WORLD BANK GROUP

POVERTY AND SHARED PROSPERITY 2016

TAKING ON INEQUALITY

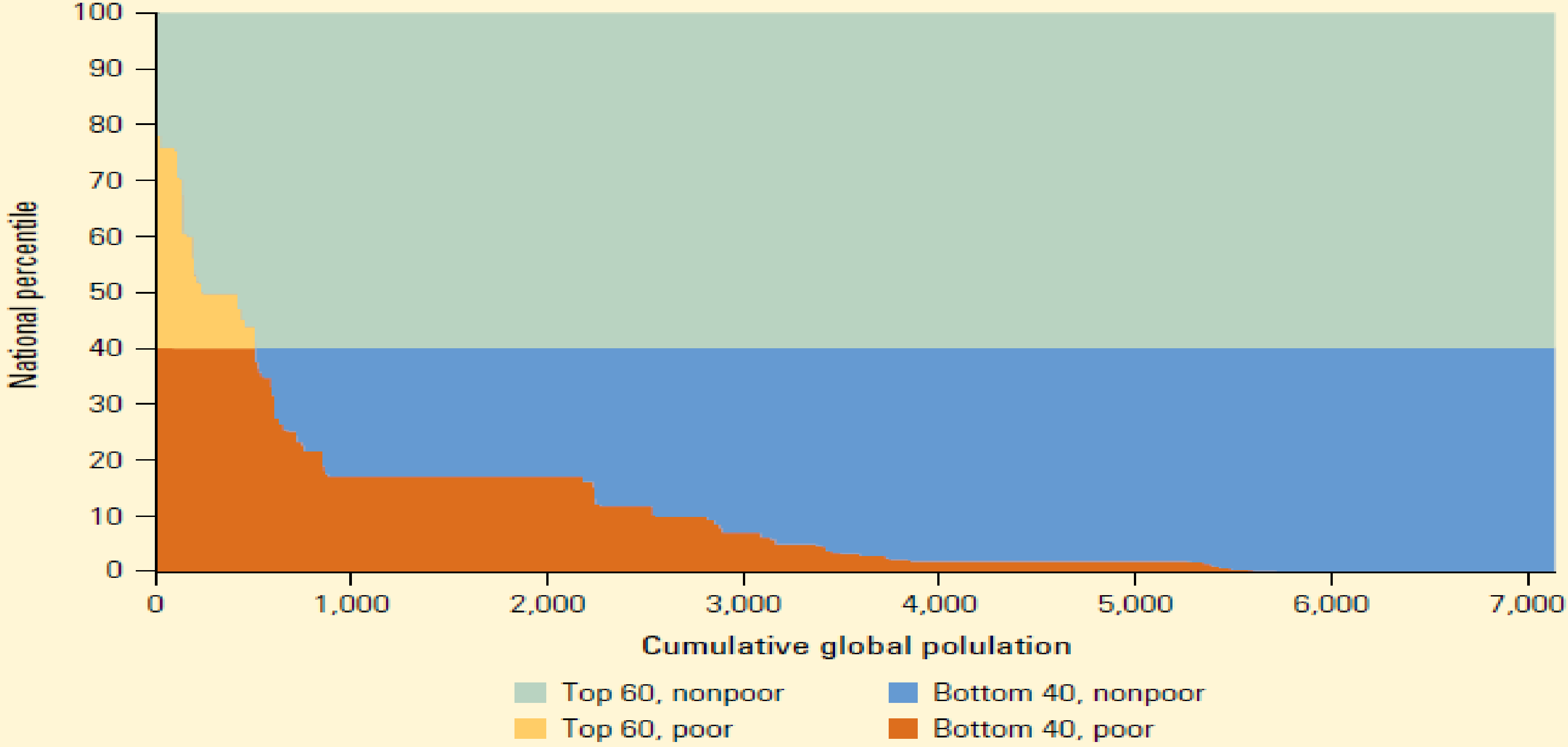
The World Bank's Twin Goals

Reduce extreme poverty to 3% or less of the global population by 2030

Boosting Shared Prosperity: promoting consumption/income growth of the bottom 40% in every country

…these two goals are complementary

Distribution of the Global Poor, Non-Poor, Bottom 40, and Top 60, 2013



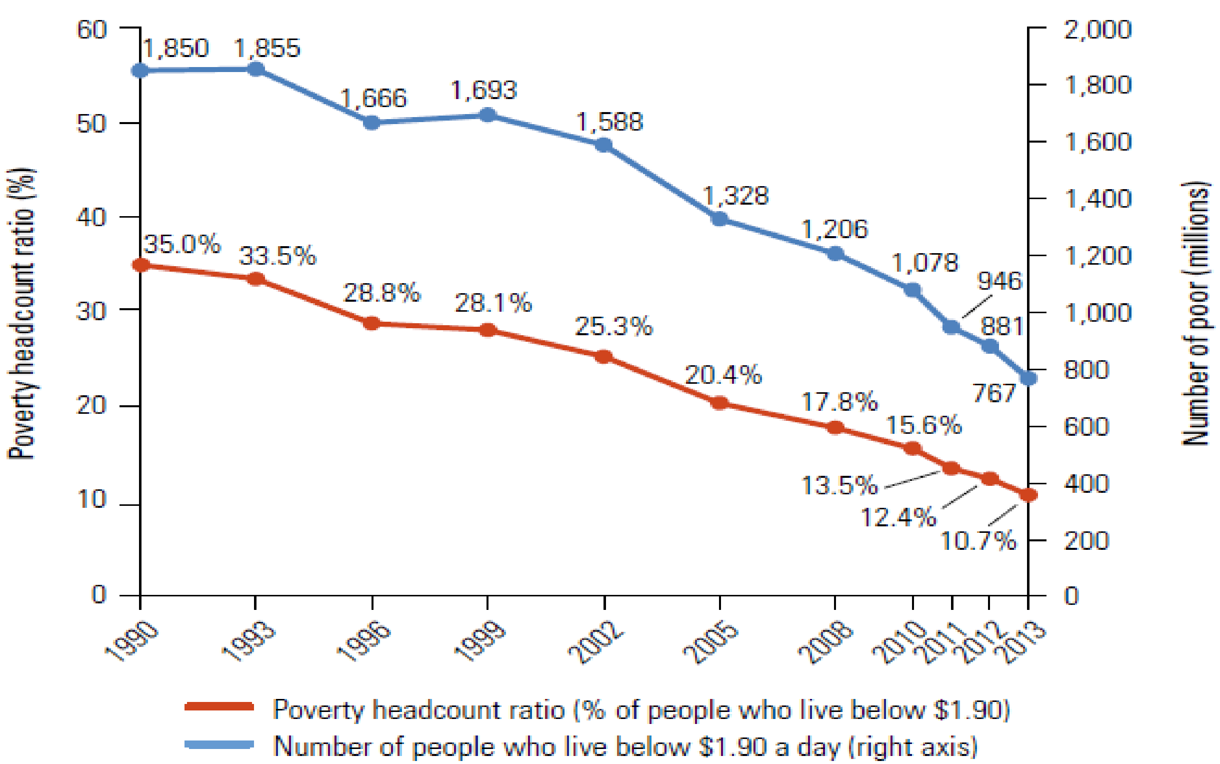
Source: Inspired by Beegle et al. 2014 and updated with 2013 data.
Note: The figure has been constructed from vertical bars representing countries sorted in descending order by extreme poverty headcount ratio (from left to right). The width of each bar reflects the size of the national population. The figure thus illustrates the situation across the total global population.

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.

Poverty declined worldwide over the last 30 years, driven by strong growth

Strong growth, global trade and the benefits of globalization improved welfare of the poor, especially by creating more and better jobs

Number and Share of people living below USD1.90/day, 1990-2013

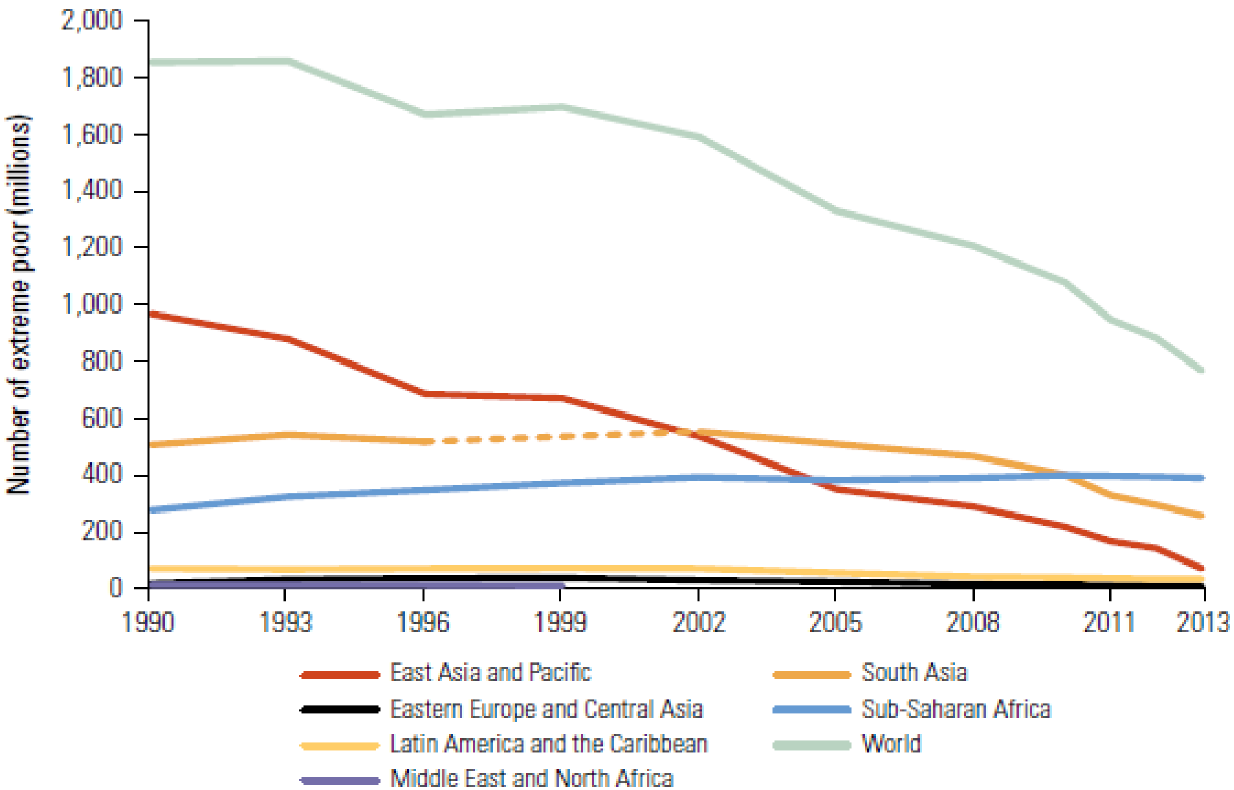


- 767 million people or 10.7% of the global population live on less than 1.90 USD/day
- 114 million fewer poor in 2013 compared to 2012 (1.7 percentage point decline)
- 1.1 billion fewer poor since 1990 in a world with 1.9 billion more people

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.

But progress was not uniform across the world, and much remains to be done especially in SSA and SA

Number of the extreme poor (million)
Regional and world trends, 1990-2013



- Broad-based declines but 767 million extreme poor is still a huge concern (very low living standards)
- East Asia and Pacific (China, Indonesia) and South Asia (India), main contributors to global reduction
- Half of the extreme poor live in Sub-Saharan Africa; 1/3 in South Asia

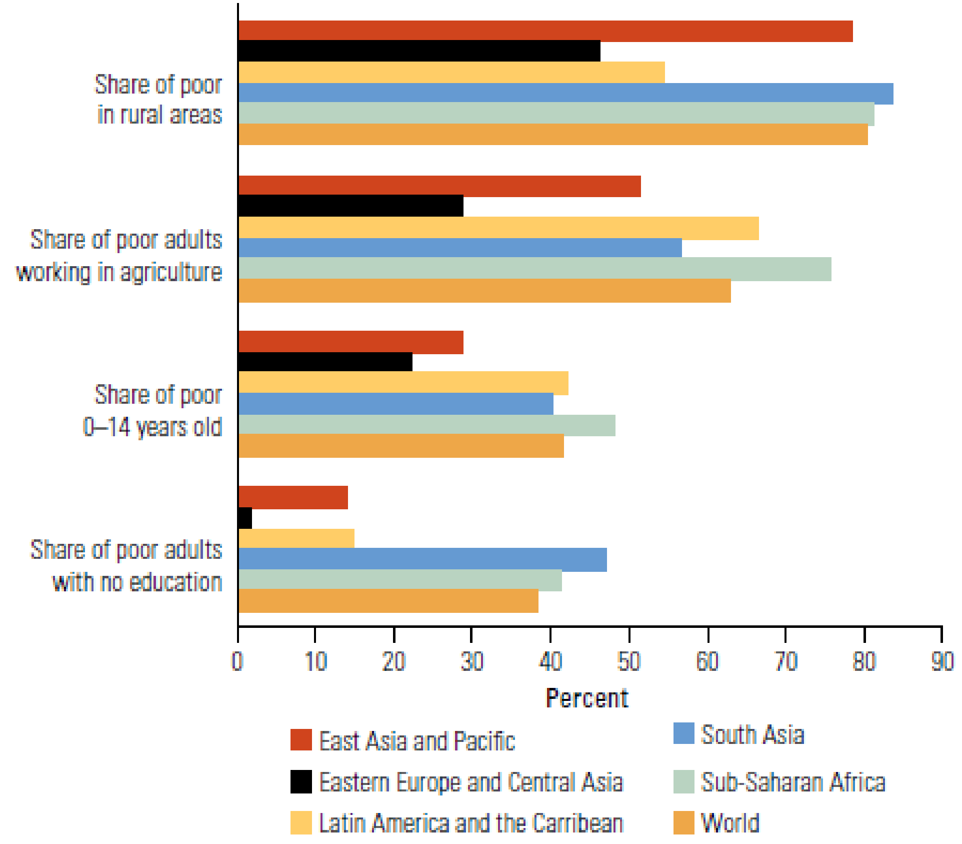
Source: Taking on Inequality (World Bank: Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.

Children, rural and uneducated people tend to be overrepresented among the poor

The Extreme Poor GLOBALLY

- 80% live in **rural areas**
- 2/3 work in **agriculture**
- Half are **children**
- Most have **little or no formal education**
- Yet, there are **regional** differences

Profile of the Poor, by characteristics and region, 2013

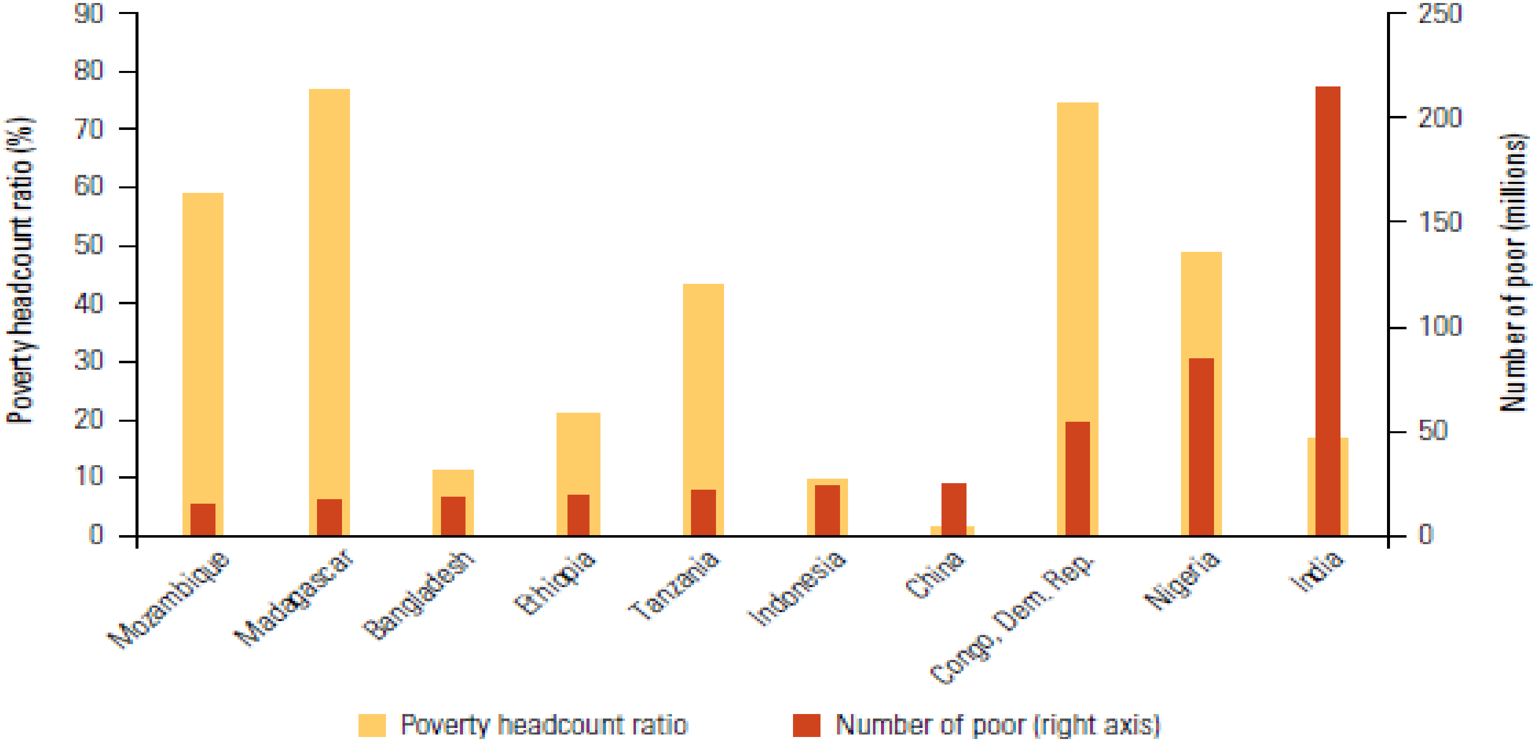


Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on Castaneda et al. 2016.

Global poverty is concentrated in a few countries

10 countries host ¾ of the total global poor

Number of the poor, Top 10 Countries, 2013



Source: Most recent estimates, based on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.
Note: Poverty is measured using the 2011 US$1.90-a-day PPP poverty line.

Source: Taking on Inequality (World Bank: Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.

There was progress, albeit uneven, in boosting shared prosperity

Good news

- Incomes of the poorest 40% grew in 60 out of 83 countries measured
- In 49 out of 83 countries the poorest 40% grew faster than the top 60%
- These 49 countries represent two-thirds of the world's population

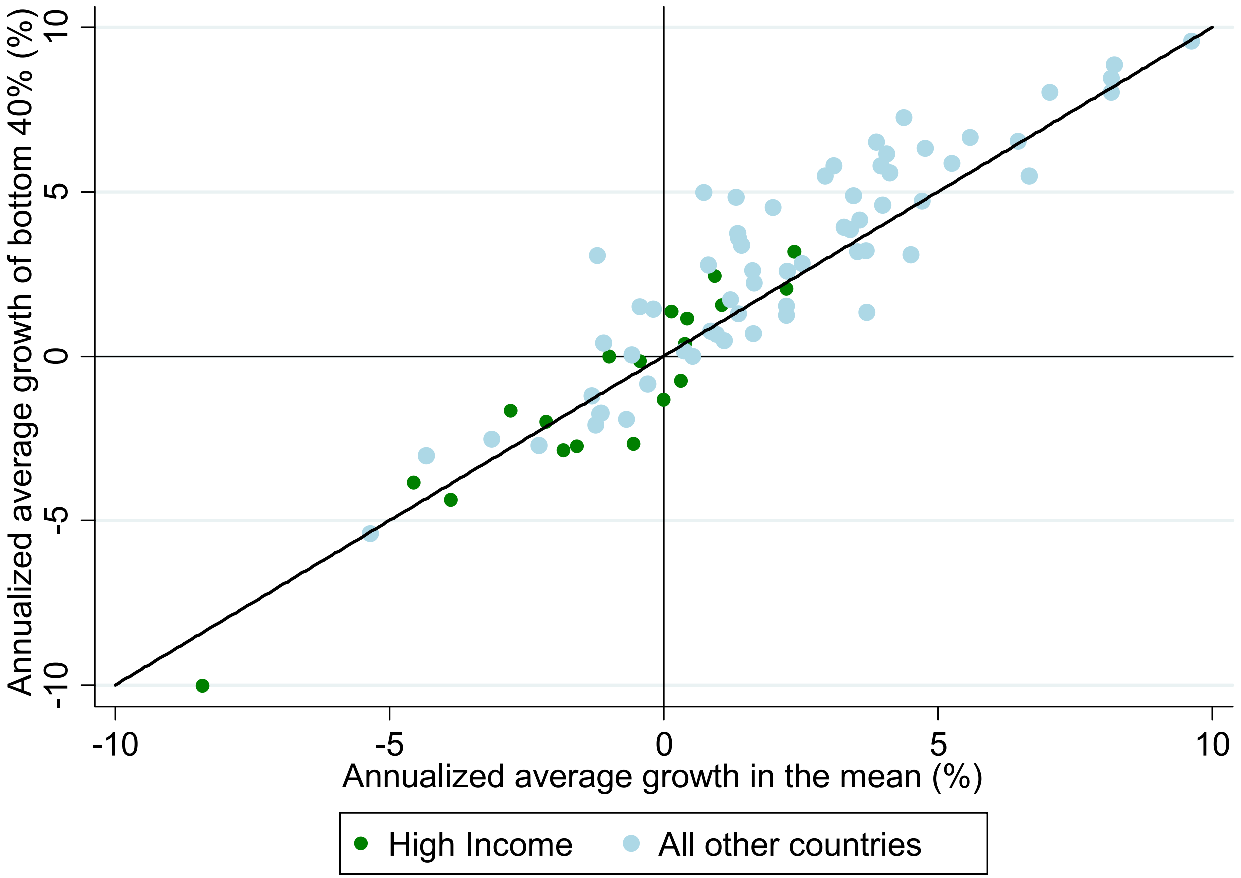
Not-so-good news

- There are large regional differences in shared prosperity (EAP, LCR did well; high income countries, ECA did not; SAR and SSA largely positive but data missing for many countries).
- In 34 countries, the gap widened between the richest 60% and the poorest 40%

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016).

Shared prosperity mostly positive in recent years, industrialized countries performing below average

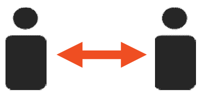
Bottom 40% growth vs. per capita growth, (2008-2013)



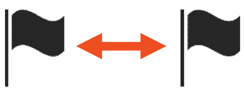
Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016).

Talking about inequality trends is more complex

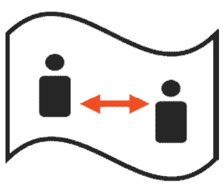
Three types of inequality



Between individuals (Global)



Between Countries

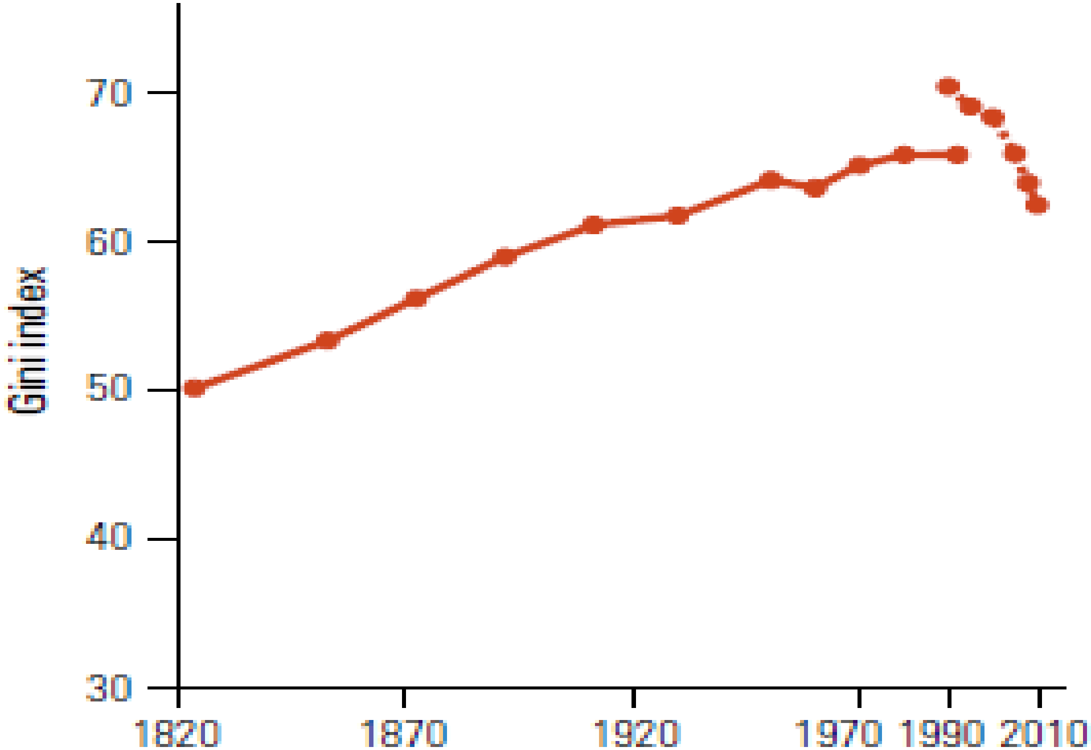


Within Countries

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016).

Global inequality has been declining since 1990, for the first time since the industrial revolution

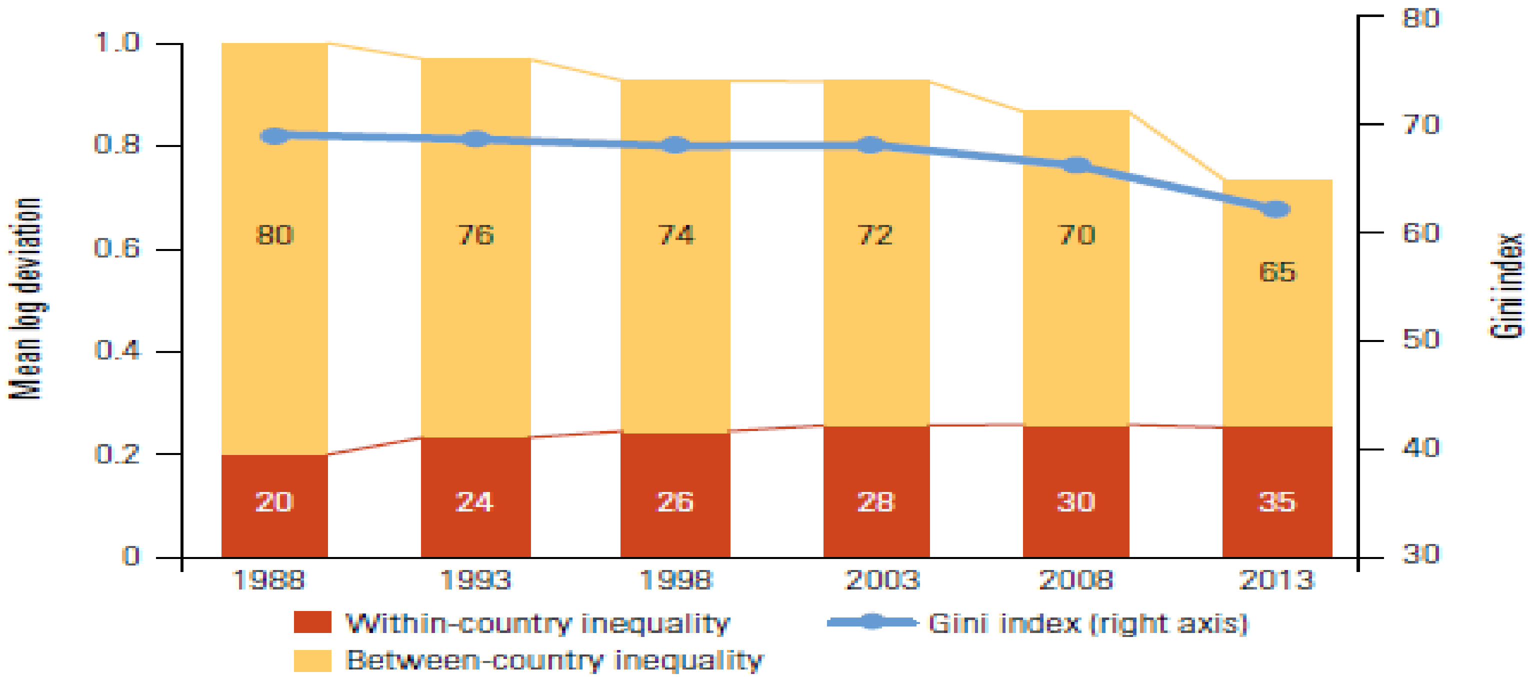
Global Income Inequality
Gini Index, 1820-2010



Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on Bourguignon, *The Globalization of Inequality*, 2015.
Note: The discontinuity in the series represents the change in the base year of the PPP exchange rates from 1990 to 2005. The figure uses GDP per capita in combination with distributional statistics from household surveys.

The decline in global inequality is largely due to declining inequality between countries

Global Inequality, 1988-2013

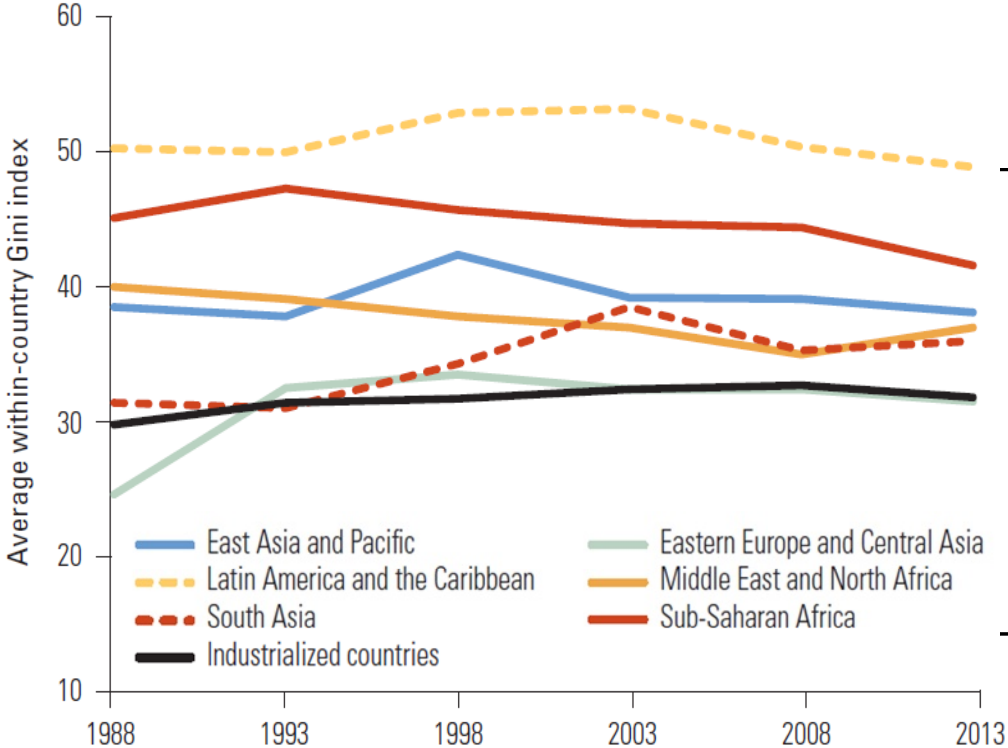


Note: For each country, household income or consumption per capita is obtained from household surveys and expressed in 2011 PPP exchange rates. Each country distribution is represented by 10 decile groups. The line (measured on the right axis) shows the level of the global Gini index. The height of the bars indicates the level of global inequality as measured by GE(0) (the mean log deviation). The red bars show the corresponding level of population-weighted inequality within countries. The level of between-country inequality, which captures differences in average income across countries, is shown by the yellow bars. The numbers in the bars refer to the relative contributions (in percent) of these two sources to total global inequality.

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on Lakner and Milanovic (2016); calculations based on PovcalNet.

Developing regions have higher levels of inequality, but reducing inequality is possible even during global crisis

Trends in the Average Gini, by Region 1988–2013



Change in Gini Index, 2008-2013

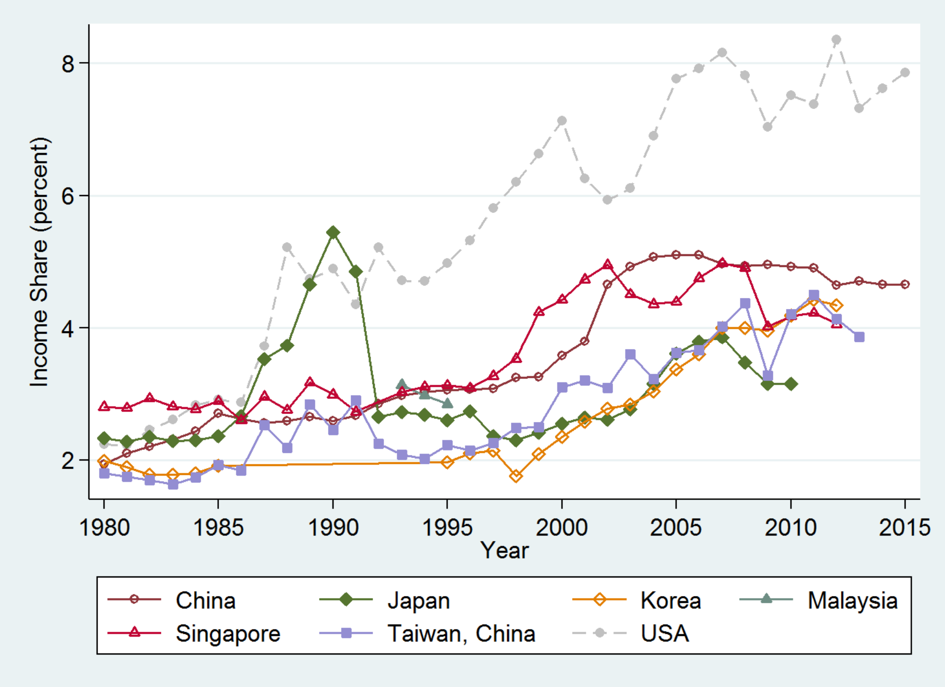
	Number of countries with			
	↑	+/-1pp	↓	Total
East Asia and Pacific	1	1	5	7
Eastern Europe and Central Asia	6	8	9	23
Latin America and Caribbean	3	2	12	17
Middle East and North Africa	0	1	1	2
South Asia	0	1	2	3
Sub-Saharan Africa	3	2	4	9
Industrialized Countries	6	6	8	20
World	19	21	41	81

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016); World Bank calculations based on data in Milanovic (2014); PovcalNet. *ote:* The lines show the average within-country Gini index by region. It is the simple average in the full sample without weighting countries by population. Industrialized countries are a subset of high-income countries. See chapter 2, annex 2B, for the list of industrialized countries.

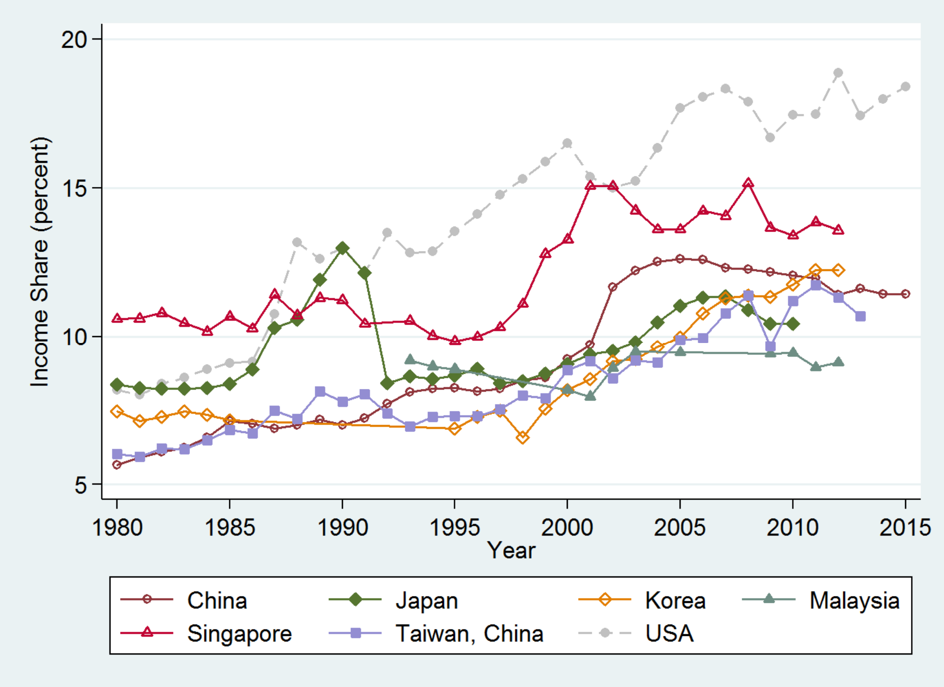
The share of income held by top incomes has increased in many countries

Income share of the

top 0.1%



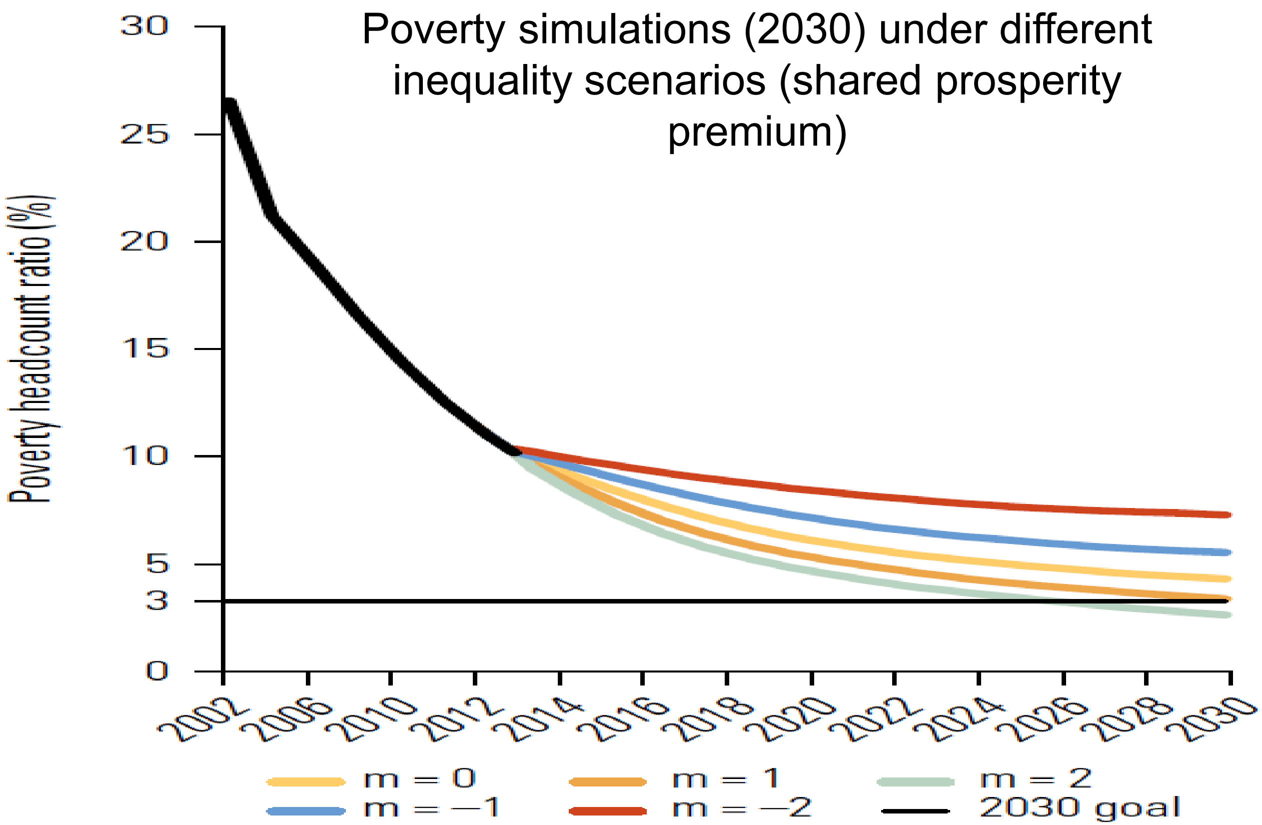
top 1%



Sources: World Wealth and Income Database, www.wid.world; Piketty and Saez (2003) updated.
Note: Capital gains not included as only available for US.

To end extreme poverty by 2030 we need to reduce income inequality at a faster pace

Simulations of poverty by 2030 under current global growth but different inequality scenarios indicate that reaching the 3% goal is only possible by boosting shared prosperity and reducing inequality…



Online tool available

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.

How to reduce inequality?
Country perspective: common elements

Lessons from country case studies reducing inequality, poverty, and strong SP premium and growth: Brazil, Cambodia, Mali, Peru, Tanzania

a. Context can vary: NO EXCUSE FOR NOT TACKLING INEQUALITY Inequality can be reduced in countries at different stages of development, pursuing different economic strategies, facing wide-ranging circumstances

b. But some factors are common to all: GOOD POLICY CHOICES

(i) Prudent macroeconomic management, ability to deal with external shocks, and protracted and coherent economic and social policies;

(ii) Translate economic growth into inequality reduction through labor markets (increasing job opportunities, reducing income gaps)

How to reduce inequality?
Country perspective: sustaining success

c. **Favorable external conditions help**: cheap and abundant credit, booming trade, high commodity prices plus favorable weather conditions

d. **But good luck is short lived and success under fire recently**: by unsound fiscal decisions (Brazil); conflict (Mali), low productivity (Peru); unfinished reforms (Tanzania)

How to reduce inequality?
Policy perspective

Report focuses on six policy areas

(with good evidence, significant impacts, and little equity-efficiency tradeoff)

early childhood development and nutrition
universal health care
quality education
conditional cash transfers
rural infrastructure investments
taxation

And some very simple lessons:

Raise productivity of the poor:

Invest in **children** *(ECD and quality education)*
Invest in **health** *(universal health care)*
Invest in **Infrastructure** *(rural roads, electrification)*
Make money work for the poor *(CTs and progressive taxation)*

Inclusive and well-functioning labor markets are crucial

Labor Market income

Assets: by helping the poor build up their assets (human, financial and physical capital, other assets).

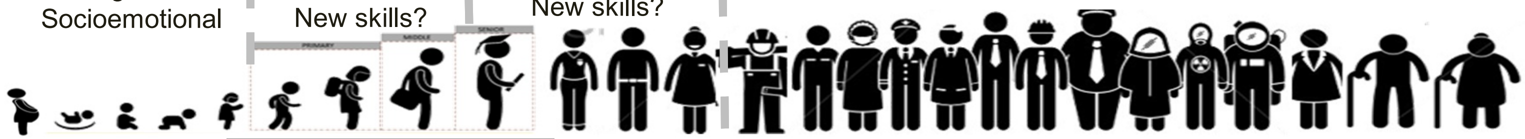
→ The stock of human capital is accumulated from early ages!

Labor markets participation and employment: by improving the quality of jobs being created; addressing the disincentives and barriers the poor may face in accessing jobs

Wages: by helping the poor obtain higher wages as they get access to better education and health, and better jobs

Skills - cumulative and shaped through the lifecycle

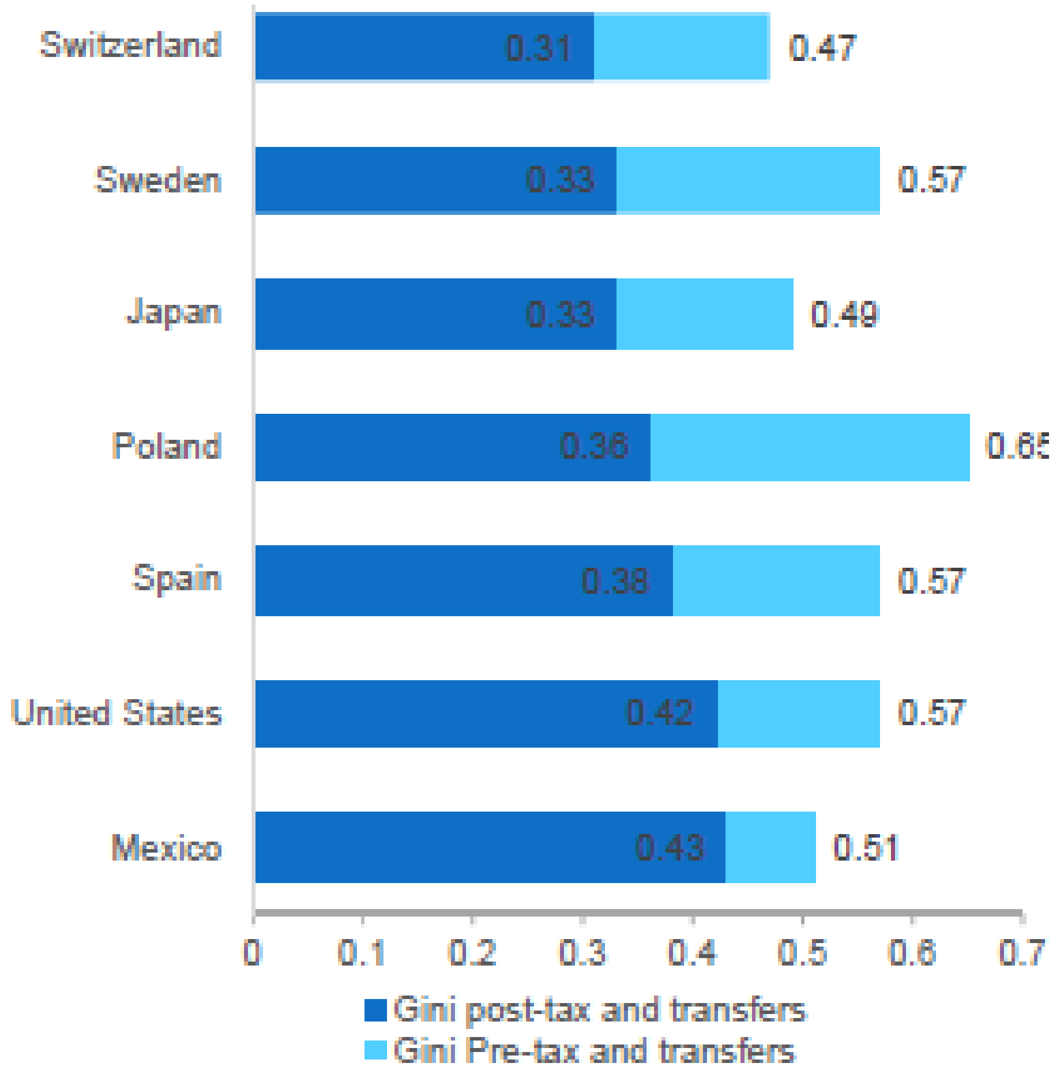
	Future Workforce			Current Workforce
What Skills?	Cognitive Socioemotional	Cognitive Socioemotional ICT New skills?	Technical Socioemotional Job-relevant ICT New skills?	Technical Socioemotional Job-relevant ICT Occupation-specific



For whom?	Infants	Children and youth	Young and mature adults
Intervention?	Education & Training		Short & Long Term Training
Goal?	Creativity, innovation, citizenship, employment…		Employment, firm productivity, technology diffusion…

Fiscal policy can greatly reduce market income inequalities

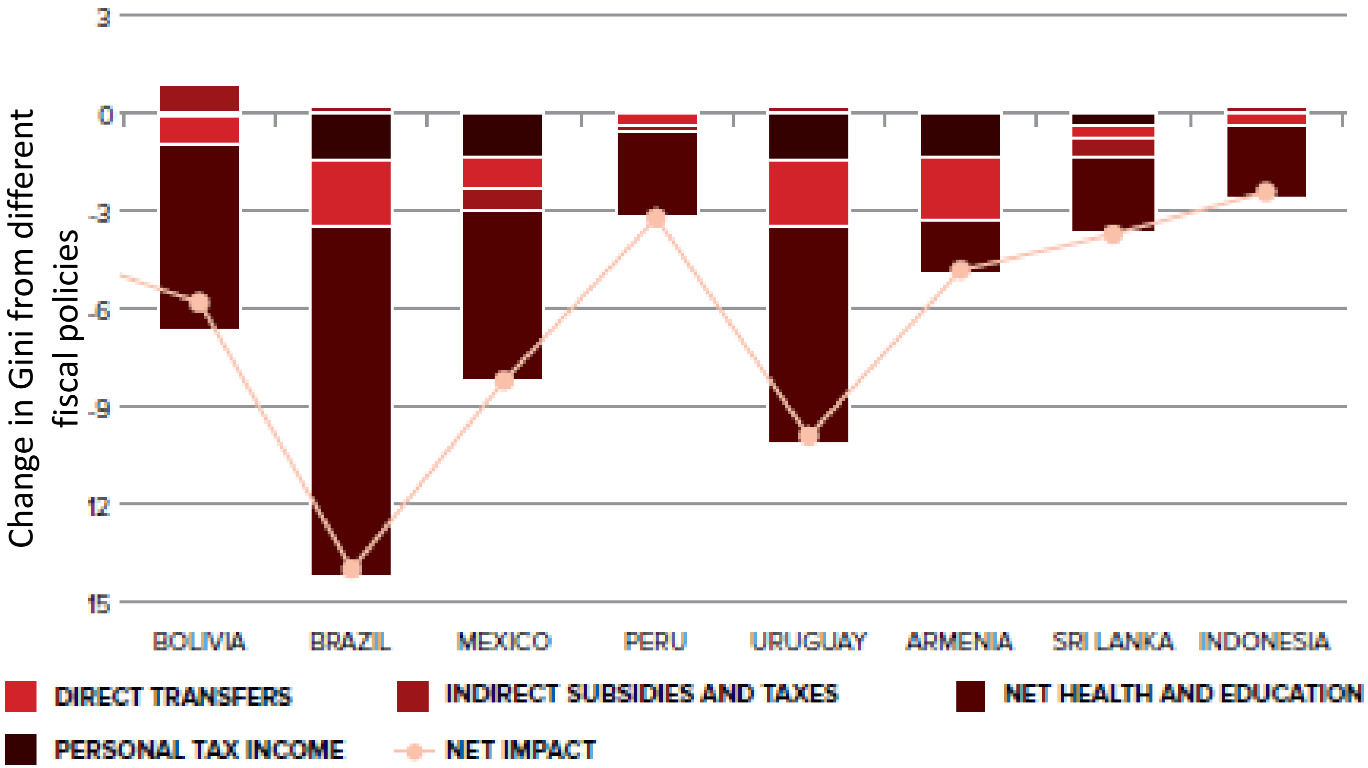
GINI Inequality before and after fiscal policy (latest available year), selected OECD countries



Sources: For Mexico, CEQ; for other OECD countries, Janet Gornick, based on LIS microdata ca 2000-mid2000s, reproduced in The Economist, Nov 2013.

But developing countries could use it better

Many countries not using fiscal policy to reduce inequality



Indonesia:

- spending on education, health and direct transfers was crowded out by a large burden of subsidy spending;
- conditional cash transfer program is the most effective but also the smallest program.

…and taxes that could reduce inequality are usually underutilized

Property taxes and inheritance tax are typically inequality-reducing.

SOURCE For Latin America see: Lustig and Pessino 2014; Paz, *et al.* 2014; Higgins and Pereira 2014; Scott 2014; Jaramillo 2014; Bucheli, *et al.* 2014; Lustig, *et al.* 2014. For Armenia and Sri Lanka, results are preliminary by Younger, *et al.* (2014) and Arunatilaka, *et al.* (2014).

How relevant are these messages for high-income/OECD economies?

- The Report's focus is largely on developing economies but concern about rising within-country inequality is common to many developing and to high income countries.
- Growth prospects for much of the OECD remain weak so prospects for improving incomes of the bottom will depend heavily on ensuring that growth is inclusive and that social and educational policies appropriately focused on bottom of the distribution and those with low skills.
- Policy lessons for OECD not that different from what the Report focuses on:
  - Need growth that translates into decent jobs for the less skilled
  - Investments in skills that start early in life (ECD) and continue throughout the lifecycle
  - There is an important role for social safety nets and social insurance mechanisms
  - And you need progressive taxation to pay for all of this

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.

Key Takeaways

- The World has made significant progress in the fight against poverty over the past three decades; extreme poverty (at $1.90/day line) declined from 35% of the global population in 1990 to 10.7% of the population in 2013; projections to 2015 put extreme poverty below 10% for the first time ever;
- Nonetheless, close to 767 million people still remain in extreme poverty, concentrated mainly in Sub-Sahara Africa (51%) and South Asia (33%);
- Poverty is overrepresented in rural areas, among agricultural workers, children, and adults with no education;
- Progress in Shared Prosperity was also significant, with income of the bottom 40% growing in 60 out of 83 countries, and faster than the national average in 49 of these (2008-2013);
- Total global inequality also declined over the last 25 years; but remains high;
- Weaker global growth prospects threaten the goal of eliminating extreme poverty by 2030; greater reductions in inequality are needed going forward if we are to achieve that goal.

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.

For more information, visit
worldbank.org/psp

Extra Slides

Some countries have successfully reduced inequality

There are "win-win" policies that can help reduce poverty, reduce inequality and boost shared prosperity, while at the same time contributing to growth

WHAT WORKS:
Common elements to country success stories examined (despite very different contexts)

- **Strong growth** and good **macroeconomic management**
- **Labor markets** that work to translate growth into increasing job opportunities for the less well-off, reducing income gaps
- **Appropriate supporting domestic policies** (investing in education and skills; investing in infrastructure; investing in social safety nets)

WHAT WORKS:
Policies with significant evaluated impacts, and few equity-efficiency trade-offs

Policies that raise productivity of the poor:

- Invest in **children** *(ECD and quality education)*
- Invest in **skills** through the life cycle
- Invest in **infrastructure** *(rural roads, electrification)*

Social programs to protect the poor and vulnerable: *targeted cash transfers; social insurance.*
Progressive taxation *to pay for all of this*

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016).

Start in early ages: Early Childhood Development

Reducing inequality through ECD interventions:

- Reduces inequalities in ability, educational achievement, health, and expected adult earnings - gains that are carried over throughout an individual's life;
- Proved particularly successful in the case of:
  - parenting skills (e.g. teaching parenting skills aimed at fostering cognitive and socioemotional development)
  - preschool education (e.g. programs addressing early cognitive and emotional delays among poorer children through preschool education)
  - breastfeeding and nutrition (can reduce cognitive, health and future income gaps between rich and poor children).
- Continue through schooling by focusing on learning outcomes and not just enrollments

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016).

Improving workforce skills - the role of training

Reducing inequality through skill development:

- Short term training can work, but there are no silver bullets;
- Focus on short term employment effects may underestimate true impact on employment trajectories (Card, Kluve and Weber Meta-analysis – 1/3 SR <1yr; 2/3 SR > 2yrs);
- Combining interventions (e.g.accompanying training with other support services) yields better results;
- Training <u>can</u> work for adults. Most promising programs are fit to how adults learn: integrate basic skills instruction into a specific occupation or set of occupations, use modular approach with recognition of prior learning;
- Reforming TVET: demand driven; modular; flexible.