WORLD BANK GROUP

SPRING MEETINGS 2014

PROSPERITY FOR ALL

ENDING EXTREME POVERTY

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A Note for
The World Bank Group
Spring Meetings 2014

In 2013, the Board of Governors endorsed two new goals for the World Bank Group (WBG). First, the WBG would commit its full energies to bringing an effective end to extreme poverty by 2030. This means reducing to no more than 3 percent the fraction of the world's population living on less than $1.25 per day.[1] Second, the WBG would focus on ensuring that the benefits of prosperity are shared by shifting from a focus on average economic growth to promoting income growth amongst the bottom 40 percent of people. Critically, the goals need to be achieved in a sustainable manner, thus helping secure the long-term future of the planet and its resources, ensuring social inclusion, and limiting the economic burdens of future generations.

This short note begins by looking at progress to date in reducing global poverty and discusses some of the challenges of reaching the interim target of reducing global poverty to 9 percent by 2020, which was set by the WBG President at the 2013 Annual Meetings. It also reports on the goal of promoting shared prosperity, with a particular focus on describing various characteristics of the bottom 40 percent. A more detailed report with policy recommendations in the areas of ending extreme poverty and boosting shared prosperity is due for release at the Annual Meetings later this year.

[1] This 3 percent is in recognition of the fact that some amount of "frictional" poverty—for example, stemming from unexpected economic fluctuations in poor countries, political conflict, and war—will continue to exist, at least in the medium term.

Remarkable progress has been made in reducing extreme poverty

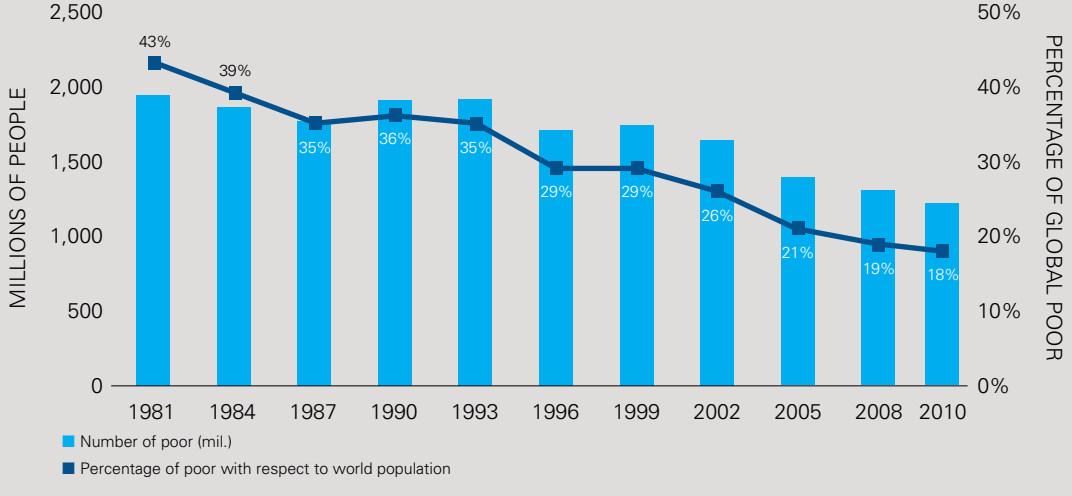
By 2010, global extreme poverty had declined to 17.7 percent, leaving still more than 1.2 billion people confined to live on less than $1.25 a day.[2] In 1990, an estimated 1.9 billion people (or 36 percent of the world's population) were living in extreme poverty (figure 1). To stay on track to meet the goal of ending extreme poverty by 2030, identify the need for course corrections, and maintain momentum, the WBG also set an interim target of reducing poverty to below 9 percent by 2020. If achieved, this would mark the first time extreme poverty has fallen into the single digits and an additional half billion people will have been lifted out of extreme poverty between 2010 and 2020. However, even if this interim target were to be met, 690 million people would continue to live on less than $1.25 a day.

Economic growth has been vital for reducing extreme poverty and improving the lives of many poor people. Yet, even if all countries grow at the same rates as over the past 20 years, and if the income distribution remains unchanged, world poverty will fall by approximately 10 percent by 2030, from 17.7 percent in 2010. Even if developing countries grow at the much higher average rates of the first decade of this century, global poverty would still decline only to 5.5 percent. Achieving and maintaining either of these growth rates in any case, is not guaranteed.

Moreover, growth alone is unlikely to get the world to the 3 percent target because as extreme poverty declines, growth on its own tends to lift fewer people out of poverty. This is because, by this stage, many of the people still in extreme poverty live in situations where improving their lives is extremely difficult. For example, they may be members

FIGURE 1

POVERTY HAS BEEN STEADILY DECLINING AS A PERCENTAGE OF THE GLOBAL POPULATION



Source: Calculations from PovcalNet database.

[2] More detailed information can be found in the World Bank's World Development Indicators database (http://data.worldbank.org/wdi) and PovcalNet. PovcalNet is the online tool for poverty measurement developed by the Development Research Group of the World Bank. See http://iresearch.worldbank.org/PovcalNet/index.htm for additional information and data.

of disadvantaged groups, or reside in remote, or fragile and conflict-affected areas. Hence, growth policies need to be enhanced and complemented with programs and strategies targeted to reach the remaining extreme poor. In addition, it is imperative not just to lift people out of extreme poverty; it is also important to make sure that, in the long run, they do not stagnate just above the extreme poverty line due to lack of opportunities to continue to move toward better lives.

In addition, rising inequality of income can dampen the impact of growth on poverty. Inequality is not just a problem in itself: in countries with rising income inequality, the effect of growth on poverty has been dampened or even reversed. In contrast, research indicates that in countries where inequality was falling, the decline in poverty for a given growth rate was greater. Even if there is no change in inequality, the "poverty-reducing power" of economic growth is less in countries that are initially more unequal (Ferreira 2010). So the goals of ending extreme poverty and boosting shared prosperity are closely linked—lasting progress in ending extreme poverty also requires continued attention to what is happening to the bottom 40 percent of the population.

There is some additional good news: Development has brought average incomes of the extreme poor closer to $1.25 a day, which suggests that there may be scope to lift some people out of poverty quite quickly. By way of illustration, if we were simply going to supplement the incomes of all the people living in extreme poverty to bring them up to the poverty line of $1.25/day, in 1990 this would have taken a cumulative amount of $300 billion a year; by 2010 this had come down to $170 billion a year (in 2005 dollars). However, we also know that many of those who remain in extreme poverty are harder to reach. In either case, reaching the 2030 target will require an extraordinary effort to make growth inclusive, to create jobs for the poor, to improve access

to and quality of basic services, and to deploy appropriate social assistance programs.

Current global economic conditions continue to be favorable for developing countries

Growth in developing countries is projected to be 5.3 percent in 2014 (from 4.8 percent in 2013), broadly in line with potential, but less than pre-crisis boom rates. The outlook for developing countries has improved significantly partly due to rising domestic demand. Even so, significant risks remain (box 1). A further acceleration in growth will require additional reforms that boost productivity and raise underlying growth potential.

Some countries have very large numbers of extremely poor people

Close to two-thirds of the world's extreme poor are concentrated in just five countries. Hence, a sharp focus on these countries—India, China, Nigeria, Bangladesh, and the Democratic Republic of Congo, in descending order of numbers—will be central to ending extreme poverty (figure 2). Adding another five

BOX 1

Risks to developing countries growth outlook

Developing countries face risks from the normalization of monetary policy in high income economies. With only about half of the eventual increase in U.S. interest rates having occurred thus far, much more financial tightening is to come as the Federal Reserve's "tapering" unfolds. Moreover, tapering comes at a time when domestic buffers in developing countries have eroded with the curtailment of demand-stimulus policies used in the post-crisis period.

In the medium term, developing countries also face a higher cost of capital that should weigh on investment and growth. In the near term, given the sensitivity of financial markets, weaker-than-expected economic news and/or a spike in geo-political tensions could lead to a rapid tightening of global financial conditions, sharp capital pullbacks or increases in global risk aversion. Any of these could expose domestic vulnerabilities in developing countries (as occurred in late January 2014).

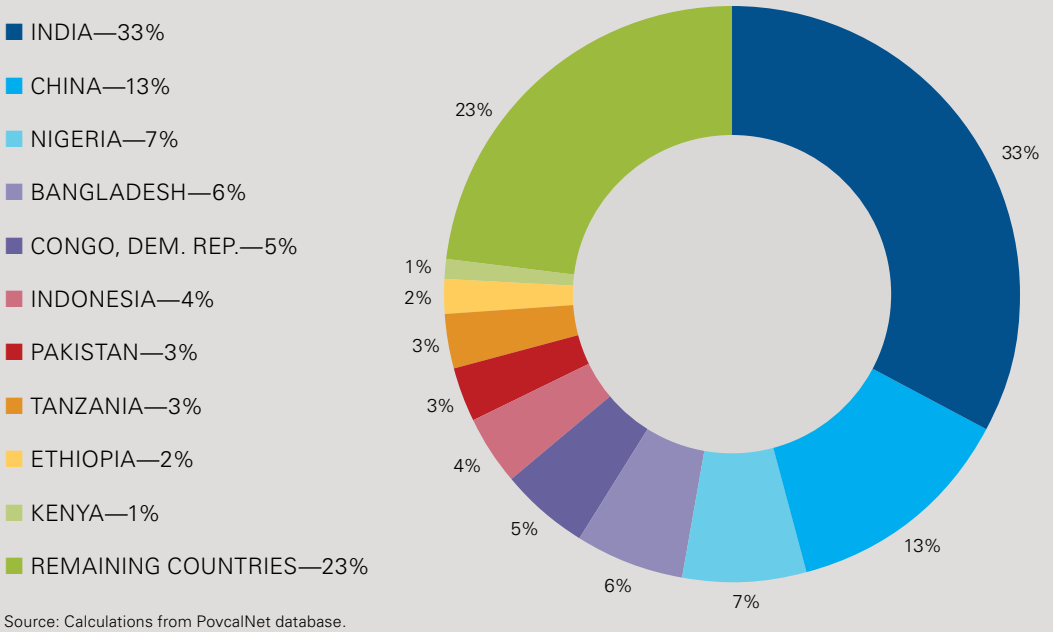
Countries with large external imbalances are most at risk. When countries have relatively deep financial markets (which are usually good for the economy), ironically this can exacerbate risk, especially in the face of large external imbalances. Financial adjustments during mid-2013 were concentrated among middle income economies with relatively deep financial markets and large current account imbalances and domestic growth challenges (such as Brazil, India, Indonesia, and Turkey). This reinforces the view that as long as domestic vulnerabilities exist, these countries will remain vulnerable to changes in global financial conditions. Although, in general, financial conditions in developing countries are healthy, banking-sector risks have increased in several regions. These increased risks reflect excessive leveraging and domestic credit growth in East Asia (Indonesia, Malaysia, and Thailand) and high levels of non-performing loans in South Asia and Europe and Central Asia. In addition, there are important structural reforms on the anvil in the Eurozone countries, with attendant risks and fallouts beyond the region.

Other risks to the global economy remain, including those arising from China's high debt levels and excessive reliance on investment for growth. Policy makers' commitments to improving resource allocation and increasing the role of market forces in the economy are reflected in major reforms announced in November. But in the near term, rebalancing the economy remains delicate. High past rates of investment—46 percent of GDP in 2012—suggest that any attempt to reduce investment to more sustainable levels risks the ability of firms and banks to continue to service loans contracted during the investment boom—especially in the current environment of slower growth.

Source: Global Economic Prospects 2014.

FIGURE 2

TOP 10 COUNTRIES WITH LARGEST SHARE OF THE GLOBAL EXTREME POOR (2010)



Source: Calculations from PovcalNet database.

countries—Indonesia, Pakistan, Tanzania, Ethiopia, and Kenya—would encompass almost 80 percent of the extreme poor. It is sobering, however, to remember that there are smaller countries with much higher percentages of people below the poverty line and there remains a need for a strategy to make sure that no country is left behind, even as we move towards the 3 percent by 2030 target.

In 27 countries, the number of people living in extreme poverty is equal to or more than 40 percent of the population (figure 3). Approximately 25 percent of the world's extremely poor live in those 27 countries. Except for Bangladesh, all these countries are in Sub-Saharan Africa. The population of most of those countries other than Bangladesh, the Democratic Republic of Congo, and Tanzania, is relatively small. Therefore, their high poverty rates do not make a significant contribution to the total number of the extremely poor at the global level. Nevertheless, reducing poverty in these countries is a moral imperative and as important as poverty reduction in any other country.

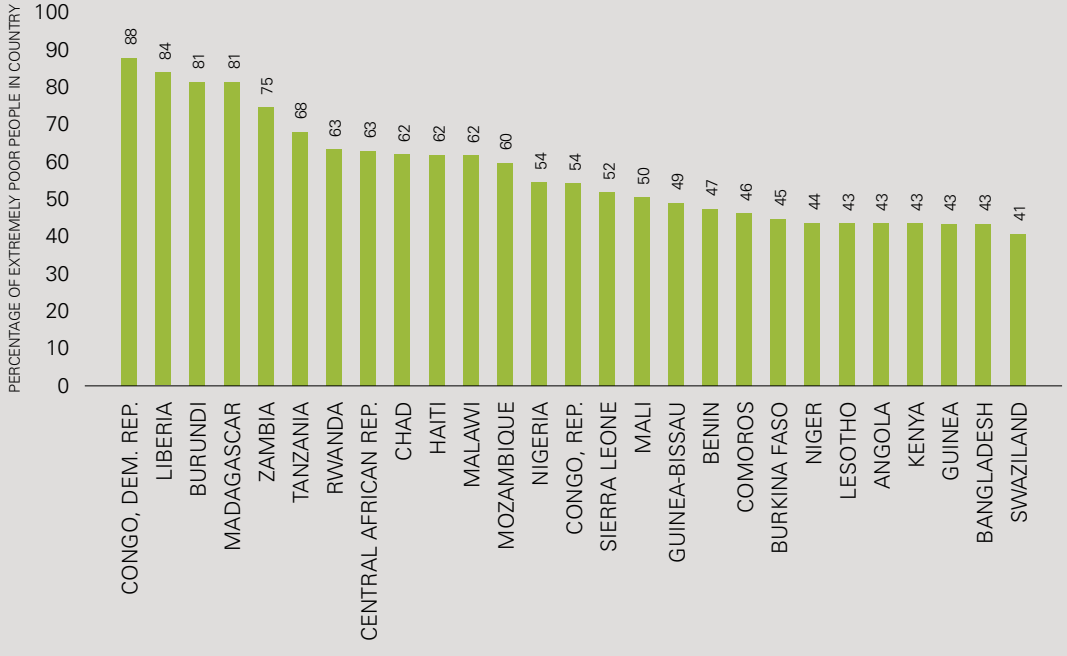
The limits of growth

Growth has played an important role in reducing extreme poverty in recent decades and countries; therefore, countries need to continue to implement growth enhancing policies (Dollar and Kraay 2002; Dollar, Kleineberg, and Kraay 2013; Kraay 2006; and Chen and Ravallion 2013). However, as extreme poverty declines, growth on its own lifts fewer and fewer people out of poverty (box 2) and if the initial position is one of high inequality of income, growth is less effective in reaching the poor or the bottom 40 percent.

Growth collapses affect the poor disproportionately, though. Consequently, avoiding

FIGURE 3

COUNTRIES WITH LARGE SHARES OF EXTREMELY POOR PEOPLE (2010)



Source: Calculations from PovcalNet database.

BOX 2

Poverty reduction, growth, and movements in income distribution

There are various ways of showing the impact of growth on people's income and a country's income distribution. In comparing distributions over time, one of the more useful graphs is a Pen's Parade (figure B2.1a), which lines up every person from poorest to richest on the horizontal axis, while the vertical axis shows the level of expenditure (or income) per capita. The $1.25 a day line intersects with Pen's parade for 1990 and 2010 at 43.1 and 20.6 percent respectively, providing us with the percentage of the population living below the extreme poverty line in the developing world in those years. One can see immediately that growth in developing countries has accrued to a large extent to the middle quintiles as the difference between the income earned in 1990 and 2010 is the largest at those percentiles.

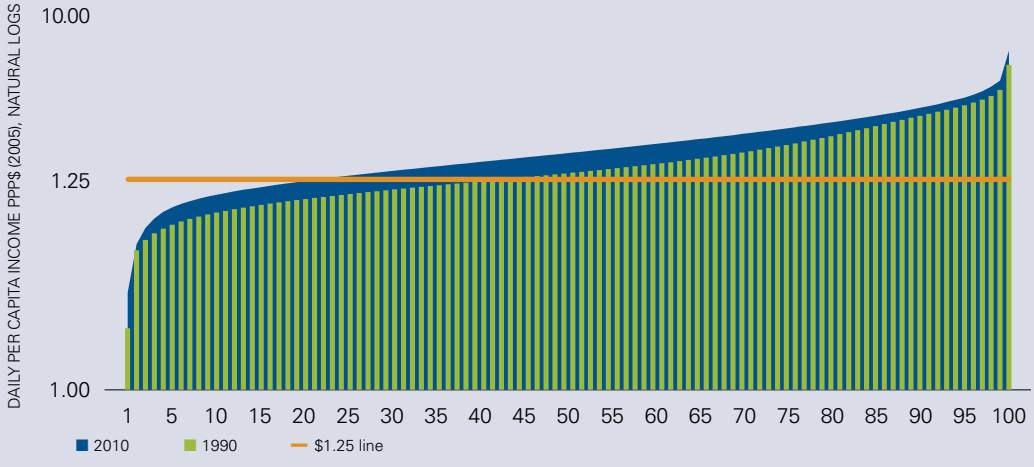
Another way of depicting an income distribution is to show income on the horizontal axis, count how many people earn that particular level of income and then show that number on the vertical axis (figure B2.1b). One can see that in 1990 the largest number of people making the same income (the peak

> Many fewer people lived in extreme poverty in 2010 than in 1990

FIGURE B2.1A

PEN'S PARADE OF PER CAPITA INCOME OF DEVELOPING COUNTRIES

PERCENTAGE FOR 1990 AND 2010



Source: Calculations from PovcalNet database.

growth collapses is vital (Arbache and Page 2007). Even though developing countries have weathered the financial crisis relatively well, it has also left them with less macro-economic buffers going forward. Rebuilding those buffers, while balancing their needs to invest in their economies, has not been completed and makes developing countries vulnerable to future shocks. Downturns are often exacerbated by the fact that in many developing countries, a working social protection system is absent and hence losing one's job translates almost one-to-one in an increase in extreme poverty.

of the distribution graph) made less than $1.25 a day, while in 2010 the peak had come close to $1.65 a day. Note that the full population of the developing world in 1990 and 2010 is captured below each income distributional line respectively.

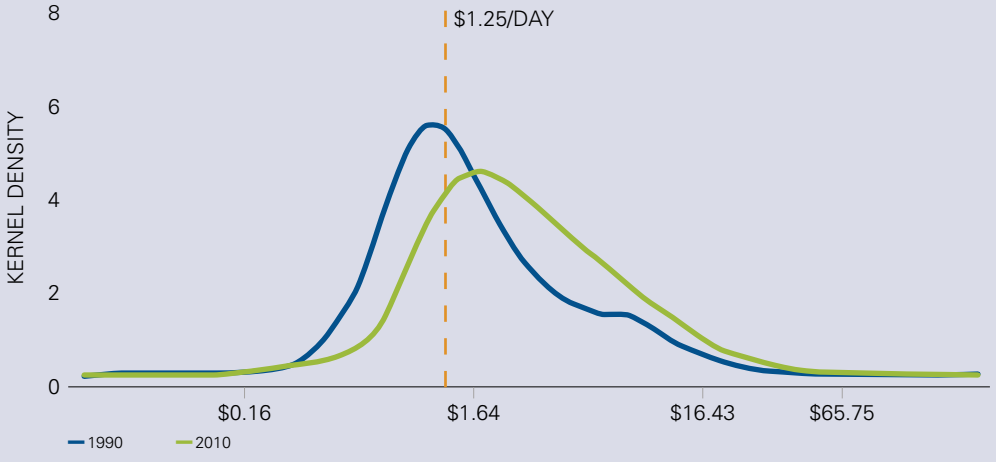
As such, one can get an informed idea about the implication of shifts in the income distribution often caused through growth and the effect of those shifts on the extremely poor. Analyzing the two figures below for 1990 and 2010, it is immediately clear that many fewer people live in extreme poverty in 2010 than in 1990. In figure B2.1a the poverty line for 2010 intersects at 20.6 percent (indicating that that is the percentage of people living on less than $1.25 a day) while in figure B2.1b the surface to the left of the $1.25 line and the income distribution line itself is smaller for 2010 than for 1990.

Another interesting observation from figure B2.1b is that many fewer people live on or close to $1.25 a day in 2010 than in 1990. Hence, shifting the income distribution to the right using the same growth rates as experienced in the recent past will lift fewer people out of poverty in 2010 than in 1990. This happens not just because there are fewer extremely poor, as we can see from figure B2.1a, but also because the 2010 income distribution lies well below the 1990 income distribution, as we can see from figure B2.1b. Consequently, the same growth as experienced between 1990 and 2010 will now lift fewer people out of extreme poverty.

FIGURE B2.1B

INCOME DISTRIBUTION FOR DEVELOPING COUNTRIES

DAILY PER CAPITA INCOME PPP$ (2005), NATURAL LOGS



Source: Estimates using PovcalNet, The World Bank.

Moreover, when income inequality increases over time, growth is less effective in reaching the poor or the bottom 40 percent. Our challenge will be to understand the differences in policies and institutions that caused interaction between growth and changes to the income distribution in Latin America and the Caribbean (LAC) to reinforce extreme poverty reduction more than, for example, in the East Asia and Pacific (EAP) region (box 3). This was despite the amazing economic dynamism in EAP that allowed the region to reduce its extreme poverty by 675 million people between 1990 and 2010.

BOX 3

Comparing poverty reduction in LAC and EAP: the role of changes in income distribution

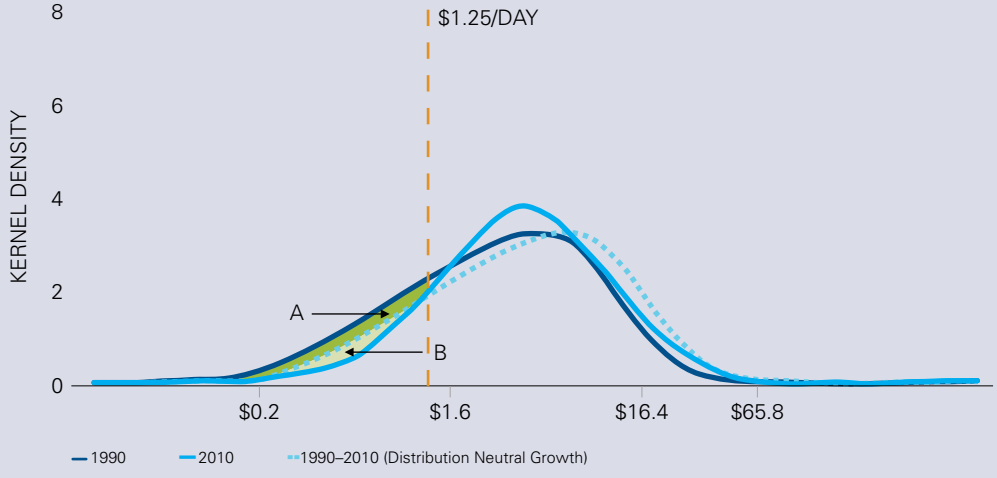
The two figures (B3.1a and B3.1b) depicting income distributions in Latin America and the Caribbean (LAC) and East Asia and Pacific (EAP) regions show very different shapes and very different movements over time. First note that extreme poverty reduction from 1990 to 2010 in the figure for LAC consists of the sum of areas A and B and for EAP it consists of area C.

Using the 1990–2010 cumulative growth rate of each region to shift the 1990 income distribution to the right, that is, growth affects everybody the same (see the striped orange line in the two figures), one can

FIGURE 3.1A

INCOME DISTRIBUTION IN LATIN AMERICA AND CARIBBEAN

DAILY PER CAPITA INCOME PPP$ (2005), NATURAL LOGS



Source: Estimates using PovcalNet, The World Bank.

To lift people out of poverty, countries need to complement efforts to enhance growth with policies that allocate more resources to the extreme poor. These resources can be distributed through the growth process itself such that growth becomes more inclusive (Development Committee paper 2014; OECD-World Bank 2012) and/or through government programs, such as conditional cash transfers, with the goal of enhancing poor people's ability to engage in income generating activities. These actions would enhance the impact of growth on extreme poverty reduction and boost the incomes of the bottom 40 percent.

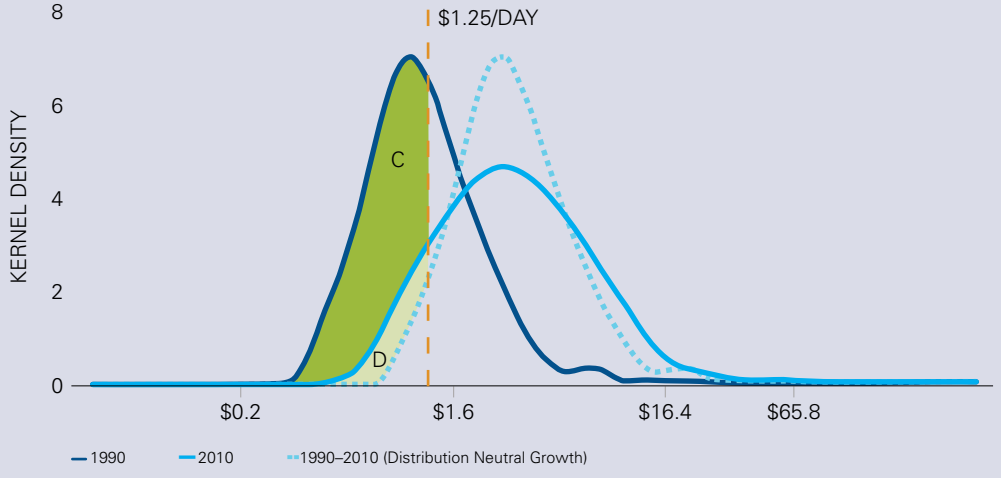
graphically show how much of the extreme poverty reduction is due to the cumulative growth and how much is due to changes in income distribution.

- In the case of LAC, one can see that the changes in the shape of the income distribution between 1990 and 2010 favored poverty reduction. Growth with the same income distribution would have reduced extreme poverty by the people covered by area A, while the change in the income distribution favored the extreme poor and added the people covered by area B.
- In the case of EAP, the opposite happened. Growth with the same income distribution as in 1990 would have reduced extreme poverty by the people covered in areas C and D. However, the actual change in income distribution in EAP was not favorable for extreme poverty reduction and hence, only the people covered by area C escaped extreme poverty between 1990 and 2010.

FIGURE 3.1B

INCOME DISTRIBUTION IN EAST ASIA AND PACIFIC

DAILY PER CAPITA INCOME PPP$ (2005), NATURAL LOGS



Source: Estimates using PovcalNet, The World Bank.

Some interventions—such as those that mitigate malnutrition and provide health services and education—are critical not only to helping the poor now; they also give the next generation a better chance of escaping absolute poverty. It is arguable that instead of waiting for growth to make this happen, interventions on these fronts can actually step up the growth rates of economies (Basu 2013 and Dreze and Sen 2013). For example, early childhood malnutrition leads to lower human capital accumulation and to lower lifetime earnings—causing national GDP losses estimated at 2–3 percent. Indeed, many human development-related issues, such as malnutrition, are not just a result of poverty but also its cause (Global Monitoring Report 2012).

Equally, progress in improving poor people's lives will not be sustainable if the environmental consequences of economic development are not taken into account. Making growth processes resource-efficient, cleaner and more resilient without necessarily slowing them is important to sustaining economic development (World Bank 2012a). Without action to contain the adverse implications of global and national environmental challenges, the sustainability of reducing poverty and boosting shared prosperity is clearly at risk. Global climate change and more localized forms of environmental degradation, such as air pollution and land degradation, pose urgent challenges to sustainability. Global action to address common elements and country-specific actions tailored to promoting green growth within specific circumstances should be included in each and every growth strategy. Without a plan of action (box 4) to address environmental sustainability, the world will get locked into production patterns that will be prohibitively expensive and complex to modify.

How can we ensure that growth benefits the poor?

Jobs are essential to lifting people out of poverty. Poverty has declined in the developing world, to a large extent because more people have jobs, according to the World Development Report 2013 (World Bank 2013).[3] The report concludes that jobs are the main escape route from poverty in developing and developed countries alike. Studies in several Asian and Sub-Saharan African countries show that the ability to escape poverty is linked to deriving greater earnings from work, which can be farm or non-farm activities. Hence, higher productivity and better (farm-gate) prices for one's goods and services matter. Since the vast majority of the extreme poor live in rural areas, accessibility to jobs, rural or urban, is critical. Productivity improvements un-

[3] The 2013 WDR defines jobs as activities that generate income, monetary or in kind, without violating human rights.

BOX 4

Policy actions to achieve green growth

To achieve green growth, tailored strategies are needed that take into account the global and local environmental challenges each country faces. How to prioritize between different actions depends on how they fit into the country's overall growth strategy and the trade-offs between local and immediate benefits, as well as the urgency of action (figure B4.1). Some actions bring high local and immediate benefits, as for example switching to low-carbon, low-cost energy supply and improving water supply and sanitation. Some actions involve a trade-off because they raise short-term costs, such as the switch to low-carbon, high-cost energy supply and reducing deforestation. Some actions are less urgent and can be addressed later, such as wastewater regulation. Actions that avoid inertia and that lock in irreversible effects, such as improved land use planning and coastal zone protection, are highly urgent. If these policy actions are tailored to country contexts, green growth can be sustainable, efficient, and affordable (World Bank 2012a).

FIGURE B4.1:

SOME GUIDING PRINCIPLES FOR ESTABLISHING GREEN GROWTH STRATEGIES

	SYNERGIES **Local and immediate benefits**	
URGENCY **Inertia and/or risk of lock in and irreversibility**	**LOWER** *(Trade-offs exist between short and long term or local and global benefits)*	**HIGHER** *(Policies provide local and immediate benefits)*
LOWER *(Action is less urgent)*	• Lower—carbon, higher-cost energy supply • Carbon pricing • Stricter wastewater regulation	• Drinking water and sanitation • Lower-carbon, lower-cost energy supply • Loss reduction in electricity supply • Energy demand management
HIGHER *(Action is urgent)*	• Reduced deforestation • Coastal zone protection • Fisheries catch management	• Land use planning • Public urban transport • Sustainable intensification in agriculture

The green cells (synergies) are the priority for green growth policies. The yellow cell has lower priority but needs to be considered early because of high inertia that can make the cost increase over time; the red cell is lowest priority, since it involves trade-offs and can be dealt with later on. The measures proposed in each of these boxes are illustrative only and cannot be generalized to all contexts, as there are no one-size-fits-it-all strategies. In particular, these actions are location- and project-specific; for instance hydroelectricity production capacity can involve trade-offs in certain contexts but produces synergies in appropriate situations.

Source: World Bank 2012a.

leashed by land reform, investments in rural-infrastructure, and non-farm job opportunities have played a crucial role in reducing poverty in China and Vietnam (Ravallion and Chen 2007). However, growth does not automatically generate work for the poor and measures are needed to create jobs from which the poor can benefit (box 5).

Transfers via social protection programs also help lift people out of poverty

Well-designed policies to identify and reach the poor can play an effective role in poverty reduction. In addition to improving access to and quality of basic services, safety nets can improve the quality of lives, raise incomes, and equip poor people to invest in assets that enhance their future income opportunities. This can happen in several ways. Safety nets can assist the poor in managing risk, for example in the form of crop insurance, or provide food stipends during drought or other extreme weather conditions (Alderman and Yemtsov 2013). Safety nets can also improve incentives for poor households to invest in education, health, or productive assets (box 6).

In recent years, new ICT applications have created opportunities to re-engineer and upgrade traditional systems and to empower beneficiaries. In some cases, biometric identification and new or previously expensive technologies have been used in the delivery of social programs on a large scale. Take India's ambitious new program to provide its citizens and residents a unique, official identity. The UID (Universal Identity) program aims to improve the delivery of

BOX 5

Growth alone might not deliver all the jobs

When the fruits of growth are not broadly shared or are not used to support currently disadvantaged groups, then a strategy focused primarily on improving productivity is unlikely to foster social cohesion and/or improve living standards of the (extreme) poor. In such instances challenging trade-offs are at play. For example:

- In agrarian economies, increasing productivity in smallholder farming is fundamental for poverty reduction, given the share of the population living in rural areas. But urban jobs in activities that connect the economy to world markets and global value chains are necessary for broader economic growth. With limited resources to support both, a trade-off between living standards and productivity may arise.
- In resource-rich countries, massive investments in extractive industries support faster growth and connections with international markets but generate little direct (or even indirect) employment and often do little to reduce poverty. Moreover, the foreign exchange windfall from extractive industries undermines the competitiveness of other economic activities, making it difficult to create productive jobs in other sectors.
- In countries with high youth unemployment, job opportunities are not commensurate with the expectations held by a large pool of better-educated young people. Moreover, the active labor market programs needed to defuse social tensions in the short term may do little for poverty reduction because many of the jobless youth are from middle-class families.
- In formalizing economies, there is an effort to support social cohesion by extending the coverage of social protection to as many workers as possible. Broad coverage regardless of the type of job is often seen as part of a social compact. But extending coverage without distorting incentives for people to work, save, and participate in formal systems is difficult and may have adverse impacts.

BOX 6

Maximizing the impact of cash transfers

Robust and growing scientific evidence is available on the impact of both conditional and unconditional cash transfers on health and education, investment in assets, employment prospects, and other aspects of well-being.

By providing liquidity to the poor and vulnerable members of community both conditional and unconditional transfers lead to household behavioral changes and broader economic impacts: through investments in productive activities and human capital increasing the beneficiary household's revenue generation capacity, and prevention of detrimental risk-coping strategies. Impact evaluations rejected early concerns that cash transfers would be misused or have a negative impact on labor market participation of adults (Independent Evaluation Group 2011).

The strongest effects are observed for investing in human capital: education, health, and nutrition. Conditional cash transfers (CCT) have increased school attendance in Bangladesh and Cambodia by 12 and 31 percent, respectively. In other words, in the absence of the CCT, school attendance by poor children in parts of Cambodia would have been around 60 percent instead of nearly 90 percent. CCT programs in Colombia and Ecuador have bolstered health center visits for children by 33 and 20 percent, respectively. In Uganda, anemia among girls who qualified for the school feeding program was 20 percentage points lower compared to girls that didn't participate in the program.

There is growing evidence that cash transfers are promoting better job prospects. In Guatemala, children under two years of age who benefited from a nutritional safety net earned wages 46 percent higher as adults compared to those who did not benefit from the intervention. Similarly, children participating in early childhood development programs in Jamaica showed, as adults, average monthly lifetime earnings 60 percent higher than non-participants. The Opportunidades program in Mexico sparked demand for higher-level education and improved job prospects. This result is particularly significant for indigenous women. On average, their share in better-paying jobs was about 25 percentage points higher than their peers who did not benefit from Oportunidades (Behrman et al. 2010).

Increasing transparency and accountability in implementation is essential to the success of CCT programs. While the Oportunidades program is centrally implemented at the federal level, the Bolsa Escola program in Brazil is handled through decentralized selection of beneficiaries and the enforcement of conditionalities by municipal governments. Effective decentralization of social services requires that local providers (in this case elected mayors) be accountable to stakeholders (in this case potential beneficiaries of the Bolsa Escola program). Findings from a survey of 261 municipalities in four states in Brazil's Northeast region show that social councils that can serve as the short route to social accountability performed weakly across municipalities, but direct accountability could be achieved through better enforcement.

government services, reduce fraud and corruption, facilitate robust voting processes, and improve security. Indeed, ICT has the potential to be a powerful tool in the fight against global poverty and in boosting shared prosperity. However, the benefits are not automatic and our understanding of its impact is yet incomplete. The World Bank Group's 2016 World Development Report will be devoted to assembling the best available evidence on this critical topic.

Identifying the poor and reaching them effectively is difficult, but important lessons and positive examples are emerging that can be adapted in other places. Among low income country experiences, two in Sub-Saharan Africa are noteworthy. In Liberia, in response to the food price crisis in 2008, the WBG supported a cash-for-works temporary employment program, providing more than 640,000 days of employment to more than 17,000 beneficiaries. The program is now mainstreamed into

the country's social protection system. Similarly, Ethiopia's Productive Safety Net Program (PSNP) for chronically food-insecure households in rural areas has been instrumental in supporting beneficiary consumption and reducing food insecurity, protecting household assets, and building community resources for more than 8 million beneficiaries. During the 2011 Horn of Africa drought, the program was successfully scaled up to more than 11 million people. This significantly mitigated the impacts of the 2011 crisis in Ethiopia. In many countries across the globe, we see a clear interest in putting in place similar programs or when in existence to scale them up when needed.

From poverty to shared prosperity

Significant progress in lifting people out of extreme poverty has, nonetheless, left large numbers of people who are still poor. Providing the poor with opportunities to develop their potential is not just a moral obligation, it is also good economics. It is imperative that they neither slide back into poverty as a result of shocks, nor stagnate just above the extreme poverty line due to lack of opportunity.

This is why the WBG's second goal is to promote shared prosperity. The shared prosperity goal combines a concern for greater equity with the need for growth and is meant to put a spotlight on the growth rate of per capita income of the poorest 40 percent of each society. Working toward the goal means identifying those in the bottom 40 percent and observing what happens to them. Achieving it also requires evaluating the status of the bottom 40 percent at various points in time and monitoring what the growth rate of the income of this (possibly changing) group might be—and trying to

increase it (Basu 2013). A focus on the bottom 40 percent and continuous monitoring of who is in this group over time can ensure that one does not simply make one section of the population better off and declare victory. We need an understanding of the characteristics of the bottom 40 percent at any given time so that effective policies can be designed to assist them.

The shared prosperity goal provides a window into understanding inequalities of income and opportunities. There are several reasons why the WBG chose a prosperity measure rather than one of inequality. A society can become more equal without an improvement in the lives of the bottom 40 percent. Moreover, many countries with strong economic growth have experienced short-term increases in inequality; placing the priority on inequality could suggest policies that may limit the very growth needed to improve the lives of the bottom 40 percent. A focus on the bottom 40 percent does not ignore inequality. Shared prosperity derives its success by affording a comparison between the income growth of the bottom 40 percent with a country's average income growth. It is also true that overall growth in a country does not automatically produce benefits for the bottom 40 percent, and so policy attention is required.

Promoting inclusiveness and equal opportunities is good for economic development. A clear example is the analysis provided in the World Development Report 2012 (World Bank 2012c) on gender which showed the benefits from inclusion of and equal opportunities for women in economic progress. Investing more in women's capabilities and eliminating structural barriers—such as laws that bar women from owning property, accessing financing, or working without permission

from a male relative—are some of the actions that will help advance this agenda and improve shared prosperity. Note also that almost half of women's productive potential globally is unutilized, compared to 22 percent of men's, according to the International Labour Organization.

What do we know about the bottom 40 percent?

It is important to identify policies and institutional settings that can improve the income growth of the bottom 40 percent. Policy lessons are informed by the experiences of countries undergoing similar experiences, with comparable characteristics, initial conditions, and constraints to growth. For example, an agriculture-based economy faces a balancing act to support structural transformation toward higher income generating activities while continuing to support the agricultural sector that employs, formally or informally, the majority of its people. Similarly, the creation of new jobs in a natural resource-based economy faces the challenge that a large part of its production is highly capital intensive. Determining how to boost shared prosperity will depend on such contextual differences (Canuto 2013).

Understanding the heterogeneity among countries will help effective policy formulation. To assist the bottom 40 percent, it will be important to know their characteristics: Who are the bottom 40 percent of society? Where do they live? What do they do? What other characteristics do they have? These are just some of the questions the WBG wants to answer as part of its goal of boosting shared prosperity. This is critical to our work of annually monitoring the progress in the income growth and

well-being of the poor, as well as for informing the WBG's strategy for achieving its twin goals of ending extreme poverty and boosting shared prosperity.

There are complexities to identifying who the bottom 40 percent are and what policies might effectively reach them. Let's take the examples of Rwanda (a low-income country), Colombia (a middle-income country), and Turkey (a high-middle income country) (figure 4).[4] In Rwanda, 63 percent of the population lived in extreme poverty; that is, the entire bottom 40 percent as well as all of the third quintile live under the extreme poverty line of a $1.25 a day (figure 3). In Colombia, 8 percent of the population lives in extreme poverty, and in Turkey extreme poverty has become frictional; that is, only 1.3 percent of the population is estimated to be extremely poor by global standards.

What activities are the bottom 40 percent engaged in? Rwanda's economy relies on agriculture, with one-third of GDP coming from the farm sector. Not surprisingly, a large majority of Rwandans, in all of the five income quintiles, are engaged in activities related to agriculture and mining. That is especially true for the bottom 40 percent, where nearly 90 percent of the people are engaged in agriculture (and mining). Colombia's economy, on the other hand, is more focused on services, with 69 percent of the bottom 40 percent working in the service sector, 10 percent in manufacturing, and around 21 percent in agriculture. In the other three quintiles, agriculture plays a smaller role in income generation, with services representing up to 83 percent in the fifth quintile, and manufacturing representing 13 percent. For Turkey, the distribution

[4] Similar profiles for almost all developing countries can be found at http://data.worldbank.org/twin-goals.

changes more dramatically, with agriculture and mining important for the bottom 40 percent and progressively becoming less important as income increases. Thus, to be able to help the bottom 40 percent, it is important to know what activities they are engaged in.

Do the bottom 40 percent live in rural or urban areas? Rwanda is among the world's poorest nations and has a high population density. Of the bottom four quintiles, around 85 percent of Rwandans live in rural areas. Of the top quintile, approximately 40 percent live in urban areas. In comparison, Colombia is highly urbanized and, consequently, less than one-fifth of the bottom 40 percent live in rural areas. In Turkey, close to 50 percent of the bottom 40 percent live in rural areas, while only 12 percent of the fifth quintile reside in rural areas. Clearly then, different geographical approaches are needed for each of these countries if we are to improve opportunities for the bottom 40 percent.

What is the educational attainment of the bottom 40 percent? There are big differences in the level of educational attainment for the three selected countries. For Rwanda, close to 87 percent of its bottom 40 percent have only primary education. This is very different for Colombia, where 18 percent have secondary education, and for Turkey, where 55 percent have secondary and 23 percent have tertiary education. Again, these educational characteristics can be helpful in informing policy that can assist the bottom 40 percent.

What is the age structure of the bottom 40 percent? Interesting observations emerge for this characteristic as well. Clearly,

younger people make up larger percentages of the bottom 40 percent in all three countries. However, higher population growth in Rwanda than in Colombia and Turkey shows that young people in Rwanda make up a large percentage of each quintile. Note that except for Turkey the population age group older than 64 increases from the lower quintiles to the higher quintiles.

And what is the level of improved sanitation for the bottom 40 percent? Access to improved sanitation increases with income for all three countries and reaches close to 100 percent in the top quintile. Again, the situation of the bottom 40 percent is quite different across the three countries, with people in Turkey leading with 75 percent of people with access to improved sanitation, while this number is only 68 percent in Colombia, and 56 percent in Rwanda.

In sum, the characteristics of the bottom 40 percent are quite different for each country. This, in turn, will indeed make policy recommendations for boosting shared prosperity very different for each country.

FIGURE 4

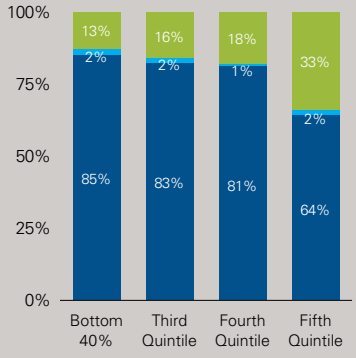
A FEW CHARACTERISTICS OF THE BOTTOM 40 PERCENT

INDUSTRY CLASSIFICATION

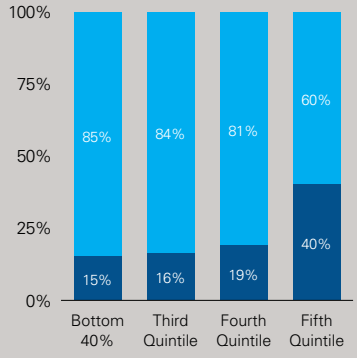
LOCATION

LOW-INCOME COUNTRY

RWANDA



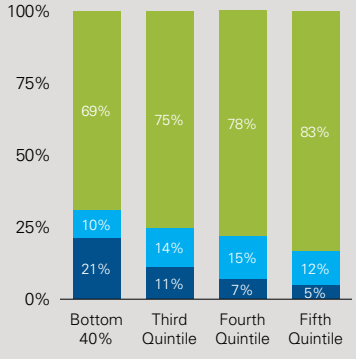
Source: Calculations from Household Budget Surveys, Rwanda 2005.



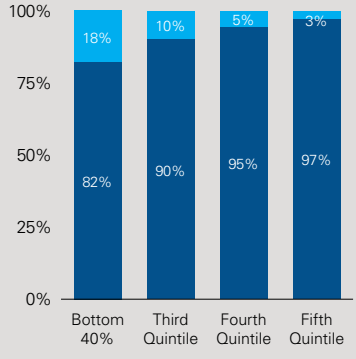
Source: Calculations from Household Budget Surveys, Rwanda 2005.

MIDDLE-INCOME COUNTRY

COLOMBIA



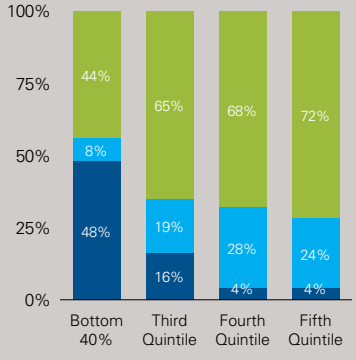
Source: Calculations from Household Budget Surveys, Colombia 2007.



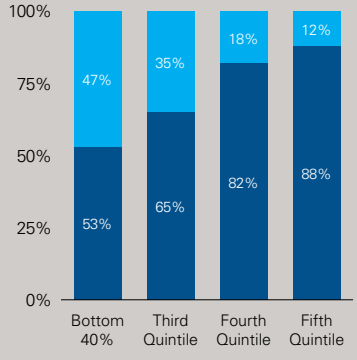
Source: Calculations from Household Budget Surveys, Colombia 2007.

HIGH-MIDDLE-INCOME COUNTRY

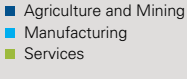
TURKEY



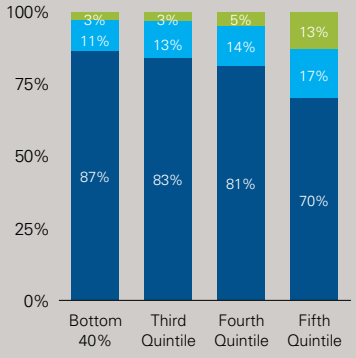
Source: Calculations from Household Budget Surveys, Turkey 2007.



Source: Calculations from Household Budget Surveys, Turkey 2007.

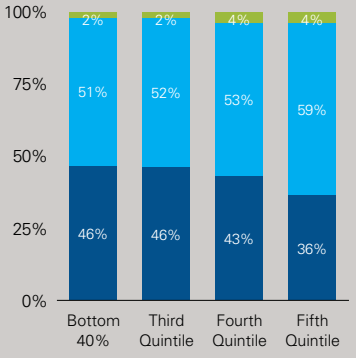


EDUCATION LEVEL



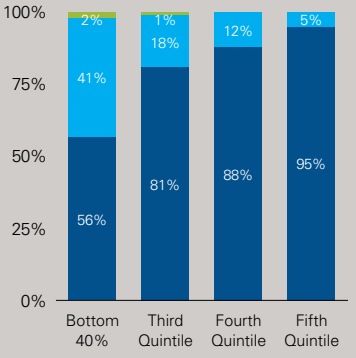
Source: Calculations from Household Budget Surveys, Rwanda 2005.

AGE STRUCTURE

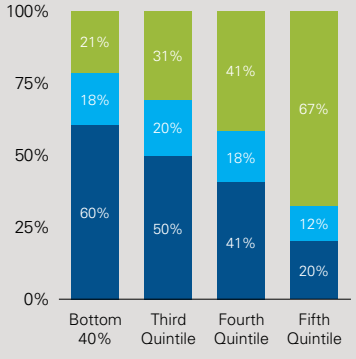


Source: Calculations from Household Budget Surveys, Rwanda 2005.

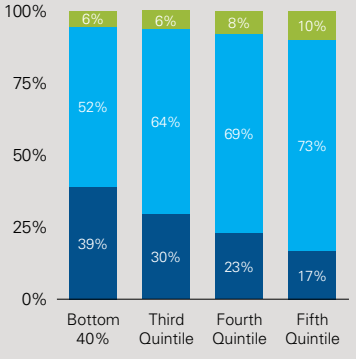
ACCESS TO IMPROVED SANITATION



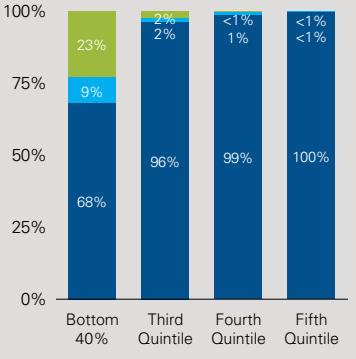
Source: Demographic and Household Surveys, Rwanda 2010.



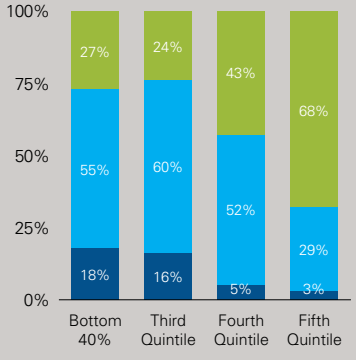
Source: Calculations from Household Budget Surveys, Colombia 2007.



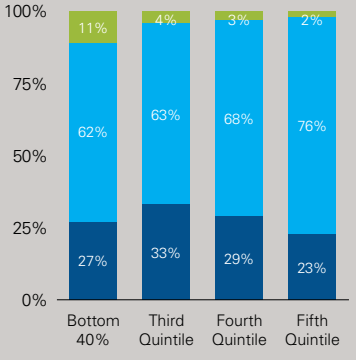
Source: Calculations from Household Budget Surveys, Colombia 2007.



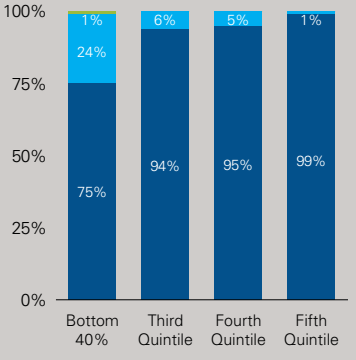
Source: Demographic and Household Surveys, Colombia 2010.



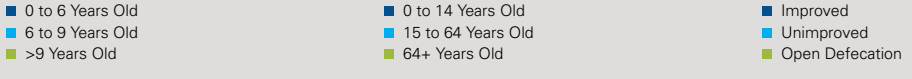
Source: Calculations from Household Budget Surveys, Turkey 2007.



Source: Calculations from Household Budget Surveys, Turkey 2007.



Source: Demographic and Household Surveys, Turkey 2003.



Note: Some bars may not add up to 100% because of rounding.

Assessing progress will require more and better data

An extra push is needed to collect relevant data to base interventions on evidence and to monitor progress in ending extreme poverty and boosting shared prosperity. With the adoption of the twin goals for the WBG, a need arises for more frequent monitoring and evaluation of progress at the global, regional, and country levels. Much progress has been made in the last two decades on conducting household budget surveys upon which analysis of poverty and the bottom 40 percent depends (Global Monitoring Report 2013). Notwithstanding these improvements, surveys that are undertaken on a regular basis and comparable over time remain rare in some regions, most notably in the Middle East and North Africa and Sub-Saharan Africa (Policy Research Report 2014).

The development community needs to mobilize efforts to improve the availability of (household budget) data for the purpose of poverty analysis and to inform policies that boost shared prosperity. A strategy to leave no country behind needs to be developed, financed, and implemented such that policy makers everywhere can develop and implement better informed programs and strategies to fight poverty and boost shared prosperity in their countries. The WBG can and wants to assist them with its vast experience of development solutions and financing, while leveraging other development partners. Through improved monitoring and reporting, the development community can also hold the WBG accountable for progress achieved (box 7).

BOX 7

Collecting data for development

An extra push is needed to collect relevant data. This can be done in two ways. First, we need to know more. There are significant gaps in existing data, and the data that are collected are often not of the required quality, infrequently collected, and often not comparable across time or between countries. For example, the primary sources of poverty statistics in developing countries are household income or expenditure surveys conducted by national statistical agencies. Yet about 40 percent of developing countries cannot measure their poverty trend over the last decade. Second, we need to do more with what we know. The sustainability of data production will only come with greater use of data at the country level. Many partner governments need help to develop evidence-based policies and programs and citizens and parliamentarians need to improve data awareness to hold decision-makers accountable.

To do better, we need to address three issues:

- *Data availability:* all countries should implement timely and regular household income/consumption and consumer price surveys.
- *Data reliability and relevance:* surveys must provide a more accurate measurement of household income and/or consumption and prices, comparable over time (and ideally across countries).
- *Accessibility and usability:* the survey micro data should be disseminated under clear terms of use that do not impose unnecessary restrictions, in order to foster analysis and use of the data by a broader community.

The World Bank Group is developing a Data for Goals Initiative, to fill key data gaps for poverty and shared prosperity targets. The objective of this initiative is to combine conventional improvements to partner country household surveys with new data sources, so that poverty and shared prosperity indicators can be produced more frequently, cost-effectively, and with greater geographic detail.

In conclusion

The World Bank Group's ambition is to connect its vast knowledge, resources, and partnerships to provide solutions to country-specific development constraints. Helping accelerate progress toward the twin goals demands a new form of problem-solving engagement by the WBG, which has a more explicit focus on being a "solutions bank." Defining and mapping the poor will be an important part and inform the World Bank Group's strategic thinking for achieving its goals. It will also help policymakers throughout the world craft the policies needed to achieve more inclusive growth and to implement programs and strategies that will assist the bottom 40 percent to engage and benefit to the fullest in the welfare gains of their societies, while preserving the planet.

The newly created Global Practices (GPs) and Cross-Cutting Solution Areas (CCSAs) that will operate across the World Bank Group put the WBG in a better position to address the identified challenges to ending extreme poverty and boosting shared prosperity. Indeed, the reforms aimed at creating a more nimble global structure, integrating the three main pillars of the institution—the International Bank for Reconstruction and Development and International Development Association (IBRD/IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—in combination with the GPs and CCSAs, will allow the WGB to assist client countries in addressing their development challenges in a unified manner and ultimately through that assistance support the implementation of the WBG twin goals.

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"At the World Bank Group, we've set goals to end extreme poverty by 2030 and to boost shared prosperity, so that the bottom 40 percent of income earners can share in economic growth. By setting such bold targets and setting an expiration date for extreme poverty in the world, our Governors have given us the gift of focus and urgency. We will now drive forward with what we hope will be a signal achievement in human history."

—Jim Yong Kim, President, The World Bank Group

"It is a sad commentary on our prosperous world that over one billion people live in extreme poverty. It is a welcome call from the World Bank Group to not just mitigate poverty but bring it to closure, and also to strive for a more equitable world. To achieve these ends we will need determination, but also ideas and innovation, for the ways of the economy can be strange."

—Kaushik Basu, Senior Vice President and Chief Economist,
Development Economics, The World Bank

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PROSPERITY FOR ALL ENDING EXTREME POVERTY

A NOTE FOR THE WORLD BANK GROUP SPRING MEETINGS 2014

WORLD BANK GROUP

THE FIGHT AGAINST POVERTY

Extreme poverty is on the decline globally

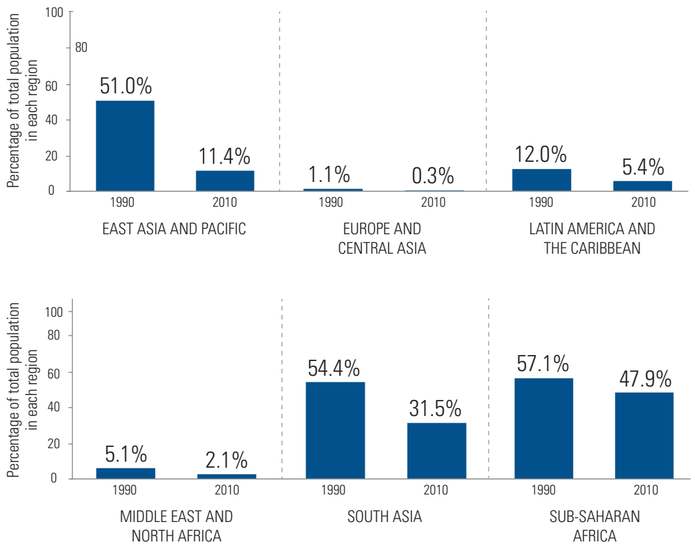
1990: **36%**

2010: **18%**

Proportion of world population living on less than $1.25 a day

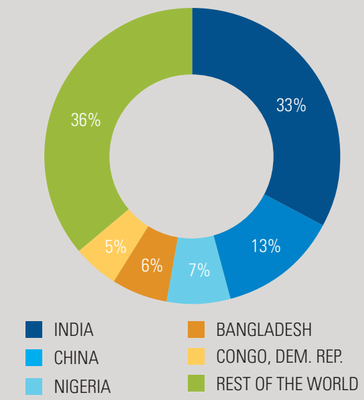
Poverty reduction progress by region

PERCENTAGE OF POOR PEOPLE

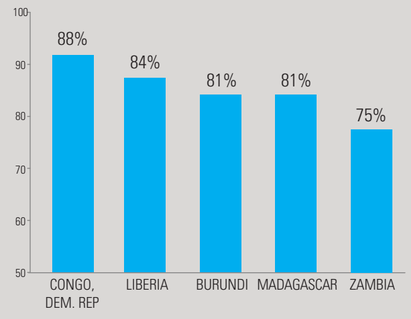


Where do the extreme poor live?

NEARLY TWO-THIRDS OF THE POOR LIVE IN JUST FIVE COUNTRIES



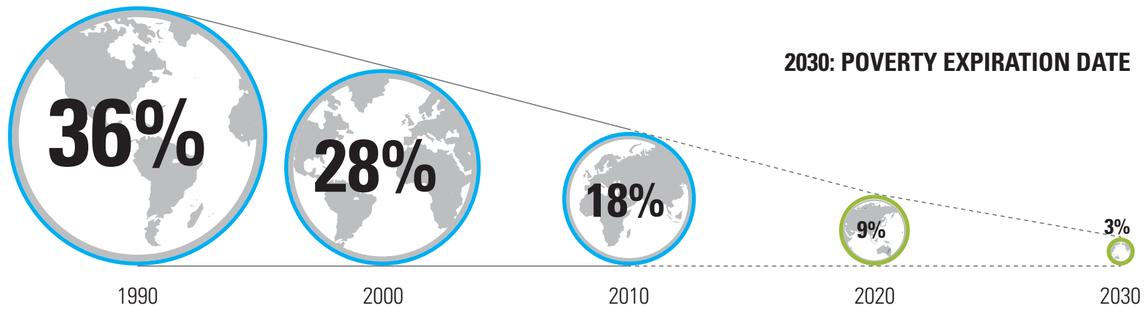
THERE ARE HOWEVER, SMALLER COUNTRIES WITH HIGH EXTREME POVERTY HEADCOUNTS



THUS THE NEED TO FIGHT EXTREME POVERTY IN EVERY COUNTRY

The challenge ahead

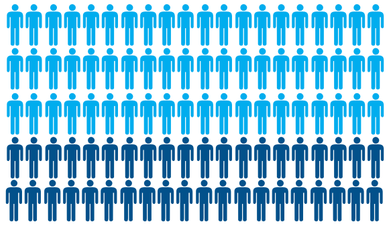
REDUCE EXTREME POVERTY FROM 36% IN 1990 TO 3% BY 2030



EXTREME POVERTY AS A PERCENTAGE OF GLOBAL POPULATION

PROMOTING SHARED PROSPERITY

Shared prosperity is about improving the income growth of the bottom 40%



Who are the bottom 40%?

THEIR PROFILES DIFFER FROM COUNTRY TO COUNTRY

EDUCATION

RWANDA 2005	11%	HAVE SECONDARY EDUCATION	3%	HAVE TERTIARY EDUCATION
TURKEY 2007	55%	HAVE SECONDARY EDUCATION	27%	HAVE TERTIARY EDUCATION

LOCATION

BANGLADESH 2005	74%	LIVE IN RURAL AREAS	26%	LIVE IN URBAN AREAS
BRAZIL 2007	23%	LIVE IN RURAL AREAS	77%	LIVE IN URBAN AREAS

EMPLOYMENT

PHILIPPINES 2007	63%	WORK IN AGRICULTURE OR MINING	34%	WORK IN SERVICES
JORDAN 2002	11%	WORK IN AGRICULTURE OR MINING	80%	WORK IN SERVICES

STRATEGIES FOR PROMOTING PROSPERITY WILL HAVE TO BE DESIGNED TO MEET THE UNIQUE NEEDS OF EACH COUNTRY.

Source for all data: PovcalNet, World Bank.

Some elements of promoting shared prosperity

JOBS

Are essential for lifting people out of poverty and sharing prosperity

SOCIAL SAFETY NETS

Play an effective role in reducing poverty and striving for a more equitable world

GREEN GROWTH

Can lead to sustainable development