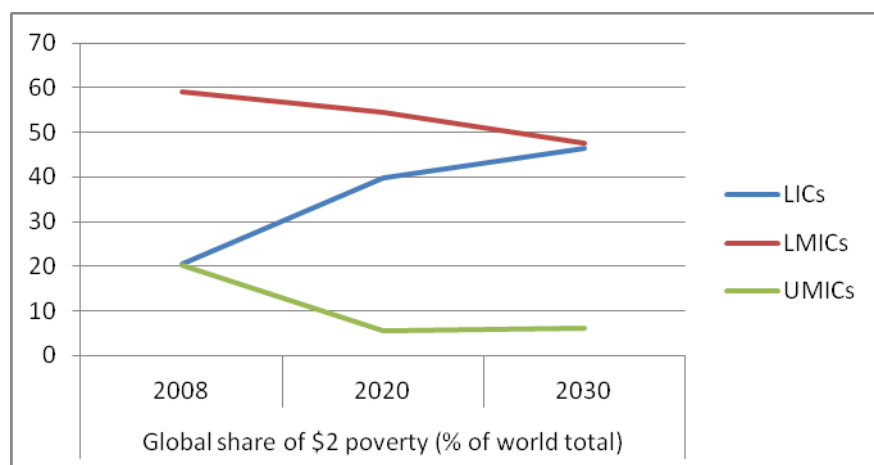


**WHERE WILL THE WORLD'S POOR LIVE?  
GLOBAL POVERTY PROJECTIONS FOR 2020 AND 2030 AND WHAT THEY MEAN FOR POST-2015**

### Summary

There's a 'double bottom billion' or 80 per cent of the world's \$2 poor (2 billion people) who live in middle-income countries (MICs). In contrast there are 500 million \$2 poor in low-income countries (LICs). Even with growth, world poverty is projected to remain split 50/50 between LICs and MICs until 2030. Given that some of today's LICs will be MICs by then, it is possible that as little as a third of the world's poor will be living in LICs in 2030. **The changing distribution of global poverty away from the poorest countries to MICs suggests that a new approach to understanding and tackling extreme poverty is required in the post-2015 discussion.**

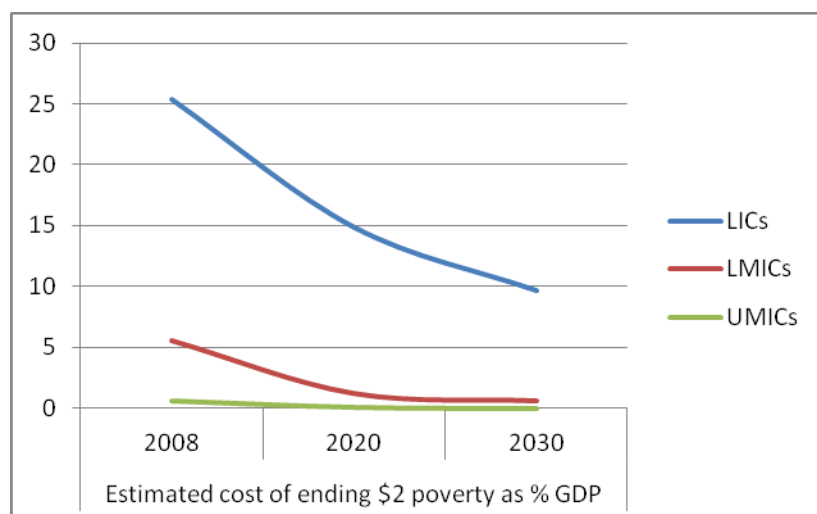
**Figure 1. Estimates of the distribution of world poverty, \$2/day, 2008, 2020 and 2030**



Source: Sumner (2012b) based on data from IMF (2012) and World Bank (2012a; 2012b).

Note: Based on moderate economic growth scenario. See Sumner (2012b) for high/low economic growth scenarios.

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



Source: Sumner (2012b) based on data from IMF (2012) and World Bank (2012a; 2012b).

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Note: Based on moderate economic growth scenario. Values expressed in constant US\$ 2005 PPP. See Sumner (2012b) for high/low economic growth scenarios and for further details.

### ***Where do the world's poor live?***

Updated estimates of global poverty based on the World Bank's 2012 *Povcal Net* dataset show that the majority of the world's poor live in MICs (see Figure 1). Half of the world's poor live in India and China (mainly in India); a quarter of the world's poor live in 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.

Most of the world's poor 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 per cent in 2008, while India's proportion of world poverty rose to 35 per cent, and sub-Saharan Africa's to 31 per cent.

The new estimates for global poverty in 2008 suggest that even more of the world's poor, by both \$1.25 and \$2 international poverty lines, live in middle-income countries. Similar patterns are evident by multi-dimensional poverty, malnutrition and ill-health (Sumner, 2010).

*The proportion of the world's \$1.25 and \$2 poor accounted for by MICs is respectively 74 per cent and 79 per cent.*

Indeed, closer analysis suggests a 'double bottom billion' of poor people in MICs – this means a 'bottom billion' living on under \$1.25/day and a further billion poor people living on between \$1.25 and \$2/day per capita. This compares with about 300 million poor people living on under \$1.25 and a further 200 million living on between \$1.25 and \$2/day in LICs.

### ***Is middle-income poverty transitory?***

Some argue that there is no need to be concerned with poverty in MICs because economic growth is likely to bring an end to middle-income poverty in the near future. The ODI-Brookings (2012) *Horizon 2025* report suggests that by 2025, poverty will be concentrated in low-income fragile states and that middle-income poverty is transitory. This is based on an optimistic projection that \$2 poverty in many MICs will be largely eliminated due to economic growth in those countries. For example, they argue that all \$2/day poverty will be eradicated by 2015/6 in India, Pakistan and Indonesia. Some LICs will also be MICs by 2025 and fragility has been little barrier to economic growth in a number of countries.

Yet growth may not be enough. This will be particularly likely if the poor in MICs are disconnected from a country's economic prosperity due to spatial inequality or remoteness or live in fragile provinces of otherwise stable countries - half of India's poor live in states with a significant number of deaths from Naxalite-related conflict (Sumner, 2012a). The world's poor may also remain relatively voiceless in domestic governance structures and discriminated against in public services and public spending allocations regionally and may also suffer as a result of intra-country migration being hindered or constrained by cost and administrative regulations.

### ***Where will the world's poor live in 2020 and 2030?***

One way to explore the question of whether middle-income poverty will be easily addressed in the future by economic growth is to generate not just one optimistic scenario but a range of economic growth scenarios using the IMF World Economic Outlook growth projections at various levels (optimistic, moderate and pessimistic growth scenarios). This approach is likely to overstate poverty reduction in fast-growing economies such as MICs by assuming static inequality over time as inequality often rises during fast economic growth. However, the data suggest that the remaining \$1.25 and \$2 poverty in those countries that are currently MICs will still equate to about half of all world poverty in 2020 and in 2030.

Furthermore, given that some countries that are currently LICs will move into the MIC category by 2020 or by 2030, this suggests the structure of world poverty will remain split between LICs and MICs for some time yet. It is also possible that

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only one-third of the world's poor will be in the remaining 20 or so LICs in 2030 (on the moderate growth scenario). And if inequality does rise these projections may understate the proportion of world poverty in MICs in 2020 and 2030.

### ***How much will it cost to end poverty?***

The good news is that as countries get richer the cost of poverty as a proportion of GDP should fall. In fact the cost to end poverty as a percentage of GDP in the foreseeable future will be minimal for those countries that are already MICs (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 per cent of GDP in 2020 and at a similar level to end \$2 poverty by 2030. However, the estimated cost of ending \$1.25 poverty in those countries that are currently LICs may remain high even in 2020 and 2030. This suggests that for a relatively small number of countries (20 or so on the moderate growth scenario), external support for poverty reduction will remain absolutely essential. However, the cost of ending poverty in those countries that are currently upper MICs is already negligible. One take on this is that global poverty is increasingly becoming about a matter of domestic inequality, and thus governance and taxation rather than a matter of aid.

### ***Why does it matter if the world's poor live in middle-income countries?***

Such patterns matter beyond the thresholds for LICs and MICs 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 increased domestic resources available for poverty reduction. Further, the changing distribution of global poverty away from the poorest countries, suggests a 'poverty paradox' – that most of the world's extreme poor do not live in the world's poorest countries. One interpretation of this 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. This implies a reframing of the global poverty 'problem' that policy seeks to address so that the responses to poverty are increasingly recognised as related to national inequality in terms of geography, class and ethnicity and who pays tax and who benefits from public spending and the opportunities arising from economic growth.

### ***Policy recommendations for post-2015 discussion***

The changing distribution of global poverty away from the poorest countries to MICs suggests that a new approach to understanding and tackling extreme poverty is required in the post-2015 discussion. MICs will need and want "traditional aid" less and less as domestic resources expand. However, concessional loans will still be useful even if grants are less appropriate given expanding resources. Policymakers in donor countries and MICs could work together by doing five things:

1. Developing a new joint focus on the chronic, long-term poor wherever they live and a new joint priority of ensuring the benefits of growth and public spending are equitably distributed;
2. Focusing new joint resources to support the building of domestic taxation systems, and the regulation of tax havens and untaxed capital flight from MICs;
3. Supporting inclusive policy processes with the poor by donor-government joint working with civil society in MICs;
4. Co-financing global public goods including knowledge transfer on public policy between MICs and LICs;
5. Ensuring coherence across donors development policies in trade, migration and so forth.

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