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 2005\(^1\)—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 sharp rise in food and fuel prices in 2007 and 2008 nor do they factor in the effects of the worldwide economic slump.

- Strong economic growth in the developing countries in the past decade had put the MDG for poverty reduction within reach at the global level, but the triple punch of the food, fuel, and financial crises creates new risks for the achievement of this goal of halving extreme poverty.

- Compared to expectations before the financial crisis, lower growth rates in 2009 are expected to entail that about 53 million fewer people will escape poverty in the developing world when judged by the $1.25 a day line; using the $2 a day line instead, the number rises to 65 million.

- These impact estimates are relative to the pre-crisis trajectories. Given current growth projections, poverty rates are still expected to fall in the developing world as a whole, albeit at a slower pace. The same (post-crisis) growth projections imply that the aggregate $1.25 a day poverty rate will fall from 21% in the “pre-crisis” year of 2008 to 18% (1.04 billion) in 2009; the pre-crisis growth rate for 2009 would have instead brought the poverty rate down to 17% (987 million). Using the $2 a day line, the poverty rate falls from 42% in 2008 to 39% (2.234 billion) in 2009 under the lower expected growth rate, while the pre-crisis trajectory would have brought the poverty rate down to 38% (2.169 billion).

- Using the US$1.25 a day poverty line 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) with a stubborn poverty rate of 50 percent in 2005—no lower than in 1981. 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 people living in poverty.

- 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.

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\(^1\) For more details, see Chen and Ravallion (2008)
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 the 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) between 1981 and 2005. At this rate of poverty reduction, as of mid-2008, the developing world as a whole was on track for attaining the first Millennium Development Goal (MDG) of halving the 1990 poverty rate by 2015. However, that projection may now be imperiled in the wake of the crisis.

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 people living in poverty has remained unchanged at around 1.2 billion.

At the other extreme is Sub-Saharan Africa, where the share of people living below US$1.25 remained 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.

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

Figure 2. Poverty rates for the developing world 1981-2005
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. And despite rising poverty incidence and number of poor in Eastern Europe and Central Asia, 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 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. These 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 1.9 percent in 2008 and to contract to -1.7 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 December 2008, 67 low-income countries had prepared Poverty Reduction Strategies. To improve the effectiveness of its support,

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² Ivanic and Martin (2008).
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.

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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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