PART I

Chapter 1

What will it take to end extreme poverty?

by

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The world has probably met the first Millennium Development Goal (MDG) target: to halve the share of the population living in extreme poverty. Can the world now end extreme poverty by 2030? Using a range of scenarios based on economic growth and income inequality forecasts, the author shows that strong economic growth coupled with a fall in within-country inequality could end extreme poverty. If growth is weak and inequality is not tackled, however, extreme poverty could remain around 1.3 billion in 2030. Ending USD 1.25 per day poverty does not mean ending all poverty. Nutrition and health poverty, multidimensional poverty and higher poverty lines need to be considered as well. This is why providers of concessional funding should not concentrate attention solely on the poorest countries and should remember the “new bottom billion” in middle-income countries (MICs). A new system of country classification would help to address this challenge. The focus of development co-operation with MICs should be on: supporting economic growth that is equitable and addressing poverty reduction as a national distribution issue; co-financing global, regional and national public goods; ensuring that development and other OECD polices (on trade, migration and others) are coherent and mutually supportive; encouraging new modalities of finance, such as joint funding by traditional and new “donors” of programmes with benefits beyond borders (vaccination programmes, green infrastructure, etc.); and supporting the exchange of knowledge and experience on poverty reduction.
What do President Obama, UN Secretary General, Ban Ki-Moon and the musician Bono have in common? Each has proposed – along with other prominent leaders and thinkers – that the world should seek to end extreme poverty over the next 20 years or so. But how realistic is this aspiration? And what needs to be done to make it happen?

This chapter considers changing patterns of poverty and what would be necessary to end extreme poverty by around 2030.

Ending extreme poverty is possible

The idea of an end to extreme poverty is part of a broader discussion on the next generation of UN global development goals. The current set of goals, the Millennium Development Goals (MDGs), will expire in 2015. The MDGs aimed to halve income poverty and hunger and to reduce other forms of poverty in areas such as health, education and access to water. So the big question for the United Nations, the OECD and their partner countries is: what sort of global goals should take the place of the MDGs after 2015?

To answer that question, we need first to know a bit about progress towards the current goals and how the goals have supported development efforts. In short, the MDGs have helped maintain the case for more aid – or official development assistance (ODA) – for the poorest countries (Figure 1.1) and encouraged faster progress in some areas, notably in reducing child and maternal mortality (MDGs 4 and 6; Table 1.1).

Figure 1.1. ODA per capita to low- and middle-income countries, 1990-2009

![Graph showing ODA per capita to low- and middle-income countries, 1990-2009](http://dx.doi.org/10.1787/888932895520)


Of course, quite a lot of this progress would have happened even if there had not been any global goals. It seems unlikely, for example, that the MDGs had much to do with the
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People’s Republic of China, India and other emerging economies’ incredible economic take-off (Chapter 2). Still, the world has probably met MDG 1a: to cut in half the share of the world’s population living in extreme poverty, as measured by the World Bank at USD 1.25 per person per day (Figure 1.2). Nevertheless, some express doubts about whether the MDG 1a (income poverty) goal has been met, because of the limited progress on MDG 1c (hunger). They point to the “poverty-hunger” disconnect, whereby the headline statistics on hunger have fallen very little over the same time period; this raises questions about the achievement of income poverty, given that the measurement of income poverty is largely based on food expenditures (Pogge, 2013).

Some argue that if the MDGs were about halving global poverty and reducing other aspects of poverty, the post-MDGs should be about “finishing the job” – in other words, “getting to zero poverty” (WEF, 2012).

A set of recent papers outlines the plausibility of this goal (e.g. Edward and Sumner, 2013; Karver et al., 2012; Ravallion, 2013). They conclude that it is entirely feasible to come close to ending extreme poverty by around 2030 or so – but only under certain conditions.
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Even if USD 1.25 poverty is close to zero in 2030, significant nutrition and health poverty could remain

At the same time, it is essential to remember that ending USD 1.25 poverty will not necessarily mean all kinds of poverty are ended. Karver et al. (2012) project that significant nutrition and health poverty could remain in 2030, even if USD 1.25 poverty is close to zero (see Table 1.2 and Chapter 3 in this volume). The USD 1.25 line is also a very low poverty line indeed; it is the poverty line of the poorest countries and just one of the series of poverty lines used by the World Bank (Chapter 2). Moderate poverty (set at USD 2) will – not surprisingly – continue longer. The global cost of putting an end to USD 2 per day poverty could fall to as little as 0.1-0.2% of world GDP in 2030 (see below). For USD 2 poverty to drop from the current level of just over 2 billion people to 600 million by 2030, every country would need to meet the International Monetary Fund growth forecasts (IMF, 2012) and reduce inequality.

On the other hand, if growth is weak and current inequality trends continue, in 2030 USD 1.25 poverty would be about the same as today – at 1.3 billion people (Figure 1.3) – and USD 2 poverty could increase from current levels to exceed 2.5 billion people. What’s more, poverty does not end above one or two dollars a day; the risk of falling into poverty may only diminish when people reach about USD 10 per day (López-Calva and Ortiz-Juarez, 2011; Chapter 4 in this volume).

The poor do not just live in the poorest countries

Today, there is a “new bottom billion” of extremely poor people living in middle-income countries

The distribution of global poverty – income poverty as well as ill-health, malnutrition and other kinds of poverty – has shifted since the 1990s from countries classified by the World Bank as low-income countries (LICs) towards middle-income countries (MICs). This shift has given rise to a new geography of poverty: in 1990, almost all of the world’s poor people (however defined) lived in countries classified as LICs. Addressing global poverty then was seen largely as a matter of providing aid and resource transfers.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Developing countries</th>
<th>Sub-Saharan Africa</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2030</td>
<td>2010</td>
</tr>
<tr>
<td>Child mortality rate (per 1 000)</td>
<td>49.5</td>
<td>27.6</td>
<td>122.2</td>
</tr>
<tr>
<td>Maternal mortality rate (per 100 000 live births)</td>
<td>192.0</td>
<td>129.0</td>
<td>718.0</td>
</tr>
<tr>
<td>Undernourishment (%)</td>
<td>15.3</td>
<td>12.6</td>
<td>25.7</td>
</tr>
</tbody>
</table>

Note: Figures are population-weighted and represent mid-range projections.

http://dx.doi.org/10.1787/888932895558
Today, there is a new “bottom billion”* – the billion poor people living in extreme income poverty in middle-income countries (Sumner, 2010; 2012a; 2012b; 2012c). The same is true if we look at health and nutrition and other forms of poverty (Alkire et al., 2013; Glassman et al., 2011; Kanbur and Sumner, 2011; Sumner, 2010). In short, while 30 of the countries where the bulk of the world’s poor live – among them five very populous countries – have become better off and transitioned from LIC to MIC status, poverty has not fallen as much as one might expect. The net result is a shift of world poverty into MICs (Table 1.3).

Table 1.3. Where did the global poor live in 2010?

<table>
<thead>
<tr>
<th>Country category</th>
<th>% of global poor</th>
<th>USD 1.25</th>
<th>USD 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current low-income countries (LICs)</td>
<td>29.5</td>
<td>22.2</td>
<td></td>
</tr>
<tr>
<td>Current lower middle-income countries (LMICs)</td>
<td>55.9</td>
<td>60.0</td>
<td></td>
</tr>
<tr>
<td>Current upper middle-income countries (UMICs)</td>
<td>14.6</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>All current middle-income countries (MICs)</td>
<td>70.5</td>
<td>77.8</td>
<td></td>
</tr>
<tr>
<td>Least developed countries</td>
<td>30.8</td>
<td>23.5</td>
<td></td>
</tr>
<tr>
<td>Emerging market economies</td>
<td>59.2</td>
<td>66.9</td>
<td></td>
</tr>
<tr>
<td>All non-fragile MICs</td>
<td>59.6</td>
<td>66.0</td>
<td></td>
</tr>
<tr>
<td>All fragile states</td>
<td>32.1</td>
<td>28.6</td>
<td></td>
</tr>
<tr>
<td>LIC fragile states</td>
<td>21.2</td>
<td>16.9</td>
<td></td>
</tr>
<tr>
<td>MIC fragile states</td>
<td>10.9</td>
<td>11.8</td>
<td></td>
</tr>
<tr>
<td>Conflict/post-conflict countries</td>
<td>11.8</td>
<td>8.8</td>
<td></td>
</tr>
</tbody>
</table>

2. Based on list in World Bank (2013), Harmonized List of Fragile Situations FY13, The World Bank, Washington, DC.


The term “bottom billion” was used by Paul Collier in his book The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It (2007), where he explores the reasons why impoverished countries fail to progress despite international aid and support. He argues that there are just under 60 such economies, home to almost 1 billion people.

* StatLink http://dx.doi.org/10.1787/888932895577


Of course, this is not to say that the 300 million people living in extreme (USD 1.25) poverty today in LICs or least-developed countries (LDCs) do not matter. Rather, with half of the world’s poor living in just 2 countries – India and China – and 20 populous countries accounting for 80-90% of global poverty (among them Bangladesh, Democratic Republic of the Congo [DRC], Indonesia, Nigeria and Pakistan), what happens in a handful of the populous countries will make a big difference for ending extreme poverty.

**Poverty reduction must not overlook middle-income and fragile states**

What about the future geography of poverty? Today, most of the world’s extreme poor live in the emerging economies, half of them in India and China alone. By 2030, some of those emerging economies could be high-income countries; Brazil, China and Indonesia could even be high-income countries by 2025, if growth meets IMF forecasts. Indonesia may cross the threshold into the “upper middle-income country” classification in the next couple of years and could attain high-income country status around 2025; India and Nigeria are somewhat behind, but may be upper-middle-income countries shortly after 2025. So couldn’t this be seen as good news, as the emerging economies will surely be better equipped to deal with poverty? Maybe, but it is certainly not a given. A significant amount of world poverty could easily remain in stable middle-income countries because of spatial and social inequalities.

**Half the world’s poor live in India and China**

At the same time we could ask ourselves: will the poor increasingly be found in fragile states? The answer is not clear because the total number of poor people in stable countries has fallen slowly when China is excluded (see Figure 1.4). Furthermore, poverty in fragile states is occurring increasingly in middle-income fragile states, such as Pakistan and Nigeria, rather than in the poorest, low-income ones (Figure 1.5). This suggests that the

**Figure 1.4. Numbers of people living under USD 1.25 per day, 1990-2010**

![Graph showing numbers of people living under USD 1.25 per day, 1990-2010](http://dx.doi.org/10.1787/888932895615)

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cause of poverty in these countries is not solely a lack of resources, and that fragility is not necessarily a barrier to raising average incomes (Chapter 16, Global approach 4).

There are important definitional issues here: nothing magically happens when a country crosses an arbitrary line into a new classification based on per capita income. Nonetheless, many donors treat countries differently when this happens, considering middle-income country classification in itself a justification for reducing or even ending aid.

Looking ahead, how poverty will be distributed by 2030 will depend on both economic growth and inequality patterns, in particular in the fast-growing and populous MICs. Figure 1.5 shows some possible scenarios and the levels of uncertainty inherent which are very significant. It is certainly not a given that most of the world’s poor will live in fragile states. Indeed, poverty in middle-income countries could remain significant in 2030 if current inequality trends continue.

**A new form of development co-operation with middle-income countries is needed**

The poverty scenarios for different country classifications presented above contain some important policy messages. They estimate that possibly more than a half of global poverty in the coming decades could remain in stable middle-income countries.

The number of aid-dependent countries is declining and this is likely to continue. In fact, two-thirds of developing countries have an ODA to gross national income (GNI) ratio of less than 2%; only around 30 countries (and 10 small island states) have an ODA to GNI ratio of more than 10% (Edward and Sumner, 2013). Projections of future economic growth indicate that only a small group of about 20 countries, possibly fewer, will remain low-income in 2030. Many of these, but by no means all, are conflict-affected or post-conflict countries.
It could be argued that the shift of poverty to MICs means that the resource constraints and aid volume debates around the MDGs are less pressing for the new post-2015 framework. Although there is no sudden change in a country when it crosses one of the per capita income thresholds established by the World Bank, countries that are experiencing significant economic growth have substantially higher levels of average per capita income, and therefore substantially more domestic resources available for poverty reduction. Most MICs have credit ratings that allow them to borrow from capital markets, and indeed may prefer to do so to avoid the conditions that often are associated with ODA.

This is also why donors, including many aid agencies, generally consider MIC status as a reason for reducing aid flows. But there are good reasons for OECD-Development Assistance Committee (DAC) donors to continue development co-operation with MICs – but of a new kind. Development co-operation could shift from grants to concessional loans (which would be cheaper than borrowing from private capital markets); to co-financing global or regional initiatives such as vaccination programmes or green infrastructure; and to policy-related research and knowledge exchanges between MICs and other countries. These points need to be factored into the post-2015 framework and into how development is supported in the future.

Furthermore, the post-2015 agenda needs to reflect the fact that over time it is likely that the expanding number of MICs will make far greater demands on traditional donors to focus on policy coherence (better co-ordination of their trade, migration and other policies): the basis of oft-forgotten MDG 8.

The changing pattern of global poverty also raises various questions about whether, in a world of fewer and fewer aid-dependent countries, poverty will become increasingly a matter of within-country inequality. Many of the world’s extreme poor already live in countries where the total cost of ending extreme and even moderate income poverty is not prohibitively high if considered as a percentage of GDP. The cost of ending USD 1.25 world poverty is somewhere around 0.2% of global GDP, or USD 150 billion (at 2005 purchasing power parity, see Chapter 2). The cost of ending USD 2 world poverty is around 0.9% of global GDP, or USD 600 billion (PPP 2005).

This should not, however, be a cause for complacency. There are still many constraints rooted in the heterogeneity of the new MICs and of their economic growth patterns, in their administrative state capacities, in their domestic political economy (in particular the taxation base), and in capacities for income redistribution among the emerging but largely insecure and often-labelled lower “middle classes” (those in the USD 2-10 per day range), many of whom are barely out of day-to-day poverty themselves.

Conclusions

It is clear from this analysis that ending global poverty is a complex challenge, but that at least three things are required and should be integrated into the new development goal framework:

1. Economic growth needs to be strong and meet IMF growth forecasts. As noted above, the recent record for many countries is very good: over the past decade, almost 30 countries have become middle-income. Over the same time period, two-thirds of developing
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Countries have achieved GDP per capita growth rates of more than twice the average of those of the OECD countries (OECD, 2010).

2. This economic growth must occur hand-in-hand with a decline in inequality within countries. This is the crux. Without this coupling, it will take much, much longer to end poverty – at whatever level. It is startling just how much difference changes in inequality could make to global poverty – both to the number of poor people and to the costs of ending poverty (Chapter 10, Local solution 3).

3. Special attention needs to be given to the fact that much of the world’s poverty is concentrated in about 20 populous countries. What happens in countries such as Bangladesh, DRC, China, India, Indonesia, Nigeria and Pakistan will be critical.

Above and beyond considerations of where future aid is allocated, donors also need – as already stated – to adapt new modes and kinds of co-operation to individual country contexts when tackling persistent poverty. In middle-income countries, donors should focus on supporting economic growth that is more equitable; ensuring that policies and programmes are coherent; encouraging new types and sources of finance, such as joint donor-partner country funding to programmes with benefits beyond their borders (vaccination programmes, green infrastructure, etc.); and exchanging knowledge and experience on poverty reduction.

What’s more, we need to look at the new and changing geography of poverty.

Only by looking at poverty in this new way will we have a chance of ending extreme poverty.

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