

# WHERE WILL THE WORLD'S POOR LIVE?

## A BRIEFING ON GLOBAL POVERTY PROJECTIONS FOR 2020 AND 2030

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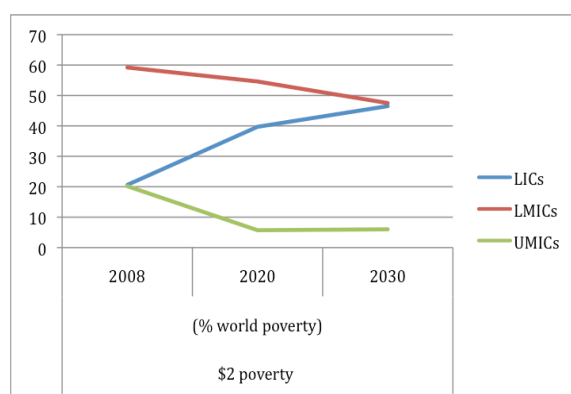
### KEY MESSAGES

- There's a "double bottom billion" or 80% of the world's \$2 poor - 2 billion people - who live in Middle-Income Countries. In contrast there is 500m \$2 poor in low-income countries.
- Even with growth, world poverty is projected to remain split 50/50 between low income countries (LICs) and middle-income countries (MICs) until 2030. Further, Given that some of today's LICs will be MICs by then, it is possible that only a third of the world's poor will be living in LICs in 2030.
- A post-2015 global framework should be designed to fit this pattern of global poverty.

### WHERE DO THE WORLD'S POOR LIVE?

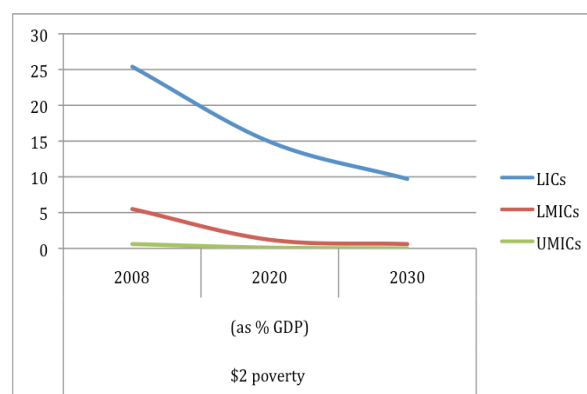
Updated estimates of global poverty based on World Bank's *Povcal Net* dataset show that the majority of the world's poor live in middle-income countries (see figure 1). The distribution of global poverty is thus: Half of the world's poor live in India and China (mainly in India); A quarter of the world's poor live in other MICs (primarily populous lower middle income countries - LMICs - such as Pakistan, Nigeria and Indonesia); and a quarter (or less) of the world's poor live in the remaining LICs. New estimates for global poverty in 2008 support earlier findings that most of the world's poor, by both \$1.25 and \$2 international poverty lines, live in South Asia and sub-Saharan Africa. In contrast, in 1990 half of the world's poor lived in East Asia and the Pacific, mostly in China. The proportion of the world's \$1.25 poor in China fell to an estimated 14 percent in 2008, while India's proportion of world poverty rose to 35 percent, and sub-Saharan Africa's to 31 percent. Estimates for 2008 confirm that the world's poor, by both \$1.25 and \$2 poverty lines, largely live in middle-income countries (MICs). *The proportion of the world's \$1.25 and \$2 poor accounted for by MICs is, respectively, 74 percent and 79 percent.* This suggests that using the \$2 poverty measure - the average poverty line for developing countries - means that even more of the world's poor live in MICs. Indeed, closer analysis suggests a "double bottom billion" of poor people in MICs: a billion people under \$1.25 in MICs and a further billion \$1.25 and \$2/day per capita in MICs. In contrast, there are about 300m poor people living under \$1.25 and 200m living between \$1.25 and \$2 in LICs.

Figure 1. Estimates of the distribution of world poverty (\$2/day), 2008, 2020 and 2030



Source: Data processed from IMF (2012) and World Bank (2011b; 2012). Note: Moderate growth scenario.

Figure 2. Estimate of the cost of ending world poverty (\$2/day) as % GDP, 2008/9, 2020 and 2030



Source: Data processed from IMF (2012) and World Bank (2011b; 2012). Note: PPP constant 2005 int'l \$; moderate growth scenario.

It is important to note that LICs typically have higher rates of poverty incidence. That said, some MICs do have surprisingly high poverty headcounts, even at the higher average level of per capita income found in MICs. Across all MICs, the average incidence of poverty is almost one in five of the population at \$1.25/day, and 40 percent at \$2/day. In the LMICs excluding India, this rises to 25 percent and 50 percent respectively. At a minimum, the fact that poverty persists at higher levels of average per capita income raises questions about the types of economic growth that lead some countries to reduce the number of people in poverty and other countries not to.

### ***WHERE WILL THE WORLD'S POOR LIVE IN 2020 AND 2030?***

Is there little need to worry about the poor in MICs because economic growth will likely end MIC poverty in the near future - How reasonable is this argument? The poor in middle-income countries could be disconnected from a country's growth due to spatial inequality or remoteness. The poor may also be relatively voiceless in domestic governance structures and potentially discriminated against in public services and public spending allocations regionally. And intra-country migration may be hindered or constrained by cost and administrative regulations. One way to explore the question of whether MIC poverty is transitory is to estimate poverty in the future by different scenarios in order to assess if poverty in MICs will be easily addressed by growth. This involves generating different growth scenarios using the IMF World Economic Outlook growth projections at different levels (high, medium, low). This approach likely overstates poverty reduction in fast growing economies such as MICs by assuming static inequality. Even so, the data suggests that the remaining \$1.25 and \$2 poverty in those countries that are currently MICs will remain half of all world poverty in 2020 and in 2030. And given that some countries that are currently LICs will move into the LMIC category, this suggests the structure of world poverty will remain split between LICs and MICs. If inequality does rise in countries growing fast and attaining middle-income status these projections may understate the proportion of world poverty in MICs in 2020 and 2030. Further, Given that some of today's LICs will be MICs by then, it's possible that just one-third of the world's poor will be in the remaining LICs in 2030. It also suggests the cost to end poverty will be minimal for those countries that are currently MICs as a percentage of GDP (see figure 2). In those countries that are currently LMICs the average cost of ending \$1.25 poverty is estimated to be in the range of 0.2% - 0.6% of GDP in 2020 and by 2030 at a similar level to end \$2 poverty. The estimated cost of ending \$1.25 poverty in those countries that are currently LICs would remain high even in 2020 and 2030. This suggests that for a relatively small number of countries (24-30 LICs), external support for poverty reduction will remain essential. However, the cost of ending poverty in those countries that are currently Upper MICs is already negligible.

### ***WHY DOES IT MATTER IF THE POOR LIVE IN MIDDLE-INCOME COUNTRIES?***

Such patterns matter beyond the thresholds for low-income countries and middle-income countries set by the World Bank, because they reflect a pattern of rising average incomes. Although the thresholds do not mean a sudden change in countries when a line is crossed in per capita income, substantially higher levels of average per capita income imply substantially more domestic resources available for poverty reduction. Further, the changing distribution of global poverty away from the poorest countries, suggests an apparent "poverty paradox" – that most of the world's extreme poor do not live in the world's poorest countries. One interpretation of the shift in global poverty is that extreme poverty is gradually changing from a question of poor people in absolute poor countries to questions about domestic inequality. And this implies a fundamental reframing of global poverty - the core variable to explain global poverty is increasingly national inequality and a post-2015 global framework is needed that takes account of this.

### ***References***

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