

# Summary of Chapter 1: Ending Global Poverty

## Progress, But Unequal and Slowing

The World Bank is committed to ending poverty. Monitoring global poverty is critical for tracking progress toward the development agenda including the Sustainable Development Goals and to identifying areas that require additional policy actions.

In 2015, an estimated 736 million people were living below the international poverty line of \$1.90 in 2011 purchasing power parity. This is down from 1.9 billion people in 1990. Over the course of a quarter-century, 1.1 billion people (on net) have escaped poverty and improved their standard of living. But despite recent gains, the number of people globally who are living in poverty remains unacceptably high.

The World Bank has set a target to reduce the global count of people living in extreme poverty to less than 3 percent by 2030. Over the last decades, remarkable progress has been made, including attainment of the first Millennium Development Goal target to cut the 1990 global poverty rate in half – six years early. Since 1990, the share of the world's population living below the international poverty line has dropped from 35.9 percent to 10 percent – a more than 70 percent reduction.

Over this 25-year period, the global poverty rate fell by slightly more than 25 percentage points, an average decline of one percentage point per year. Given this trend,

the world is on track to reach an interim poverty target of 9 percent by 2020, set by the World Bank to monitor progress toward the 2030 goal. In fact, forecasts for 2018 indicate that this target has already been achieved.

Getting poverty to 3 percent by 2030 from 10 percent in 2015 will require an additional seven-point reduction in poverty in 15 years. This means the rate of poverty reduction over the past decade could be cut in half and the world would still reach the target.

Despite this optimistic portrait, there are reasons for concern. There is some evidence that the rate of poverty reduction has slowed. Between 2011 and 2013, poverty declined by 2.5 percentage points, but between 2013 and 2015, it declined by only 1.2 percentage points. While this apparent change should be interpreted with caution due to data challenges, it is a potential first signal of change.

## Nowcasts and Forecasts

The current estimate of global poverty is for 2015 – three years out of date. One reason is the lack of annual data. Global poverty estimates are based on household surveys from 164 countries. Most countries implement these surveys every three to five years, and it takes time to gather and analyze these data.

But, if some assumptions are made about the relationship between economic growth and population projections, it is possible to “nowcast” what the global poverty rate is in 2018 and to generate scenarios for what global poverty might look like in 2030. These nowcasts and forecasts rely on assumptions to predict the poverty rate in 2030. The report looks at several scenarios based on average historical growth rates and predetermined fixed growth rates. All scenarios assume that growth is passed equally to everyone in a country. Therefore, if inequality changes, the poverty number will be higher or lower.

The 2018 nowcast for global poverty, which assumes each household’s welfare grows with a fraction of growth in GDP per capita, is 8.6 percent. This would mean that the 2020 interim target has been met.

While this is encouraging progress, reducing extreme poverty to less than 3 percent by 2030 is at risk. Even if all countries grow at twice their historic average, the 3 percent target would not be met.

The scenarios showed that for the world to achieve the goal of ending extreme poverty by 2030, the incomes of the bottom 40 would have to grow at 8 percent or more annually. That means the incomes of the poorest 40 in Sub-Saharan Africa would have to grow steadily at this rate for 12 straight years (through 2030), a tall order. For reference, from 2000-2015, the 10-year average growth rate for Sub-Saharan Africa has never hit 8 percent.

The evidence shows that the World Bank’s goal to reduce poverty to 3 percent by 2030 will only be met under very optimistic growth scenarios and if inequality at the bottom is tackled directly and the bottom 40 catches up with the rest.

### **Uneven Progress – A Regional Profile of Poverty Reduction**

Between 1990 and 2015, the regional profile of poverty has changed significantly. In 2015, more than half of the global poor

resided in Sub-Saharan Africa and more than 85 percent of the poor resided in either Sub-Saharan Africa or South Asia. This is a dramatic shift from 1990, when over half of the poor were in East Asia and the Pacific. With China’s rapid reduction of poverty, the concentration of the global poor shifted from East Asia in the 1990s to South Asia in 2002 and then to Sub-Saharan Africa in 2010, where the total count of poor people has been increasing steadily.

As extreme poverty becomes increasingly concentrated, significant progress to reduce global poverty will only occur if progress is primarily made in those countries where poverty is greatest.

Of the 164 countries that the World Bank monitors, more than half (84 countries) have already reached poverty levels under 3 percent as of 2015. There are now fewer countries with large populations of poor people, and the number of countries where there have been significant declines in the number of poor people is shrinking. Of the world’s 27 poorest countries (those with the highest poverty rates), 26 are in Sub-Saharan Africa.

Although poverty is comparatively lower in the Middle East and North Africa, the share of the population in extreme poverty increased from 2.6 percent in 2013 to 5 percent in 2015 and the number of poor grew from 9.5 million in 2013 to 18.7 million in 2015. The main cause of these increases was conflict in Syria and Yemen, a reminder that past gains cannot be taken for granted. Fragility and conflict can affect the vulnerable, causing a spike in poverty.

Over time, many of the countries with high poverty numbers, including India, Nigeria, Bangladesh, Indonesia, and Kenya, have grown their economies out of low-income country status and are now middle-income countries. With this growth, most of the world’s population (about 5.5 billion people), and most of the extreme poor (over 400 million), are now in middle-income countries. This is promising for poverty reduction if more people can benefit from

economic growth.

Half of the people living in extreme poverty live in just five countries: India, Bangladesh, Nigeria, Ethiopia, and Democratic Republic of Congo. India, with over 170 million poor people in 2015, has the greatest number of poor people – nearly a quarter of global poverty. However, this is likely to change in the near future, if it hasn't already. With cautions in mind that consumption in 2015 for both India and Nigeria is based on projections, not direct enumerations of consumption from recent household surveys, the nowcast for 2018 suggests that Nigeria may have already overtaken India as the country with the highest number of poor people.

### **Drilling Down – Africa and Fragile and Conflict-Affected Countries**

In 2002, Sub-Saharan Africa was home to just a quarter of the world's poor, but in 2015 more extremely poor people lived in the region (407 million) than in the rest of the world combined. One factor in this increase is the demographic structure of the household. In many parts of the world the poor live in large households with more economically dependent members per working-age adult. In the rest of the world, this ratio is declining, but it has remained relatively constant in Sub-Saharan Africa. In addition, a declining under-5 mortality rate has combined with a relatively small drop in fertility rates to keep Africa's population growing at a higher rate than the rest of the world.

As the global poverty rate declines, there is evidence suggesting that extreme poverty is likely to become increasingly associated with institutional fragility and conflict, and the majority (54 percent) of those living in fragile and conflict settings (FCS) in 2015, are in Sub-Saharan Africa. In 2015, the poverty rate in 35 FCS countries was 35.9 percent, up from a low of 34.4 percent in 2011. The share of the global poor in FCS countries has risen steadily since 2010. In 2015, 23 percent of all poor people lived in FCS countries.

In general, there is a negative correlation between poverty rates and the strength of institutions. Countries with a high percentage of poor people have less access to financial services, poorer business climate, weaker rule of law, and higher perceived corruption.

### **Socioeconomic and Demographic Profile of Global Poverty**

To devise an appropriate poverty reduction strategy, it is not enough to know how many people are poor, it is critical to know where the poor live, what conditions they live in, and how they earn a living.

Globally, extreme poverty is disproportionately rural. Approximately 55 percent of the world's population and more than three-fourths of the total poor live in rural areas.

Poor people lack formal education. Of adults with no education, almost a quarter live in poverty. The poverty rate is cut in half for adults with some primary education and poverty is all but absent among adults with some tertiary education.

The current state of data limits the ability to understand poverty by gender because household surveys measure total household consumption and assume equal distribution between members of a household.

The fertility rate is usually higher among the poor. There are on average 7.9 members and 3.5 children under the age of 14 in poor households. More than a fifth of children under the age of 14 live in poverty, and children who grow up in poverty acquire less human capital because of inadequate or low-quality schooling and undernutrition, making childhood poverty especially pernicious because it perpetuates intergenerational poverty.

The poor lack not just income. Poverty also materializes as low educational attainment, poor health and nutrition outcomes, exposure to physical insecurity and natural hazards, and substandard living conditions. The poor are also poorly served by essential services like improved drinking water, sani-

tation facilities, and electricity and all of this can undermine labor productivity of the poor, trapping them in income poverty.

### **Above and Beyond – Sharing in the Benefits of Poverty Reduction and Economic Development**

Although the world has made tremendous progress toward reducing poverty from 1990 to 2015 – averaging one percentage point per year, the poverty reduction rate is predicted to slow to less than half a percentage point per year between 2015 and 2030. One key explanation is that not all regions have shared in the global economic growth of the last quarter-century and not all regions have succeeded in ensuring the poor have fully shared in the benefits of economic growth.

The unevenness of progress toward the goal of a world free of poverty brings into focus the weaknesses in how global poverty is measured. It is time to go above and beyond the focus on bringing down the average global poverty rate to 3 percent and ensure that all share in the benefits of development.

Monitoring shared prosperity for all countries was the first step. This report will go even further to construct a more complete picture of what it means to live in a world free of poverty in which all prosper.

### **Conclusion**

While steady progress has been made, analysis clearly shows that the fight to end poverty as measured by the 3 percent target will be won or lost in Sub-Saharan Africa. Ending extreme poverty in low-income and fragile and conflict-affected countries, will require a high level of growth combined with an even higher level of growth in the bottom 40.

Yet the vast majority of the poor live in middle-income countries where the measure of extreme poverty provides only a partial picture of the deprivation that exists.

To end poverty in these countries in par-

ticular, we need to start filling in the pieces of the puzzle through more indicators that portray deprivation in multiple dimensions and at consumption levels consistent with basic needs in middle-income countries.

As the notion of what it means to be poor is expanded, it is possible to strive for a world in which the benefits of poverty reduction accrue to all regions of the world, all countries of the regions, all households in the countries, and all people in the households. It also recognizes that poverty goes beyond consumption to other critical elements of well-being, and that a better understanding of these pieces of the puzzle is needed.