



The World Bank

POVERTY

AT A GLANCE:

- New estimates by the World Bank show about 1.4 billion people living below the international poverty line of US\$1.25 a day in 2005¹—equivalent to over one fourth of the developing world's population. These replace previous estimates of poverty at “a dollar a day,” and are based on the new threshold for extreme poverty derived from the 2005 International Comparison Program (ICP), which provides vastly improved and expanded data on global purchasing power parities.
- The reduction in poverty over time remains as significant with the new poverty line as with the previous one. Poverty incidence has declined from 52 percent of the global population in 1981 to 42 percent in 1990 and 26 percent in 2005. However, lags in survey data availability mean that these new estimates do not include the effects of the recent sharp rise in food and fuel prices.
- If the recent trends were to continue, the first Millennium Development Goal (MDG) of reducing extreme poverty by 50 percent from its 1990 level by 2015 will be achieved. That said, 1 billion people will still live on US\$1.25 a day or less in 2015 at the current rate of progress.
- Using the new international poverty line of US\$1.25 a day in 2005 prices, the decline in poverty continues to vary considerably across regions. Led by China, the East Asia and the Pacific region has made dramatic progress, with poverty incidence dropping from 80 percent to 18 percent between 1981 and 2005. At the other extreme is Sub-Saharan Africa (SSA) where the poverty rate remained at 50 percent in 2005—no lower than in 1981, although with more encouraging recent signs of progress. The \$1.25 poverty rate fell from 58 percent in 1996 to 50 percent in 2005, though this was not sufficient to bring down the number of poor.
- Developing and developed countries need to anchor efforts to reduce poverty and achieve the MDGs in country-led development strategies, improve the environment for growth, scale up human development and infrastructure provision and enhance mechanisms for smoothing the effects of economic shocks.

Poverty: Current Estimates and Outlook

As a result of the 2005 ICP exercise, the number of poor people in the developing world has been revised upwards to 1.4 billion in 2005 from around one billion in 2004 based on the previous dollar a day poverty line, which was tied to 1993 prices. This is because the 2005 ICP found the cost of living in the developing world to be higher than previously estimated in 1993 and also took into account differences in the quality of consumption across countries. The revised international poverty line of US\$1.25 a day per person (at 2005 prices) is the average of poverty lines found in 15 poorest countries.

Between 1981 and 2005, the share of the population in the developing world living below US\$1.25 a day was halved from 52 to 26 percent. This amounted to a trend decline of one percentage point per year in the aggregate poverty rate, reducing the number of poor by 500 million (from 1.9 billion to 1.4 billion)

¹ For more details, see Chen and Ravallion (2008)

between 1981 and 2005. At this rate of poverty reduction, the developing world as a whole is on track for attaining the first Millennium Development Goal (MDG) of halving the 1990 poverty rate by 2015.

Poverty reduction has been highly uneven across regions (see Figure 1). The number of poor people has fallen in East Asia, but risen elsewhere (see Figure 2). Although East Asia had the highest incidence of poverty in the world during the 1980s (80 percent of the population lived below US\$1.25 a day in 1981), the poverty rate had fallen to 56 percent in 1990 and 18 percent in 2005. This also means that the goal of halving extreme poverty between 1990 and 2015 has already been achieved in East Asia. Between 1981 and 2005, the number of people in poverty has fallen by around 600 million in China alone. In the developing world outside China, the poverty rate has fallen from 40 to 29 percent over 1981-2005, although the total number of poor has remained unchanged at around 1.2 billion.

Figure 1.
Poverty incidence at US\$1.25 or less a day 1981-2005

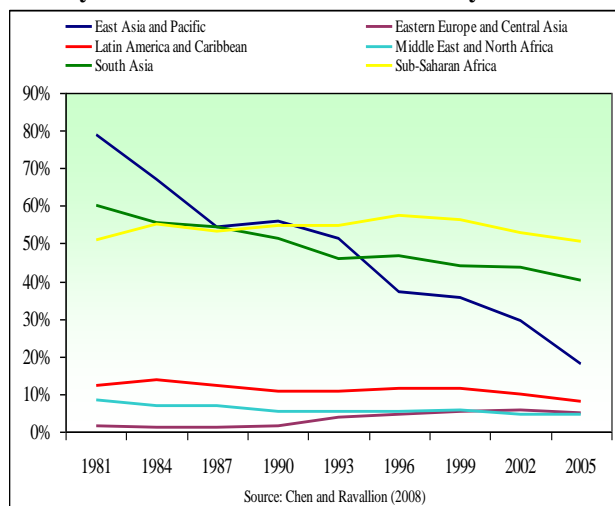
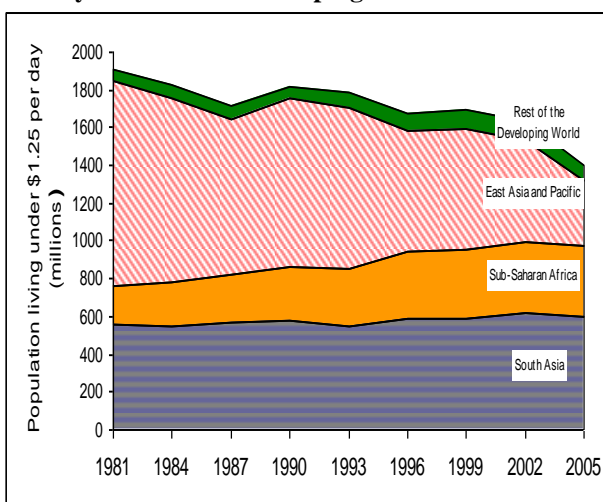


Figure 2.
Poverty rates for the developing world 1981-2005



At the other extreme is Sub-Saharan Africa, where the share of people living below US\$1.25 remains static at around 50 percent between 1981 and 2005 (Figure 1). Despite a 4.7 percentage point decline in the share of people in extreme poverty between 1999 and 2004, some 31 percent of Africans will still be living in extreme poverty by 2015, according to projections based on the latest data. This is a far higher proportion than the MDG target of 23 percent. The number of people living under the US\$1.25 line, meanwhile, has almost doubled during the same period, from around 200 million to 380 million (Figure 2). Improving economic growth and access to basic services to enable the poor to participate in the growth process in Africa will be necessary if its rate of poverty reduction is to be brought in line with the rest of the world.

South Asia has seen its poverty rate fall from 60 percent to 40 percent between 1981 and 2005, but population increases have not allowed this decline to bring down the number of poor in the region (Figures 1 and 2). Similarly, the poverty rate has gone down in Latin America and the Caribbean and Middle East and North Africa during the same period, although the number of poor has remained static. Despite rising poverty incidence and number of poor in Eastern Europe and Central Asia, however, some progress appears to have been made since the late 1990s.

The poverty line of US\$1.25 a day represents the benchmark for poverty in the poorest countries in the world. A less frugal standard of US\$2 per person per day, which is the median poverty line for all developing countries, is more appropriate for middle income countries and regions such as Latin America and Eastern Europe. The share of global population living below US\$2 a day (at 2005 prices) has fallen from 70 percent in 1981 to 48 percent in 2005. However, the number of people living below US\$2 a day has remained unchanged at around 2.5 billion between 1981 and 2005.

Across regions, the risk of rising vulnerability to economic shocks is significant. The Bank's estimates suggest that the number of people living between US\$1.25 and US\$2 has doubled from about 600 million to 1.2 billion between 1981 and 2005. Those who live just above the poverty line are particularly vulnerable to the effects of rising food and fuel prices and the impact of climate change. One estimate suggests that rising food prices may have increased total world poverty by 105 million people between 2005 and 2007 alone.² Rising food and fuel prices may heighten inequality as well. For example, the effective rate of inflation faced by the poor in Latin America is three percentage points more than the official rate, which can lead to a widening of the rich-poor gaps.³

Fighting Poverty

At the heart of the World Bank's work in more than 100 countries is the focus on poverty reduction. While around 1.4 billion people live on less than US\$1.25 a day, almost 2.6 billion live on less than US\$2 a day. Beyond causing hunger and malnutrition, poverty makes people vulnerable to economic shocks such as rising food and fuel prices, climate change and natural disasters, violence, and crime. They are often denied access to education, adequate health services, and clean water and sanitation.

The World Bank seeks to reduce poverty by supporting the design and implementation of nationally owned poverty reduction strategies through a variety of analytical and lending instruments that aim to expand growth opportunities, reduce vulnerability to economic shocks, and enhance the ability of poorer households to participate in growth through improved access to basic services, social safety nets, infrastructure and other productive opportunities as well as through more accountable and transparent institutions. With less than a decade to 2015, achieving the global goals is a huge challenge. Enhancing inclusive growth, moreover, is a key concern in poverty reduction efforts, with global real GDP growth projected to slow down from 3.7 percent in 2007 to 2.7 percent in 2008 and 3 percent in 2009.⁴

Country-led Development Strategies

Anchoring efforts to achieve the MDGs in country-led development strategies is central to coherent and effective scaling up of development progress. Framed against a long-term development vision, these strategies set medium-term targets—tailored to country circumstances—for progress toward the MDGs and related development outcomes. They also define clear national plans and priorities for achieving those targets, linking policy agendas to medium-term fiscal frameworks. As of August 2008, 61 low-income countries had prepared Poverty Reduction Strategies. To improve the effectiveness of its support, the World Bank aligns its activities to these national plans through its Country Assistance Strategies (CASs). The national strategies also serve as a basis for harmonization with other development partners. Working with development partners to streamline poverty reduction efforts has been particularly significant, for example, in the World Bank's close collaboration with the UN agencies on a common strategy to confront the food crisis. Further collaboration with development partners in the area of climate change will be crucial to poverty reduction efforts moving forward.

Inclusive Growth

Evidence to date underscores the fact that strategies for sustained poverty reduction need to have, at their core, measures for sustained and rapid economic growth. At the same time, growth does not explain all the variation in poverty reduction, since inequality affects the *pace* at which growth is translated into poverty reduction. Growth is less efficient in lowering poverty levels in countries with high initial inequality or where the pattern of growth favors the better-off. To accelerate poverty reduction, the country-specific constraints that prevent poor households from participating in and benefiting from

² Ivanic and Martin (2008).

³ 'Rising Global Food Prices – the World Bank's LAC Region Position Paper' (2008).

⁴ Forecast summary, 2006-2010. DECPG, World Bank

growth need to be addressed. This requires effort on the part of governments to provide the basic conditions necessary for broad-based growth in the regions and sectors where the poor live and work. Country-specific analysis can help identify binding constraints on shared growth—be they macroeconomic, human or physical capital, or institutional in nature—that can then be addressed by developing sequenced plans. When coupled with systems and processes that support evidence-based decision making and strong accountability, this can foster more effective use of domestic resources and aid flows for poverty reduction.

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For more information on poverty, see: www.worldbank.org/poverty and for the latest poverty research, see <http://econ.worldbank.org/programs/poverty>

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