.

### **VII.3 Civil society channel**

The civil society channel refers to aid provided through civil society organisations to local counterparts in developing countries. As emphasised in the WRR report 'Less Pretension, More Ambition', NGOs make an essential contribution to the development process because they are often in a better position than governments to reach vulnerable groups and mobilise social energy. In addition they play an important role in signalling problems and providing information to, for example, international organisations.<sup>64</sup>

Generally speaking, the civil society channel has three interconnected roles or intervention strategies: direct poverty reduction, society building and influencing policy. Direct poverty reduction focuses on improving the living standards of people who live in poverty and/or strengthening people's capacity to satisfy their basic needs themselves. Society-building aims to improve the way societies are structured and to encourage citizens' participation. Influencing policy aims to change policies and processes, so that poverty and inequality are addressed. These three strategies remain relevant in the light of shifting poverty patterns, though they will be given different priority depending on the context. It is therefore important to distinguish the context in each of the main categories of NGO involvement.

Economic liberalisation has increased existing inequalities. Despite rising economic growth there is often still a large group that lags behind. Those in the poorest bottom layer have insufficient opportunities to wrest themselves free of the poverty spiral for any length of time. This applies not only to low-income countries, but emphatically also to middle-income countries (including the BRIC countries). This is both because the current economic system perpetuates inequality and excludes large groups from development and because national government policies in most countries hardly target the poorest groups. Consequently international cooperation – and the civil society channel in particular – still have a role to play. The Netherlands could strengthen these three interconnected strategies, depending on the national context.

#### ***VII.3.1 Fragile states and post-conflict areas***

Fragility, inequality and poverty are inextricably linked. Fragile states do not necessarily have to be among the poorest countries, but inequality within a fragile (or failing) state can lead to large income differences and poverty (e.g. in Guatemala).

In fragile states the role of NGOs is initially targeted at direct poverty reduction. In fragile situations there will often be little opportunity to build a plural civil society. NGOs providing basic services, micro-credit and other services have an important role to play in mitigating poverty and developing self-reliance, especially where the government is absent or neglects its responsibilities. Besides fostering physical security and the survival of vulnerable groups, NGOs in this context have a specific task in relation to human rights (identifying and combating human rights violations) with a special focus on women in situations of violence.

The role of NGOs in post-conflict situations (transition) must be strengthened. (Re)building the legal order and setting up mechanisms to achieve this are areas in which NGOs

<sup>64</sup> AIV, 'The Role of NGOs and the Private Sector in International Relations', Advisory Report no. 51, The Hague, October 2006.

can be very effective and on which NGOs in developed and developing countries can cooperate successfully. The Dutch government could provide the funding that these kinds of organisations need urgently to function properly. The relationship between defence, diplomacy and development (the 3D approach) also calls for close coordination with international and local NGOs.<sup>65</sup>

### **VII.3.2 Low-income countries**

The role of NGOs in this context lies especially in the areas of society building and influencing policy. They can act as agents of change by gathering knowledge, mobilising social energy and forcing local governments to improve transparency and good governance. They are often the active vanguard of a varied palette of social initiatives, and they play a role in conveying people's interests and aspirations to those in power. This reduces the gap between government and citizen and can generate a broader support base for decision-making. NGOs can thus help strengthen governance and change policy in such a way that the needs of the poor are met. Not by taking over the role of the government and thereby perpetuating an ineffective state but rather by joining forces and mobilising citizens.

### **VII.3.3 Middle-income countries**

The majority of the poor live in middle-income countries. In this context, local governments and the middle class have the duty and (in principle) the capacity to address poverty in their countries themselves. Strengthening their capacity to achieve redistribution therefore has priority. However, that will not happen automatically. Development efforts must be targeted at formulating national poverty reduction strategies and redistribution mechanisms, like tax reform and improving public services.<sup>66</sup> Since this is by definition a sensitive political issue, it is very important to support those who propagate and shape these agendas. Civil society organisations in developing countries often relate better to foreign NGOs than to foreign governments.

### **VII.3.4 Global dimension**

At a global level multilateral organisations, governments and NGOs have proved insufficiently capable of finding an effective response to the challenges of worldwide poverty. This is partly due to limitations in the system of global governance, but also to a lack of alternatives to the growth model. The economic crisis has raised new questions about the future of our economic system. The importance and credibility of the West in solving global problems is on the wane at a time when the urgency of finding global solutions to worldwide problems is increasing. Global issues are increasingly discussed in non-state arenas and NGOs (including those in the Netherlands) are more and more playing a connecting role, both as a civil channel through which global themes can be addressed in close consultation with colleague organisations in other countries and by working with other sectors and actors. The Netherlands' role at global level can be strengthened by involving other actors and donors in both agenda-forming and the elaboration of global policy.

65 AIV, 'Failing States: A Global Responsibility', Advisory Report no. 35, The Hague, May 2004.

66 G. Charbonnier, and A. Sumner, 'Reframing Aid in a World where the Poor live in Emerging Economies', *International Development Policy*, 2012.

## **Annexes**



**Request for advice**

Mr F. Korthals Altes  
Chairman of the Advisory Council  
on International Affairs  
P.O. Box 20061  
2500 EB The Hague

Date March 2012

Re Request for advice on 'Poverty reduction and shifting patterns of poverty'

Dear Mr Korthals Altes,

In 1990 more than 90% of the world's poor lived in low-income countries (LICs). In that year there was a great deal of overlap between the categories 'poor people' and 'poor countries'. Since then the situation has changed fundamentally. Now three-quarters of the world's poor (as defined by the World Bank's poverty line of USD 1.25 a day) live in middle-income countries (MICs) (Andy Sumner, 'Where do the poor live?', *World Development*, No. 10, 2011). Most – but not all – of these countries have large populations. Two-thirds of the world's poor – 850 million people – live in five very populous countries: China, India, Indonesia, Nigeria and Pakistan. Over the past decade the number of low-income countries has fallen from 63 to 40, and it seems that this trend will continue. Approximately 23% of the world's poor live in fragile states (with a more or less equal number in low- and middle-income countries).

Generally speaking, over the past few decades income inequality within countries has been on the rise. Most studies show that the middle class in Asia, particularly in India and most likely also in China, will grow dramatically in the years ahead (Homi Kharas, 'The emerging middle class in developing countries', OECD Development Centre, 2010). At the same time, in both low- and middle-income countries, particularly in sub-Saharan African, large segments of the population are living in 'pockets of poverty', where they have little chance to reap the fruits of economic growth. The results of trend studies of worldwide income inequality are however less clear-cut (UNDP, Human Development Report, 2011). Half a billion people are estimated to be chronically poor.

In the relevant literature, opinions differ on the causes of these shifting patterns of poverty and their implications for policy. As an ever-increasing proportion of the poor are to be found in middle-income countries, the question arises of how capable these countries' governments are of pursuing an effective poverty-reduction policy, given limited revenue and technical capacity. What supporting role can be played in this new situation by ODA (alongside other external sources of funding like FDI and remittances), by policy coherence and by international funding for the climate and other global public goods?

The central question motivating this request for advice is the possible consequences of shifting patterns of poverty for the post-2015 agenda – and possible, related changes in inequality within and between countries. In addressing this question, the Council is encouraged to examine developments among other donors (both 'traditional' and 'new').

Subsidiary questions that should guide your response to the central question:

#### Empirical reality

- Does the AIV agree that poverty has indeed 'migrated' to middle-income countries, as described in articles like the Andy Sumner piece cited above? If so, what are the most important causes of this? Are there reasons for rethinking the definition of poverty or the criteria for distinguishing between low- and middle-income countries?
- What should we realistically expect for the development of the global scope and distribution of poverty (in terms of geography, type of country, demographic trends, the rural/urban divide, etc.) in the next 5-15 years? What role will scarcity (of natural resources, energy) and environmental degradation (water pollution, soil exhaustion, loss of biodiversity) play in this?
- Is there any systemic connection between growth (from a low- to a middle-income country) and increased income inequality? If so, what factors underlie this link, besides the government's involvement in poverty reduction (differences between, say, China and Brazil)?
- In the view of the Council can middle-income countries be deemed self-reliant with respect to poverty reduction? Is it prudent to recognise differences in fiscal and implementing capacity of governments in different (categories of) middle-income countries?
- Are there structural differences as regards poverty and inequality in low- and middle-income countries? Is there, for example, in one of these types of countries a greater incidence of chronic poverty? If such differences exist, do they have different impacts on the degree to which the countries in question are capable of combating poverty effectively?

#### Relevant principles and considerations

- What role can development cooperation play in reducing poverty in middle-income countries? What are the most important moral, social and economic principles and considerations that go into making such an assessment?
- What relevance does poverty in MICs have for the objectives of Dutch foreign policy (prosperity, stability and security, energy and raw materials security, the international legal order)?
- Do the different channels (multilateral, bilateral, non-governmental and private sector), and possibly also the various modalities, operate from the same principles and considerations?
- If self-reliance and poverty reduction are both goals of development cooperation policy, and (certain) middle-income countries are deemed capable of combating poverty in their country but are partly or completely unable to do so, which of the two goals carries the greater weight? Self-reliance and thus local responsibility? Or poverty reduction and the continuation of Dutch involvement in such efforts?
- What role should the changing relations in international cooperation (the rise of new donors with sometimes different objectives, the decreasing importance of ODA in funding flows, the increasing importance of international public goods, the increasing emphasis on policy coherence, etc.) and the connection to the fundamental goals of Dutch foreign policy (security, freedom, prosperity) play in assessing the advisability of outside involvement in poverty reduction in middle-income countries?

#### Impact on development cooperation

- Have other donors (bilateral, multilateral or private) or other types of development organisation already altered their policy to reflect the fact that the world's poor are increasingly to be found in middle-income countries?

- What are the possible implications for the Dutch approach to the post-2015 development agenda of the shifts in the patterns of global poverty, primarily as a result of the growing number of countries that have attained middle-income status?
- Is it helpful in this connection to distinguish between the various channels (or modalities)?
- Are the present instruments suitable for middle-income countries or should additional requirements be imposed on programmes (for example, those run by companies) in order to amplify their focus on poverty?

I would ask that you submit your report on or before 1 September 2012.

Yours sincerely,

(signed)

Ben Knapen  
Minister for European Affairs and International Cooperation

**List of abbreviations**

<b>AIV</b>	Advisory Council on International Affairs
<b>BRIC</b>	Brazil, Russia, India and China
<b>DAC</b>	Development Assistance Committee
<b>ECOWAS</b>	Economic Community of West African States
<b>FAO</b>	Food and Agriculture Organization
<b>GDP</b>	Gross domestic product
<b>GHDI</b>	Gender Inequality Human Development Index
<b>GMR</b>	Global Monitoring Report
<b>GNI</b>	Gross national income
<b>GNP</b>	Gross national product
<b>HDI</b>	Human Development Index
<b>HIC</b>	High-income country
<b>ICT</b>	Information and communication technology
<b>ICT4D</b>	ICT for Development
<b>IFC</b>	International Finance Corporation
<b>IHDI</b>	Inequality Adjusted Human Development Index
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>LIC</b>	Low-income country
<b>MDG</b>	Millennium development goal
<b>MIC</b>	Middle-income country
<b>MPI</b>	Multidimensional Poverty Index
<b>NGO</b>	Non-governmental organisation
<b>NNI</b>	Netherlands Standardization Institute
<b>ODA</b>	Official development assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>PIDF</b>	Private Infrastructure Development Group
<b>SER</b>	Social and Economic Council of the Netherlands
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>WRR</b>	Advisory Council on Government Policy
<b>WTO</b>	World Trade Organization

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