

# 2020 FOCUS BRIEF on the World's Poor and Hungry People

October 2007



## THE CHANGING PROFILE OF POVERTY IN THE WORLD

Shaohua Chen and Martin Ravallion

Assessing the world's progress against poverty calls for frequent and careful measurements, using household surveys and price data. Fortunately, the task of measuring poverty is becoming easier, and the results are probably getting more accurate over time. The best data for assessing progress against poverty come from surveys of the living standards of nationally representative samples of households. In the past 25 years there has been enormous progress in designing, implementing, and processing such surveys for developing countries, thanks in large part to the efforts of national statistics agencies throughout the world and the support of the donor community and international development agencies. These data provide key information about global and regional progress in alleviating poverty. Moreover, new data on poverty in rural versus urban areas offer empirical evidence on how rapidly poverty is urbanizing in the developing world (see Box 1).

### Some Signs of Progress in Reducing Global Poverty

In absolute terms, the number of people in the developing world living on less than US\$1 a day fell from slightly less than 1.5 billion in 1981 to 970 million in 2004, which marks the first time the poverty count has gone below 1 billion (Figure 1a). The choice of poverty line, however, matters. The number living on less than US\$2 a day actually rose by about 100 million over this period, to 2.5 billion in 2004.

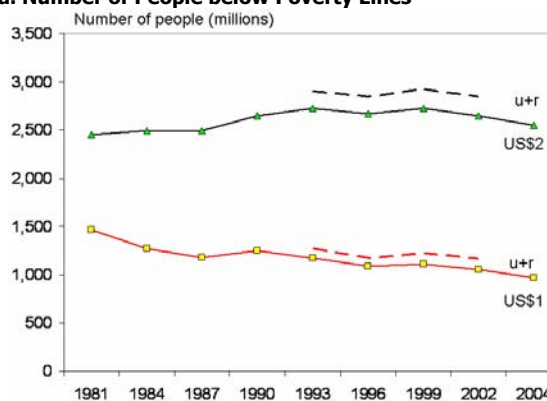
As a share of the population, global US\$1-a-day poverty fell from 40 percent in 1981 to 18 percent in 2004, and US\$2-a-day poverty fell from 67 percent in 1981 to 48 percent in 2004 (Figure 1b). For both poverty lines, the trend of poverty reduction is about 0.8 percentage points per year over 1981–2004. This rate exceeds the rate of poverty reduction of 0.6 percentage points per year that would be required to halve the 1990 US\$1-a-day poverty rate by 2015—the first of the Millennium Development Goals (MDG1). So, in the aggregate, the world is on track to achieve MDG1.

But there is no reason for complacency. These results point to three important implications. First, even achieving MDG1 will leave a great many very poor people. Poverty reduction over 1981–2004 resulted in a yearly decrease of about 17 million people living on less than US\$1 a day. At this rate of decline, by 2015, even though the 1990 poverty rate will have been halved, more than 800 million people

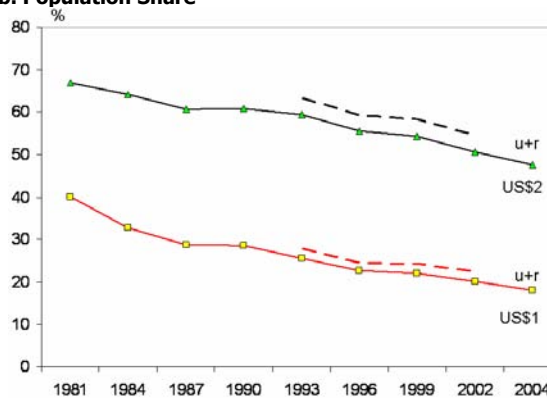
will still live on less than US\$1 a day. Even factoring in the prospects for more rapid growth in some developing countries, there will still be more than 700 million people living on less than US\$1 a day in 2015.

**Figure 1—Poverty Measures over Time, 1981–2004**

#### a. Number of People below Poverty Lines



#### b. Population Share



Source: S. Chen and M. Ravallion, "Absolute Poverty Measures for the Developing World, 1981–2004," Policy Research Working Paper 4211 (Washington, DC: World Bank, 2007).

Note: The series labeled "u+r" incorporates the urban–rural poverty line differential.

Second, progress has been slower in reducing US\$2-a-day poverty. The number of people living below the US\$2 line actually rose over most of the period 1981–2004, falling briefly in the mid-1990s and since the end of the 1990s. A linear projection forward to 2015 results in about 2.8 billion people living on less than US\$2 a day (and about 2 billion living on between US\$1 and US\$2). The population share for this line would be about 40 percent in 2015, well short of the 30 percent figure needed to halve the 1990 index. One should be wary of such

linear projections. There are signs that the number of people living on less than US\$2 a day has been falling since about 2000, but it is too early to call this trend a sustained reversal.

#### **Box 1—Measuring Poverty**

For the poverty data given in this brief, household survey data were used to estimate a time series of measures of absolute poverty for the developing world, and for individual regions, at roughly three-year intervals from 1981 to 2004. The data come from more than 500 household surveys spanning 100 countries.

The World Bank's "global" poverty measures have been based mainly on an international poverty line of about US\$1 a day—or more precisely, US\$1.08 a day and US\$32.74 a month at 1993 purchasing power parity (PPP). This conservative definition of "poverty" is anchored to the poverty lines typical of low-income countries. A line set at US\$2 a day (actually, US\$2.15) is often used and is more representative of what "poverty" means in middle-income countries. These international poverty lines were converted to local currencies using the World Bank's PPP exchange rates and updated over time using the best available consumer price index. The poverty lines were then applied to data on household consumption or income per person from the available household survey data to determine how many people in each country fall below the US\$1 and US\$2 lines.

A key issue is how to deal with the fact that the cost of living is generally higher in urban areas than in rural areas, owing mainly to higher food and housing costs. This difference is particularly important for comparing the prevalence of rural and urban poverty, and any assessment of the urbanization of poverty that ignored these cost of living differences would not be credible.

Existing PPP exchange rates used to convert the international poverty lines into local currencies do not distinguish rural from urban areas, so this information was drawn from the World Bank's country-specific poverty assessments (PAs), which have now been completed for most developing countries. These PAs, which describe the extent of poverty and its causes in each country, are the best available source of information on urban–rural differentials for setting international poverty lines. The US\$1 line was taken to be the rural poverty line. Data on the cost of living differences facing poor people were estimated from the World Bank PAs to obtain an urban poverty line for each country corresponding to its PPP-adjusted US\$1-a-day rural line. Thus, the first decomposition of the international US\$1-a-day poverty counts by urban and rural areas is now available.

It is clear, however, that projected success in achieving MDG1 depends critically on where the poverty line is drawn. The relatively slow progress in reducing US\$2-a-day poverty reflects, of course, the rising numbers of people living between US\$1 and US\$2. That is not too surprising—those escaping extreme poverty will not rapidly enter the global middle class. Yet the number of people living on more than US\$2 a day has expanded even more rapidly. The annual population growth rates for the three groups—those living on less than US\$1 a day, between US\$1 and US\$2, and more than US\$2—are –1.4 percent, 1.9 percent, and 3.5 percent, respectively.

Third, China naturally carries the largest weight in these calculations. The trend rates of decline in the population shares are roughly halved when one focuses on the developing world outside China. Excluding China, if the trend rate of decline over 1981–2004 in the population share for US\$1-a-day poverty continues until 2015, then the index will fall to 16 percent—more than half of its 1990 value. Similarly, when China is excluded, the number of people living on less than US\$1 a day is fairly static with no clear trend. Moreover, there is a trend increase in the number of people living on less than US\$2 a day in the developing world outside China over 1981–2004, though the number has been static since 1999. The aggregate pattern of population growth rates across the three "income" groups—less than US\$1, between US\$1 and US\$2, and more than US\$2—changes radically when China is excluded. In that case, annual growth rates are 0.1 percent, 2.4 percent and 2.5 percent, respectively.

#### **Mixed Regional Results in Reducing Poverty**

The geographic profile of poverty in the world is changing, owing to the striking differences in the evolution of the poverty measures across regions (Figure 2). The number of poor people fell sharply in East Asia (as measured by both poverty lines). Both the number and proportion of poor people generally rose in Eastern Europe and Central Asia until 2000, after which there was a marked decline. In Latin America the number of poor generally rose, with some reduction after 2000, but percentages fell. The Middle East and North Africa showed a declining trend in the number of people under the US\$1 line. In South Asia the percentage of poor people fell, but the number of poor living on less than US\$1 a day was fairly static, and the number living on less than US\$2 a day rose.

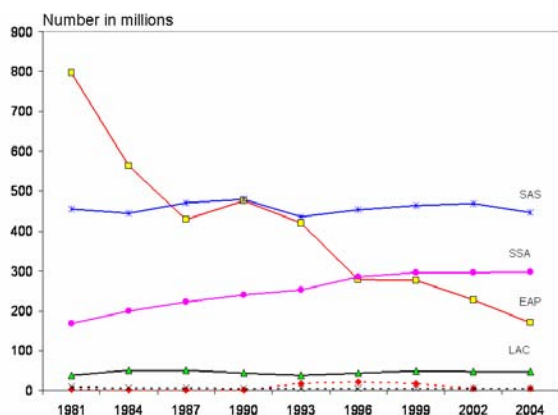
Poverty counts rose in Sub-Saharan Africa (SSA) for both poverty lines, although with encouraging signs of a reduction in the percentage below both lines after 2000, in keeping with other regions. The rate of decline of US\$1-a-day poverty in SSA was about 1 percentage point a year from 1999 to 2004. Using the US\$2 line, SSA still shows progress since the 1990s, although the rate of decline in the incidence of poverty lags behind the developing world as a whole.

The regional composition of poverty has thus changed dramatically. The decline in poverty between 1981 and 1984 was largely due to China, so this discussion will focus on the period 1984–2004. In 1984 the region with the highest share of the world's US\$1-a-day poor was East Asia, with 44 percent of the total. One-third of the world's poor were in China. By 2004 East Asia's share had fallen to 17 percent (13 percent for China). This drop was made up largely by the rise in the share of the poor in South Asia (from 35 percent in 1984 to 46 percent in 2004) and, most strikingly, Sub-Saharan Africa, whose share of the number of people living on less

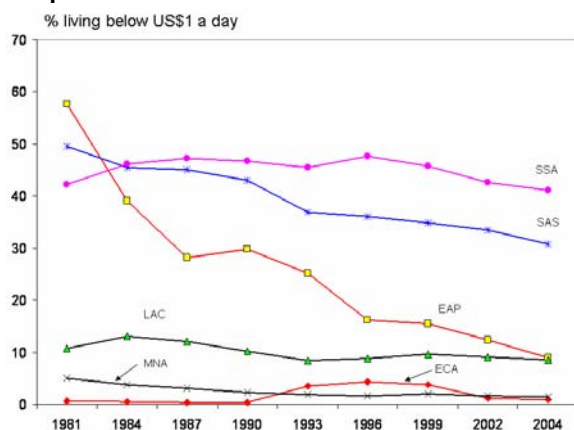
than US\$1 a day rose from 16 percent in 1984 to 31 percent 20 years later. Projecting these numbers forward to 2015, SSA's share of the US\$1-a-day poor will be almost 45 percent, higher than any other region.

**Figure 2—Poverty Measures by Region, 1981–2004**

**a. Number of People Living on Less Than US\$1 a Day**



**b. Population Share**



Source: Same as Figure 1.

Notes: LAC indicates Latin America and the Caribbean; ECA, Eastern Europe and Central Asia; SSA, Sub-Saharan Africa; SAS, South Asia; MNA, Middle East and North Africa; and EAP, East Asia and Pacific.

**New Light Shed on Urban and Rural Poverty**

The urban–rural profile of poverty in the world is also changing. There is a widespread perception that poverty is urbanizing rapidly in the developing world; indeed some observers believe that poverty is now mainly an urban problem, although, as we will see, this view is exaggerated.

The new data on the urbanization of poverty can be used to test three widely heard claims: (1) the incidence of absolute poverty tends to be lower in urban areas, (2) the urban share of the poor is rising over time, and (3) the poor are urbanizing faster than the population as a whole.

**Claim 1: Urban Poverty Rates Are Lower**

About three-quarters of the developing world’s poor still live in rural areas, even allowing for the higher cost of living facing the poor in urban areas. The

US\$1-a-day rural poverty rate of 30 percent in 2002 is more than double the urban rate (Table 1). Similarly, although 70 percent of the rural population lives on less than US\$2 a day, the proportion in urban areas is less than half that figure.

Changes in poverty differ markedly between urban and rural areas. The rural poverty rate fell much more than the urban rate. From 1993 to 2002, the number of US\$1-a-day poor fell by 106 million—the net effect of a decline of 153 million in the number of rural poor and an increase of 47 million in the number of urban poor. The lack of a trend in the urban poverty rate implies that the main proximate causes of the overall decline in the poverty rate are urban population growth and falling poverty incidence within rural areas. Of the 5.5 percentage point decline in the aggregate US\$1-a-day poverty rate between 1993 and 2002, 4.2 percentage points are attributed to lower rural poverty, 0.3 percentage points to lower urban poverty, and 1.0 percentage point to urbanization. In other words, three-quarters of the aggregate poverty reduction is attributable to falling poverty in rural areas, and one-fifth is attributable to urbanization.

**Claim 2: Poverty Is Becoming More Urban**

The share of the US\$1-a-day poor living in urban areas rose from 19 percent to 24 percent over 1993–2002 (whereas the urban share of the population as a whole rose from 38 percent to 42 percent over the same period). Even so, it will be many decades before a majority of the developing world’s poor live in urban areas. If poverty urbanizes in the future consistently with how it has urbanized in the past, less than 41 percent of the poor will live in urban areas by 2030 (even though the United Nations predicts that the urban population share of the developing world will reach 60 percent by then). Using the US\$2-a-day poverty line gives a slightly higher share of the poor living in urban areas, but this share has been rising at a slower pace than has the US\$1-a-day line. Since the late 1990s, the urbanization of poverty has decelerated. Claim 2 looks shaky for the US\$2-a-day poverty line.

**Claim 3: The Poor Are Urbanizing Faster**

The ratio of urban poverty incidence to total poverty incidence has also risen with urbanization, implying that the poor have been urbanizing slightly faster (in proportionate terms) than the population as a whole. The urban share of the US\$1-a-day poor rose at about 0.6 percentage points a year over 1993–2002.

By contrast, the population as a whole urbanized at a rate of about 0.5 percentage points a year over the same period. The urban share of the poor under the US\$2-a-day line has been rising at a slower pace than that under the US\$1 a day line. With the higher poverty line, the share of the poor in urban areas is rising at about 0.3 percentage points a year, suggesting that the data do not support claim 3 for the US\$2-a-day line.

**Table 1—Urban and Rural Poverty Measures, 1993 and 2002**

Poverty Line	Year	Number of Poor in Millions			Percent Below Poverty Line			Urban Share of the Poor (%)
		Urban	Rural	Total	Urban	Rural	Total	
US\$1 a day	1993	235.5	1,036.4	1,272.0	13.5	36.6	27.8	18.5
	2002	282.5	882.8	1,165.3	12.8	29.3	22.3	24.2
US\$2 a day	1993	683.2	2,214.7	2,897.8	39.1	78.2	63.3	23.6
	2002	745.9	2,097.3	2,843.2	33.7	69.7	54.4	26.2

Source: M. Ravallion, S. Chen, and P. Sangraula, "New Evidence on the Urbanization of Global Poverty," Policy Research Working Paper 4199 (Washington, DC: World Bank, 2007).

## Conclusion

The data presented here show that the world is on track to meet MDG1. Even so, roughly 700–800 million poor people will remain mired in extreme poverty in 2015 if current trends continue.

The profile of global poverty is changing, both regionally and between urban and rural areas. The dramatic fall in poverty numbers in East Asia has come with much slower progress in South Asia and especially Sub-Saharan Africa, which is clearly not going to achieve MDG1. Meeting that goal would require a dramatic increase in Africa's rate of progress against poverty.

Poverty is also becoming more urban. Indeed, the poor are urbanizing faster than the population as a whole. Even so, about three-quarters of the developing world's poor live in rural areas. Looking forward, the recent pace of urbanization and current forecasts for urban population growth imply that a majority of the world's poor will still live in rural areas for many decades to come.

Changes in the urban–rural profile of poverty show marked regional differences. Latin America has the most urbanized poverty problem, whereas East

Asia has the least. And there has been a ruralization of poverty in Eastern Europe and Central Asia. In marked contrast to other regions, Africa's urbanization process has not been associated with falling overall poverty.

To some observers, the urbanization of the developing world's population is the unwelcome forbearer of new poverty problems, with urban slums blossoming in congested cities. Others see urbanization as a positive force for development, as the economy gradually shifts out of agriculture to more remunerative activities.

There is no denying that new urban problems can emerge in poor and rapidly urbanizing countries. The experiences of countries over time, however, are generally consistent with the view that a rising share of the population living in urban areas plays a positive role in overall poverty reduction, largely through the higher economic growth associated with more rapid urbanization.

**For Further Reading:** S. Chen and M. Ravallion, "How Have the World's Poorest Fared Since the Early 1980s?" *World Bank Research Observer* (Vol. 19, No. 2, 2004).

**Shaohua Chen** (schen@worldbank.org) is a senior statistician in the Development Economics Research Group of the World Bank; **Martin Ravallion** (mravallion@worldbank.org) is director of the World Bank's Development Research Group. This brief draws on S. Chen and M. Ravallion, "Absolute Poverty Measures for the Developing World, 1981–2004," Policy Research Working Paper 4211 (Washington, DC: World Bank, 2007); and M. Ravallion, S. Chen, and P. Sangraula, "New Evidence on the Urbanization of Global Poverty," Policy Research Working Paper 4199 (Washington, DC: World Bank, 2007).

Suggested citation: Shaohua Chen and Martin Ravallion. 2007. The Changing Profile of Poverty in the World. 2020 Focus Brief on the World's Poor and Hungry People. Washington, DC: IFPRI.

The views expressed in this brief are those of the author(s) and are not necessarily endorsed by or representative of IFPRI, or of the cosponsoring or supporting organizations.

This brief was prepared for a policy consultation process coordinated by IFPRI and focused on the World's Poor and Hungry People. IFPRI gratefully acknowledges the contributions of: Asian Development Bank (ADB), Bill and Melinda Gates Foundation, Canadian International Development Agency (CIDA), Deutsche Welthungerhilfe (German Agro Action), European Commission, German Federal Ministry for Economic Co-operation and Development, with Deutsche Gesellschaft für Technische Zusammenarbeit (BMZ/GTZ), International Development Research Centre (IDRC) Canada, and Irish Aid.



**INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE**

2033 K Street, NW, Washington, DC 20006-1002 USA

**T: +1 202 862 5600 • F: +1 202 467 4439**  
**ifpri@cgiar.org • www.ifpri.org**



FOR FOOD, AGRICULTURE, AND THE ENVIRONMENT

Copyright © 2007 International Food Policy Research Institute. All rights reserved. Sections of this material may be reproduced for nonprofit use without written permission but with acknowledgment to IFPRI. For further information: ifpri-copyright@cgiar.org.