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Changing Global Patterns of Poverty

Summary

Global patterns of poverty do not look like they did twenty years ago. Many developing countries have been able to raise their average per-capita income over the last two decades; 18 have even trespassed the highly noticed – though arbitrary – ceiling differentiating between 'low income' and 'middle income countries' (LICs and MICs).

The latter event in particular has attracted much attention as the most populous countries are among those that 'graduated' – with the effect that 72 per cent of the extreme income-poor world-wide (defined by the 1.25 USD Purchasing Power Parity (PPP) poverty line) are now living in MICs. Donors increasingly wonder whether development co-operation should therefore focus more on the remaining LICs or rather explore new ways of assisting MICs in poverty alleviation.

We argue that whatever future development co-operation with MICs may look like, poverty eradication should take a central place in it. Even if per-capita income levels are rising in most countries, it is much too early to celebrate the end of global poverty:

- The fact that some LICs have become MICs does not mean that they have been able to eradicate poverty. The recently graduated countries still account for more than half of the world's extreme income poor people. The simple crossing an artificial per-capita income threshold is not an indicator of structural change.
- Rising per capita income levels translate only on an aggregate level into a decline in the share of people in extreme poverty. Significant differences exist on a regionally disaggregated level. For instance, countries in East and Southeast Asia have achieved significant progress in income poverty reduction, while countries in Latin America, Central Asia and the Middle East have been less successful. In sub-Saharan Africa poverty has even been on the rise since 1990. Likewise, while some countries in all world regions were able to reduce income poverty substantially, other countries in the same regions are still suffering from stagnating or even rising poverty rates. And even within countries, progress in poverty reduction is very uneven in many cases.
- While the incidence of income poverty is declining in most parts of the world, income inequality is rising almost everywhere. Global income poverty is no longer mainly the result of a rich global North and a disadvantaged global South, but increasingly due to widening gaps in income distribution within countries. A major challenge for many countries for the decades to come is thus the problem of persistent regional and social pockets of poverty.
- Efforts to reduce poverty were more successful with regard to income poverty than to other poverty dimensions, such as the lack of education, health, social protection, etc. In the past, a lack of income tended to go hand in hand with other forms of deprivation so that it was an acceptable proxy indicator for financial and non-financial dimensions of poverty. But this changed; an increasing number of people world-wide would not be considered income-poor, yet they lack access to such basic needs as education and health services. There is thus a need to measure poverty not only in terms of insufficient income but also in its multiple dimensions.

The global poverty landscape is changing dramatically. In recent years, many developing countries have made great progress catching up with the developed world in terms of per-capita income. On an aggregate level, this development has led to considerable poverty reductions and induced fundamental debates on the future direction of development co-operation.

However, it is far too early to declare the end of global poverty as this development does not apply on a disaggregate level. In fact, it is predominantly due to China that accounts for more than 80 per cent of global poverty reduction between 1990 and 2008. And while average per-capita income levels are converging between countries, individual income inequality continues to rise on a global, national and subnational level. In addition, even where income poverty is declining, there is no guarantee for a simultaneous reduction in non-income dimensions of poverty.

Low and middle-income countries

One effect of continuous per-capita growth is that since 2000 an overall of 13 countries – many of them with significant numbers of poor people – have crossed the threshold between LICs and MICs that the World Bank chose decades ago in order to distinguish different types of borrower countries: Bhutan, India, Indonesia, Pakistan, Lesotho, Nicaragua, Nigeria, São Tomé and Principe, Sudan, Timor-Leste, Tuvalu, Vietnam and Yemen. In addition, China, Equatorial Guinea, Guyana, Maldives and Sri Lanka had already passed the same threshold between 1990 and 2000.

This trend has provoked a rush of public attention, because all at once 72 per cent of the extreme income-poor worldwide (as defined by the 1.25 USD in PPP income poverty line that the World Bank and many others use) found themselves living in MICs (see Table 1).

However, the effect is almost entirely the result of China and India crossing the threshold; they alone account for almost half of the extreme income-poor world-wide (see Table 1). Aside from them, the share of the global extreme income-poor living in MICs has increased from 7 to 22 per cent over the past two decades while it remained almost the same (about 28 per cent) in LICs (for absolute numbers in 1990 and 2007 but based on a different source, see Figure 1).

In addition, the effect is a purely statistical construction. The simple fact that a number of countries crossed the artificial threshold between LICs and MICs does not necessarily indicate structural change.

Finally, there is no guarantee that the positive development will continue. Countries might continue to grow, as China has done, or stagnate at a level just above the LIC/MIC-threshold, like Pakistan. They might even backslide, as several graduators have also done (like Armenia and Honduras, which have graduated for a second time thereafter, or like North Korea, Zimbabwe and Kyrgyzstan, which have not yet graduated again).

In the light of such heterogeneity, one should thus be careful with any kind of one-size-fits-all recommendations for future development co-operation with graduating countries.

Global poverty rates

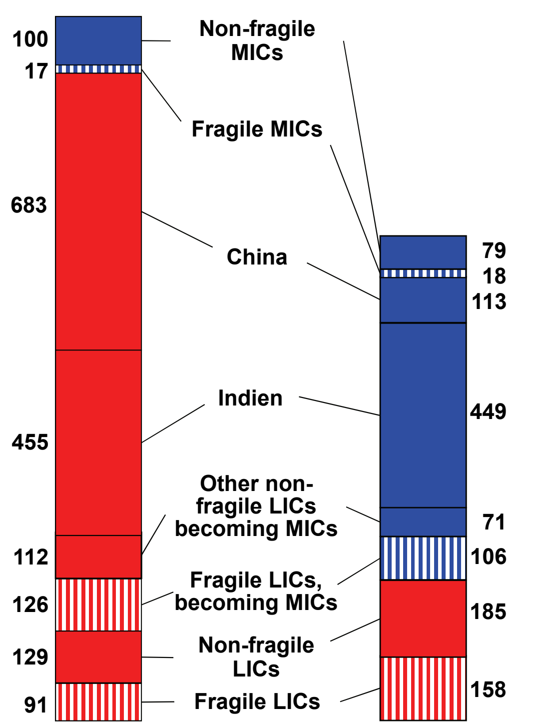
Another effect of continuous growth is that the share of the world's income poor declined significantly. If defined by the 1.25 USD PPP poverty line, it dropped from 43 to 22 per cent between 1990 and 2008. However, more than 80 per cent of the reduction is due to China (World Bank 2012). Poverty continues to be a mass phenomenon in many parts of the world.

Table 1: Extent of income poverty in different regions and countries: total numbers in million and share of world poverty

2008	extreme income poor (below 1.25 USD per day in PPPs)		income poor (below 2 USD perday in PPPs)	
World	**1,289**	***100%***	**2,471**	***100%***
South Asia	571	*44.3%*	1,125	*45.5%*
Sub-Sahara Africa	386	*29.9%*	562	*22.7%*
East Asia & Pacific	284	*22.1%*	659	*26.7%*
Latin America & Carribean	37	*2.9%*	71	*2.9%*
East Europe & Central Asia	2	*0.2%*	10	*0.4%*
Middle East & North Africa	9	*0.7%*	44	*1.8%*
India	445	*34.5%*	862	*34.9%*
China	173	*13.4%*	395	*16.0%*
Nigeria	100	*7.8%*	127	*5.1%*
Bangladesh	68	*5.3%*	114	*4.6%*
Pakistan	35	*2.7%*	101	*4.1%*
Indonesia	53	*4.1%*	128	*5.2%*

Source: PovcalNet

Figure 1: Absolute numbers of the world's extreme income poor in different countries 1990 and 2007 (in millions, by the 1.25 USD in PPP income criterion)



Source: based on Sumner (2011)

At the same time, national poverty rates may differ substantially from the average rate of the respective world region. For example, income poverty remains wide-spread in several Asian countries – such as Laos, Nepal and Bangladesh – despite huge positive regional trends. In sub-Saharan Africa, in contrast, national poverty rates stagnated or even increased since 1990 in the majority of countries, but in some countries they decreased substantially, sometimes even to a point that they might reach MDG1 (halving the share of extreme income-poor people) ahead of time.

Finally, poverty rates also diverge at the sub-national level. Many countries experienced decreases in income poverty rates in some provinces but increases in others.

Comparative studies show that countries in all world regions can achieve significant poverty reductions – provided that their political leaders want to do so, have a vision and a strategy and work continuously on its implementation (see Loewe 2010). Under such ideal conditions, most non-fragile LICs in Africa and elsewhere might be able to transform into MICs by 2030 while at the same time substantially reducing the share of the income-poor population. Of course, prospects are much bleaker for fragile countries – LICs and MICs likewise – as neither state nor any other actors can perform the task effectively.

In addition, there are many exogenous risks for the development of all countries. One of them is climate change; droughts, floods, storms and other catastrophic events can destroy the livelihoods of large shares of the population, especially in large regions.

Inequality, poverty and growth

Another phenomenon is that considerable population shares remain in poverty even in countries that experienced long periods of economic growth to become MICs. In Nigeria, for example, almost two thirds of the population were still below the 1.25 USD poverty line according to the new figures. In India, the respective share was 37 per cent – thus accounting for more of the world's extreme income-poor (35 per cent or 445 million) than the entire African continent including Middle East (31 per cent or 395 million). Even in China, more than 170 million people are still below the 1.25 USD poverty line, accounting for 13 per cent of all extreme income-poor people globally. Another 8 and 5 per cent live in Nigeria and Bangladesh, respectively (see Table 1).

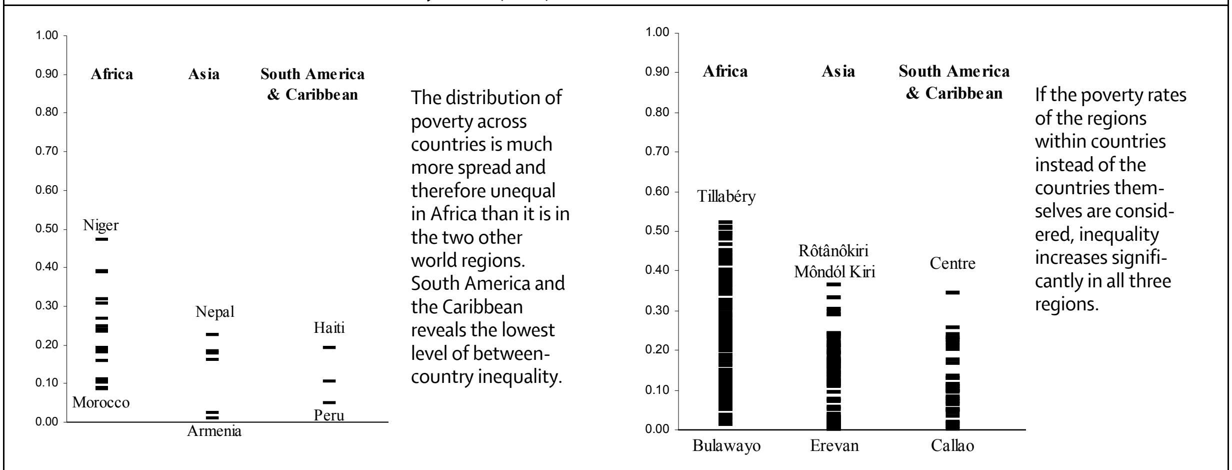
Some countries that have graduated to the higher middle-income category are still struggling with a considerable proportion of households living on less than 2 USD PPP per day. Brazil, for example, is home to 22 million people with less than 2 USD. Likewise, the share of people with less than 2 USD per day is still very high even in East and South Asia (33 and 71 per cent, respectively), where the share of people living on less than 1.25 USD per day in PPP has fallen significantly. In general, over the last decade, the share of people below a certain poverty line decreased less the higher the chosen poverty line.

In other words, even significant, sustained growth is no guarantee for poverty reduction. As a rule, growth is a necessary, but not sufficient condition for sustainable poverty reduction. Though, on average, growth entails reductions in income poverty, the intensity of this effect differs greatly among world regions, countries and even provinces. For instance, while some countries experienced episodes of growth that disproportionally benefited the poor, others faced high per-capita growth rates coinciding with a decrease in the income of the poor. For non-income aspects of poverty (health, education, social protection, social integration etc.), the correlation with growth is even weaker (see below).

The coincidence of high economic growth and persistent income poverty confirms what international data suggest: income inequality has risen substantially during the last two decades in the large majority of countries world-wide. In Asia in particular, Gini coefficients increased significantly during the last 20 years (such as by 10 percentage points in China and by even more in Nepal).

Growth in these countries has mainly benefited the more affluent along with specific regions, sectors and social groups, leaving other segments of society disconnected from the positive development of the growth poles in these countries. For example, while the average per capita

Figure 2: Extent of inequality between countries and within a single country in selected world regions according to the Correlation Sensitive Multidimensional Poverty Index (CSPI)



Source: Authors' calculation

income in Shanghai is as high as in Poland, some Western provinces of China are still at the per capita income level of Honduras or Swaziland.

Figure 2 suggests that global inequality is increasingly a matter of inequalities within rather than between countries. It shows that poverty rates for entire countries – as measured by the newly developed Correlation Sensitive Multidimensional Poverty Index (CSPI) (Rippin 2010) – vary much more within Africa than in South America and the Caribbean, while poverty rates *mapped on the province level* are almost as spread within Asia and South America and the Caribbean as they are within the African continent.

The growth of inequality is a very serious concern not only for distributive reasons. Numerous studies provide empirical evidence that income inequality threatens future growth and poverty reduction. Likewise, outcomes for health, education, social cohesion and mobility and political stability are significantly worse in countries with high income inequality (Wilkinson / Pickett 2009).

Thus, a major challenge for countries such as China, India, Indonesia and Vietnam for the decades to come will be to tackle the problem of persistent regional and social pockets of poverty. There is no reason to believe that the trend towards increasing gaps between a few very rich people and a large portion of chronically poor people will automatically be reversed once a certain income level is reached.

In Latin America, where several countries have been able to decrease overall inequality over the last decade, the achievement has not been a result of market-based processes. Rather, some progressive governments have embarked on a strategy of growth with redistribution.

Multidimensional poverty

Finally, the non-financial dimensions of poverty have not been reduced to the same extent that income poverty has. In the past, a lack of income tended to coincide with deprivation in other basic needs like education, health, shelter, clothing, social acceptance and integration, social protection, etc., rendering income poverty an acceptable proxy for the naturally multidimensional character of poverty. This is no longer the case. An increasing number of not-income-poor people still suffer from deprivations in a number of basic needs. Therefore, insufficient income is no longer considered to be an appropriate indicator of the non-financial dimensions of poverty. Thus, multidimensional poverty indices like the CSPI or the Multidimensional Poverty Index (MPI) are needed in order to complete our picture of global poverty trends. In fact, figures for the MPI-poor diverge considerably from those that are income-poor, not only in overall figures – the MPI identifies 1.6 billion people as poor, compared to the 1.3 billion people below the 1.25 USD poverty line – but also in country rankings. In Ethiopia, for instance, 16 per cent of the population is below the 1.25 USD poverty line, but 89 per cent are MPI poor. In the Democratic Republic of the Congo, on the other hand, 86 per cent are income-poor, compared to 73 per cent MPI poor. In 35 out of 101 countries, the number of the MPI poor is even higher than the number of the 2 USD income-poor (based on data from the 2011 Human Development Report).

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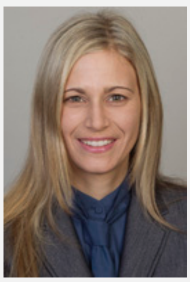

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