

Prospects For Poverty Reduction

The outlook on poverty has not changed since last year's GMR: On current trends, if the developing world can sustain the growth momentum of the past 15 years it will be able to reduce the share of the population living in extreme poverty—i.e., living on less than \$1 a day—by half between 1990 and 2015. It is projected that this share will fall from 27.9 percent in 1990 to 10.2 percent in 2015. By 2002, it had already dropped to 21.7 percent.

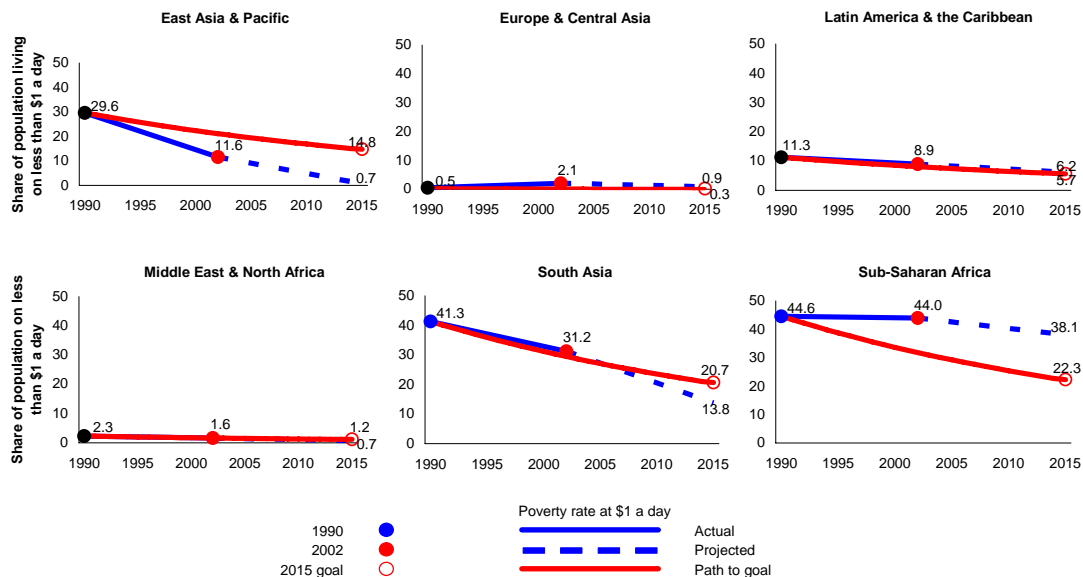


There are however broad regional discrepancies:

- Sub-Saharan Africa's poverty rate is 44 percent, virtually the same as 1990, if significantly lower than the 2001 level of 46.4 percent. That rate is projected to remain above 38 percent in 2015—far above the 22.3 percent target.
- In three regions, the rate has likely declined since 2002 by two to four percentage points—a projected 8.8 percent in East Asia/Pacific, 27.5 percent in South Asia, and 41.4 percent in Sub-Saharan Africa. East and South Asia will likely reach the poverty MDG.
- In other regions—Europe and Central Asia, Latin America and the Caribbean, and North Africa and the Middle East—where initial poverty rates were lower, poverty likely dropped by less than 1 percentage point between 2002 and 2005.

Progress toward the Poverty MDG Target

(share of population living on less than \$1/day)



Source: World Bank Staff estimates

The reduction in the global poverty rate is driven by advances in China and India, but it also has been helped by acceleration in income growth throughout the developing world in recent years—per capita

GDP growth in low-income countries was higher in 2005 than the average for any five-year period since the late 1970s, and the strong growth is expected to continue.

- In the low-income countries of Sub-Saharan Africa, per capita growth reached an estimated three percent for the second straight year in 2005, despite continuing conflicts and periodic weather shocks.
- In South Asia, low-income countries (excluding India and Pakistan) grew at an estimated 4.8 percent, while India and Pakistan's growth is expected to reach eight percent in 2005.
- The few low-income countries in Latin America and Caribbean region and the Middle East and North Africa region grew more slowly.

As noted in *Global Monitoring Report 2004* and *Global Monitoring Report 2005*, macroeconomic policies in low-income countries have improved greatly over the past 15 years. These improvements were largely sustained in 2005.

Continued growth is contingent on improvements in the investment climate. According to the World Bank - International Finance Corporation's *Doing Business in 2006* data:

- More reform took place in Eastern Europe and Central Asia than in any other region.
- Africa reformed the least as a region. Exceptions are Rwanda and Nigeria, which have been acting to make it easier for entrepreneurs to start and run their businesses. Several African countries already provide good regulatory environments for business: Mauritius and South Africa both rank in the top 30 economies globally on the ease of doing business; Namibia is not far behind at 33rd.
- The payoff from easing regulation is large. Data shows that the more complex the regulations, the lower the growth rates.

The quality of basic infrastructure contributes strongly to the investment climate—as well as to progress in human development. Between 1990 and 2002, over one billion people gained access to improved water supply and sanitation services. Between 1995 and 2004, an estimated 470 million people gained access to electricity.

- Infrastructure progress has been most rapid in East and South Asia in absolute terms—but not quick enough to match the region's two percent population growth rate.
- The Middle East region is the top performer, particularly in telecommunications and electricity—more than 15 percent of the population gained access over the last five years.
- Africa still lags behind other regions: From the mid- to late-1990s to 2002, the average electrification rate for the region improved to about 27 percent—a significant gain of five percentage points, but the lowest among developing regions. In water and sanitation progress has been slowest of all the regions.
- Eastern Europe, which had universal access to most infrastructure services in 1990, has suffered a decline of about five and nine percent of the share of population with access to improved water and sanitation.
- In Latin America, coverage and quality of infrastructure have improved in the last decade, but these improvements have not yielded a growth payoff.
- Rural populations across the developing world have lower rates of infrastructure access than urban populations—65 percent of urban households in low-income countries have access to electricity, but only 17 percent of rural households do.