

Frequently asked questions (FAQs)

New poverty estimates

1. What is behind the new poverty estimates being released today?

- The World Bank has recalculated the number of people living in extreme poverty using the recently released results from the International Comparison Program (ICP) and 675 household surveys covering 116 countries and spanning the period 1981 to 2005.
- Global and regional estimates of the number of poor people and poverty rates measured at \$1.25 and \$2 a day in 2005 prices are being released at this time, along with national estimates for India and China. National estimates for other countries will be released on the web in mid-September and in by early October as part of a special supplement to the *World Development Indicators* in early October.

2. How many people are living in extreme poverty in the developing world? How does the new measure compare to the earlier update issued in 2007?

- The new threshold for extreme poverty is now set at \$1.25 a day in 2005 prices. And the new poverty estimates show that 1.4 billion people in developing countries are living in extreme poverty, on less than \$1.25 a day (in 2005 prices).
- According to the new data, poverty rates have fallen from 52 percent in 1981 to 42 percent in 1990 to 26 percent in 2005.
- Previous estimates were 950 million people or 17 percent of the developing world's population in 2005 were living on \$1.08 a day or less. The new estimates show an additional 400 million people living in poverty by our new measure.
- However the rate of decrease in the poverty rate between 1981 and 2005 remains about the same, at about 1 percentage point per year for the developing world as a whole.

3. Why redraw the line for extreme poverty internationally? What was wrong with 1\$ a day?

- The new price data from the 2005 round of the ICP show that we had underestimated the cost of living in many poor countries. Because the cost of living is higher, the number of people shown to be living in poverty is higher.
- The same data show that the national poverty lines in the 15 poorest countries in the world are now valued at about \$1.25 a day in 2005 prices after correcting for differences in the cost of living. Therefore the extreme poverty line has been reset to reflect the new findings.
- The old “dollar a day” poverty line was chosen to represent the threshold of extreme poverty. Based on new data, consumption of \$1.25 a day in 2005 prices now represents the best estimate of the extreme poverty line. The new line is the average line for the poorest 15 countries.

4. Why does the World Bank measure poverty? How are the data used by the Bank and within the UN system?

- As part of its core poverty reduction mission, the World Bank measures poverty and assesses the results of our programs. National poverty estimates are used to measure progress on country poverty reduction programs. International estimates such as these are used for research purposes and to help set priorities for the Bank's development programs.
- The World Bank's poverty estimates were chosen as the standard indicator for the first Millennium Development Goal, which calls for halving the rate of extreme poverty between 1990 and 2015. Global poverty estimates calculated by the World Bank appear regularly in the UN's MDG monitoring reports. The World Bank's poverty estimates are also used by UN agencies, bilateral donors, academics, and some NGOs.

5. Does this mean that poverty is increasing?

- No. Although the level of poverty is higher than we had previously estimated, poverty has fallen over time. The rate of change is the same as we had estimated in 2007, but poverty rates began at a higher level than we had thought. We now have a much more accurate picture of poverty.

6. What does this mean for previous estimates?

- Previous estimates were the best possible given the available data. The new data improve on and supersede previous estimates. What these estimates show is that the level of poverty is higher than we thought but that the pace of reducing poverty is the same.

7. Does this mean that development efforts over the past 25 years had limited impact?

- No. Poverty has been reduced – and reduced quite substantially. But 1.4 billion people still live in extreme poverty. It is even more important to continue the the fight against poverty.

8. Why are these data called estimates? Don't you know how many poor there are?

- These are estimates because they are based on survey data. We do not have an exact headcount – and it is not possible to have an exact headcount – of the world's poor since census data typically do not ask the detailed questions on consumption required for measuring poverty. We have used surveys that allow us to estimate the proportion of the population that is poor.

9. Does the World Bank use the same methodology every time it issues an update?

- The general methods used to establish the international poverty line and to measure poverty rates have been consistent since the first estimates were made in 1990. What has changed is the reliability, timeliness, and comprehensiveness of the data. The latest estimates draw on 675 household surveys for more than 115 developing countries, representing 96 percent of the population of the developing world. Results for the latest year are based on interviews with 1.2 million randomly sampled households. All past estimates have been revised back to 1981 on a consistent basis.

10. Where can I find the latest poverty data for an individual country? When will country data be available?

- The data for China and India are available now. We will be releasing detailed country tables before the Annual Meetings in October.
- The widely-used *PovcalNet* web site is also being fully updated, giving access to the data base at country level, to allow users to replicate the Bank's numbers and try different assumptions, such as country groupings.

11. Is the \$1.25 the result of inflation?

- No, if the old extreme poverty line (\$1.08 in 1993 prices) had simply been updated for US inflation it would have been well above poverty lines found in the poorest countries.

12. Do the new poverty numbers reflect rising food and energy prices?

- No. The new data does not reflect increases in food prices since 2005 because of lags in survey data availability.

13. What about the \$2 a day threshold?

- This represents the median poverty line (measured in 2005 PPP terms) of all developing countries.

14. Do the new poverty numbers affect the World Bank's classification of economies?

- No. The World Bank's classification of economies as high, middle, or low income is based on their gross national income per capita, not on their poverty levels.

15. How does the World Bank plan to use these numbers for operational and resource allocation decisions?

- The poverty estimates are not used for resource allocations by the World Bank. These estimates do give us a better understanding of the distribution and severity of poverty and help set priorities for the Bank's development programs and to measure the progress of these programs.

16. How do the new data affect the MDGs? How can MDG1 (to halve global poverty from its 1990 levels by 2015) be achieved when we now have 400 million more poor people in the world?

- The first MDG calls for halving the rate of extreme poverty between 1990 and 2015. Although the level of poverty is higher than we had previously thought, the rate of change in poverty is about the same. At this pace, the first MDG will be achieved globally, but large differences remain between regions and individual countries.

17. Based on these figures, you say that the number of poor in the world decreased by 500 million people since 1981 and that the number of poor in China fell by 600 million people. Does this mean that the only gains against poverty were made in China? And everywhere else there was increase?

- The fact that the number of poor outside China did not fall in the aggregate certainly does **not** mean that China was the only country where poverty fell! It just means that the gains balance the losses in term of numbers of poor.
- And note that the poverty rate is a better measure of progress, and this fell from 40 to 29 percent outside China.

International Comparison Program (ICP)

1. What is the ICP?

- The International Comparison Program (commonly known as the ICP) is a worldwide statistical initiative that collects comparative price data and estimates purchasing power parities (PPPs).

2. What did the ICP study do?

- The International Comparison Program (ICP) collected data on prices of more than 1,000 goods and services in 100 countries and territories. A similar program led by the OECD and Eurostat gathered data from 46 more countries. The price data were used to estimate purchasing power parities (PPPs) benchmarked to the year 2005.

3. Why is the 2005 global purchasing power parity data considered more robust than the 1993 data?

- The 2005 International Comparison Program (ICP) included more countries, employed new methodologies, and benefited from more rigorous actions to improve data quality. 146 countries and territories participated in the ICP. This is a record number. China was included for the first time, and India had not participated since 1985. Africa included 48 countries. The results from the 1993-96 ICP benchmark included only 70 countries.

4. Why did PPP-based estimates of China's GDP drop by 40 percent?

- This is the first time China participated in the ICP. Previous estimates were extrapolated from a bilateral comparison of 1986 prices between China and the US. The extrapolations failed to take into account the change in structure and increase in prices over time.

5. Are China's PPPs biased because they only furnished prices for 11 administrative areas?

- If the national average prices based on these 11 administrative areas are not fully representative of the rest of China, then there may be some bias. Simulations suggest that the bias for GDP is not likely to be more than five percent.

6 What do the new data tell us about poverty estimates?

- The PPPs just released provide a measure of the overall price level of an economy. They may not fully reflect the expenditure patterns of the poor. Nor do they capture differences in price levels within a country. Additional data and analysis will be necessary before international poverty rates can be estimated using the ICP data.

7. Why are there differences between a country's exchange rate and its PPP value?

- There are many reasons that PPPs and exchange rates may diverge. Exchange rates are determined by the international demand for currencies, which is affected by many factors such as the volume of trade, the flow of investment, speculation by currency traders, and changes in official reserves. PPPs reflect the relative prices of goods and services in the economy, including those not traded on international markets.

8. When should PPPs be used instead of exchange rates?

- PPPs should be used in comparing the size of economies. Because PPPs adjust for differences in price levels between countries, they provide a better measure of economic volumes.
- Generally speaking, market exchange rates underestimate the size of developing economies, where price levels tend to be lower than in more advanced economies.

9. What is meant by "economic volumes" and how do PPPs help to measure them?

- The term "volume" refers to real economic values, in contrast to nominal values. Real values are adjusted for price levels so that the same quantities – or volumes – of goods and services can be compared between countries.

- Because PPPs provide estimates of the volume of GDP, they are often used for comparisons with quantities measured in physical units. For example, in the Millennium Development Goals, the energy efficiency of economies is monitored by energy use (measured in oil equivalent units) to GDP (measured using PPPs).

10. Why are things expressed in terms of US dollars when the value of the dollar has fallen so much since 2005?

- Because the United States economy is the largest in the world, it is convenient to use the US dollar as the numeraire currency. However, because PPPs are transitive, they can be expressed in terms of any other currency.

11. How many countries were in the 2005 ICP?

- There are 146 countries and territories participating in the ICP. This is a record number. China was included for the first time, and India had not participated since 1985. Africa included 48 countries. Estimates of purchasing power parities have been made for an additional 39 non-participating countries.

12. Why were not all countries included?

- The ICP is a voluntary program. A record number of countries participated in this round, but resource constraints and other reasons prevented some countries from participating. Many have indicated their willingness to participate in the next round.

13. How do we know every country followed the same procedures?

- Much effort went into ensuring countries used the same methodology and consistent data collection procedures. National implementation agencies met on a regular basis with the regional coordinators to ensure consistency. Regional coordinators were brought together by the Global Office on a regular basis
- An ICP Procedures Manual and the ICP Handbook were developed to ensure a common understanding and use of the methodology. A huge effort went into the preparation of specifications for the products to be priced.
- Software was developed to ensure that rigid data validation was consistently applied. An editing program identified cases of inconsistent pricing and appropriate adjustments were made.
- The estimation methods used are reasonably robust to differences in procedures between countries. The main concern was to avoid the occurrence of systematic differences.

14. Why do the PPP data differ from the data in the World Development Indicators?

- The data in World Development Indicators are based on previous benchmark surveys. For developing countries, where benchmark data existed, they are based on the previous ICP round in 1993 and are quite out of date. For countries with no previous benchmark, data were imputed. So it is not surprising that there will be some changes with the introduction of new and better data. One of the biggest changes is for China which has participated in the ICP for the first time.

15. How do they differ from what has been in the Penn World Tables?

- The Penn World Tables have been based on older benchmark data. There are also differences in methodology that causes notable differences. As a result, they cannot be compared directly to the new ICP data.