

## Chapter II

# Poverty: the official numbers

Monitoring and reporting on the levels, patterns and trends of poverty have become a standard part of anti-poverty programme design and assessment. With the steady internationalization of the poverty agenda, development organizations, both multilateral and bilateral, have demanded a template for regular reporting, and new concepts, definitions, data sets and instruments have been generated to meet this demand. Every major development organization produces its own report card, often ranking countries in terms of their performance. Special interest usually attaches to the annual *Human Development Reports* of the United Nations Development Programme (UNDP) and, of late, the Millennium Development Goals progress reports; however, it is perhaps the reports of the World Bank on the incidence of poverty based on the dollar-a-day criterion that generate the greatest interest and commentary in the development community. Statistics have an awesome power, and these global accounting exercises present statistical data to journalists, researchers, practitioners and activists as irrefutable facts. What, then, are those ostensible facts? The present chapter provides a summary of the currently most influential versions, largely associated with the World Bank's dollar-a-day poverty estimates.

### Global poverty trends: 1981-2005<sup>1</sup>

Poverty is most often measured in monetary terms, captured by levels of income or consumption per capita or per household. The commitment made in the Millennium Development Goals to eradicate absolute poverty by halving the number of people living on less than US\$ 1.25 dollar a day represents the most publicized example of an income-focused approach to poverty.

Based on this measure, the last 20 years have seen significant reductions in the depth and severity of extreme poverty in the developing world.<sup>2</sup> In absolute terms, extreme income poverty has fallen substantially, with the number of

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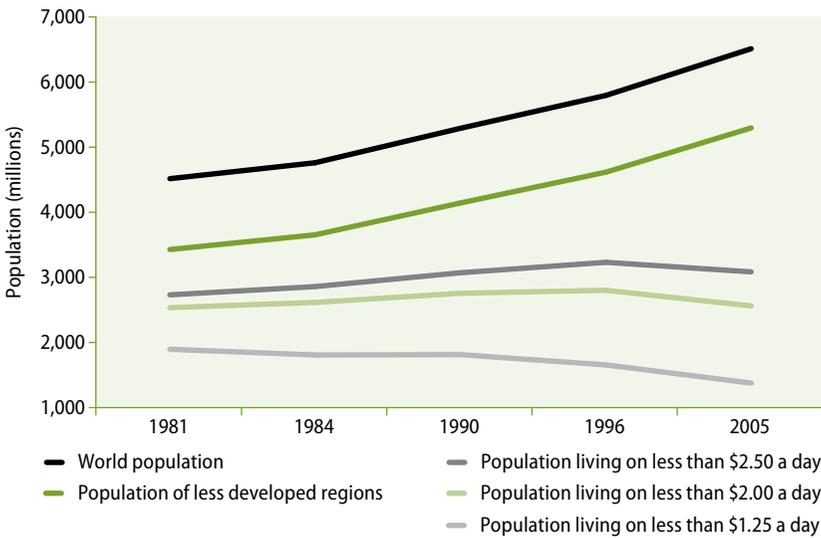
<sup>1</sup> The present chapter uses the revised series of country-level poverty data issued by the World Bank in August 2008 following the findings of the 2005 International Comparison Program. These data are available on PovcalNet, a web-based interactive research tool which can be used to replicate Bank poverty estimates and test alternative assumptions regarding, inter alia, the poverty line or country groupings. Despite many criticisms, the Bank's approach remains highly influential, and provides the prevailing benchmark for discussions of the extent and trends of poverty globally, including in the United Nations system. Hence, what we think we know continues to rely heavily on the accuracy of the poverty estimates generated by the Bank.

<sup>2</sup> For definitions of terms, see annex II.1.

people living on less than \$1.25 a day having declined from a high of 1.9 billion in 1981 to a low of 1.4 billion in 2005. In relative terms, the proportion of people living in extreme poverty dropped from 52.0 to 25.7 per cent during this period (Chen and Ravallion, 2008).<sup>3</sup>

Notwithstanding the continued growth in the world’s population, the absolute number of people living in extreme poverty has fallen, regardless of whether the poverty-line income threshold is set at \$1.25 or raised to \$2 or \$2.50 per day (figure II.1). This has occurred in the midst of an expanding global economy, which has resulted, on average, in higher per capita incomes in both developed and developing countries (Sachs, 2008; United Nations, 2005a). Since the 1960s, gross domestic product (GDP) in low-income countries has grown at an average of 4.1 per cent per annum, while GDP in middle-

Figure II.1  
World population and number of people living in poverty, 1981-2005



Sources: United Nations, Department of Economic and Social Affairs, Population Division; and World Bank, Development Research Group (2009).

3 For many developing countries, the estimation of current and past poverty levels is a complex task given the general lack of reliable data. In these countries, information on the depth, severity and duration of poverty may be limited, and available information may be unreliable. To address some of these data gaps, the research programme of the World Bank Poverty and Inequality Group has been engaged in improving current data as well as methods and tools for poverty and inequality analysis through, inter alia, producing new household-level data (notably through the Group’s Living Standards Measurement Study), monitoring poverty and inequality using household-level data, developing more reliable “poverty maps”, and rolling out computational tools such as ADePT and PovCalNet (see <http://go.worldbank.org/NT2A1XUWP0>).

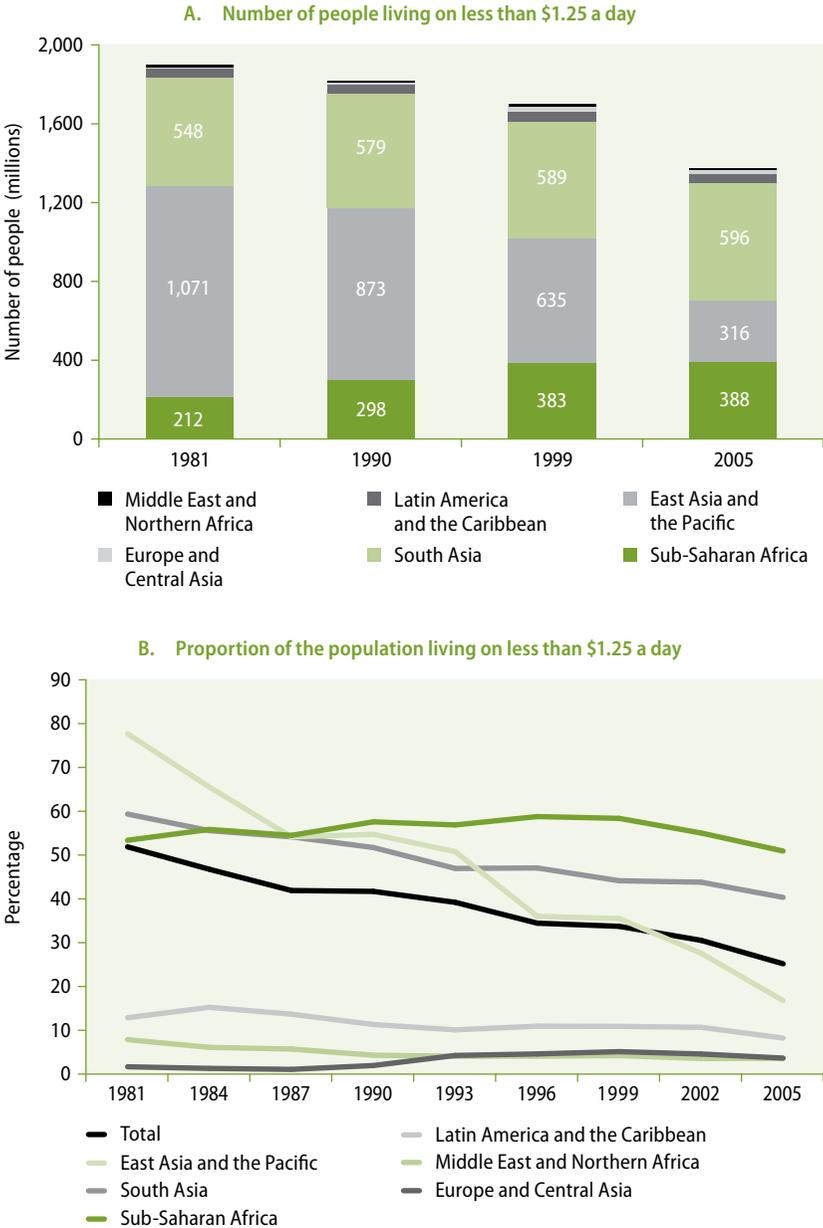
and high-income countries has grown at an average of 4.2 and 3.2 per cent per annum, respectively (Soubotina, 2004).

By 2050, the world's population is projected to surpass 9 billion, with developing countries accounting for most of the 2.3 billion increase. The population of the developing world is expected to rise from 5.6 billion in 2009 to 7.9 billion in 2050. In contrast, the population of the developed regions is expected to increase slightly, from 1.23 billion to 1.28 billion (United Nations, Department of Economics and Social Affairs, Population Division, 2009). The continued rapid increase in the population of developing countries highlights the importance of having appropriate policies designed to promote the sustained economic growth and structural transformation of their economies so as to ensure durable poverty reduction. Although the income-based (per capita) conventional poverty measure is sensitive to population growth, careful analysis does not provide any support for the Malthusian claim that poverty can be attributed to population growth in excess of output growth, especially food production. Instead, the demographic transitions experienced by a wide variety of societies suggest that family sizes tend to decline with higher incomes and greater economic security. Conversely, poor families tend to have more children in the hope of increasing contributions to household income as well as of ensuring continued economic security as parents age (Leibenstein, 1957; Mamdani, 1972; Robbins, 1999).

As can be seen from figure II.2.A, faster rates of decline in the number of people living on less than \$1.25 a day occurred between 1999 and 2005. A significant proportion of this decline can be largely attributed to the rise in living standards in East Asia and the Pacific which accompanied explosive economic growth, particularly in China. Other regions of the world also experienced a decline in the incidence of poverty, with the exception of Eastern Europe and Central Asia, where the proportion of people living on less than \$1.25 a day increased from 1.7 to 3.7 per cent between 1981 and 2005 (figure II.2.B). While this declining trend in poverty levels is welcome, it is also important to point out that poverty rates remain unacceptably high in sub-Saharan Africa and South Asia.

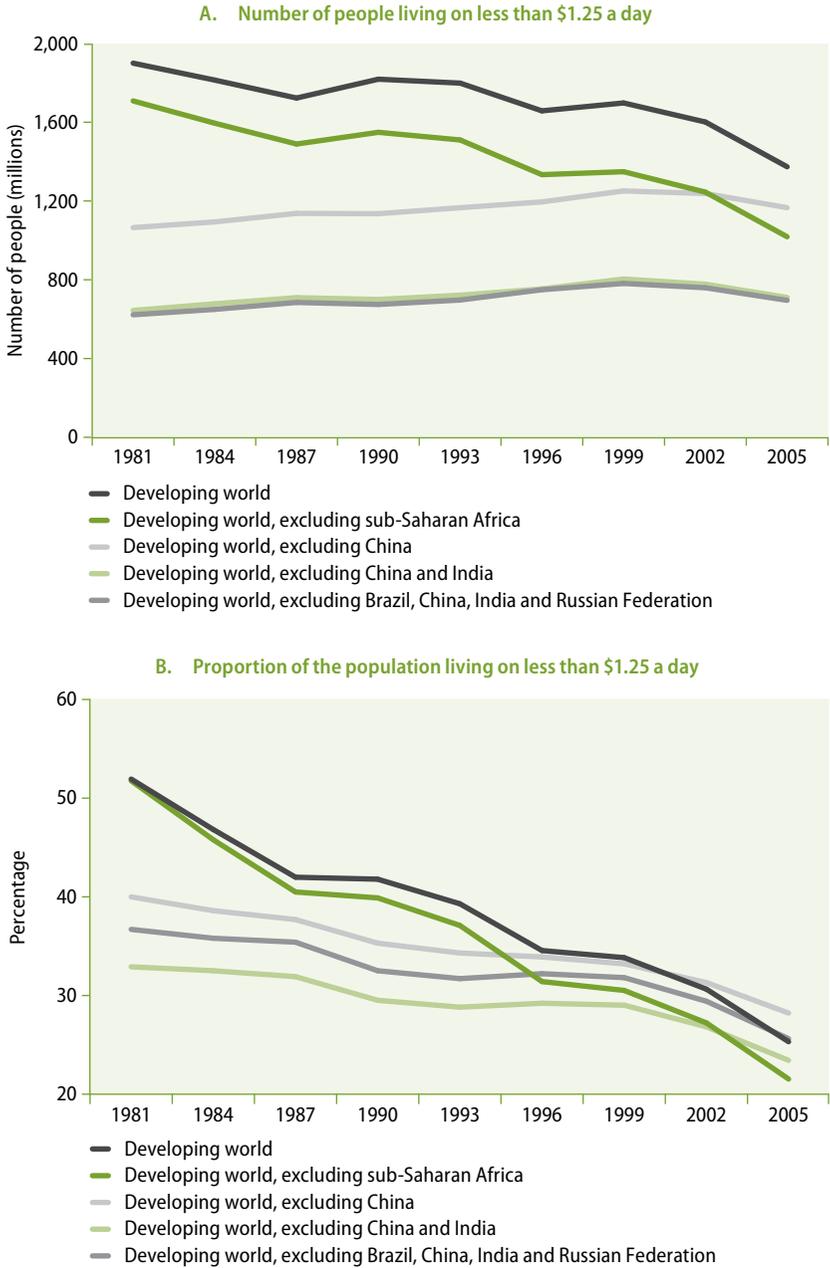
Figure II.3 presents global poverty trends with and without some major countries and regions, thereby illustrating the role that these countries and regions play in shaping the global trends. The absolute global poverty level in 2005 was about 1.4 billion; however when China is excluded from the analysis, poverty increased from 1.1 billion in 1981 to about 1.3 billion in 1999, before declining to about 1.2 billion in 2005 (figure II.3.A). However, if sub-Saharan Africa is left out, the number of people living on less than \$1.25 a day falls precipitously, from 1.7 billion in 1981 to 986 million in 2005. Without the rapidly growing developing economies of Brazil, the Russian Federation, India and China, the absolute number of people living in extreme poverty actually went up, from 619 million in 1981 to about 699 million in 2005. However, in terms of incidence, poverty levels declined across all regions (figure II.3.B).

Figure II.2  
Global and regional trends in extreme poverty, 1981-2005



Source: World Bank, Development Research Group (2009).

Figure II.3  
Poverty trends over time, with and without major countries and regions, 1981-2005



Source: World Bank, Development Research Group (2009).

With sub-Saharan Africa excluded, the incidence of poverty in the developing world declined by 31 percentage points between 1981 and 2005, while a developing world without China saw the incidence of poverty drop from about 40 to 28 per cent during this period.

The dramatic drop in poverty levels has been attributed to, *inter alia*, improved rates of economic performance and higher wages, as well as the provision of social protection systems. Unfortunately, in the context of the current global economic and financial crisis, which is slowing down rates of economic growth, faster rates of population growth in developing countries without commensurate increases in productive employment and with a lack of comprehensive social protection have exacerbated the declines in real per capita incomes and have thus contributed to a rise in the number of poor persons.

The contraction in the global economy has already resulted in massive job losses, with the global unemployment rate having increased from 5.7 to 6 per cent between 2007 and 2008 (International Labour Organization, 2009a). Data on recent global employment trends released by the International Labour Organization (ILO) also show that based on growth projections, the number of unemployed persons globally could rise by 20 million in 2009 as a result of the economic crisis (International Labour Organization, 2009a). It is also estimated that the number of the unemployed could rise by 50 million if the global economic outlook worsens to the point where increases in unemployment match the magnitudes witnessed in the 1990s. This will bring the global unemployment rate to above 7 per cent. The number of the working poor is also likely to rise, particularly in emerging and developing countries where growth was primarily export-led. Besides posing serious challenges with respect to Government social spending and social stability, given the long lag in employment recovery, this increase will in all likelihood erase progress made over the last decade in reducing extreme poverty through the generation of decent work opportunities for all.<sup>4</sup>

## Regional shares and trends

Although global trends are informative, they tend to conceal significant diversity in poverty levels across regions. The transformative power of sustained economic growth combined with urbanization trends has propelled some countries to middle-income status (particularly those in East Asia) while a few others are poised to join the high-income status group. For other regions, the lack of strong and sustained economic growth and persisting income in-

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4 Employment recovery generally lags from four to five years behind output recovery. Historical evidence culled by Reinhart and Rogoff (2009), based on 14 cases, suggests that it takes 4.8 years for the unemployment rate to revert to its pre-crisis level, even though GDP returns to its pre-crisis level in 1.9 years.

equalities have meant that the number of poor people continues to grow. Consequently, the spatial distribution of poor people within and across regions is changing. Before examining what is happening to levels of poverty across regions, it is important to determine where poor people live. One way to do this is to compare the share of poor people living in each region.

As shown in table II.1, the distribution of extremely poor people (defined as those living on less than \$1.25 a day) across developing regions has changed significantly since 1981 when East Asia and the Pacific had the highest share of the number of poor people. It is now South Asia and sub-Saharan Africa that have the highest shares. In 1981, China and other East Asian countries accounted for 57 per cent of extremely poor people in the world. However, over a span of less than 25 years, the East Asian and Pacific region managed to reduce its global share of extremely poor people to about 23 per cent by 2005. In contrast, the share of the world's extremely poor people increased in South Asia, from 29 per cent in 1981 to 43 per cent in 2005. The share of poor people in sub-Saharan Africa more than doubled over the same period, having gone from 11 per cent in 1981 to 28 per cent in 2005. These changes are partly accounted for by high rates of population growth in the absence of strong economic and productive employment growth, as well as by the failure in both regions to achieve significant structural change.

In other words, the changing picture of the distribution of poverty across the regions reflects the broad nature of their economic performances. In the case of East Asia and the Pacific, there is little doubt that strong economic

Table II.1  
Regional shares in number of people in the world  
living on less than \$1.25 a day, 1981-2005 (percentage)

Region	1981	1984	1987	1990	1993	1996	1999	2002	2005
East Asia and the Pacific	56.50	52.39	47.81	48.16	47.09	37.57	37.44	31.61	22.97
Eastern Europe and Central Asia	0.37	0.32	0.28	0.50	1.12	1.32	1.43	1.35	1.26
Latin America and the Caribbean	2.21	2.89	3.04	2.37	2.33	3.15	3.23	3.64	3.35
Middle East and Northern Africa	0.72	0.64	0.69	0.53	0.55	0.64	0.68	0.64	0.80
South Asia	28.91	30.28	33.09	31.94	31.17	35.89	34.72	38.42	43.26
Sub-Saharan Africa	11.27	13.48	15.09	16.49	17.74	21.43	22.50	24.33	28.37
<b>Total (per cent)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total number of poor (millions)</b>	<b>1 896.2</b>	<b>1 808.2</b>	<b>1 720</b>	<b>1 813.4</b>	<b>1 794.9</b>	<b>1 656.2</b>	<b>1 696.2</b>	<b>1 603.1</b>	<b>1 376.7</b>

Source: World Bank, Development Research Group (2009).

growth and structural change, particularly in China, have been important contributors to the phenomenal decrease in the region's share of people living below the \$1.25-a-day poverty line. Africa's recent growth surge, particularly since 2002 (Economic Commission for Africa, 2008), had offered some hope of reducing levels of extreme poverty. However, the recent global financial and economic crisis, which came on the heels of food and energy price hikes, is set to reverse recent gains (United Nations, 2009b). Moreover, Africa's recent growth surge had been driven by commodity exports which did not induce much structural change. Instead, it reinforced Africa's narrow export base; hence, its growth could not be sustained.

Table II.2 reveals that East Asia and the Pacific is the only region that has already attained the Millennium Development Goal of halving poverty by 2015. Other regions on track to meet this goal are Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa. In contrast, halving poverty remains a major challenge in South Asia and sub-Saharan Africa. These two subregions actually saw a significant increase in the shares of people living on less than \$1.25 a day over the period 1990-2005.

### Intraregional poverty trends

It is important to remember that all poverty is local. Hence, efforts to reduce poverty tend to be vigorously waged first and foremost at the country level. Analysis of intraregional poverty can therefore reveal considerable diversity in respect of the patterns and trends in poverty rates across countries that help to spur countries and their development partners to action. The present section will therefore provide a detailed description of poverty trends by income at intraregional levels. Such a focus will help illuminate the discussion and understanding of poverty patterns and trends that followed the publication of a World Bank report (Chen and Ravallion, 2008) whose purpose was to show that "the developing world is poorer than we thought, but no less successful in the fight against poverty".

#### Sub-Saharan Africa

Although the absolute number of people living in extreme poverty has been on the rise in sub-Saharan Africa, the incidence of poverty fell marginally, from 54 to 51 per cent between 1981 and 2005 (table II.3), after having risen briefly to 59 per cent in 1996. However, this regional trend disguises large country differences. For instance, in 1981, the proportion of people living on less than \$1.25 a day had varied from a low of 3.6 per cent in Gabon to a high of 89.9 per cent in Swaziland. This pattern persisted into 2005, with the proportion in extreme poverty ranging from a low of 4.8 per cent in Gabon to a high of 86.1 per cent in Liberia. These differences are strongly correlated with differences in respect of both economic growth and the severity of income inequal-

Table II.2  
**Progress made in reducing poverty by half at the regional level,  
 over the period 1990-2005**

	East Asia and the Pacific	Eastern Europe and Central Asia	Latin America and the Caribbean	Middle East and Northern Africa	South Asia	Sub- Saharan Africa
<b>Percentage living on less than \$1.25 a day</b>						
2005	16.8	3.7	8.2	3.6	40.3	50.9
1999	35.5	5.1	10.9	4.2	44.1	58.4
1990	54.7	2.0	11.3	4.3	51.7	57.6
2015 target	27.4	1.0	5.7	2.2	25.9	28.8
<b>Change needed to achieve the target</b>	<sup>a</sup>	-2.7	-2.6	-1.4	-14.5	-22.1
<b>Annual rate of change (percentage)</b>						
1990-2005	-7.6	4.2	-2.1	-1.2	-1.6	-0.8
1990-1999	-4.7	11.0	-0.4	-0.2	-1.7	0.2
1999-2005	-11.7	-5.2	-4.6	-2.6	-1.5	-2.3
<b>Rate needed to achieve target from 2005 level</b>	<sup>a</sup>	-12.3	-3.7	-5.0	-4.4	-5.5
<b>Percentage point change</b>						
1990-1999	-19.2	3.1	-0.4	-0.1	-7.6	0.8
1999-2005	-18.7	-1.4	-2.7	-0.6	-3.8	-7.5

Source: World Bank, Development Research Group (2009).

<sup>a</sup> By 2005, the region had achieved the 2015 target of halving poverty, using 1990 as the baseline.

ity, especially in countries of Southern Africa. For example, the Gini coefficient was above 50 per cent in all five Southern African countries in 2005, with Namibia registering the world's highest level of income inequality. Table II.3 also shows that only seven sub-Saharan African countries had poverty rates below 25 per cent in 2005,<sup>5</sup> up from two (Côte d'Ivoire and Gabon) in 1981. In general, countries with extremely high poverty levels also trail behind in respect of a number of demographic and social indicators such as life expectancy at birth, infant mortality, and children's school enrolment and completion rates.

Further insights into country-level poverty trends can be gained by examining progress made in meeting the Millennium Development Goal target of halving extreme poverty rates by 2015. Among the 19 African countries with extremely high poverty levels (that is, those where more than half of the

<sup>5</sup> Botswana, Cape Verde, Côte d'Ivoire, Gabon, Kenya, Mauritania and South Africa.

Table II.3

**Proportion of the population living on less than \$1.25 a day in countries of sub-Saharan Africa, 1981, 1990 and 2005, and the change needed to reach the 2015 target (percentage)**

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
<b>Countries with the proportion of the poor above 50 per cent in 2005</b>							
Liberia	74.5	83.2	86.1	41.6	0.2	-44.5	-7.3
United Republic of Tanzania	65.4	70.3	82.4	35.2	1.1	-47.2	-8.5
Burundi	85.2	84.5	81.3	42.3	-0.3	-39.0	-6.5
Rwanda	66.5	70.5	74.4	35.2	0.4	-39.2	-7.5
Malawi	85.3	90.5	73.9	45.2	-1.4	-28.7	-4.9
Guinea	86.6	92.6	69.8	46.3	-1.9	-23.5	-4.1
Mozambique	60.8	84.0	68.2	42.0	-1.4	-26.2	-4.8
Madagascar	85.9	68.4	67.8	34.2	-0.1	-33.6	-6.8
Niger	57.4	65.0	65.9	32.5	0.1	-33.4	-7.1
Central African Republic	79.5	80.8	64.4	40.4	-1.5	-24.0	-4.7
Zambia	53.6	62.8	64.3	31.4	0.2	-32.9	-7.2
Swaziland	89.9	83.7	62.4	41.8	-2.0	-20.6	-4.0
Nigeria	47.2	49.1	62.4	24.5	1.6	-37.9	-9.3
Democratic Republic of Congo	31.9	80.2	59.2	40.1	-2.0	-19.1	-3.9
Chad	61.1	55.9	58.7	27.9	0.3	-30.8	-7.4
Burkina Faso	73.0	61.9	55.0	30.9	-0.8	-24.1	-5.8
Congo, Republic of	61.9	66.3	54.1	33.2	-1.4	-20.9	-4.9
Uganda	66.2	68.7	51.5	34.3	-1.9	-17.2	-4.1
Mali	81.5	85.2	51.4	42.6	-3.4	-8.8	-1.9
<b>Countries with the proportion of the poor at or below 50 per cent in 2005</b>							
Benin	53.5	66.0	50.0	32.9	-1.9	-17.1	-4.2
Sierra Leone	59.4	63.1	49.9	31.6	-1.6	-18.3	-4.6
Comoros	53.3	51.4	46.1	25.7	-0.7	-20.4	-5.8
Namibia	45.4	43.3	43.8	21.6	0.1	-22.2	-7.1
Guinea-Bissau	31.2	41.3	42.5	20.7	0.2	-21.8	-7.2
Angola	63.6	47.3	42.5	23.7	-0.7	-18.8	-5.8

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
Ethiopia	66.2	65.9	39.0	32.9	-3.5	-6.1	-1.7
Togo	35.2	33.8	38.7	16.9	0.9	-21.8	-8.3
Lesotho	44.1	57.7	38.7	28.8	-2.7	-9.9	-3.0
Senegal	68.3	65.8	33.5	32.9	-4.5	-0.6	-0.2
Gambia	64.3	67.9	31.3	33.9	-5.2	<sup>a</sup>	<sup>a</sup>
Ghana	48.9	50.7	30.0	25.3	-3.5	-4.7	-1.7
Cameroon	43.0	45.7	27.5	22.8	-3.4	-4.7	-1.9
Botswana	35.6	25.6	23.1	12.8	-0.7	-10.3	-5.9
South Africa	34.7	22.1	20.6	11.0	-0.5	-9.6	-6.3
Côte d'Ivoire	6.7	17.3	20.4	8.7	1.1	-11.7	-8.5
Kenya	38.4	35.4	19.7	17.7	-3.9	-2.0	-1.1
Cape Verde	52.3	36.0	18.4	17.9	-4.5	-0.5	-0.3
Mauritania	38.9	45.9	13.4	22.9	-8.2	<sup>a</sup>	<sup>a</sup>
Gabon	3.6	1.9	4.8	1.0	6.2	-3.8	-14.9
<b>Total</b>	<b>53.7</b>	<b>57.9</b>	<b>51.2</b>	<b>28.8</b>	<b>-0.8</b>	<b>-22.4</b>	<b>-5.5</b>

Source: World Bank, Development Research Group (2009).

<sup>a</sup> By 2005, the country had achieved the 2015 target of halving poverty, using 1990 as the baseline.

national population live on less than \$1.25 a day), 12 countries managed to reduce poverty levels between 1990 and 2005. Although these declines are encouraging, they still leave a large proportion of the total population living in extreme poverty, and all 19 countries face major challenges in meeting the 2015 Millennium Development Goal target. For instance, in Liberia, poverty levels increased between 1990 and 2005; moreover, the estimated extreme poverty headcount (86 per cent) would need to be cut by half in order for the 2015 target (41.6) to be reached; that is, Liberia will have to reduce poverty at an annual rate of 7 per cent from now to 2015 to achieve the target. Huge challenges face all the sub-Saharan African countries that have extremely high levels of poverty, including Africa's most populous country, Nigeria, which saw its level of poverty increase by 20 per cent between 1990 and 1999 before recording a modest 7 per cent decrease between 1999 and 2005. Furthermore, income inequality has grown in the largest countries of sub-Saharan Africa, including South Africa, the Democratic Republic of the Congo, the United Republic of Tanzania and Kenya.

Among countries with lower levels of poverty (at or below 50 per cent), only the Gambia and Mauritania succeeded in halving the 1990 levels of pov-

erty by 2005. On the other hand, a few other countries, Cape Verde, Senegal and Kenya, seem to be on track to meet the Millennium Development Goal target by 2015: they need to reduce the poverty levels that prevailed in 2005 by less than 2 per cent in order to meet the 2015 target. Overall, however, the goal of eradicating extreme poverty will continue to be a major challenge in a large number of African countries and huge efforts will continue to be required to halve extreme poverty by 2015.

### East Asia and the Pacific

The East Asian and Pacific region has recorded some of the fastest declines in levels of extreme poverty in the world. The proportion of people with income levels below the \$1.25 poverty line declined from 67 per cent in 1981 to about 9 per cent in 2005 (table II.4), translating as the movement of more than 755 million people out of extreme poverty in about 25 years. A decline of this magnitude in less than a quarter-century is a historic first. However, although this regional picture is outstanding, it is also equally important to acknowledge huge intraregional differences in levels of absolute poverty. As table II.4 shows, all East Asian and Pacific countries recorded significant declines in poverty with the exception of Papua New Guinea, where poverty remained largely unchanged between 1981 and 2005.

As already mentioned, the most impressive reductions occurred in China. Since 1979, China's economy has experienced high and sustained growth following successful land and economic reforms. Over the last 25 years, China successfully moved from agriculture to manufacturing activities and saw an annual trend of real gross domestic product (GDP) growth of just under 10 per cent (Ghosh, 2008a). China's manufacturing sector doubled its share of the workforce and tripled its share of output. The rate of extreme poverty at the national level declined from a high of 84 per cent in 1981 to a low of 16 per cent in 2005. The decline occurred in both rural and urban areas: the rural poverty rate fell from 94 to 26 per cent and the urban poverty rate fell from 45 to less than 2 per cent during this period.

Although China's poverty eradication efforts overshadow in their scale the progress made by other countries in the region, a number of other countries with large populations have also successfully moved millions of people out of poverty—namely, Indonesia, the Philippines, Thailand, Malaysia and Viet Nam. They have been able to capitalize effectively on the opportunities offered by strong growth to significantly reduce extreme poverty. Indeed, the big three success stories—China, Indonesia and Viet Nam—together account for an absolute drop in the numbers of the extreme poor of 718 million. Without the progress of these countries, the global poverty record would have appeared far less successful.

Despite this tremendous effort, the region is still home to about 316 million people living on less than \$1.25 day. Compared with those of neighbour-

ing countries, poverty rates remain very high in Cambodia (40 per cent), Timor-Leste (44 per cent) and the Lao People's Democratic Republic (36 per cent). Poverty has remained high in these countries partly because economic growth rates have been comparatively low (Economic and Social Commission for Asia and the Pacific, 2007).

Yet, although progress has been uneven across the region, almost all countries are on track to meet the 2015 target. The prospects for halving poverty remain a major challenge, however, for Papua New Guinea, the Philippines and Timor-Leste. In the Philippines, for instance, even if the incidence of poverty declined from 30 per cent in 1990 to 23 per cent in 2005, at an annual rate of about 2 per cent, the country will need to reduce the number of people living in extreme poverty at an annual rate of 4 per cent in order to reach its 2015 target.

Table II.4

**Proportion of the population living on less than \$1.25 a day in countries of East Asia and the Pacific, 1981, 1990 and 2005, and the change needed to reach the 2015 target (percentage)**

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
Timor-Leste	82.1	71.3	43.6	35.7	-3.3	-7.9	-2.0
Cambodia	86.1	77.3	40.2	38.7	-4.4	-1.5	-0.4
Lao People's Democratic Republic	88.0	65.9	35.7	32.9	-4.1	-2.8	-0.8
Papua New Guinea	29.5	43.0	29.7	21.5	-2.5	-8.2	-3.2
Indonesia (rural)	73.8	57.1	24.0	28.6	-5.8	a	a
Indonesia (urban)	63.8	47.8	18.7	23.9	-6.3	a	a
Viet Nam	90.4	34.2	22.8	17.1	-2.7	-5.7	-2.9
Philippines	31.4	29.7	22.6	14.8	-1.8	-7.8	-4.2
Mongolia	62.4	34.9	22.4	17.5	-3.0	-4.9	-2.5
China	84.0	60.2	15.9	30.1	-8.9	a	a
China (rural)	94.1	74.1	26.1	37.0	-6.7	a	a
China (urban)	44.5	23.4	1.7	11.7	-16.0	a	a
Malaysia	3.8	1.9	0.5	1.0	-8.9	a	a
Thailand	21.9	9.4	0.4	4.7	-21.0	a	a
<b>Total</b>	<b>66.8</b>	<b>39.1</b>	<b>9.3</b>	<b>24.4</b>	<b>-7.6</b>		

Source: World Bank, Development Research Group (2009).

a By 2005, the country had achieved the 2015 target of halving poverty, using 1990 as the baseline.

## South Asia

South Asia is the developing subregion with the largest number of poor people: 43 per cent of the developing world's 1.4 billion poor people live in South Asian countries. The absolute number of people living in extreme poverty increased from 548.3 million to 595.6 million between 1981 and 2005. Rates of population growth in these countries have remained high and have led to an enlargement of both the total population as well as the numbers living in extreme poverty. In recent years, economic growth has been relatively high in the three largest countries in the region, India, Bangladesh and Pakistan, which recorded annual rates of growth of GDP per capita above 5 per cent in 2000-2006.<sup>6</sup> As a result, the subregion saw the proportion of those living in extreme poverty decline in relative terms, from a high of 59 per cent in 1981 to 40 per cent in 2005 (table II.5). However, such growth has not been sufficiently inclusive and pro-poor to reduce the absolute number of persons living in poverty. Income inequalities have grown steadily in India since the early 1980s, in both urban and rural areas. The same pattern can be observed in Bangladesh. South Asian countries have been unable to generate sufficient decent work opportunities to lift working poor people out of poverty. The structural change of the subcontinental economies has also been slow; for example, manufacturing accounts for about 17 per cent of GDP in Bangladesh and for about 28 per cent in India and Pakistan, as opposed to close to 35 per cent in China (World Bank, 2008c).

The headcount index declined in almost all countries with data on income poverty, with the exception of Bangladesh, where the estimated proportion of people living below the \$1.25 a day poverty line increased from 44 per cent in 1981 to 51 per cent in 2005. In India alone, the poverty headcount fell by 18 percentage points, from 60 per cent in 1981 to 42 per cent in 2005. Pakistan also experienced a decline in the headcount index from 73 to 23 per cent during the same period.<sup>7</sup> Yet, table II.5 shows that, in terms of progress in meeting the Millennium Development Goal target of halving extreme poverty by 2015,

6 Growth rates calculated based on World Bank data of GDP per capita in purchasing power parities (PPPs), as shown in the United Nations Key Global Indicators database (<http://data.un.org>) (accessed 8 June 2009).

7 The sharp decline in the poverty headcount in Pakistan potentially highlights the problems with data on and measurement of poverty. The ups and downs reflected in the poverty data collected during the 1990s are questionable. It is possible that the data from this period are not comparable. The variation could also be a result of sensitivity in respect of the poverty lines. Alternative sources of information report different poverty trends; for instance, the latest Human Development Report for Pakistan reports an increase in poverty during the 1990s, while a report by the Asian Development Bank cites several studies that showed a trend for the 1990s that was the reverse of the one reported by the World Bank (see <http://hdr.undp.org/en/reports/nationalreports/asiathepacific/pakistan/> and [http://www.adb.org/documents/reports/poverty\\_pak/chapter\\_2.pdf](http://www.adb.org/documents/reports/poverty_pak/chapter_2.pdf)). Data problems may also be responsible for a reported rise in poverty in Bangladesh, which appears counter-intuitive, given the rise in GDP per capita.

Table II.5

**Proportion of the population living on less than \$1.25 a day in countries of South Asia, 1981, 1990 and 2005, and the change needed to reach the 2015 target (percentage)**

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
Nepal	—	77	54.7	38.5	-2.3	-16.2	-3.5
Bangladesh	44.2	49.9	50.5	24.9	0.1	-25.6	-7.1
India	59.8	51.3	41.6	25.7	-1.4	-15.9	-4.8
India (rural)	62.5	53.9	43.8	27.0	-1.4	-16.9	-4.7
India (urban)	51	43.5	36.2	21.8	-1.2	-14.4	-5.0
Bhutan	47.4	51	26.8	25.5	-4.3	-1.3	-0.5
Pakistan	72.9	58.5	22.6	29.3	-6.3	<sup>a</sup>	<sup>a</sup>
Sri Lanka	31	15	10.3	7.5	-2.5	-2.8	-3.2
<b>Total</b>	<b>59.4</b>	<b>51.7</b>	<b>40.3</b>	<b>25.9</b>	<b>-1.6</b>	<b>-14.5</b>	<b>-4.4</b>

Source: World Bank, Development Research Group (2009).

<sup>a</sup> By 2005, the country had achieved the 2015 target of halving poverty, using 1990 as the baseline.

several countries in the region, including Bangladesh, India, Nepal and Sri Lanka, will need higher rates of poverty reduction than recorded since 1990 if they are to meet the 2015 target.

### Latin America and the Caribbean

Over the last 25 years, Latin America and the Caribbean has had mixed results in eradicating poverty. While poverty declined in most countries, levels of poverty went up in the Plurinational State of Bolivia, Guyana, Haiti, Panama, Paraguay, Peru and the Bolivarian Republic of Venezuela and in urban areas of Argentina<sup>8</sup> (table II.6). These disparities are to a large extent a reflection of the huge inequalities in the distribution of income across the region and within countries. For example, 12 out of 23 countries in the world with Gini coefficients above 50 per cent in 2005 were in Latin America. It is estimated that, in Latin American and Caribbean countries, the per capita income of households in the tenth decile is about 17 times greater than that of the poorest 40 per cent of households (Economic Commission for Latin America and the Caribbean, 2008). Nonetheless, poverty levels have declined at the regional level owing to strong per capita GDP growth, averaging over 3 per cent per annum between

<sup>8</sup> Poverty data are not available for rural areas of Argentina.

Table II.6

**Proportion of the population living on less than \$1.25 a day in countries of Latin America and the Caribbean, 1981, 1990 and 2005, and the change needed to reach the 2015 target (percentage)**

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
Haiti	54.6	56.8	58.0	28.4	0.1	-29.6	-7.1
Honduras	—	43.5	22.2	21.8	-4.5	-0.4	-0.2
Bolivia (Plurinational State of)	2.0	4.0	19.6	2.0	10.6	-17.6	-22.8
Saint Lucia	24.0	26.8	17.8	13.4	-2.7	-4.4	-2.8
Nicaragua	21.0	39.5	15.8	19.8	-6.1	<sup>a</sup>	<sup>a</sup>
Suriname	17.2	18.6	14.2	9.3	-1.8	-4.9	-4.2
El Salvador	14.8	15.9	13.5	8.0	-1.1	-5.6	-5.3
Guatemala	46.7	37.2	12.1	18.6	-7.5	<sup>a</sup>	<sup>a</sup>
Venezuela (Bolivarian Republic of)	6.2	3.1	10.0	1.6	7.8	-8.5	-18.6
Ecuador	11.1	14.2	9.8	7.1	-2.5	-2.7	-3.2
Paraguay	4.8	5.9	9.3	3.0	3.0	-6.4	-11.5
Panama	6.0	15.8	9.2	7.9	-3.6	-1.3	-1.5
Peru	1.0	1.3	8.2	0.7	12.3	-7.6	-25.3
Brazil	17.1	15.5	7.8	7.8	-4.6	0.0	0.0
Guyana	3.1	8.4	7.3	4.2	-0.9	-3.1	-5.5
Dominican Republic	16.6	14.9	5.0	7.5	-7.3	<sup>a</sup>	<sup>a</sup>
Argentina (urban)	0.0	0.4	4.5	0.2	16.1	<sup>a</sup>	<sup>a</sup>
Costa Rica	21.4	9.2	2.4	4.6	-9.0	<sup>a</sup>	<sup>a</sup>
Mexico	9.8	5.4	1.7	2.7	-7.7	<sup>a</sup>	<sup>a</sup>
Chile	6.3	4.4	0.7	2.2	-12.3	<sup>a</sup>	<sup>a</sup>
Trinidad and Tobago	0.0	4.4	0.5	2.2	-14.5	<sup>a</sup>	<sup>a</sup>
Jamaica	5.6	0.2	0.2	0.1	0.0	-0.1	-6.9
<b>Total</b>	<b>11.5</b>	<b>9.8</b>	<b>8.4</b>	<b>5.7</b>	<b>-2.1</b>	<b>-2.6</b>	<b>-3.7</b>

Source: World Bank, Development Research Group (2009).

<sup>a</sup> By 2005, the country had achieved the 2015 target of halving poverty, using 1990 as the baseline.

2003 and 2007. Such growth, the highest the region has experienced since the 1970s, resulted in an increase in the average labour income of the poorest (Economic Commission for Latin America and the Caribbean, 2009).

This trend in poverty is consistent with the findings of the Economic Commission for Latin America and the Caribbean (ECLAC), based on a series of household surveys in 18 countries.<sup>9</sup> The most recent figures from these surveys show that poverty has continued on a downward trend. According to ECLAC, about 34 per cent of the population of Latin America and the Caribbean were living in poverty in 2007, among whom 13 per cent were living in extreme poverty. In absolute numbers, 184 million were considered poor, among whom 68 million were living in extreme poverty (Economic Commission for Latin America and the Caribbean, 2008).

According to World Bank estimates, in 2005, most countries in the region were on track to halve poverty rates by 2015. This was accounted for largely by the fact that poverty levels had been very low in 1990, which is the base year for measuring progress made by countries towards the achievement of the Millennium Development Goals. However, for a number of countries, the target remains a major challenge. For Haiti to halve its poverty rate by 2015, it will have to reduce poverty levels at an annual rate of 7.1 per cent from 2005 onward. The country's poverty levels have practically remained unchanged since 1981. For the Plurinational State of Bolivia and the Bolivarian Republic of Venezuela, two countries that saw sharp increases in the incidence of poverty between 1990 and 2005 and increases in income disparities during the same period that were among the world's highest, much higher annual rates of poverty reduction are required even though their poverty levels are much lower than that of Haiti.

### Middle East and Northern Africa

The Middle East and Northern Africa region has managed to reduce both the incidence of poverty and the absolute number of people living in extreme poverty despite poor economic performance in the last two decades. The incidence of poverty in the region is the lowest in the developing world. It dropped from 7.9 per cent in 1981 to 3.6 per cent in 2005 (table II.7). In absolute terms, the number of poor people has declined from 13.7 million to 11 million. Unlike other middle-income countries, the countries of the Middle East and Northern Africa have been very successful in reducing extreme poverty owing in part to improvements in the health and education levels of the general population, as well as to the availability of extensive food and energy subsidies in several countries. For example, between 1980 and 2000, the regional child mortality rate plunged from 138 per thousand live births to 47 per thousand, the average years of schooling per person over age 15 rose from 2.6 to 5.5 years, and life expectancy at birth increased by 10 years, from 58 to 68 years (Iqbal, 2006). Gains of this magnitude within the social dimensions of development which

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<sup>9</sup> The findings of these surveys are reported on a regular basis in the issues of the *Social Panorama of Latin America*, published by the Economic Commission for Latin America and the Caribbean.

enhance human capabilities are known to contribute to reductions in poverty at the household level even when per capita incomes stagnate.

While poverty rates are low at the regional level, poverty levels and trends differ across countries. For example, table II.7 shows that, while 12 per cent of Egypt's population had lived below the \$1.25 poverty line in 1981, the incidence of poverty dropped to 2 per cent in 2005. In contrast, poverty rates increased sharply in Djibouti (from 6.1 to 18.6 per cent) and Yemen (from 9.1 to 17.5 per cent) over the same period, giving them the highest poverty rates in the region. Poverty levels are lower in oil-rich Gulf countries which are able to use the vast wealth derived from oil and gas to subsidize consumption goods and social services for their citizens (Iqbal, 2006). Net oil importers in the Middle East and Northern Africa region were impacted negatively by the recent increases in the prices of energy and food. This created fiscal burdens for Governments, increased production costs for small businesses, and reduced the food intake of poor families.

Despite the decline in poverty at the regional level, fighting poverty is still a major concern for many countries in the region. Although per capita income is high as a result of high prices of oil and gas, not all segments of society have benefited. Egypt, the Islamic Republic of Iran, Jordan and Tunisia have al-

Table II.7

**Proportion of the population living on less than \$1.25 a day in countries of the Middle East and Northern Africa, 1981, 1990 and 2005, and the change needed to reach the 2015 target (percentage)**

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
Djibouti	6.1	1.8	18.6	0.9	15.6	-17.7	-30.3
Yemen	9.1	4.9	17.5	2.5	8.5	-15.1	-19.7
Algeria	3.8	6.2	4.3	3.1	-2.4	-1.2	-3.3
Morocco	10.4	2.5	3.0	1.3	1.2	-1.8	-8.8
Egypt	12.0	4.5	2.0	2.3	-5.4	a	a
Islamic Republic of Iran	4.0	3.9	1.5	2.0	-6.4	a	a
Tunisia	9.7	5.9	1.0	3.0	-11.8	a	a
Jordan	0.0	2.8	0.4	1.4	-13.0	a	a
<b>Total</b>	<b>7.9</b>	<b>4.3</b>	<b>3.6</b>	<b>2.2</b>	<b>-1.2</b>	<b>-1.4</b>	<b>-5.0</b>

Source: World Bank, Development Research Group (2009).

a By 2005, the country had achieved the 2015 target of halving poverty, using 1990 as the baseline.

ready cut by more than half the poverty rates that prevailed in 1990, although some increases did occur in Egypt and the Islamic Republic of Iran between 1999 and 2005. According to the World Bank (2004), Egypt and the Islamic Republic of Iran managed to lower levels of poverty by considerably reducing poverty in urban areas and, in the case of the latter, sharp declines in urban poverty managed to offset an increase in rural poverty.

### Eastern Europe and Central Asia

Given the very low levels of absolute poverty in Eastern Europe, it is more illuminating to use an absolute poverty line of \$2 a day, considering the cost of the heating and warm clothing that are required in this region (Alam and others, 2005). According to this measure, there had been 21.7 million poor people in Eastern Europe in 1981. This figure dropped to 5 million in 2005, attesting to a significant decline in poverty in the region. On the other hand, in Central Asia, the number of poor according to the \$2-a-day measure increased from 13.2 million in 1981 to 36.1 million in 2005. However, unlike Eastern Europe, Central Asia shares many of the characteristics of other developing regions and hence \$1.25 a day perhaps represents a more appropriate poverty line for Central Asia. Application of this measure shows that the number in absolute poverty in Central Asia increased more than 4 times, from 3.7 million in 1981 to 16.1 million in 2005. The difference between the poverty levels in Central Asia according to the two poverty lines (\$2 a day and \$1.25 a day)—20 million people in 2005—can be taken as a rough measure of vulnerability.

Another feature of the region is the widening of intercountry disparities in extreme poverty (table II.8). The highest levels of absolute poverty are found in Central Asian countries such as Georgia, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, countries whose economies were centrally planned during the Soviet period and hence which shared many structural similarities. Differences in levels of absolute poverty in these countries were considerably lower in the early 1980s largely because of the significant resource transfers, including guaranteed employment, subsidies and social safety nets, that these countries received from the central budget. In contrast, the Eastern European countries, although also under the Soviet influence, were primarily responsible for meeting their own budgetary needs. The fact that, in a large majority of those countries, extreme absolute poverty was very low during the period 1981-2005 has been attributed to the growth in wages and employment opportunities as well as adequate social transfers (Alam and others, 2005). In contrast, levels of absolute poverty actually increased in a number of Central Asian countries. Consequently, these countries face a substantially bigger challenge in respect of halving poverty by 2015.

In large measure, this sharp increase in absolute poverty is associated with the collapse of the Soviet Union and the transition to market economies in the early 1990s, which witnessed large declines in real output and high

Table II.8  
**Proportion of the population living on less than \$1.25 a day  
 in countries of Eastern Europe and Central Asia, 1981, 1990 and 2005,  
 and the change needed to reach the 2015 target (percentage)**

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
Uzbekistan	0.0	4.9	38.8	2.5	13.8	-36.4	-27.6
Kyrgyzstan	0.0	4.8	21.8	2.4	10.1	-19.4	-22.1
Tajikistan	1.4	1.5	21.5	0.8	17.8	-20.8	-33.6
Georgia	2.5	2.9	13.4	1.5	10.2	-12.0	-22.2
Turkmenistan	21.9	34.2	11.7	17.1	-7.2	a	a
Republic of Moldova	20.2	15.2	8.1	7.6	-4.2	-0.5	-0.6
Armenia	0.9	6.3	4.7	3.2	-2.0	-1.6	-4.0
Turkey	4.5	1.5	2.7	0.8	3.9	-2.0	-12.8
Kazakhstan	0.0	0.5	1.2	0.3	5.8	-1.0	-15.7
Albania	0.2	0.9	0.9	0.5	0.0	-0.5	-6.9
Romania	0.0	0.0	0.8	0.0		-0.8	-0.1
Lithuania	0.0	0.0	0.4	0.0		-0.4	-0.1
The former Yugoslav Republic of Macedonia	0.0	0.0	0.3	0.0		-0.3	0.0
Bosnia and Herzegovina	0.0	0.0	0.2	0.0		-0.2	0.0
Russian Federation	0.7	1.4	0.2	0.7	-13.0	a	a
Poland	0.0	1.3	0.1	0.7	-17.1	a	a
Ukraine	3.0	1.2	0.1	0.6	-16.6	a	a
Azerbaijan	13.4	16.1	0.0	8.1		a	a
Belarus	0.0	0.0	0.0	0.0		a	a
Bulgaria	0.0	0.0	0.0	0.0		a	a
Croatia	0.0	0.0	0.0	0.0		a	a
Czech Republic	0.0	0.0	0.0	0.0		a	a
Estonia	0.0	0.0	0.0	0.0		a	a
Hungary	0.0	0.0	0.0	0.0		a	a
Latvia	0.0	0.0	0.0	0.0		a	a
Slovakia	0.0	0.0	0.0	0.0		a	a

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1981	1990	2005				
Slovenia	0.0	0.0	0.0	0.0		a	a
<b>Total</b>	<b>1.7</b>	<b>2.0</b>	<b>3.7</b>	<b>1.0</b>	<b>4.2</b>	<b>-2.7</b>	<b>-12.3</b>

Source: World Bank, Development Research Group (2009).

a By 2005, the country had achieved the 2015 target of halving poverty, using 1990 as the baseline.

inflation. During the transition, the political, economic and social institutions in these formerly centrally planned economies underwent major changes which affected the distribution of public and private resources, both across and within countries. In particular, public social services crumbled in most of these countries (Bandara, Malik and Gherman, 2004), which contributed to the rise in poverty and inequalities as well as greater regional disparities, especially between rural and urban areas (Cukrowski, 2006; Anderson and Pomfret, 2004). On average, within-country income inequalities rose faster in this region than in any other between the early 1980s and the late 1990s. In particular, successor republics of the former Soviet Union such as Turkmenistan, the Russian Federation and Uzbekistan, as well as the three Baltic States, saw their Gini coefficient increase by more than 10 points between 1981 and 1999.

### Least developed countries

Further insight and nuance into poverty patterns and trends around the world can be gleaned from an examination of the situation in the least developed countries. This group of countries<sup>10</sup> is home to 750 million people, or 12 per cent of the world's population. It is claimed that the economic growth prospects of these countries have been undermined by their geography, with 28 of them being landlocked or small island States (Gallup, Sachs and Mellinger, 1998; Collier, 2007). Controlling for economic policies and institutions, some researchers contend that the location and climate of the continent of Africa have had a negative impact on its income levels and growth. In particular, they note that these geographical factors affect growth through their impact on agricultural productivity, transport costs and a debilitating disease burden. In addition, landlocked countries also tend to be held hostages by their neighbours if the latter have poor transport links to the coast; consequently, landlocked countries find it more difficult to reap the benefits of globalization inasmuch as they are hamstrung in their ability to export commodities or any manufac-

<sup>10</sup> The current list of the least developed countries comprises 49 countries: 33 in Africa, 15 in Asia and the Pacific, and 1 in Latin America.

tured products (Collier, 2007). Countries with access to the sea therefore tend to have higher incomes than their landlocked counterparts because they have better and cheaper access to global markets.

Although 38 per cent of the people in “bottom billion societies”<sup>11</sup> live in countries that have no sea access, serious research has questioned the findings of studies that give prominence to geography and climate. For example, Nordhaus and Chen (2009) found that a substantial part of the “latitude effect” (distance from the equator) does not reflect geophysical variables such as climate, elevation, distance from coastlines and rivers, and similar factors: variables other than purely geographical ones are responsible for much of the poor economic performance of low-latitude regions. In this regard, an International Monetary Fund (IMF) study (Hernández-Catá, 2000) has raised questions about the methodological soundness of the influential study by Bloom and Sachs (1998) which relied only on cross-country data and hence may have picked up fixed effects specific to Africa other than those related to geography or climate. According to Hernández-Catá, if landlockedness had been a growth-inhibiting factor, then the economies of Switzerland and the Czech Republic would have been given a very low probability of success starting from the seventeenth century. Even in Africa, landlocked Botswana grew impressively in the 1990s, and a tropical climate has not hampered growth in Thailand, Malaysia and Indonesia and several southern states of the United States of America. While recognizing the disadvantages of geography faced by many African countries, then World Bank economist Benno Ndulu (2006, pp. 215-216) has made the following point:

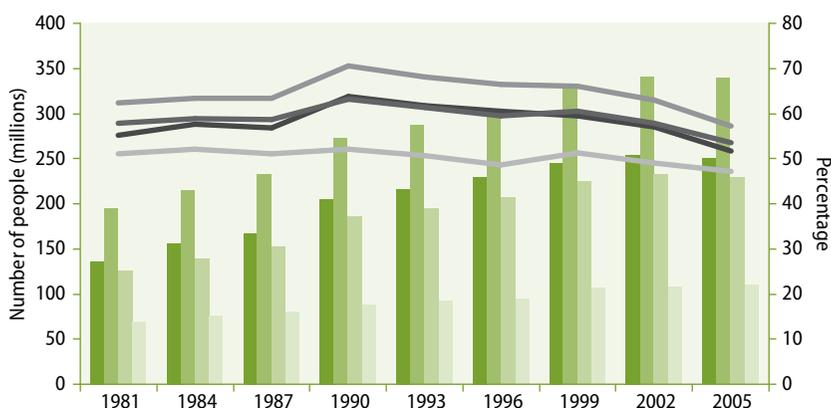
The most important message I am trying to convey in this paper is that offsetting natural or geographical disadvantages is a choice for which public action is important. Malaria can be eradicated, and it was in many areas where it was once preponderant. Fragmentation can be overcome through integration and deliberate effort to offset its negative effects. For example, Tanzania was able to overcome the potential of high ethnolinguistic fractionalization through a deliberate effort to create national unity and a single language among 132 tribes. Remoteness, likewise, can be overcome and distance can be bridged through improvements in infrastructure. Botswana’s experience perhaps best embodies all aspects of this message.

In other words, what matters for sustained economic growth and poverty reduction is the nature of public policy and action.

Figure II.4 shows the absolute number of poor people and the incidence of poverty in heavily indebted poor countries and the least developed countries. In absolute terms, the number of people living on less than \$1.25 a day in both

<sup>11</sup> These are the people living in failing States (a group of about 50) who are dropping further and further behind the majority of the world’s people, often falling into an absolute decline in living standards (Collier, 2007).

Figure II.4

**Poverty in heavily indebted poor countries and least developed countries, 1981-2005**

Left axis data:

- Heavily indebted poor countries
- Least developed countries
- Least developed countries (Africa)
- Least developed countries (Asia and the Pacific)

Right axis data:

- Heavily indebted poor countries (percentage)
- Least developed countries (percentage)
- Least developed countries (Africa) (percentage)
- Least developed countries (Asia and the Pacific) (percentage)

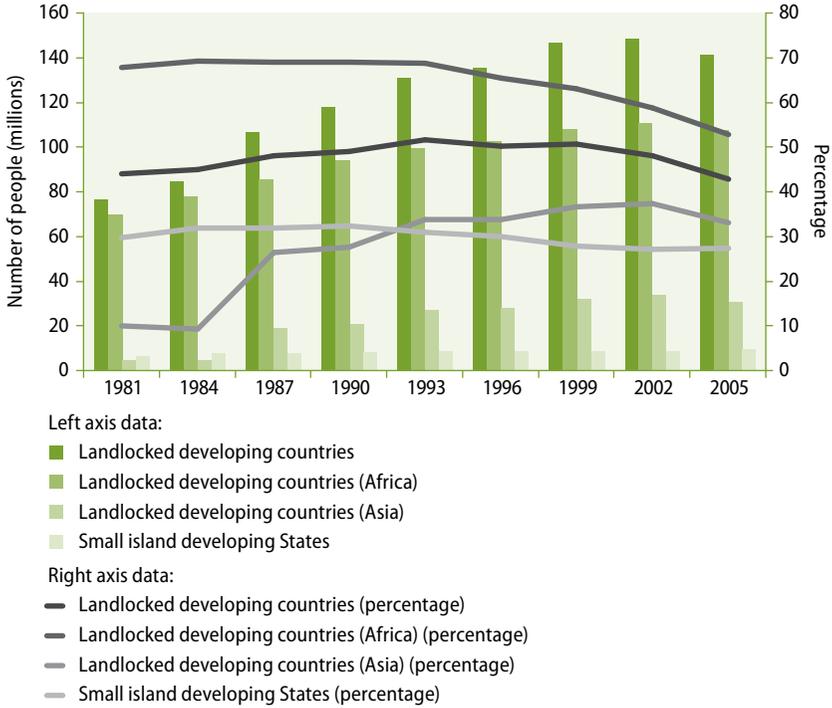
Source: World Bank, Development Research Group (2009).

groups of countries increased between 1981 and 2002, and declined, slowly, only between 2002 and 2005, the number being larger in the least developed countries of Africa than in the least developed countries of Asia and the Pacific. However, in relative terms, the proportion of people living in extreme poverty has been declining since 1990 in both the heavily indebted poor countries (HIPC) and in the least developed countries.

Figure II.5 shows that, among all landlocked developing countries and small island developing States, African landlocked developing countries have the highest proportion of people living in extreme poverty, followed by Asian landlocked developing countries. However, the numbers of people living in extreme poverty have been on the decline since the early 1990s.

In terms of overall poverty reduction efforts, all least developed countries face a major hurdle (table II.9). In order for all least developed countries to reduce the 1990 poverty headcount of 67.9 per cent to the 2015 target of 33.9 per cent, they will have to significantly accelerate the pace of poverty reduction efforts. Starting from 2005, least developed countries will have had to

Figure II.5  
**Poverty in landlocked developing countries and small island developing States, 1981-2005**



Source: World Bank, Development Research Group (2009).

maintain an annual reduction rate of 4.7 per cent to achieve the 2015 target. Small island developing States will also have to redouble their efforts, given the slackened pace of poverty reduction they experienced between 1999 and 2005, which was considerably slower than that experienced between 1990 and 1999. Given the trends as shown in table II.9, the least developed countries, landlocked developing countries, highly indebted poor countries and small island developing States will not meet the Millennium Development Goal target of halving poverty by 2015.

**Countries of the European Union (EU) and other countries of the Organization for Economic Cooperation and Development (OECD)**

The World Bank does not track progress on reducing poverty in developed countries, even though poverty is a major public policy concern in those countries. European Union (EU) members and the United States of America have a long-standing tradition and practice of collecting national poverty data as well as releasing official poverty estimates. The definition of poverty used for public

Table II.9

**Proportion of the population living on less than \$1.25 a day in least developed countries, landlocked developing countries, heavily indebted poor countries and small island developing States, 1990, 1999 and 2005, and the change needed to reach the 2015 target (percentage)**

Country	Proportion living on less than \$1.25 a day			2015 target	Annual rate of change (1990-2005)	Change needed to achieve the target (2005-2015)	Annual rate of change needed to achieve the target (2005-2015)
	1990	1999	2005				
All least developed countries	67.9	62.3	54.3	33.9	-1.5	-20.4	-4.7
African least developed countries	70.2	65.9	56.9	35.1	-1.4	-21.8	-4.8
Asia and the Pacific least developed countries	56.6	42.7	38.5	28.3	-2.6	-10.2	-3.1
Heavily indebted poor countries	63.8	57.5	48.9	31.9	-1.8	-17.0	-4.3
All landlocked developing countries	49.1	50.7	42.8	24.5	-0.9	-18.3	-5.6
African landlocked developing countries	69	63.1	52.7	34.5	-1.8	-18.2	-4.2
Asian landlocked developing countries	27.7	36.6	33.1	13.9	1.2	-19.2	-8.7
Small islands developing States	32.4	27.7	27.5	16.2	-1.1	-11.3	-5.3

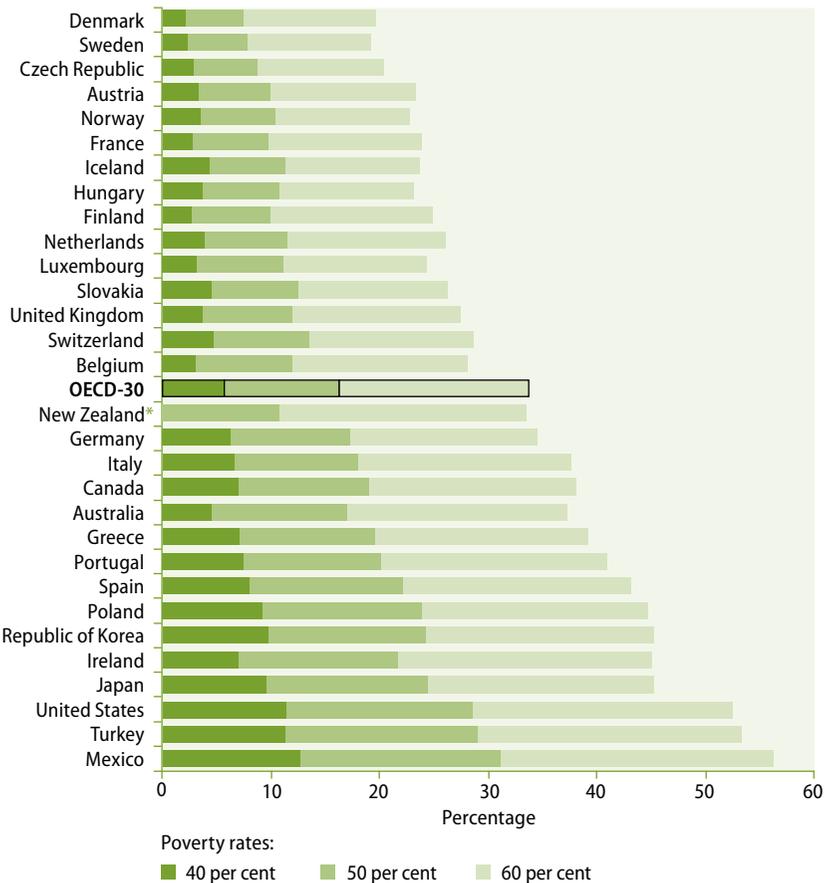
Source: World Bank, Development Research Group (2009).

policy purposes and in public discourse is quite different from that used by the Bank. The prime concern is the standard of living relative to other people in the country; hence, poverty is a relative concept in the developed world. In the present section, therefore, the poverty estimates used are not comparable to those for developing countries as published by the World Bank.

Over the long run, there have been modest changes in overall poverty indicators in EU and other countries of the Organization for Economic Co-operation and Development (OECD), with levels of poverty growing in the recent past. For instance, with the poverty threshold defined as 60 per cent of a country's median income, in 2006, 72 million people in the EU were at risk of falling into poverty; and in 2001, more than half of all people in low-income households in the EU lived with the persistent risk of falling into poverty. In addition, it is estimated that one in five people in Europe lives in substandard housing and 10 per cent live in households where no one works (Commission of the European Communities, 2007).

Differences in poverty rates across Europe and North America are generally small. During the 1990s, poverty rates were highest in the United States, the United Kingdom of Great Britain and Northern Ireland, Ireland, Italy and Greece. As regards more recent trends, figure II.6 provides relative poverty estimates for various OECD countries based on the 40, 50 and 60 per cent median household disposable income levels. The graph shows large disparities across countries in the share of people with incomes less than 40,

Figure II.6  
Relative poverty rates for different income thresholds in OECD countries, mid-2000s



Source: OECD (2008a), computations from an OECD income distribution questionnaire.

Note: Poverty rates are defined as the share of individuals with equalized disposable income that is less than 40, 50 and 60 per cent of the median for the entire population. Countries are ranked, from top to bottom, in increasing order of income poverty rates at the 50 per cent median threshold. The income concept used is that of household disposable income adjusted for household size.

\* Poverty rates based on a 40 per cent threshold are not available for New Zealand.

50 or 60 per cent of the median income for the entire population. Relative poverty rates are lowest in Denmark, Sweden and the Czech Republic and highest in Mexico, the United States and Turkey. Cross-country differences in the mid-2000s range between 5 and 18 per cent when the income threshold is set at 50 per cent of the median, and between 11 and 25 per cent when the threshold is set at 60 per cent of the median (Organization for Economic Cooperation and Development, 2008a).

Although levels of poverty are generally low in OECD countries, the structure of poverty has shifted and has led to higher poverty risks among certain groups, particularly unemployed single parents and younger age groups (Förster, 2004). Poverty among young adults and families with children increased over the past 20 years as well. By 2005, the poverty rate for children and that for young adults were about 25 per cent above the total average, whereas they were close to and below that average, respectively, in 1985. Poverty rates are three times higher than the average among households with children; for single-parent families, they exceed 40 per cent in one third of OECD countries. In contrast, poverty among older persons has fallen (Organization for Economic Cooperation and Development, 2008a; European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, 2008).

Some of the cross-country differences in the levels of poverty are accounted for by the nature and extent of public transfers and direct taxes that are aimed at reducing income poverty. The recent report *Growing Unequal Income Distribution and Poverty in OECD Countries* (Organization for Economic Cooperation and Development, 2008a) points to growing inequality and poverty in two thirds of OECD countries and finds that the economic growth of recent decades has largely benefited the rich more than the poor. Across OECD countries, the income of the richest 10 per cent of people is nearly nine times that of the poorest 10 per cent. In Mexico, Turkey, Portugal, Poland and the United States, the income gap is well above the OECD average. In Canada, Finland, Germany, Italy, Norway and the United States, the gap has also increased between the rich and the middle-class. The report also notes that countries with a wide distribution of income tend to have more widespread income poverty. It points out that the rise in cash-income poverty from the mid-1980s to the mid-1990s had been offset by increased government redistribution through public expenditures; however, between the mid-1990s and the mid-2000s, the redistributive effect of transfers and taxes slackened, leading to higher poverty rates based on disposable incomes.

### Diversity within countries: poverty in China and India

The above discussion has focused on poverty trends at the global, regional and intraregional levels. Although such a focus is important, it is equally im-

portant to point out that spatial and inter-group disparities in poverty exist at the country level. For instance, the poor tend to be heavily concentrated in rural areas as well as in areas with limited access to public assets such as roads, schools and hospitals. In most countries, welfare disparities are reflected in the persistent gaps in living standards between rural and urban areas. Understanding and addressing these intracountry regional disparities are important in many ways. First, while some of these countries are on track to meet the first target of the Millennium Development Goals, namely to halve the proportion of people living on less than \$1.25 a day at the national level, rural and remote areas, with their significant levels of extreme poverty, may still be far behind. Left unchecked, these disparities will likely worsen horizontal inequalities, that is, inequalities in respect of economic and political resources that exist among ethnic or religious groups (Brown, Stewart and Langer, 2007; Stewart, 2002).

In regions such as Asia and the Pacific, widening disparities between the well off and the poor and vulnerable groups are a major concern. The latter are falling further behind their urban counterparts (Economic and Social Commission for Asia and the Pacific, 2008b). To illustrate this point in detail, the present section will highlight the importance of regional variations by contrasting two countries, China and India, both large countries in terms of both geographical and population size and both regarded as quite successful in having reduced poverty at the aggregate level. As a result, however, of divergent regional patterns of economic growth and social provisions, one finds sharp differences in levels of living standards across provinces or states, as well as between rural and urban areas (Ravallion and Jalan, 1999).

For instance, in China, the slower pace of income growth in the central and western regions compared with the eastern coastal region has widened the intraregional income gap. This gap is related to structural changes in output and employment: the coastal regions have provided more opportunities for non-agricultural employment and income. By contrast, the distribution of agricultural income across regions has been more equal, reflecting the better quality of control over agricultural land. Notwithstanding China's substantial improvement in poverty reduction since 1978, new forms of poverty have arisen. This is accounted for by the deteriorating quality of growth in terms of its employment-generation potential and an increase in the degree of inequality (Hu, Hu and Chang, 2003). Trends in poverty have also been closely linked with trends in employment. In rural areas, slow growth in the agricultural sector resulted in almost stagnant employment after the mid-1990s. Rising unemployment had been a major driver of urban poverty in the post-1985 phase, a dynamic further strengthened by migration from rural areas.

It is known that reforms in China adversely impacted urban poverty by generating unemployment through the restructuring of the State-owned sector within a context where the social security system was weak or absent. It has been argued that urban poverty is closely associated with inability to find work,

and that the increase in urban unemployment as a result of market-oriented reforms and withdrawal of financial support for ailing State enterprises had been a prime cause of the increase in urban poverty (Bouche and others, 2004).

Prior to the restructuring of the State-owned enterprises, there was no great variation in urban poverty among regions owing to guaranteed employment and the ubiquitous urban welfare system. This regional pattern changed when market-oriented reforms led to significant closures of State-owned enterprises, privatization and large-scale layoffs of workers, and a weakened urban social welfare system. Changes in the regional distribution of urban poverty were highly correlated with the original structure of industry and with regional economic growth. The incidence of urban poverty has tended to be higher in those regions where the heavy industries—set up during the era of central planning—were earlier concentrated and lower in the towns and cities of the south-eastern coast which have experienced more dynamic growth. However, overall, the prevalence of poverty is much higher in rural areas (26 per cent in 2005) than in urban areas (estimated at under 2 per cent in 2005), although income inequalities have grown faster in urban areas: the Gini coefficient increased from 26 to 35 per cent in urban areas and from 31 to 36 per cent in rural areas between 1990 and 2005.

Similar regional differences in levels of living standards have also been noted in India. While India's recent economic growth experience has been less spectacular than that of China, it has still been extremely impressive measured against that of most other developing countries in the same period and in comparison with its own past. Real GDP growth rates rose to a higher level over the last two decades and increases in per capita income were even more marked because of the falling rate of population growth. Official estimates of the extent of poverty, that is, the headcount ratio below the official poverty line, provide some food for speculation in respect of the slower rate of poverty reduction in the recent period of fast economic growth: poverty has been declining continuously in both rural and urban areas since the early 1970s, but between 1973-1974 and 2004-2005, the proportion of people living below the poverty line declined fastest in rural areas, from 56.4 to 28.3 per cent, while in urban areas the poverty rate declined from 49.2 to 25.7 per cent (India, Press Information Bureau, 2007; Sharma, 2004).

Levels of poverty have also varied significantly at the state level. The share of the total number of poor in the southern states of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu decreased from 18 per cent in 1993-1994 to 15 per cent in 1999-2000. In contrast, the share in the total number of poor in the states of Bihar, Orissa, Madhya Pradesh, Uttar Pradesh and West Bengal jumped from 57 to 63 per cent during the same period (Sharma, 2004). Therefore, although there has been a steady decline in the incidence of poverty in India, the efforts of the Government have not resulted in a uniform impact across regions. There remain regions where the poverty is still deep and severe and hence they require greater attention.

These two countries demonstrate that, in spite of a country's strong growth, rural areas and other depressed regions often face bigger poverty reduction challenges. In several countries, the rate of rural urban or interregional convergence has declined over time as a result of widening income inequalities and pro-urban industrial and public investments policies. Hence, spatial poverty differentials are likely to persist into the foreseeable future.

## Annex II.1

### Poverty: indicators and their relationship

The *poverty headcount index* is the percentage of the population living in households with consumption or income per person below a commonly agreed poverty line. Trends in the poverty headcount index are determined by trends in the number of poor persons (the numerator) and by population trends (the denominator). If the growth (or decline) in the number of poor persons is proportional to total population growth (or decline), the poverty headcount index will remain constant. The headcount index will grow if the number of poor persons grows faster than the total population. Similarly, the headcount index will decline if the number of poor persons grows more slowly than the total population. Therefore, when the poverty rate (headcount ratio) falls, this means not that the total or absolute number of poor has declined but, simply, that the rate of growth of the number of poor persons is lower than the rate of growth of the total population.

The *absolute number of poor persons* by region given by the World Bank is obtained by applying the estimated headcount index to the population of each region, under the assumption that the estimated regional headcount index applies to countries with no data.

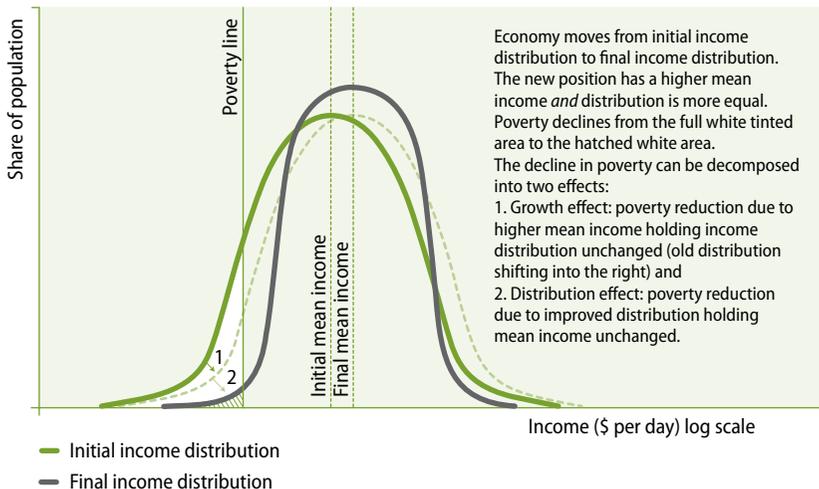
*Income inequality*, or the extent to which income is distributed in a more or less equitable manner, is measured using various summary indices. The most well-known is the Gini coefficient, a ratio with values between 0 and 1 (or between 0 and 100 per cent). A low Gini coefficient indicates a more equal income distribution and a high coefficient indicates a more unequal distribution. Another widely used series of indices compare the income of a given percentage of the richest population (most often the top 10 or 20 per cent) with that of the total population or of the bottom 10 or 20 per cent. Because different summary measures are sensitive to different parts of the income distribution, income inequality rankings depend on the specific measure used.

Poverty trends are arithmetically related to trends of economic growth per capita (mean income) and income distribution. The figure shows that an overall change in the proportion of poor persons can be decomposed into a growth component (area 1), resulting from higher economic growth per capita, holding distribution constant, and a distribution component (area 2), resulting from a more equal distribution, holding economic growth constant. According

to this simple arithmetic identity, poverty reduction will be faster when the growth of per capita income is higher and/or when income distribution is improving. Since income distribution is far from equal in most developing countries, significant reductions in poverty are possible if distribution improves. Similarly, for any given growth rate of income per capita, poverty reduction will occur faster if incomes are more equally distributed.

The impact of these phenomena partly depends on the initial level of income, inequality and population growth; in highly unequal or very poor countries, an initial change in income levels or income distribution has a much stronger impact than in richer, less unequal countries. Empirically, their effects on poverty differ significantly across countries—even among countries with similar levels of income. Clearly, political, social and economic factors other than income per capita, income distribution and population growth are at play.

### Decomposition of poverty reduction into growth and composition effects



Source: Khan (2009).