



## A New Profile of the Global Poor



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### SUMMARY

This paper presents a new demographic profile of extreme and moderate poverty, defined as those living on less than \$1.90 and between \$1.90 and \$3.10 per day in 2013, based on household survey data from 89 developing countries. The face of poverty is primarily rural and young; 80% of the extreme poor and 75% of the moderate poor live in rural areas. Over 45% of the extreme poor are children younger than 15 years old, and nearly 60% of the extreme poor live in households with three or more children. Gender differences in poverty rates are muted, and there is scant evidence of gender inequality in poor children's educational attainment. A sizable share of the extreme and moderate poor, 40 and 50%, respectively, have completed primary school. Compared with the extreme poor, the moderate poor are significantly more likely to have completed primary school and are less likely to work in agriculture. After conditioning on other individual and household characteristics, having fewer than three children, having greater educational attainment, and living in an urban area are strongly and positively associated with welfare. The results reinforce the central importance of households in rural areas and those containing large numbers of children in efforts to reduce extreme poverty, and are consistent with increased educational attainment and urbanization hastening poverty reduction.

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### 1. Introduction

The world has made remarkable progress during the past two decades in raising the living standards of the poorest. According to the World Bank's PovcalNet database, approximately two billion people, or 37% of the global population, lived on less than the current international poverty line of \$1.90 a day in 1990. By 2013, the year for which the latest global poverty estimates are available, the number of extremely poor persons had fallen by over 60%, to 766 million people. During the same period, the proportion of the global population living in extreme poverty fell even faster, from 37 to 11%. The Millennium Development Goal of halving extreme poverty in developing countries during 1990–2015 was met in 2010, five years ahead of time.

Despite these impressive achievements, the latest World Bank estimate is that 770 million persons remained in extreme poverty as of 2013, a figure in the ballpark of the combined population of the European Union and the United States. Eradicating extreme poverty is a critical priority of the international development community. Ending poverty in all its forms is the first of the 17 Sustainable Development Goals adopted by the United Nations, and the World Bank has set an ambitious goal of reducing the rate of extreme poverty to 3% by 2030.

Achieving this goal poses a formidable challenge. Economic growth is a key driver for poverty reduction, but several studies conclude that maintaining the pace of economic growth of the recent past will not be sufficient to meet the target.<sup>1</sup> For example, based on current projections of GDP growth from 2005 to 2015, global poverty is projected to be 4.2% by 2030, falling shy of the World Bank's goal by over a percentage point (Ferreira et al., 2015). Global growth has slowed in recent years, and it is far from clear that the high rates of economic growth observed in the developing world during the past decade can be sustained for the next 15 years. Therefore, the pace of poverty reduction depends critically on engendering growth that reflects broadly shared prosperity and improves the living standards of the poorest. Evidence on where the extreme poor live, in which sectors they work, their demographic characteristics, and how they differ from the non-poor can help inform the strategies of country governments, multilateral development organizations and non-government organizations committed to reducing extreme poverty.

Serious knowledge gaps remain, however, about the characteristics of the extreme poor in the developing world, mainly due to

<sup>1</sup> Ferreira et al. (2015), Jolliffe (2015), WDI (2016), Yoshida, Uematsu, and Sobrado (2014).

the lack of globally harmonized household survey data. Country-specific poverty profiles are valuable inputs into national poverty reduction strategies, but are not internationally comparable because each country adopts a unique national poverty line. Studies that combine data from multiple countries therefore convert welfare to a common currency using Purchasing Power Parity (PPP) exchange rates, which despite their many conceptual and practical shortcomings remain the consensus method to compare welfare across countries.<sup>2</sup> Cross-country studies based on PPP exchange rates, however, often have limited geographic coverage. Banerjee and Duflo (2007), for example, provide an extensive analysis of the poor's economic behavior, including levels of saving, and investment in education and health, based on data for 13 low- and middle-income countries. Olinto, Beegle, Sobrado, and Uemastu (2013) provide a preliminary analysis of the characteristics of the poor using a much more comprehensive sample, based on household data from 73 low- and middle-income countries in the 2000s. That analysis primarily focused on analyzing historical trends in poverty at the country level, however, and only scratched the surface by profiling a few key characteristics of the poor.<sup>3</sup>

Furthermore, little is known about those living just above the extreme poverty line, who account for a considerable share of the population. In the 89 countries considered in this study, 20%, or around a billion people, are estimated to live on more than the extreme poverty line of \$1.90 per person per day (in 2011 PPP terms) but less than \$3.10 per day in 2013. Better understanding the characteristics of this group, which we term the “moderate poor”, is important because many of them are materially deprived and considered poor by national standards. Identifying the characteristics that distinguish the moderate poor from the extreme poor may also provide a measure of insight into key factors that drive reductions in extreme poverty.

This paper presents a comprehensive demographic profile of the extreme and moderate poor by age, gender, household composition, educational attainment, urban/rural residence, and employment in the agricultural sector. The profile draws on the richest and most updated collection of household survey data on poverty assembled to date—the Global Micro Database (GMD). From this database, surveys were pooled across 89 countries, each collected since 2009. The results are based on the same welfare aggregates that are used to compute the regional and global poverty estimates published by the World Bank, which are often used by the countries themselves to estimate national poverty.<sup>4</sup> This paper is also the first to compare the extreme poor and moderate poor for a large number of countries, and to document patterns of missing data in this type of global analysis. The analysis “lines up” survey-based poverty estimates to a common year, 2013, and shows that this procedure has mild impacts on the profile of the poor.

There are five main findings. First, the poor tend to be rural and young, slightly more so than reported into Olinto et al. (2013).<sup>5</sup> About 80% of the extreme poor and 76% of the moderate poor live in areas classified, according to national definitions, as rural. These shares are likely overestimated, because in many

cases the welfare aggregates have not been adjusted to account for the lower cost of living in rural areas. Data from South Asia, however, suggest that the magnitude of this rural bias is modest.<sup>6</sup> With respect to age, nearly 45% of the extreme poor are children under 15 years old, and over 60% of the extreme poor live in households with three or more children. Second, gender differences in poverty rates are muted. This is because poverty status is identified at the household level, whereas gender disparities are most apparent in individual-level indicators such as education, autonomy in decision making and labor market outcomes. Third, a primary school education is not sufficient to exit poverty. A sizeable minority of the extreme poor—about 39%—graduated primary school, and over a quarter of those who completed primary school but not secondary school live on less than \$3.10 per day. Fourth, the moderate poor, despite having similar profiles in terms of age and household composition, are considerably better educated and are less likely to work in the agriculture sector than the extreme poor. Finally, when conditioning on other observed characteristics, having two or fewer children, completing secondary education, and living in an urban area are strongly and positively associated with economic welfare within countries.

Taken together, these findings emphasize the central importance of policies and programs that benefit households in rural areas and those with large numbers of children in reducing extreme poverty. This includes not only direct support, but also efforts to reduce the future prevalence of these types of households, such as speeding the demographic transition by increasing female education levels. The results also suggest that continued improvement in educational attainment and quality, as well as more rapid urbanization and increased non-agricultural employment, can further hasten movement from extreme to moderate poverty.

The rest of this paper is organized as follows. Section 2 describes the data and the methodology used to harmonize and calculate poverty estimates across different national surveys. Section 3 reports and analyzes the demographic profiles of the poor in comparison with those of the non-poor. Section 4 considers the robustness of key results to alternative line-up methods, spatial deflation, and varying samples due to missing data. Section 5 concludes.

## 2. Data and methodology

### (a) Data

The World Bank's procedure for estimating global poverty rates is an extraordinarily data-intensive exercise. Global poverty estimates are derived from a collection of nationally representative survey data on household welfare—either income or consumption per capita—from 142 economies in the developing world. This collection of survey data is then combined with complementary data on population, inflation, real economic growth, and Purchasing Power Parity (PPP) exchange rates.

Estimating poverty rates for different types of households require additional data on individual characteristics, comparable across countries and regions, from the same household surveys used to calculate poverty. Poverty profiles typically utilize a set of variables that are relatively straightforward to obtain such as age, gender, education, and sector of work. Compiling these variables from diverse household surveys, which differ in the quality of their data and the nature of the questionnaires, and harmonizing variable names and codes across surveys, is a major undertaking. These heavy data requirements are the main reason why only a

<sup>2</sup> See Deaton (2016) for a detailed discussion of the issues associated with using PPPs to make welfare measures comparable across countries.

<sup>3</sup> In addition, as discussed below, the welfare aggregates used to profile the poor in that study were not the same ones that were used to construct the World Bank's official poverty estimates.

<sup>4</sup> Countries in Europe and Central Asia and Latin America and the Caribbean are exceptions, where the income aggregate used for global poverty monitoring has been standardized across the region and may differ from the aggregates used for national poverty estimates. In other regions, the welfare aggregates used are not consistent across countries and vary for example in their treatment of housing and health expenditures, as well as their use of spatial deflators as discussed below.

<sup>5</sup> That study, using a sample of surveys from 2000 to 2009, reports that 78% of the extreme poor live in rural areas and that 33% are under the age of 12.

<sup>6</sup> See Section 3.7 below.

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