Development progress over the past 15 years has been impressive. Most developing countries grew at a sustained strong pace during the Millennium Development Goal (MDG) monitoring period, notwithstanding the negative impact from the 2009 global financial crisis. Together with strong per capita growth, income differences between countries were reduced, and about 1 billion people exited extreme poverty. The latest available data suggest that extreme poverty continued its descent and a majority of countries saw solid income growth for the bottom 40 percent of the income distribution. Progress was also observed in other dimensions. Millions of children who were unlikely to survive to their fifth birthday have passed beyond these critical years and gone on to school in ever greater proportions. The incidence of preventable diseases such as HIV/AIDS, malaria, and tuberculosis is falling, and the share of people with access to clean water and better sanitation has risen markedly. A few countries have succeeded in growing while simultaneously reducing the level of environmental externalities and carbon emissions—a virtuous state of green growth.

Despite such development gains, significant work remains. MDG outcomes have been marked by significant heterogeneity in dimensions, across regions, and between urban and rural areas, resulting in unevenness in poverty reduction and shared prosperity. Extreme poverty remains unacceptably high and geographically concentrated in areas where both the depth and breadth of poverty are grave. Many countries—especially high-income ones—saw bottom 40 incomes
decline in recent years, likely due to the recent crisis, while the bottom 40 persistently lag in their access to quality social services, such as education and health, due to inequality of opportunity. Sustainability concerns have risen, endangering recent progress. For example, in most countries, land degradation, overfishing, deforestation, and extreme weather events are increasingly impacting rural livelihoods and spurring migration, while urban air pollution has emerged as a leading cause of ill health in developing countries.

At the same time, new opportunities and challenges are emerging in connection with changing prospects for growth and evolving global megatrends. For many countries, the near-to-medium-term outlook suggests weakened economic dynamism. Moreover, global demographic trends—explored in part II—could weigh down on longer-term growth prospects. In rural areas where resource dependence is high and opportunities for economic diversification are limited, burgeoning cities offer both opportunities and create accelerating economic, social, and environmental challenges. Further globalization can bring new opportunities to connect with global centers of dynamism, as can the ever-quickening pace of technological innovation and adoption. But a more connected world also means that crises can transmit more easily to poorer countries, while fragility and insecurity can be passed to richer countries. Climate change is bringing warmer and more extreme weather, requiring urgent mitigation and adaptation efforts. A rising frequency of humanitarian crises stemming from pandemics, natural disasters, war, conflict, and rising extremism may reverse development gains.

Building on the MDGs, the Sustainable Development Goals (SDGs) will scale up impact to address the unfinished development agenda in a changing world. The SDGs represent a greater level of ambition and a more holistic vision of sustainable development in a number of ways. They incorporate a greater focus on quality rather than quantity and more explicitly recognize the inter-connectedness of development challenges and hence the need for integrated multilateral approaches. They emphasize the need to protect the planet and leave no one behind. They are meant to be shared by all countries, rich and poor, recognizing the collective action needed to address global challenges, such as more resilient international financial systems, shared transboundary resources, and most urgently, the central challenge facing the world today—climate change. Meeting the investment needs of the SDGs, the global community will need to move the discussion from “billions” in official development assistance to “trillions” in investments of all kinds and unlock, leverage, and catalyze both domestic public resources and private capital flows.

Part I of this report explores these themes in the following sequence:

• Chapter 1 examines the progress made on sustainable poverty reduction and shared prosperity, as well as the policies that are needed to make further progress.
• Chapter 2 reviews the development successes during the MDG period and examines the unfinished agenda left for the SDGs.
• Chapter 3 assesses the macroeconomic performance over the MDG period, provides the near- and medium-term outlook, and looks into the future toward 2030.
Ending Extreme Poverty and Sharing Prosperity: Progress and Policies

The world faces urgent and complex challenges to sustainably end extreme poverty and share prosperity. The latest data suggest that extreme poverty is continuing its three-decade-long descent. Yet it remains unacceptably high, deep, and concentrated in some regions, with the poor experiencing not only income shortfalls but also deprivations in multiple non-income dimensions. Many countries have seen solid progress in shared prosperity over the past decade as measured by income growth in the bottom 40 percent of the income distribution. This progress has been uneven, however, with pronounced disparities in non-income indicators between the bottom 40 and the top 60 percent. Only a few countries have succeeded in growing while simultaneously reducing the level of environmental externalities in their economies, and environmental trends in the majority of countries are not sustainable. To sustainably end extreme poverty and share prosperity, additional policy efforts will be needed to cope with uncertainties about the pace of economic growth and its incidence, as well as contextual factors such as the difficulties of reaching the remaining poor. Key priorities will be to deliver sustainable broad-based economic growth, invest in the human development potential of people, and insure the poor and vulnerable against evolving risks.

To guide its work toward a “world free of poverty,” the World Bank Group in 2013 established two clear goals: end extreme poverty by 2030, and promote shared prosperity. Along with the requirement to pursue these goals sustainably—economically, environmentally, and socially—the two goals are comprehensive in nature. They are fully aligned to support the Sustainable Development Goals (SDGs) set by the United Nations to replace the Millennium Development Goals (see chapter 2). To evaluate progress, the two goals are measured by two overall indicators: a reduction in the global headcount ratio of extreme poverty (the share of the population whose income is below the international poverty line) to 3 percent by 2030, and the promotion of income growth in the bottom 40 (B40) percent of the income distribution in each country.1

This chapter updates the assessment of progress toward these two goals in a sustainable manner. The poverty goal is examined through three lenses: the evolution of income poverty based on the new international poverty line that has been re-estimated at $1.90...
a day; an assessment of person-equivalent income poverty, a new intuitive indicator that combines the incidence with the depth of poverty; and a review of the breadth of poverty, recognizing that income shortfalls often coexist with multiple non-income deprivations. The shared prosperity goal is examined on the basis of the latest comparison of (comparable) household data on B40 income growth. As part of its analysis of the two goals, the chapter also comments on the status of defining and monitoring sustainability in its economic, environmental, and social aspects.²

When measured in all of its dimensions, progress in poverty reduction and shared prosperity has been significant but uneven. The latest data suggest that global poverty continued its three-decade descent, but it remains unacceptably high and geographically concentrated. Pockets of very deep and multidimensional poverty continue to persist, leading to conflicting views about the extent and pace of progress over time and across space. As for shared prosperity, solid income growth was observed among the B40 in many countries—at least until recently and subject to data caveats—but, again, experiences differed. A large share of countries—including half of high-income countries and a third of low-income countries in the sample—saw B40 incomes fall. Beyond income, the B40 lag persistently behind the national top 60 percent (T60) in various non-income indicators.

Contextual factors and uncertainties pose a challenge to the economic and social sustainability of recent trends. The structural characteristics of the poorest countries make it harder to reach the remaining poor. Moreover, average income growth, which has been a key driver of shared prosperity, may not be as buoyant as it was before the global financial crisis, in part owing to demographics—discussed in part 2 of this Report. In addition, factors that underpinned the recent rise in B40 income shares may turn out to be transitory or unsustainable. Continued high levels of inequality in both outcomes and opportunity in both income and non-income dimensions pose additional sustainability risks.

Less progress has been made in improving the long-term environmental sustainability of development. Even though some countries have successfully “delinked” trends in environmental degradation from growth, most have not. The annual cost of environmental degradation—resulting from externalities due to outdoor and indoor air pollution, water pollution, deforestation, carbon emissions, and other environmental hazards—has gone up 50 percent from 1990 to 2010, in constant dollars. Only about 25 percent of the countries in the world, primarily high-income countries, have managed to grow economically while simultaneously decreasing their environmental externalities.³ Even fewer have managed to delink carbon emissions from growth—a record that challenges the world’s ability to contain the impacts of future climate change to agreed-upon levels of acceptability. Therefore, while experience shows that sustainable economic development is possible, the goal remains difficult to achieve.

This chapter also examines the policy actions and institutional interventions needed to accelerate progress on reducing poverty and sharing prosperity. While the two goals hold general relevance in promoting “growth with equity,” their immediate focus is on populations who are extremely poor and those who constitute the B40—two groups who may in some countries overlap significantly and in others be distinct. Interventions required to spur sustainable progress toward both goals interact in multiple ways. Although details and emphasis vary across countries, three common ingredients are key to an integrated strategy: sustaining broad-based growth, investing in human development, and insuring the poor and vulnerable against evolving risks. In designing integrated strategies, natural capital, environmental health, and ecosystem sustainability need to be fully incorporated into economic decision making.
Extreme poverty: Updated numbers and remaining challenges

Ending extreme poverty by 2030 is the first of the World Bank Group’s goals. Ending extreme poverty is defined as reducing the share of the global population living below the international poverty line to below 3 percent, with an interim target of 9 percent by 2020. The goal requires a reduction of almost 10 percentage points from the 2012 level of 12.7 percent. Despite significant progress toward this goal, the updated global poverty statistics show that poverty levels remain high and that “business as usual” policies are unlikely to be sufficient to reach the goal.

This section provides a textured understanding of extreme poverty, the progress that is being made in reducing it, and the remaining challenges that lie ahead. First, it analyzes the incidence of poverty—the share of the poor in the total population—and provides data based on updated 2011 purchasing power parity (PPP) prices and the reestimated international poverty line. Second, it offers complementary perspectives by analyzing the depth and breadth of poverty, taking into consideration how far a population is from the poverty threshold and in what aspects a population is disadvantaged other than in ways indicated by income. Third, it assesses the challenges in reaching the ambitious poverty target by 2030.

Assessing the incidence of poverty

Global poverty estimates have been updated to reflect the re-estimated international poverty line at $1.90 a day, new 2011-based PPP prices, and revisions to complementary data. Ensuring maximum comparability, the new poverty line is based on the 15 national poverty lines of the same countries that previously defined the $1.25 line. Because currency exchange rates fail to provide for a conversion that maintains equivalent costs of living across countries, PPP prices provide a unifying standard. Poverty updates also reflect revisions to complementary data, including population, inflation, and national income accounts. Box 1.1 discusses the

Box 1.1 Global poverty estimates based on 2011 PPP data: Methods and challenges

World Bank estimates of global extreme poverty rely on many different data sources—among them are the price data that measure differences in the cost of purchasing a bundle of goods across countries. This measure of purchasing power parity (PPP) is used to ensure that the global poverty line reflects the same real standard of living across countries. In 2014 the International Comparison Program released PPP data from 2011, the first global update since the 2005 round. New PPP data have implications for both the value of the global poverty line and the estimated number of people below this line in each country. The poverty estimates released in this Report are based on the new 2011 PPP data following an approach that emphasizes comparability with previous global poverty estimates.

The first issue faced in using the 2011 PPP data is that the global extreme poverty line needs to be expressed in 2011 PPP values rather than in 2005 PPP values. World Bank (2015c) describes the various approaches that have been used in the past to estimate a value for the global poverty line, and, in all cases, the aim has been to estimate a value that reflects how the poorest countries in the world define minimum, basic needs. The earlier approach that resulted in the $1.25 global poverty line was based on taking the average value of national poverty lines from 15 of the poorest economies in the world (Chad, Ethiopia, The Gambia, Ghana, Guinea-Bissau, Malawi, Mali, Mozambique, Nepal, Niger, Rwanda, Sierra Leone, Tajikistan, Tanzania, and Uganda). These 15 national poverty lines come from a sample of 74 national

(box continues next page)
poverty lines, and the lines were converted into 2005 PPP dollars. The new $1.90 poverty line is based on the same 15 national poverty lines previously used, except these lines are now converted from local currency into U.S. dollars using the new 2011 PPP data. The average value of these lines in 2011 rounds to $1.90, which is the new extreme poverty line for global counts.

Although no new PPP data were collected for developing countries between 2005 and 2011, many global indicators have nonetheless been reported annually in PPP terms throughout this period. One method for handling the interim years, used by the World Development Indicators, is to estimate extrapolated PPP conversion factors by the relative rates of inflation between the United States and the local country. Global poverty estimates do not directly use the extrapolated PPP estimates but follow an approach that is conceptually equivalent to using the extrapolations. Specifically, the current value of consumption in local currency is brought back or forward to the relevant PPP benchmark year (such as 2005 or 2011) by the national consumer price index (CPI), and then the benchmark year PPP conversion factor is applied to obtain the PPP U.S. dollar value of consumption. The poor are then identified as those whose consumption (or income for some countries) in PPP U.S. dollars is less than the global extreme poverty line ($1.90 in 2011 PPP U.S. dollars).

An implication of the extrapolation approach is that one can estimate poverty based on either new PPP data or the extrapolated old PPP data for any given year. For example, when the 2005 PPP data were released, Chen and Ravallion (2010) used the new 2005 data to reestimate the global poverty line and headcount and observed significant changes in the poverty line and average value of consumption (relative to expectations based on the extrapolated PPP adjustment factors from the 1993 PPPs). Because of changes in the poverty line and the new PPP data, Chen and Ravallion’s analysis indicated that past estimates of global poverty needed to be adjusted upward by 500 million persons. With the latest release of the global poverty estimates, an explicit rule was imposed to reduce the scope for large differences between the new poverty estimates based on the 2011 PPP data and the expected poverty estimates based on the extrapolated 2005 PPP data. This rule was based on comparing the rate of change in PPP factors ($\Delta PPP = \frac{PPP_{2011}}{PPP_{2005}}$) relative to the rate of change in domestic consumer price indexes ($\Delta CPI = \frac{CPI_{2011}}{CPI_{2005}}$) for each country. If these two ratios deviate significantly for a particular country, the 2011 PPP poverty estimates will likely differ significantly from the extrapolated 2005 PPP estimate for 2011.

Because further investigation is needed for some countries, the poverty update for these countries will continue to be based on extrapolations of 2005 PPP data. When examining all countries that participated in both the 2005 and 2011 International Comparison Program, the standard deviation of the ratio $\Delta CPI / \Delta PPP$ is 0.3 and its simple average is 1.47. This average indicates that the change in price levels used for measuring inflation was typically greater than the change in PPP prices, which is also linked to the relatively large increase in the global poverty line. The set of countries in PovcalNet for which this ratio is more than two standard deviations from the mean was examined. For the purposes of global poverty estimation, large deviations in this ratio are interpreted as evidence that the price data (both CPI and PPP) require further investigation before the estimates are updated. Therefore, for these countries (Bangladesh, Cabo Verde, the Arab Republic of Egypt, Iraq, Jordan, and the Republic of Yemen), the 2012 global poverty estimates are based not on the 2011 PPP data, but rather on the $1.25 poverty line and the extrapolated 2005 PPP data. Countries where the ratio is more than one standard deviation from the mean were subsequently examined on a case-by-case basis. For two of them (Cambodia and the Lao People’s Democratic Republic), the exploratory analysis indicated that the poverty estimates based on 2005 PPPs are more consistent with regional patterns than those suggested by the 2011 PPPs. Therefore, the 2012 poverty estimates for Bangladesh, Cabo Verde, Cambodia, Jordan, and Lao PDR are based on the extrapolated 2005 PPP data and not the new 2011 PPP data.

A further complicating issue concerns estimating poverty for the Middle East and North Africa region. In particular, Iraq, the Syrian Arab Republic, and the Republic of Yemen are countries in protracted conflict whose poverty estimates will unlikely reflect the true current state of poverty in these countries.
methodology and challenges relating to the transition from 2005 to 2011 PPPs.

**Global poverty continued its decades-long descent**

The latest headline estimate for 2012 based on the new data suggests that close to 900 million people (12.7 percent of global population) lived in extreme poverty (table 1.1; figures 1.1a and 1.1b). Compared with 2011—the year when PPPs were updated—this number represents continued poverty reduction, because the headcount estimate for 2011, using 2011 PPP data, was 983.3 million people (14.1 percent of global population).

While broadly similar to the old estimate for 2011 based on 2005 PPP data, this estimate is some 28 million people lower. Comparison of the 2011 and 2012 data reveals a (modest) decline in the number of poor in Sub-Saharan Africa, potentially heralding an era of continued reduction not just in the share of the poor but also in their absolute number.

The recent decline of global poverty occurs against a backdrop of a decades-long descent. Comparisons with the data available for 1990 and 1999 confirm that the world has made rapid strides in poverty reduction since 1990 (see table 1.1). The proportion of global population living on less than $1.90
poverty rate to half of its 1990 level—was met well before its 2015 target date. From a broader historical perspective, the global poverty rate has fallen by approximately 1 percentage point a year since 1990, with rapid poverty reduction in China and India playing a central role in this outcome.

Tentative projections for global poverty in 2015 suggest that the global headcount may have reached 700 million, leading to a poverty rate of 9.6 percent. Compared with the headline estimate of 2012, poverty may thus have declined by close to 200 million people (some 80 million of whom were in South Asia, about 65 million in East Asia and Pacific, and more than 40 million in Sub-Saharan Africa). The projections extrapolate poverty estimates based on growth scenarios and distributional assumptions. Given that the data collection and processing for a nationally representative household survey, on which poverty estimates are based, usually take two to three years, the 2012 number remains the most reliable recent headline poverty estimate.

Global poverty remains high and concentrated

Poverty levels remain unacceptably high and are particularly concentrated in Sub-Saharan Africa and South Asia. For several decades, three regions have accounted for some 95 percent of global poverty: East Asia and Pacific, South Asia, and Sub-Saharan Africa. The latest 2012 estimates confirm this high degree of concentration (figure 1.1c, 1.1d). Yet the composition of global poverty across these three regions has shifted over the years. The share of Sub-Saharan Africa in global poverty has risen to 43 percent alongside a slower pace of poverty reduction in this region amid rapid population growth. The poverty rate fell only
FIGURE 1.1  Global poverty declined, but Sub-Saharan Africa lagged

a. The global poverty rate has declined significantly over the last 30 years

b. The most rapid decline occurred during the 2000s

c. Global poverty is concentrated in three regions, with Sub-Saharan Africa’s share rising

d. The number of extremely poor declined everywhere, including most recently in Sub-Saharan Africa

e. The poverty rate remains high in Sub-Saharan Africa

f. The poverty rate varies greatly among the top 10 countries with largest number of poor

Source: PovcalNet 2015

Note: Estimates based on the $1.90 poverty line and 2011 PPP prices. Panel f lists poverty rate as of the latest survey year, in parentheses: Bangladesh (2010); China (2012); Congo, Dem. Rep. (2012.4); Ethiopia (2010.5); India (2011/12); Indonesia (2012); Madagascar (2010); Mozambique (2008/09); Nigeria (2009.8); and Tanzania (2011.8). (The decimal points in parentheses refer to the proportion of the survey conducted in the following year.) Estimates for Bangladesh are based on the $1.25 poverty line and 2005 PPP prices.

a. Given the production lags for household surveys, 2012 is the latest year for which the World Bank is able to produce regional and global poverty estimates. All numbers for 2015 and beyond are statistical projections based on growth scenarios and distributional assumptions, and should be treated with considerable circumspection.
from 56.8 to 42.7 percent between 1990 and 2012 (figure 1.1e). South Asia achieved more rapid poverty reduction over the past 30 years, even though it is still home to about one third of the world’s poor.

Despite significant geographic concentration, the poverty rate varies widely across the 10 countries with the greatest number of poor people. The estimates for 2012 indicate that these 10 countries account for almost 70 percent of global poverty. Yet their poverty rates (as of the latest household survey, that is, not necessarily 2012) vary from 6.5 percent in China to 81.8 percent in Madagascar (figure 1.1f). India was home to the largest number of poor in 2012, but its poverty rate is one of the lowest among those countries with the largest number of poor. A new methodology applied to household surveys in India suggests that its poverty rate could be even lower (box 1.2).

Even though the rate of extreme poverty is much higher in low-income countries, most of the global poor live in lower-middle-income countries. The poverty rate in low-income countries averaged 43 percent in 2012, compared with 19 percent in lower-middle-income countries. Yet lower-middle-income countries are home to about half of the global poor; another third live in low-income countries (figure 1.2a). Part of the reason is that four countries with the largest populations were once classified as low-income but have moved into the lower-middle-income category: China (reclassified in 1999), India (in 2007), and Indonesia and Nigeria (in 2011). The combined share of the world’s poor living in natural resource–based (NRB) and fragile and conflict-affected countries in 2011 was about 50 percent. About 37 percent of the global poor lived in NRB economies, defined as countries where the share of

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**BOX 1.2 Why poverty in India could be even lower**

Poverty measures for India are based on the household expenditure surveys done as part of the National Sample Surveys (NSS). Since the survey began in the 1950s, it has used 30-day recall for consumption of both food and nonfood items to measure expenditures. These so-called “uniform reference period” (URP) consumption aggregates collected in every consumption survey (except 1999/2000) provide the longest consistent series for measuring poverty in India. Historically, these have been the basis of the World Bank’s poverty estimates for India at the international poverty line.

Since 2015 is the target year for the Millennium Development Goals, the assessment of changes in poverty over time is best based on the URP method, which was used to set the baseline poverty rates for India in 1990. As reported in this Global Monitoring Report, for 2011/12, India’s poverty rate using URP-based consumption was 21.2 percent.

The National Sample Survey Organization introduced a new consumption series based on a “modified mixed reference period” (MMRP) in the 2009/10 survey. The MMRP series (which modified the 30-day recall to a 7-day recall for some food items and to a 1-year recall for low-frequency nonfood consumption items) was recommended as a more accurate reflection of consumption expenditures, following experimental rounds to examine nonsampling errors. As a result of the shorter recall period for food items, MMRP-based consumption expenditures in both rural and urban areas are 10–12 percent larger than URP-based aggregates. This higher expenditures, combined with a high population density around the poverty line, translate to a significantly lower poverty rate of 12.4 percent for 2011/12.

The MMRP, which is available from 2009/10 onward, is expected to be the consumption aggregate of choice for monitoring poverty in the future. This year’s MMRP-based estimate of 12.4 percent will set the baseline for future India and global poverty estimates, one consequence of which will be a break in the global series.

a. MMRP is a modified version of the mixed reference period, which has used two recall periods, 30 days for some items and 365 days for others; the NSS consumption surveys have used these two recall periods since the early 1990s.
NRB exports such as coffee, wood, copper, and petroleum products was 30 percent or higher, and at least 12 percent of the global poor lived in countries classified by the World Bank as fragile and conflict-affected states. Almost all fragile and conflict-affected countries were also NRB economies.

**Accounting for poverty’s depth and breadth**

Are all extremely poor populations the same? No, conditions can vary significantly across extremely poor populations. The poor do not experience poverty as an “either-or” concept but as a continuum of intensities ranging from bad to far worse. This section captures these different intensities of poverty by looking into its depth and breadth.

**Controlling for depth offers new perspectives**

A new variety of poverty measures—person-equivalent headcounts—tallies the number of poor while controlling for depth (box 1.3). The new measures are closely related to poverty gap measures, but their numerical values have intuitive meanings as headcounts that control for the conditions of the poor. Traditional headcounts can mislead when conditions of the poor change significantly. Person-equivalent headcounts benchmark the initial conditions of the poor; this benchmark is then used as a measuring rod to count the number of standardized poor or person-equivalents (Castleman, Foster, and Smith 2015). A person who is twice as deeply poor as the standardized poor person is counted as two person-equivalents. Conversely, a person who is half as deeply poor would be counted as half a person-equivalent. The poverty headcount is then simply the sum of all person-equivalents.

As did the traditional poverty rate, the person-equivalent poverty rate fell significantly between 1990 and 2012, and much of this decline occurred during the 2000s (figure 1.3a). Benchmarked against the global average depth of poverty in 1990, the person-equivalent headcount declined by more than the traditional poverty headcount as the average depth of poverty also fell over this period (figure 1.3b). While the global numbers are
by design the same in the benchmark year, by 2012 there were 743 million person-equivalent headcounts, some 17.1 percent less than the traditional headcount of 896.7 million. The same pattern holds for the poverty rate—the headcount as a ratio of total population. By 2012, the global person-equivalent poverty rate was 10.5 percent, some 2.2 percentage points lower than the traditional poverty rate.

As indicated by the “depth elasticity,” the world registered different degrees of progress...
FIGURE 1.3 Person-equivalent poverty headcount measures offer supplementary perspectives on the patterns and trends of global poverty across countries

a. The person-equivalent poverty rate fell by more than the traditional poverty rate

b. The global person-equivalent headcount fell to 743 million

c. The depth elasticity of poverty reduction varies considerably across regions, 1990–2012

d. The person-equivalent poverty rate is significantly lower for South Asia and higher for Sub-Saharan Africa in 2012

e. Through this lens, the distribution of the number of poor varies more across regions in 2012

f. The share in global poverty rises for Sub-Saharan Africa but declines for South Asia in 2012

Sources: World Bank calculations and PovcalNet 2015.
Note: Estimates based on the $1.90 poverty line and 2011 PPP prices
a. The increase in Latin America and the Caribbean reflects the sensitivity of the person-equivalent measure to the use of income-based (as opposed to consumption-based) poverty measures, which are prevalent within the region. See box 1.4 for more details.
in translating traditional poverty reduction into person-equivalent poverty reduction (figure 1.3c). The depth elasticity measures the percentage point reduction in the person-equivalent headcount ratio as the result of a 1 percentage point reduction in the traditional headcount ratio. Globally, the depth elasticity between 1990 and 2012 was 1.2, suggesting that the reductions in traditional poverty rates were accompanied by even larger reductions in person-equivalent terms. The regional depth elasticities confirm that poverty reduction, especially in Sub-Saharan Africa, South Asia, and East Asia and Pacific, was accompanied by a much larger reduction in person-equivalent terms over this period. These findings reflect the good progress made over this longer period of time in reducing not only the number of poor but also the depth of poverty.

The person-equivalent lens sheds a different light on the geographical distribution of poverty as of 2012 (figure 1.3d, 1.3e, 1.3f). First, it suggests that, when accounting for depth, the person-equivalent poverty rate is much higher in Sub-Saharan Africa than the traditional poverty rate because the depth of poverty is large compared with other regions. South Asia’s person-equivalent poverty rate is lower than its traditional poverty rate, suggesting that the depth of poverty is smaller relative to other parts of the world. The person-equivalent ratio in Latin America and the Caribbean is larger than the traditional headcount ratio, which is partially due to the prevalence of income-based household survey data in that region (box 1.4). Second, expressed as a share of global poverty, the geographical concentration of global poverty shifts further to Sub-Saharan Africa under the person-equivalent measure, with the region accounting for some 57.3 percent of global poverty, whereas the relative importance of both South Asia and East Asia and Pacific declines.

While these results provide insightful perspectives, they need to be interpreted with caution and complemented with additional analysis of observed patterns and trends. For example, greater poverty depth—and lower depth elasticity—may be linked to whether poverty is measured using income or consumption data (again, see box 1.4). The estimates for Latin America and the Caribbean, for example, are generally based on income data (see figure 1.3). Yet in the countries of the region where both income and consumption data are available, the incidence, depth, and severity of poverty are greater for income than for consumption expenditure. Income data are more susceptible to measurement error and temporary fluctuation. Moreover, poor households have an incentive to employ some form of saving mechanism to smooth income shocks.

**Multidimensional assessments are complementary**

Poverty is a multifaceted phenomenon. Central to this phenomenon are income deprivations that restrict an individual’s ability to consume certain basic goods. Yet, poverty goes beyond income and is often accompanied by lack of access to education, health, housing, employment, personal security, and more (UNDP 1997; World Bank 2001). The association between the components of poverty when measured in all of its dimensions is generally strong given that the poor tend to be simultaneously deprived in multiple dimensions (Ferreira and Lugo 2013). However, the strength of association varies across space and time. As a result, a person may be considered nonpoor according to the traditional income-based measure despite being subject to multiple deprivations in other dimensions. If this person does not have access to the basic services or personal security that are an integral part of living without deprivations in basic human needs, can this person be considered to be free of poverty (Bourguignon et al. 2010)?

The goal of “ending poverty in all of its forms everywhere” is likely to lead to growing interest in the multidimensional measurement of global poverty. The SDG1.2 incorporates an explicitly multidimensional focus: “By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.” The universal nature of the SDGs suggests that
as the post-2015 process unfolds, demand for harmonized multidimensional poverty assessments at the country and global levels is likely to rise. Several countries have already implemented variants of multidimensional poverty measures, including Bhutan, Chile, Colombia, Mexico, and the Philippines.

**BOX 1.4 Poverty in Latin America: Income-based versus consumption-based estimates**

Poverty incidence and depth measured by income data are susceptible to upward bias compared with consumption data. First, income differs from consumption at a conceptual level, since income can be saved and consumption can be financed by borrowing. Second, income surveys often exclude household production, and households are sometimes reluctant to disclose income information to survey enumerators. Third, in developing countries, formal employment tends to be less common than in high-income countries, with households facing multiple and changing sources of income (O’Donnell et al. 2008; Ravallion 2003; Székely et al. 2000).

Given the reliance in Latin America on income surveys, poverty numbers in this region are likely to be biased upward compared with the consumption alternative, as the case of Mexico confirms. To examine this discrepancy in consumption- and income-based poverty measures, Mexico’s case is useful because the same survey collects both types of data. As figure B1.4.1a suggests, the use of income data raises the headcount ratio and the poverty gap and results in a more persistent pattern of poverty.

While the issue also affects traditional headcount ratios, the person-equivalent headcount ratios may be especially affected. Because they rely on the same primary data, person-equivalent incidence measures tend to be lower when based on consumption data—just like traditional incidence measures. However, because person-equivalent indicators take into account the depth of poverty, and poverty is typically deeper when using income-based measures, person-equivalent incidence measures may well amplify the difference. The example of Mexico is again instructive (figure B1.4.1b). If Mexico’s person-equivalent rate were calculated based on income, it would be well above the traditional headcount ratio because the average gap among the poor is higher than the global average benchmark gap. However, if consumption data were used, Mexico’s person-equivalent headcount ratio would be much lower than the traditional headcount ratio given that the average gap is much lower than the global benchmark gap.

**FIGURE B1.4.1 Poverty measures can be sensitive to the source of data collection**

![Graph showing the sensitivity of poverty measures to data source.](image)

Sources: World Bank calculations and PovcalNet 2015.
Note: Estimates are based on the $1.25 poverty line and 2005 PPP prices.
The Multidimensional Poverty Index (MPI) is one possible implementation of this approach (boxes 1.5 and 1.6). MPI decompositions identify the subnational regions and the dimensions that contribute most to multidimensional poverty. The global MPI is available for 101 countries but is also calculated for 884 subnational regions, mostly in Sub-Saharan Africa and South Asia. The decomposition analysis reveals pockets of poverty that national numbers might conceal. Country and subnational MPI levels can be broken down further into dimensional indicators whose profiles vary by region. For example, the profile of multidimensional poverty in Salamat—the poorest region in the world in southeast Chad—is different from that of Moyen Chari, a neighboring region; in particular, educational deprivations are much larger in Salamat than in Moyen Chari. Other regions that have lower MPIs than Salamat have higher individual components in their profile. Breaking down poverty by dimension provides policy makers with localized information for reducing multidimensional poverty.

The 2015 MPI counts 1.6 billion people as multidimensionally poor, with the largest global share in South Asia and the highest intensity in Sub-Saharan Africa (figure 1.4). Some 54 percent of all the MPI poor live in South Asia and 31 percent in Sub-Saharan Africa. Most multidimensionally poor—70 percent—live in low- and lower-middle-income countries (Alkire, Jindra, et al. 2015). As for monetary poverty, MPI poverty incidence is the highest in Sub-Saharan Africa. It is also the most intense as measured by the multiplicity of deprivations. South Asia follows second. While the MPI headcount is much lower in other regions, the breadth of deprivation among the multidimensionally poor is only slightly lower than that found in those two regions. Multidimensional poverty also lack an identifiable poor population and a single headline figure that can be easily communicated and compared with income-based measures (Alkire and Foster 2011; Stiglitz, Sen, and Fitoussi 2009).

The salient feature of multidimensional poverty is the interdependence between dimensions. The dashboard approach tends to overlook this interdependence by examining deprivations separately. Other methodological approaches that capture interdependence—such as the simple Venn of overlap of deprivations across dimensions, multivariate stochastic dominance analysis, and the analysis of copula functions—may therefore complement the dashboard approach. Scalar multidimensional indexes allow for a complete ordering, with the ability to rank two years, countries, or regions, but need to deal with the increased complexity at the identification and aggregation steps.

Note: E pluribus unum is Latin for “out of many, one.”
a. Establishing weights is fundamentally difficult; for related discussions, see Alkire, Foster, et al. 2015.
The Multidimensional Poverty Index (MPI) is an adjusted headcount indicator that measures the incidence and breadth of those who are deprived in multiple dimensions (table B1.6). The approach begins with a specification of the dimensions and indicators upon which poverty will be based. The MPI identifies 3 dimensions: health, education, and standard of living. These dimensions are measured using 10 indicators: child mortality and nutrition (for health); years of schooling and school attendance (for education); and cooking fuel, toilet, water, electricity, floor, and assets (for living standards). Each dimension and each indicator within a dimension is equally weighted. For each of the indicators a deprivation cutoff is set: For example, for years of schooling, deprivation amounts to no household member having completed five years of schooling, whereas for electricity, deprivation means having no access to electricity. A person is considered poor if he or she is deprived in at least a third of the weighted indicators. The multidimensional headcount ratio measures the incidence of multidimensional poverty by comparing the number of all those that are multidimensionally poor to the total population. The intensity of poverty denotes the proportion of indicators in which they are deprived. The adjusted headcount ratio is obtained by the product of the multidimensional headcount ratio and the average intensity of poverty.

The metric provides a complement to poverty measures based on income and traditional dashboards in monitoring and directing policies toward the poor. It directly measures the nature and magnitude of overlapping deprivations in health, education, and living standards at the household level. With the adjusted headcount ratio, overall poverty is directly linked to the poverty levels of population subgroups, a decomposition property it shares with traditional monetary poverty indexes. This permits the construction of poverty profiles and can help in locating the poor. The multidimensional poverty measure can also be broken down into a dashboard of indicators, one for each dimension, to reveal the components of poverty and help guide policy priorities. In this way, the adjusted headcount ratio and its dimensional indicators form a coordinated dashboard for policy analysis with a headline number for monitoring and communication purposes and dimensional indicators for deeper analysis (Alkire, Foster, et al. 2015).

**TABLE B1.6 Illustration of MPI calculation across three persons**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Indicator</th>
<th>Weight</th>
<th>Person A (%)</th>
<th>Person B (%)</th>
<th>Person C (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Years of schooling less than five?</td>
<td>1/6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Not attending school up to class 8?</td>
<td>1/6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Health</td>
<td>Any child has died in the family?</td>
<td>1/6</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Anyone malnourished?</td>
<td>1/6</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Living standards</td>
<td>No electricity?</td>
<td>1/18</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Sanitation facility not improved? Improved but shared with others?</td>
<td>1/18</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>No or difficult access to safe drinking water?</td>
<td>1/18</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Dirt, sand or dung floor?</td>
<td>1/18</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Cooking with dung, wood or charcoal?</td>
<td>1/18</td>
<td>100</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Own no more than one of the following assets—radio, TV, phone, bike,</td>
<td>1/18</td>
<td>100</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>motorcycle or fridge—and does not own a car or truck?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Weighted deprivation score: 33
Status: Poor if intensity ≥ 33%

Headcount ratio of MPI poor (H) = 2/3 = 66%
Average intensity among the poor (A) = (33% + 50%) / 2 = 41%
MPI index (H x A) = 66% x 41% = 27%

Source: GMR team elaboration.
is significant among those living in fragile states. Just as in the case of income poverty, multidimensional poverty is most intense in fragile and conflict-affected states, with the extent of poverty varying with the intensity of fragility and conflict. The vast majority of these countries are located in Sub-Saharan Africa and South Asia.

At the individual country level, the country with the highest rate of multidimensional poverty is Niger. Niger also has very high fertility levels, as discussed in part 2. The country-level patterns of monetary and multidimensional poverty may deviate significantly from each other. For example, in Zambia, the multidimensional poverty rate as measured by the MPI was 57 percent in 2013–14, whereas the income-based poverty rate was 74 percent in 2010. For Pakistan the opposite was true, with the multidimensional poverty rate in 2013–14 of 44 percent, while the income-based poverty rate in 2010 was 13 percent. Both comparisons indicate significant differences in the poor populations identified by the two methods. Turning from international measures to national measures, Chile has two official poverty measures: an income-based measure and a
multidimensional measure. The poverty rates associated with the two in 2013 were 14.4 percent (income) and 20.4 percent (multidimensional); however, the share of the entire population that is poor under both definitions is just 5.5 percent.

Decomposition of the MPI into the subnational level and its component indicators may shed light on patterns of intense deprivation. As noted, the poorest subnational region in the world is Salamat in southeast Chad. Nearly 98 percent of its 354,000 inhabitants are MPI poor, and, on average, they are deprived in nearly 75 percent of the MPI dimensions, ensuring that Salamat also is the region with the greatest breadth of poverty. Three of the five poorest subnational regions in the world are in Chad while two are in Burkina Faso. The profile of multidimensional poverty may also reveal intense poverty in certain dimensions. Of the 884 regions, the region with the highest dimensional indicator for nutrition is Afar in Ethiopia; for child mortality it is Nord-Ouest in Côte d’Ivoire; and for sanitation, electricity, and assets it is Warap in South Sudan. Yet Salamat, which has high rates of deprivation in many dimensions at the same time, is the poorest by the MPI.

Multidimensional poverty measures may provide useful complementary perspectives on the dynamics of poverty over time. India, for example, exhibits a marked difference across its various states between the behaviors of the income-based and multidimensional poverty rates through time. Figures 1.5a and 1.5b plot the annualized absolute change in the poverty rate over a period of time against the initial value, for a multidimensional poverty measure and an income-based approach. The line in each graph is the linear regression of the annualized absolute change on the starting level. Clearly, the income poverty rates across states in India exhibit a classical converging pattern, where the reduction in the income-based poverty rate is higher in the states with the higher initial poverty values. For multidimensional poverty, the opposite is true: the states with low multidimensional poverty are making greater progress, whereas those with the highest poverty rates are lagging behind. These examples suggest a need to monitor multidimensional poverty directly.
Aspiring to end poverty by 2030

In light of the progress made and the challenges remaining, what does the future of poverty reduction look like? As argued below, the 2030 target is aspirational, and attaining it will require fortuitous circumstances. Moreover, contextual factors arising from the changing nature of the poverty that remains are likely to make poverty reduction more challenging than it was in the past. Finally, even if the 2030 target of 3 percent poverty is met on average globally, deep pockets of multidimensional poverty are likely to persist.

While attainable, the 2030 target is aspirational

Although most regions continue to reduce poverty, meeting the global poverty target by 2030 remains aspirational in all but the most optimistic of scenarios. Poverty scenarios depend on the assumptions on the pace and incidence of per capita household income (or consumption) growth over the next 15 years (World Bank 2015c). For example, one could assume that income growth will follow that of the 2000s, which was an extraordinary period of income growth for developing countries. If one adopts the optimistic scenario that per capita income growth in every developing country meets the developing-country average during the 2000s (4.4 percent in per capita national account aggregates, or 3.9 percent in household incomes), and also assumes that the distribution of income and cross-country inequality remain constant, then the 3 percent headcount target can be met (the third scenario in figure 1.6). Even so, poverty in Sub-Saharan Africa would still remain at 14.4 percent.

More pessimistic scenarios suggest that global poverty will continue to be a challenge in 2030, both globally and in specific countries. One cannot take for granted that the rapid growth rates of the 2000s will be repeated for the next decade and a half for all countries simultaneously. If developing countries realize the same country-specific per capita growth rates as observed during the 10-year period 2004–13, the global 3 percent poverty target would be missed, and poverty in Sub-Saharan Africa would remain high at 20.1 percent (the second scenario in figure 1.6). Moreover, if incomes were to rise at the average growth rate observed at the country level over the 20-year period 1994–2013, the incidence of global poverty in 2030 would be 5.7 percent (the first scenario in figure 1.6). South Asia would reduce its poverty rate to 2.1 percent, but Sub-Saharan Africa’s would still stand at 26.9 percent.

The pursuit of shared prosperity can increase the chance of meeting the 3 percent poverty goal. This point is developed later in the chapter, but for now it suffices to highlight that the simulations shown in figure 1.6 assume distributionally neutral growth. If, however, the poor, or the B40 including the poor, were to experience income growth that was systematically higher than the mean income growth for the total population, then the poverty target would be more easily
achieved. Simulations by Lakner, Negre, and Prydz (2014) show that if average economic growth rates are extrapolated from the early 2000s, the extreme poverty target would not be met unless the growth rate among the B40 is at least 2 percentage points higher than the mean.

**Poverty reduction will meet new challenges**

A further challenge is the possibility that future growth may not reach the poor as readily as in the past. As noted, global poverty fell by about 1 percentage point a year in response to the average annual GDP growth rate of 4 percent. Even if the growth rate still averaged 4 percent from now to 2030, would poverty continue to fall by 1 percentage point a year? The distributional pattern of household income and consumption puts a relatively high proportion of the population near the median income or consumption value, with small proportions at extremely high or low values (Battistin, Blundell, and Lewbel 2009). Thus, when the global poverty rate was 37.1 percent in 1990, at the start of the Millennium Development Goals, many poor people were just below the poverty line, leading to a large percentage point reduction in poverty for a given distribution-neutral increase in GDP. With global poverty incidence at 12.7 percent in 2012, the same distribution-neutral increase in GDP will lead to less poverty reduction. Poverty’s responsiveness to distribution-neutral growth will continue to decline as the 3 percent target is approached (World Bank 2015c). In short, as the 3 percent target gets nearer, higher rates of income growth will be needed, and the distribution of that growth will need to be more favorable to those with the lowest incomes.

Ending poverty is also complicated by the structural characteristics of the most impoverished nations, particularly those in Sub-Saharan Africa. Taking into account their demographic dynamics, by 2030 a larger share of the world’s impoverished will reside in NRB economies and fragile and conflict-affected states, primarily in Sub-Saharan Africa. Poverty is less responsive to growth in such economies because the availability of jobs—the main channel through which growth uplifts the poor—is limited (IMF 2014b; Inchauste and Saavedra-Chanduvi 2014; Inchauste et al. 2014; Loayza and Raddatz 2010; World Bank 1990). Capital-intensive, natural-resource sectors may generate growth but are likely to have weak backward and forward links with the rest of the economy, even during commodity boom periods. In the fragile and conflict-affected states (which include several NRB countries), the poverty problem is even more complex. Conflicts, whether they arise because of contested natural resource wealth or are politically motivated, inevitably disrupt or even reverse growth. The impact of conflict is often felt long after peace is restored.

Continued poverty reduction will require incorporating natural resources and natural capital in economic decision making. Land degradation and poverty are often deeply intertwined, with an estimated 42 percent of the world’s poorest living on land that is classified as degraded (Nachtergaele et al. 2010). About 1.3 billion people are reliant on forests, and the majority of these are extremely poor. Their level of dependence on forests is surprisingly large and often equal in magnitude to income obtained from agriculture (Angelsen et al. 2014; Shepherd, Kazoora, and Müller 2013). In addition, 1 billion people in developing countries depend upon fish as their primary source of affordable protein. The rural poor often endure a litany of environmental health risks too. Illness, disability, and early death from environmental risks, such as household air pollution from wood burning in primitive stoves, remain a major cause of child mortality in the developing world, followed by inadequate sanitation.

Climate change may become another important drag on poverty reduction in many countries (Field 2014; Hertel and Rosch 2010; Leichenko and Silva 2014; Skoufias, Rabassa, and Olivieri 2012). Global estimates suggest that climate change could account for 10.1 million additional poor by mid-century in the absence of comprehensive and successful
greenhouse gas emissions abatement. The size and incidence of the impact of climate change on a given country depends on country-specific factors related to its exposure to climate shocks and the country’s ability to adapt (Füssel and Klein 2006; Yohe and Tol 2009). Generally, the poor in developing countries are disproportionally affected. One reason is that the poor have less access to resources and savings to absorb the impact of shocks, whether they come from climate change or from political, economic, or financial instability. Climate change may have a greater impact on the poor relative to other types of shocks because the poor tend to be more dependent on agriculture and have more perilous access to water (World Bank 2012).

Deep pockets of dimensionally broad poverty will likely remain

Even if the aggregate 3 percent poverty target is reached, the distribution of poverty reduction within countries will be uneven, and deep pockets of impoverishment will remain. Just as poverty reduction occurs at vastly different rates across countries and global regions, poverty reduction within countries is normally a spatially uneven process. Deep pockets of poverty can persist even in countries that, at the aggregate level, are experiencing rapid poverty reduction. Country-level poverty assessments regularly identify specific areas or groups of people with particular characteristics experiencing higher-than-average probabilities of being poor. They may be locked in poverty traps or other low-level equilibriums in which aggregate economic growth does not translate into employment income or transfers for them. These groups may be defined by education, ethnicity, or region of residence. In particular, there is evidence that pockets of poverty cluster geographically in rural areas that are poorly connected to urban centers of growth, where the poor may become trapped in low-productivity jobs (Kraay and McKenzie 2014). For example, although China’s rate of poverty reduction has been rapid, poverty is higher in rural areas where the productivity of farmers’ investments is lower (Jalan and Ravallion 2001).

Shared prosperity: Conceptual issues and recent trends

The second of the World Bank Group goals articulates the commitment to promote “shared prosperity,” defined as seeking to sustainably raise the well-being of the poorer segments of society. The goal reflects a practical compromise between the single-minded pursuit of prosperity in the aggregate and an equity concern about the ability of the less well-off in society to improve their well-being by participating in a country’s prosperity. The goal thus gives more explicit attention to inclusive development and growth than has been the case in the past and paves the way for a focus on inequality. The goal is measured by the pace of real income or consumption growth at the household level, on average and over time, for the B40 of the income distribution in each country.

This section sheds further light on the concept of shared prosperity and examines its recent trends. It explores in some depth conceptual questions relating to the goal and indicator of shared prosperity. Specifically, it examines the connections between shared prosperity and non-income dimensions of well-being, links with equity (“justness”), and connections to equality (“the state of being equal”). Second, it analyzes recent trends in shared prosperity, underlying drivers, and continuing disparities, and assesses whether recent trends can be sustained.

Revisiting the concept of shared prosperity

What is shared prosperity? While the shared prosperity concept is not new, the effort to promote it through the B40 indicator has raised interest in how the goal of shared prosperity should be interpreted. The concept of shared prosperity, with its focus on the B40, has been around at least as long as the early use of the term by the economist Simon Kuznets in discussions on growth and inequality (Kuznets 1955) and its invocation by World Bank president Robert S. McNamara in 1972 (box 1.7). However, the approach of seeking to raise the average
Shared prosperity means multidimensional development

The shared prosperity goal recognizes that the pursuit of well-being among the most vulnerable in a society is a key development objective. Thus, while the average income growth among the B40 has become the agreed-upon indicator of shared prosperity, the goal itself is much broader in that it aspires to sustainably elevate the well-being of the poorer segments of society. Embedded in the goal, therefore, are both intertemporal and multidimensional objectives: shared prosperity requires well-being to be shared across individuals over time. This multidimensional aspect of the goal points to the need for a focus on non-income dimensions of prosperity such as education, health, nutrition, and access to essential infrastructure, as well as on enhancing the voice and participation of all segments of society in the economic, social, and political spheres (World Bank 2013b).

The broad focus of the shared prosperity goal is in keeping with the call for development goals that go beyond access to or ownership of material goods. Amartya Sen (1983, 1985, 1999)—a key proponent—has called for income to be viewed not as the sole end to development but rather as a gauge of what a person is able to do (capability) and manages to do (functioning). This broader perspective of development has been influential in the literature on broad-based growth and has led first to efforts to measure the non-income dimensions of development and then...
to work on inclusive growth that examines how growth trickles down to the poor. That work, in turn, has led, through the introduction of multidimensionality, to the notion of "inclusive development."12

While the chosen indicator of shared prosperity is an income-based metric, the non-income dimensions of the shared prosperity goal are important (Narayan, Saavedra-Chanduvi, and Tiwari 2013). The use of a relatively simple indicator—growth in the real value of income or consumption (depending on the methodology of the household surveys on which the concept is based) for the B40—does not mean that non-income aspects of well-being should be disregarded.13 The B40 income-based indicator is a first step toward making a critical point: growth in an economy should not be assumed to mean that development progress is automatically occurring. It is also necessary for this growth to reach the less well-off in society. Beyond that, however, development progress should be assessed in all of its dimensions. The second step, therefore, is to consider explicitly how, given their synergies, the income and non-income aspects of shared prosperity feed into each other and together can produce greater well-being for the poorer segments of society.14

**Equality of opportunity underpins shared prosperity**

Equity is a fundamental building block of shared prosperity. As Mahatma Gandhi famously noted, “A nation’s greatness is measured by how it treats its weakest members.” Yet, as societal preferences have evolved and moral philosophies have changed, concerns about the less well-off have varied. For example, Bentham’s utilitarian preference for the “greatest happiness for the greatest number,” first published in the 1780s, is devoid of any distributional concern, while Rawls’s principle of maximizing opportunity for the “least privileged,” published nearly 200 years later, takes a radically opposite view (Bentham [1789] 2000; Rawls 1971). The World Bank Group’s institutional objective of promoting shared prosperity targets the B40 as an anonymous group irrespective of the identity of its members.15 This strong focus on the less privileged places equity at the very heart of the goal and the indicator of shared prosperity.16

Underpinned by equity, the shared prosperity concept is intricately related to the inequality of opportunity. World Bank (2013b) highlights that even though the shared prosperity indicator is focused on outcomes, the requirement to pursue shared prosperity in a socially sustainable fashion ties the concept to the promotion of equality of opportunity. This focus is also present in modern theories of social equity, which, like Rawls’s, build on Harsanyi’s (1955) “veil of ignorance argument”: an equitable resource allocation should reflect what all prospective members of society would agree on before they knew which position they would occupy in that society. Accordingly, while modern theories of equity remain concerned that individuals be spared from extreme deprivation in outcomes, they emphasize the importance of ensuring equal opportunities for individuals to pursue a life of their choosing.17 The outcome of a person’s life, in its many dimensions, should reflect efforts and talents, and not predetermined circumstances—such as family origins, race, gender, or place of birth—or the social groups a person is born into.

In and of itself, however, the shared prosperity goal is not aimed at reducing the inequality of outcome. Considerable heterogeneity exists in the opinions of individuals about whether inequality is good or bad and should be reduced or not. The most recent wave of the World Value Survey illustrates the degree of polarization in views around the world and also how the preference for inequality gradually rises across the income distribution, with large differences across regions (figure 1.7). Reflecting these differences of views, the shared prosperity concept does not directly link to outcome inequality. Positive B40 income growth may, for example, be avoided with rising inequality,
both within the B40 and between groups. First, inequality may rise within the B40 by virtue of the mean indicator, in which positive growth may occur at the expense of the poorest. Second, absolute income growth of the B40 is neither necessary nor sufficient for lower inequality between the B40 and other income groups. Negative B40 income growth could lower inequality if T60 growth does even worse, but positive B40 income growth might not prevent a rise in inequality if T60 growth does even better.
**Consistent, sustainable effort may reduce inequality of outcome**

A *consistent* focus on boosting B40 incomes will always lead to (weakly) lower inequality compared to the counterfactual of boosting average incomes. Figure 1.8a illustrates the decision problem of choosing between two hypothetical scenarios or plans. Plan A would produce rapid B40 income growth but much slower T60 growth. Plan B would produce rapid T60 income growth but much slower B40 growth. A policy maker who maximizes B40 incomes between these two choices will choose plan A, whereas a policy maker focused on maximizing average income growth will choose plan B. Clearly, a B40 focus in this case helps *reverse* the rise in inequality relative to the counterfactual of maximizing average income growth. Figure 1.8b illustrates a similar decision problem with different parameter values, showing that a B40 focus helps *dampen* the rise in inequality relative to the counterfactual. Other examples can be construed that do not entail a growth-inequality trade-off and where both policy makers would choose the same. In all of the above, however, when the B40 is targeted, inequality will be lower—or at least not higher—relative to the alternative of pursuing average growth.

Moreover, if shared prosperity is pursued sustainably—an underlying requirement of the goal—the connections with outcome inequality are further tightened. The World Bank Group goals need to be pursued sustainably—economically, environmentally, and socially—over time and across generations. The sustainability requirement imposes additional feasibility constraints on the socioeconomic strategies that policy makers may select as they pursue shared prosperity. Economically, strategies that lead to the sustained underperformance of the B40 may eventually stifle the economy-wide growth process (Berg, Ostry, and Zettelmeyer 2012; Easterly 2007). No country has transitioned beyond middle-income status while maintaining high levels of inequality (World Bank 2013b). Environmentally, if the B40 bears a disproportionate share of the
cost of environmental degradation and pollution, a more environmentally sustainable growth model may strengthen the group’s capacity to participate in society’s prosperity. Socially, a continued rise in the gap between rich and poor may be socially unsustainable and incompatible with social equity in the longer term. All of these additional constraints impinge on the choice of optimal socioeconomic policies, which may result in outcomes of lower inequality.

Assessing trends in shared prosperity

What are the recent trends in shared prosperity? While overall trends in B40 income growth appear generally positive, the heterogeneity and sustainability of these trends are a concern. Data availability and quality remain key challenges. However, the data consistently available and comparable through 2012 suggest that the B40 has in many parts of the world enjoyed a prolonged spell of solid income growth. Even so, significant variation exists across regions and countries. In addition, the B40, both within and across countries, continues to lag significantly in non-income dimensions that are crucial to individual well-being and income-generating capacity. In light of generally healthy income growth but lagging non-income indicators, the sustainability of recent progress may be in question.

Growth has become more pro-poor over the past decade

Rising incomes over the past decade have helped the B40 in many countries (figures 1.9 and 1.10). Considering five-year periods starting about 2007 and ending around 2012, B40 incomes grew in 65 of the 94 countries with adequate and comparable data. Among them, 47 countries registered a “shared prosperity premium,” with B40 incomes growing faster than the incomes of the average population, thus reducing income inequality between these groups. For these countries, the premium ranged from less than 1 percentage point to well above 3 points, suggesting that growth in many countries has been considerably pro-poor. Indeed, the average shared prosperity premium stood at 1.7 percent.

As with poverty reduction, not all countries made equal progress on shared prosperity. Incomes for the B40 grew in 65 countries but declined in 29. For 20 of the latter, the shared prosperity premium was negative: not only did the incomes of the B40 decline, inequality also rose. For these countries, the premium ranged from zero to –3.1 percentage points, with an average around –1.2. Interestingly, whereas 72 percent of the countries that registered positive B40 income growth registered a decline in inequality between the B40 and T60 groups, about 70 percent of those where B40 incomes declined saw an increase in inequality between these groups.

Interesting patterns stand out across regions and country groupings, with low- and especially high-income countries registering more mixed experiences. B40 incomes declined in half of the high-income countries and more than a third of the low-income ones. This pattern stands in stark contrast to middle-income countries, where some 85 percent registered an increase in B40 incomes. Interestingly, all low-income countries that registered positive B40 income growth also registered a positive shared prosperity premium, whereas more than a third of high-income countries with positive B40 growth saw a negative premium. Among developing regions, B40 income growth exceeded 5 percent in eight countries of Latin America and the Caribbean, reducing income inequality between the B40 and the rest of the population in all of them. Other regions saw a more mixed performance.

The more mixed performance on shared prosperity reported here is the result of a fundamental deterioration of B40 growth and a changing composition of the sample compared with the last year’s Global Monitoring Report. First, new comparable household data were available for 36 of the 66 countries that were included in both updates. Among these 36 countries, average B40 income growth (across sample periods) decelerated from 4.6 percent in last year’s Report to 2.9 percent in this Report. Average income
growth of the population decelerated from 3.0 to 1.7 percent. As a result, the average shared prosperity premium declined from 1.6 to 1.2 percent. Second, compared with last year’s Report, 28 new countries were added, of which 5 developing countries had solid growth in B40 incomes, on average, and 23 high-income countries had a decline in B40 incomes, on average. Third, 6 observations were dropped in 2015–16 on the time
periods for which data were available no longer matched the common reference period. In 2014–15 these 6 countries had registered solid income growth.\(^{21}\)

The evolution of shared prosperity trends highlights further heterogeneity across countries, as illustrated by Chile and the United States (figure 1.11). In the United States, B40 incomes declined during the 2000s, perpetuating a trend of rising inequality (as measured by the B40 income share)—a trend also observed in several other high-income countries.\(^{22}\) Chile, on the other hand, experienced exactly the opposite.
Recent progress reflects changing drivers of shared prosperity

What explains the variation in shared prosperity across countries and over time: average income growth or changes in the income share of the B40? Shared prosperity, or growth in average incomes of the B40, consists of growth in average incomes plus growth in the income share of the B40. The variation of growth in average incomes of the B40 across countries and over time can be decomposed into the variation due to growth in average incomes, and the variation due to growth in the income share of the B40. Empirical analysis of the relative contribution of mean incomes and B40 shares provides a simple way to distinguish the underlying drivers of B40 income growth.

The evidence suggests that most of the variation in B40 growth is due to variation in growth in average incomes. Over the recent period of 2007–12, average income growth tracked B40 income growth rather closely (figure 1.12a). Dollar, Kleineberg, and Kraay (2013, 2015) confirmed that this finding also held over the past four decades. Figure 1.12b shows that average income growth over this long time period was, in the average country and over the average five-year sample period, positive and larger than the change in the B40 income share, which was close to zero. It also shows that the variation of changes in B40 income shares across the sample of growth spells was much lower than that in average growth rates. These findings, taken together, show that average income growth clearly dominates in the explanation of B40 income growth.

Yet, average income growth is not the only driver of B40 income growth, as illustrated by subsamples of low-income countries for the most recent decade. A good illustration is the relationship in figure 1.12a, which shows significant variation from the trend for 2005–12 that can be explained by changes in the B40 income share. Interestingly, the statistical properties of changes in the B40 income share (figure 1.12b) differ markedly when the four-decade sample is split into subsamples according to income level or decennial period. For example, the B40 changes are on average more positive and more variable across the sample of growth spells in low-income countries than in higher-income countries (figure 1.12c). This pattern is also observed when comparing the 2000s with the 1980s (figure 1.12d).

The explanatory power of average income growth is further diminished when examining the poorest income deciles, such as the B10 and the B20. Regardless of income classification, B20 and especially B10 incomes are much less responsive to average income growth than B40 incomes. In low-income countries, for example, average income growth explains less than a third of the total variation. But even for low- and middle-income countries, the explanatory power remains well under half. Across decades, the explanatory power of average income growth diminishes significantly across all indicators, but the decline is most pronounced for the B10. All of this suggests that changes in the B40 income share have played a nontrivial role in explaining increases in B40 income growth (figures 1.12e, 1.12f).

Given the increased importance of the rise in the income shares of the lower quintiles, it comes as no surprise that income inequality in many countries has declined since the 2000s. Figure 1.13 shows that more countries experienced declining inequality than increasing inequality. Latin America has generally seen significant declines in inequality in virtually every country, which is consistent with the good shared prosperity performance in that region over that decade. Conversely, many high-income countries appeared to have registered an increase in inequality.

Significant disparities remain in non-income dimensions

To evaluate their well-being comprehensively, it is important to examine how the B40 fared in non-income dimensions of well-being. Doing so presents similar challenges as making a multidimensional assessment of poverty over time and space. As of now, few systematic attempts have been made to analyze how the B40 have performed in various
FIGURE 1.12 The drivers of B40 income growth appear to have changed somewhat

a. Income growth of the bottom 40% correlates well with average income growth, 2007–12

b. Over the last four decades, mean income growth was positive and volatile

c. Changes in the share of income growth of the bottom 40% were on average larger and more volatile in low-income countries

d. . . . as well as in the 2000s

e. The explanatory power of average growth falls in low-income countries and in lower-income deciles

f. It also diminished during the 2000s, especially for lower-income deciles


Note: In panels b–f, mean and standard deviations are reported for the distribution of minimum five-year spells of average income growth and change in the share of B10, B20, or B40 in total income, distinguished by income level or decade. Unless period is specified, sample includes 1980s–2000s.
non-income indicators. A key question is whether such analysis is best undertaken with a dashboard (analyzing the dimensions separately) or an aggregate indicator (which requires identifying weights for the various dimensions). Other questions relate to whether multidimensional shared prosperity is analyzed over time (dynamically), across the income distribution (statically, comparing B40 and other segments), or both. Examples of various approaches are presented in the following discussion.

The evolution of living standards in countries belonging to the Organisation for Economic Co-operation and Development (OECD) has seen marked cross-country differences over the past two decades. The OECD multidimensional living standards metric is one example of an aggregate measure that can be compared over time and across the income distribution (statically, comparing B40 and other segments), or both. Examples of various approaches are presented in the following discussion.

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Despite robust income growth in developing countries, large disparities linger in the access of the B40 to education, health, and other non-income dimensions. Among developing countries, women in the B40 group face more difficult access to health care compared with the T60, and their children are more likely to die before age five (figures 1.15a, 1.15b). Many people around the world, especially those in the B40, report that they do not always have enough money to feed themselves or their families (figure 1.15c). Unsurprisingly, their children are more likely to be underweight (figure 1.15d). Primary enrollment may have increased in many developing countries, but access to primary education remains unequal (World Bank 2014a, 2015c). Among lower-income countries, a larger share of children in B40 families are out of school (figure 1.15e). These inequalities transmit to outcomes, as international test scores in math suggest (figure 1.15f, with the same results for science).
The B40 appear to be disadvantaged in areas other than health and education. Examples from Latin America suggest unequal access to the Internet and to basic services such as piped water (figure 1.15g, 1.15 h).

Intergenerational transmission of inequality of opportunity explains part of the persistence of these disparities among the B40. Although the definition of “opportunities” is still being debated, most societies define them as a set of basic goods and services in the early life of an individual that improve the probability of success in life, and in most cases are considered basic economic and social rights (Barros et al. 2009). The “accident of birth” into a B40 household that does not enjoy equal opportunity in these important basic goods and services is likely to be transmitted to the next generation. Indeed, the higher the inequality of opportunity, the greater the persistence in income inequality from one generation to the next (Brunori, Ferreira, and Peragine 2013).

These persistent socioeconomic disparities across the income distribution affect the income-generating capacity of the B40. Few of the B40 own capital assets, and, with the exception of transfers, most depend primarily on labor earnings and income from self-employment (World Bank 2014c). Most of them work in less skill-intensive sectors (such as agriculture, construction, or retail trade). A job in a dynamic, high-wage sector would be the B40’s passport to steady and rapid income growth, but the human capital levels of the B40 often limit such prospects. Those who are self-employed among the B40 also may have unequal access to financial capital or essential public inputs such as good-quality infrastructure and efficient institutions that connect workers, farms, and firms to markets. If they are to prosper and pass on this prosperity to the next generation, the B40 needs to be able to learn and compete alongside the T60 for the same jobs.
FIGURE 1.15 Disparities in health, education, and nutrition are noteworthy

- Women in the bottom 40% face more difficult access to health care
- Children are more likely to die by age 5 among the bottom 40%
- Deprivation of food remains prevalent around the world, with marked differences
- A larger share of children among the bottom 40% are underweight for their age
- The proportion of children out of primary school is higher among the bottom 40% in low-income countries
- Where the bottom 40% performed poorly in math, the gap with the top 60% was larger

(figure continues next page)
Past trends may not be sustainable

Average income growth—one key driver of shared prosperity—may not be as buoyant as it was before the global financial crisis. As chapter 3 elaborates, the medium-term outlook is projecting weaker potential growth in many middle- and high-income economies compared with the precrisis period. Emerging markets face a structural slowdown, and potential growth in high-income economies is likely to recover to slightly lower levels than before. Demographic pressures in many countries dampen potential growth, whereas the sluggish recovery of investment since the crisis in some countries and the declining prospects for rapid productivity improvement in other countries pose further constraints. Barring policy adjustments, jobs and incomes are expected to be affected in these countries.

The other factor that underpinned rising B40 incomes—the increase in the income share of the B40—may, likewise, not be as appropriate as before. The 2000s saw a rise in the B40 income share unlike previous decades. Whether there is a reversal to more muted historical patterns remains to be seen. Surveys suggest that improvements in living standards are perceived as unequal and linked to perceptions about poverty reduction efforts (figure 1.16). The factors that supported the
rise in the income share may turn out to have been transitory or unsustainable. For example, if high commodity prices lifted wages in the labor-intensive services sector, the onset of a period of lower commodity prices may remove some of that impetus. Some countries have seen generous minimum wage developments that have lifted the incomes of the B40. To the extent that such policies produce negative fiscal implications or mounting unit labor costs, their sustainability is at risk.

**Continued elevated levels of inequality pose an additional sustainability risk**

Elevated levels of income inequality may not be compatible with a sustained improvement in shared prosperity if they damage the growth process. Indirect evidence for this statement is illustrated in figure 1.17, which shows that no country has moved beyond middle-income status while maintaining high levels of inequality (Ferreira and Ravallion 2011; World Bank 2013b). Too much inequality (whether vertically in income levels, horizontally across groups, or dimensionally in aspects other than income) is bound to affect social sustainability. Too much inequality may also slow growth, as recent literature suggests. That in turn affects the ability of countries to sustainably climb the income ladder (Banerjee and Duflo 2003; Forbes 2000; Li and Zou 1998; Marrero and Rodriguez 2012, 2013; van der Weide and Milanovic 2014; Voithovsky 2005).

Persistent inequality of opportunity in non-income dimensions may eventually dampen the dynamism of B40 income growth. The B40 continues to exhibit large disparities with the rest of the population in its access to basic goods and services of good quality, reflecting in large part inequality of opportunity. The B40—and among them, especially women—is thus limited in making the best of their most important asset, labor, and in earning higher incomes reflective of their marginal productivity. To be sustainable, longer-term wage developments need to be underpinned by productivity.

Moreover, environmental aspects of recent development patterns are not sustainable. Trends for indicators showing the sustainable use of natural resources (land, water, forestry, fisheries, biodiversity), pollution (air, water, toxics, solid waste), and carbon emissions are all going the wrong way.30 Conservatively measured, the combined value of the associated environmental damages rose by 50 percent between 1990 and 2010, mainly in developing countries. A broader indicator of growth sustainability is the “change in total wealth per capita.”31 This measure subtracts from a country’s gross national savings all forms of capital depreciation, including the loss of natural capital (that is, mineral depletion and natural resources degradation). The results for 1990–2011 show that low- and lower-middle-income countries have fared the worst in terms of depleting per capita wealth (figure 1.18). Natural capital depletion in the low-income countries has averaged about 6 percent of gross national income per capita since 1990. A regional breakdown shows that 84 percent of Sub-Saharan countries are depleting their capital, followed by 42 percent in the Middle East and North Africa and 40 percent in Latin America and the Caribbean (figure 1.19).
The rise in pollution is of particular concern, especially in cities where much of the global population resides. Urban poverty, particularly in poor countries, typically starts as rural deprivation with migrants being driven by the lack of opportunity in rural areas. The irresistible pull of cities has done much to provide employment and propel growth, which is essential for alleviating poverty, but urbanization has also brought new problems. Urban air pollution has emerged as a leading cause of ill health in developing countries—with more than triple the impact of malaria, HIV, and tuberculosis combined. The population exposed to ambient levels of unhealthy air pollution rose by more than a third in developing countries between 1990 and 2013 (figure 1.20); the increase was around 40 percent in middle-income countries, and 98 percent in low-income countries. Virtually all developing countries thus face a double burden of environmental health risks: the impact of disease associated with underdevelopment, such as inadequate sanitation, and the impact of health risks derived from growth, such as ambient pollution and waste. While trends in “traditional” water and sanitation problems show great improvement over the past 25 years, trends in “modern” problems of environmental management and sustainability point to the reverse.

**Ending extreme poverty and sharing prosperity: Policy agenda**

Putting an end to extreme poverty and promoting shared prosperity are ongoing challenges. Country circumstances and contexts differ, and so policy priorities will also vary across countries. For example, some countries have eradicated extreme poverty already and therefore the second goal on shared prosperity is more relevant for them. In addition, significant overlap exists in the types of policies needed to end poverty or share prosperity, and these common ingredients hold relevance for a broad set of countries.

This section delineates the policy agenda and articulates key priorities that are of common interest to a wide range of countries. First, it examines the rationale for policy intervention, looks at the possible synergies between goals of ending extreme poverty and sharing prosperity, and explores how efficiency and equity interact. Second, it spells out a three-component strategy that centers on growth, investment, and insurance.

**Delineating policy approaches**

In light of country specifics, is there common ground among policy approaches that purport to end poverty and share prosperity? The answer is yes, but the policy mix needs to be sensitive to the complementarities and trade-offs between the two goals.

**Growth with equity is essential for meeting the two goals**

The policy agenda underpinning the World Bank Group’s goals is “growth with equity.” Growth has played a key role in reducing extreme poverty and promoting shared prosperity and is critical to sustaining progress. Yet, aggregate growth by itself is not enough; it needs to be pursued with equity, complemented by policies that enable the poorest
and the B40 to fully participate in and benefit from the growth process. To pursue growth without equity would be socially destabilizing and to pursue equity without growth would tend to “redistribute economic stagnation,” as Robert McNamara stated in 1980.32

The two aspects of equity that delineate the policy agenda are avoidance of absolute deprivation and equality of opportunity. The quest to end extreme poverty builds on the societal preference to avoid absolute deprivation and protect the livelihoods of its poorest
members regardless of whether the equal opportunity principle has been upheld. The quest to promote shared prosperity reflects the principle of equal opportunity, whereby the outcomes of a person’s life, in its many dimensions, should mostly reflect his or her efforts and talents, not his or her background. The notion of pursuing the World Bank Group’s goals in an economically, environmentally, and socially sustainable manner in turn serves equity and equality of opportunity intertemporally, reaching future generations who too can then live lives without deprivation and full of opportunity.

**The poverty and shared prosperity goals are mutually reinforcing**

Country circumstances will determine the relative importance of the extreme poverty and shared prosperity goals, as the B40 may comprise many possible populations (box 1.8). In countries where extreme poverty rates are around 40 percent, the two goals almost completely overlap: increasing the income growth of the B40 accelerates the reduction of poverty and promotes shared prosperity. In countries where extreme poverty rates are significantly greater than 40 percent (mostly in Sub-Saharan Africa), the shared prosperity goal implies a focus on the poorest of the poor and therefore has a narrower scope than the poverty eradication goal. In other countries, where extreme poverty exists but at rates well below 40 percent, the shared prosperity objective is broader than the poverty goal because it includes a potentially much larger group of those who are, in absolute terms, moderately poor or vulnerable to falling into poverty. Finally, in countries where extreme poverty is no longer an issue, the shared prosperity objective focuses a lens on those who are relatively poor, a concept intrinsically connected to inequality.

In countries where poverty reduction is a key priority, the shared prosperity lens enhances that effort. In some countries, shared prosperity may complement national poverty lines and strengthen the focus on the poor. In others, it may help broaden the focus of international poverty lines to whomever national authorities consider to be deprived based on the standards of their societies. In all of these circumstances, shared prosperity is doubly good for the poor: First, effective shared prosperity strategies that expand the opportunities of the B40 through greater participation in the development process will affect poverty reduction directly if indeed many of the B40 are poor. Second, to the extent that shared prosperity reduces inequality, the poverty reduction power of future economic growth is likely to be enhanced, leading to a greater growth elasticity of poverty reduction.33

This reinforced focus on poverty reduction is essential if the world is to reach the ambitious goal of 3 percent global poverty by 2030. As is argued in World Bank (2015c), meeting the poverty goal by 2030 requires both strong aggregate economic growth and an increase in the income share of the extremely poor. Reductions in inequality arising from higher income growth among the B40 can make the difference. One estimate suggests that a shared prosperity premium of 2 percentage points, which requires B40 incomes to grow significantly faster than mean incomes, is necessary to achieve the poverty goal (Lakner, Negre, and Prydz...
BOX 1.8  Who is in the B40?

To assess trends in shared prosperity and calibrate policies, it is essential to understand the composition of the bottom 40 percent (B40). Just like the poor, the B40 is not a static subgroup of the population. Some people move in and out of the B40, whereas others are chronically at the lower end of the income distribution. Yet, it is possible to characterize the B40 as a group. As shown below, the composition of the B40 is very different across countries. These differences need to be taken into account when identifying strategies to boost shared prosperity, which in some countries will overlap strongly with the struggle against extreme poverty, whereas in others the connections with reducing inequality will be stronger.

The profile of the richest B40 person varies considerably across countries. Map B1.8.1 illustrates the geographical distribution of the characteristics of the 40th percentile, identifying whether the richest person belonging to the B40 is extremely poor as defined by the international poverty line, moderately poor, vulnerable, or none of these but rather a member of the “middle class” or even rich.

Most of the countries in which the richest among the B40 are still extremely poor are in Sub-Saharan Africa. In some places in Sub-Saharan Africa, most of East Asia and Pacific, and all of South Asia, the richest of the B40 are moderately poor. The B40 in these countries thus consists entirely of populations that are either extremely poor or moderately poor. In most of Latin America and the Caribbean, the richest among the B40 are vulnerable. Following impressive gains in shared prosperity that lifted many out of poverty, the richest B40 person in that region remains susceptible to falling back into poverty.

Overall, the B40 group as a whole encompasses many different combinations of extreme poverty,
moderate poverty, and vulnerability. At the top of figure B1.8.1a are countries where extreme poverty rates exceed 40 percent, suggesting that a B40 focus in those countries would emphasize the poorest among the extremely poor and potentially overlook others in extreme poverty above the B40 cutoff but below the extreme poverty line. Directly below are countries where moderate poverty is becoming an increasing concern, since poverty rarely ends when a poor person climbs over the extreme poverty line. The lower half of the figure shows countries where extreme poverty has been mostly eradicated, but many people remain moderately poor and a significant share may be characterized as vulnerable to falling back into poverty. At the bottom of the figure are richer countries, where most of the B40 have become middle class and have low risk of falling into extreme poverty.

Among richer countries, where absolute poverty is of lesser concern, the B40 may encompass many of those who are considered to be relatively poor. Figure B1.8.1b shows that in OECD countries many of the less well-off are considered to be living in relative poverty, even after taking transfers into account. They are seen to be unable to enjoy an acceptable standard of living relative to that of the majority of the population. Given that the relative poverty measure is based on a poverty line set at 60 percent of median national income, the notion is more closely related to within-country inequality. Yet, it does show that the focus on the B40 allows for flexibility in focusing on what societies care most about.
This focus on raising the income share of the poor will be all the more necessary given the ambitiousness of the poverty target, the elevated poverty rates that are expected to persist in much of Sub-Saharan Africa, and the large number of people in Sub-Saharan Africa and South Asia who are expected to continue experiencing multiple deprivations beyond income poverty.

**“More equitable” need not mean “less efficient”**

The equity-efficiency trade-off has for a long time animated the discussion on the feasibility and desirability of redistributive policies. Arthur Okun (1975) hypothesized that redistributive policies intended to reduce inequality imply a “big trade-off,” where lower inequality can be achieved only at a great efficiency cost (the “leaky buckets” hypothesis). The trade-off rests on the premise that markets work perfectly and that redistribution produces administrative costs, disincentive effects, and productivity distortions. In the presence of market failures, however, the equity-efficiency trade-off need not always hold, a fact that gives rise to the possibility of redistributive policies that also enhance efficiency (World Bank 2005). While complementarities exist between equity and efficiency, this is not to say that the trade-off does not exist anymore. In the presence of resource constraints, many investment and policy choices will likely need to contend with a trade-off of some sort (where the time horizon plays a key role in assessing the trade-off). How the trade-off is resolved lies at the heart of how growth with equity is operationalized in the real world.

Given that such a trade-off need not always hold, policies may be able to simultaneously improve growth and equity. Growth and its incidence across the income distribution are determined jointly and therefore policies that affect one will also affect the other. An equity component need not be embedded in each policy. It suffices that the overall package is consistent with growth and equity and that the underlying process is fair (World Bank 2005). Moreover, there is a substantial reform agenda that comprises policies that can simultaneously raise growth and equity. Such synergistic, win-win policies address equality of opportunity and help broaden participation in the process of growth; examples are policies that improve access to markets, level the playing field for firms large and small, build human capabilities, and remove barriers to job creation (Qureshi 2015).

Growth gives governments the fiscal space to implement redistributive policies that raise the incomes and welfare of the poor and the B40. In the presence of significant failures in credit, insurance, labor, or land markets, where market outcomes may not be efficient, there is scope for efficient and equitable redistributive policies. Policies that redistribute wealth can help poorer people overcome credit constraints to invest in human capital or can effectively insure them against transient shocks; targeted safety nets have dynamic efficiency effects that ultimately support growth and enhance its sustainability.

**More sustainable development does not imply lower growth**

The promise of sustainable development requires greater commitment to green growth policies. Such policies typically have the broad objectives of protecting and ensuring the sustainable use of natural capital, improving environmental quality, and advancing lower carbon and more resilient growth in the face of a changing climate. Green growth policies not only reduce large welfare costs and environmental externalities. They can contribute directly to economic growth and the well-being of the poor in several ways, including by promoting efficiency gains that are cost-effective, reduce energy and materials use, and increase private sector gains; reducing future costs of natural resources, such as water, through improved management; improving the health and productivity of the workforce and lowering health expenses in the state budget; promoting the expansion of new industries and technologies that offset losses in sunset industries; Responding to changes in consumer preferences through expansion of less-polluting
and energy-intensive service industries (often including realizing opportunities that would otherwise be lost, such as tourism); and proactively adapting to disaster risks in ways that reduce the impact of those risks, reduce costs, and improve knowledge.

**Identifying key policy ingredients**

To sustainably end extreme poverty and boost shared prosperity, three policy ingredients are needed in any strategy.36

- **Sustaining broad-based growth.** Economic growth has been the main building block of poverty reduction and shared prosperity over the past several decades. Among economies that have managed to sustain rapid growth for extended periods, five characteristics are common: effective leadership and governance, macroeconomic stability, a market orientation to guide structural change, an outward orientation for domestic and external discipline, and a future orientation to boost savings and meet investment needs. Growth is not an end in itself, however. It is a means for increasing the incomes and well-being of people, and it is most effective in reaching low-income people when it increases their labor incomes by supporting productive employment. Policy makers must keep in mind the effects of interventions on job creation and income growth for the extremely poor and the B40.

- **Investing in human development.** Human development is essential to remedying the multidimensional deprivations of the poor and the B40, and a requirement for broad-based economic growth. Vital human development investments include education, health and population programs, safe water, and sanitation. These services are especially important for children, whose opportunities early in life determine their future lives as adults. The quality of services is also important. It is not enough to get children to school: teachers need to show up, textbooks need to arrive, and children need to be taught in ways that enable them to learn. Health clinics need to be staffed with trained personnel, stocked, and able to provide adequate services. Effective service delivery, in turn, requires effective, accountable, and transparent mechanisms and institutions.

- **Insuring against risks.** Social policies can protect the extremely poor from destitution and protect the vulnerable against risks. They can help families avoid irreversible losses and prevent them from having to make decisions with costly long-run implications. Good social programs support growth and human development and come in three kinds. Noncontributory social assistance programs for the chronic or extremely poor protect them from destitution and promote investments in their children’s human capital. Social insurance programs prevent people falling back into poverty, whether caused by individual illness, temporary unemployment, or localized droughts. And global insurance mechanisms help countries cope with massive natural disasters or pandemics. To design such programs, a dynamic understanding of poverty and vulnerability is essential.

In all of the above, it is essential that natural capital, environmental health, and ecosystem sustainability concerns are integrated into economic decision making. In both rural and urban areas, poverty alleviation strategies need to give greater attention to the environmental and resource dimensions of poverty because the number of people involved is large and the consequences of neglect significant. Where resource dependence is high and opportunities for economic diversification are limited, it is unlikely that policies can eliminate poverty without acknowledging the critical role of natural resources in supporting the poor. Natural resources are often the only significant assets that the poor have access to, and if managed efficiently they could provide a sustainable foundation for economic viability. If not, however, the loss of natural capital through weaknesses in property rights, poor local knowledge, price distortions, or poor infrastructure means that eradicating poverty over the longer term will be unachievable.
Broad-based growth must be sustained over time

Continued progress in poverty reduction and shared prosperity requires economic dynamism to generate income-earning opportunities for broad segments of society. As part of this endeavor, economic growth—both its pace and pattern—is critical. In very poor countries, it is arithmetically impossible to reduce poverty significantly without growth because the pool to redistribute from is very small. In richer countries, growth again is key because it explains most of the variation in income among the B40. In addition to the pace of growth, its pattern also matters. Some kinds of growth benefit the poor or the B40 more effectively than other kinds. The expansion of smallholder farming or labor-intensive manufacturing, for example, may convey greater benefits to the poor than the expansion of capital-intensive mining does. Moreover, for growth to have a lasting impact, it must be sustained over a long period of time. Sustained growth results in mass job creation, making labor more scarce and valuable and thereby lifting incomes. Growth can thereby bite deeply into poverty and contribute to prosperity by being shared within and between generations.

Fast growth in labor-intensive sectors will help reduce poverty and share prosperity, especially when coupled with efforts to increase labor force participation. Two distinct, but not mutually exclusive, pathways for boosting labor incomes exist: fuller employment and higher returns to employment. Growth in labor incomes was the foundation of the rapid reduction in poverty in East Asia during the 1970s and 1980s, as well as in the developing countries that were most successful at reducing poverty in the 1990s and 2000s. Much of the recovery since the 2008 economic crisis has been in the form of jobless growth, which has dampened the benefits of growth for lower-income groups.

The Commission on Growth and Development (2008) has highlighted five characteristics as key to rapid and sustained growth (figure 1.21). The Commission identified 13 economies that since 1950 have grown at an average rate of 7 percent or more for 25 years or longer. Despite the differences between them, these economies all exhibited the following: They had committed, credible, and capable governments; they maintained macroeconomic stability; they let markets allocate resources; they fully “exploited” the world economy; and they fully “exploited” the world economy; and they mustered high rates of saving and investment.

Effective leadership and governance

Sustained growth requires committed, credible, and capable governments. Growth does not “just happen.” It requires a decades-long commitment to the credible implementation of enabling policies that are designed by capable governments. The effectiveness of governments depends in the first place on the talent of their workforce, the incentives they foster, the vigor of their debates, and the organizational structure they impose (Commission on Growth and Development 2008). Governments are not only policy makers but also service providers, investors, arbitrators, and employers, requiring good governance in all of these roles. Good governance also requires strong accountability measures between policy makers and people, to raise the voices of the ultimate beneficiaries of government policy, especially the marginalized and the poor, and between policy makers...
and providers, so as to raise the quality of service delivery (World Bank 2003).

**Macroeconomic stability so markets work**

Macroeconomic stability is a key prerequisite for growth to flourish. Instability in price levels, interest rates, the exchange rate, or the tax burden deters private investment. Sound macroeconomic policies reduce distortions in relative prices and returns to assets and encourage investments in productive sectors. Macroeconomic stability also ensures that fiscal resources are productively used to finance critical expenditures, including in education, health, and infrastructure, rather than merely servicing the debt (Commission on Growth and Development 2008). The recent financial crisis has brought to the fore the damaging consequences of macroeconomic instability on economic growth and living standards, contributing to job losses, rising poverty levels, and thereby endangering progress toward poverty reduction and shared prosperity.

**Market orientation to guide structural change**

Microeconomic dynamism is a necessary feature of an adaptive economy and, guided by the market mechanism, a key driver of structural change. Growth entails structural transformation within and across sectors. Within sectors, opportunities arise to deepen comparative advantages and boost productivity by operating more efficiently and moving up the value chain. As comparative advantages evolve, structural shifts occur between sectors, from agriculture to industry and services, from rural to urban areas, and from informal to formal activities. Well-functioning markets are essential to guide these processes. Their price signals ration scarce resources to their most productive uses. This rationing is accomplished through competition, buttressed by contestability in product markets and mobility in capital and labor markets. The negative impact of inefficient resource allocation may not be immediately visible, but it will slowly accrue over time. Recent evidence from Latin America suggests, for example, that 80 percent of the efficiency gap between the region and the United States is explained by misallocation of resources, where the efficiency gap itself explains about half of the income gap (Araujo et al. 2015). Key priorities are the following:

- **Accelerating productivity growth in agriculture.** Increased agricultural productivity growth is important because the majority of the poor continue to live in rural areas where agriculture is central to their livelihoods. Special consideration is needed for women, who make up over 43 percent of the global agricultural labor force, yet continue to face major constraints reducing their productivity (O’Sullivan et al. 2014). Experience in all regions has shown that improving the living conditions of the extremely and moderately poor hinges on the creation of a dynamic agricultural sector. Despite some inroads into productivity-enhancing agricultural technology, agricultural success stories in Africa are few compared with the experiences in Asia and Latin America, and yields per hectare in Africa are about the same as they were in 1970. Better output prices through more open trade (as seen in Cambodia, Ethiopia, and Rwanda, among others) provide necessary incentives to adopt fertilizer and improved seed varieties, especially when reinforced by complementary policies to reduce the cost of inputs, such as improved infrastructure and access to finance and insurance. Institutional measures such as land reform, market infrastructure, and more effective producers’ organizations can catalyze investment in agriculture (Gill and Revenga forthcoming).

- **Widening the economic footprint of natural resources.** Many countries have opportunities to enhance the economywide potential of the natural resource sector. Depending on the location, suitable policies may include improved rural-to-urban connectivity, stronger value-chains, rural finance, protection of community and indigenous property rights, and environmental regulation. The potential pitfalls of NRB growth are well understood, both at
the microeconomic level (resource degradation) and macroeconomic level (possible real exchange rate appreciation that may render the manufacturing sector uncompetitive, and heightened volatility due to commodity prices). At the micro-level, the appropriate response to these potential negative effects is very location specific but often has to do with property rights, access, and fostering alternatives to traditional practices. At the macro-level, appropriate policies include not limiting commodity exports or erecting costly import barriers to protect domestic industries. Instead, policies should alleviate demand and supply constraints on productivity activity by improving infrastructure, creating a conducive investment climate, and facilitating private sector access to capital, skills, technology, and markets (Chandra, Lin, and Wang 2012; De Cavalcanti, Mohaddes, and Raissi 2012; IMF 2011).

- **Sustaining competitiveness in manufacturing.** In other countries, structural transformation of the manufacturing sector will be a key priority. Competitive pressure has transformed the landscape of manufacturing industries worldwide, placing a high premium on maintaining a competitive edge in line with a country’s comparative advantage. For poorer countries, where the fields are still so oversupplied with labor that the marginal productivity of agricultural labor is low, the objective will be to efficiently produce low-cost, high-volume, labor-intensive manufacturing goods, helping absorb low-skilled labor in higher-value-added activities. For others, the objective is to move up the value chain into more skill-intensive and innovation-driven manufacturing, and in the process to develop new competitive niches, generating jobs and lifting incomes along the way. In both cases, exposure to internal and external competition is key so that market forces can help firms explore and develop their comparative advantages (World Bank 2010a, 2014c).

- **Raising the efficiency and quality of services.** Many countries grapple with inefficiencies in segments of their services sectors, producing a loss in productivity. Large segments of the services sector remain informal, expensive, of low quality, or inefficient. Services play a key role in economic growth and job creation. Improvements in the productivity, quality, and range of services contribute to economic growth directly but also indirectly, given the role of services as inputs into all other sectors. Services are typically labor intensive, and they may be skill intensive too. Increased job creation in services can contribute to poverty alleviation and B40 income growth. Enhanced service delivery in the areas of education and health can also promote human capital development to the benefit of longer-term growth prospects. A more dynamic services sector also allows countries to insert themselves more fully into the production of tradable services—a rapidly growing dimension of global trade (World Bank 2010b, 2014b).

**Outward orientation to leverage and discipline**

Outward orientation—openness to the global economy—plays a distinct role in fostering structural change and can contribute to growth in multiple ways. By leveraging the global economy, domestic firms are offered deep, elastic markets for exports, which may support job creation and income growth. Trade may also raise real incomes by lowering the prices of products. For example, imports of lower-priced consumption goods from China have helped expand Brazil’s “consumption frontier” (World Bank 2014b). Trade openness provides an economy the freedom to specialize in whatever it is best at producing, while also imposing discipline to use resources efficiently. Labor mobility across borders may contribute to remittances and beneficial return migration. Capital flows can complement domestic savings, alleviate credit constraints, and impose discipline on macroeconomic policies. Knowledge flows contribute to ideas, technologies, and know-how that are all shared and augmented across borders.

However, the capacity of the poor and the B40 to benefit from a greater outward
orientation is not guaranteed, suggesting a role for complementary and compensatory policies. It is generally accepted that relatively open economies fare better in the aggregate than closed ones and that relatively open policies contribute considerably to development. Yet, openness may lead to greater uncertainty, and greater openness may not always be positive for the poorest in the short run; even in the longer run, some people may be left behind in poverty (World Bank and WTO 2015). Various challenges may be present, such as market barriers in agriculture, fragility and conflict, informality, and gender biases. Complementary policies may help the poor to extract maximum benefit. For example, trade facilitation can be strengthened and connectivity can be improved to reduce remoteness from markets at the subnational level, broadening access for poor and small traders. Moreover, since trade liberalization can produce adjustment costs that raise poverty, compensatory policies can be considered to mitigate this impact (Winters, McCulloch, and McKay 2004).

**Future orientation to meet investment needs**

An orientation toward the future—the willingness to postpone current consumption in return for higher consumption later—is essential to generate the savings needed to finance investment. The speed of growth, especially in early stages of development, is limited mainly by the pace of investment—both public and private—which reflects the availability of both domestic and foreign savings. Future-oriented economies are characterized by their ability to raise funds and invest them productively, generating lasting growth in the process. Investment needs are broad and cover infrastructure as well as education and health. Public infrastructure investment (in roads, ports, airports, and power) helps attract private investment and paves the way for diversification and structural transformation. Sufficient fiscal space is needed to finance infrastructure needs, but governments can also team up with the private sector in public-private partnerships that share financial benefits and burdens while clearly delineating risks.

Access to infrastructure has potentially important effects on the ability of the poor to generate income. Connective infrastructure is a crucial means of linking the farms and firms where the poor live and work to markets. Electrification of poor areas in South Africa has resulted in a 9 percentage point increase in female labor force participation, consumption, and earnings by allowing reallocation of time use within the household thanks to time-saving electric appliances (Dinkelman 2011). Along the same lines, rural electrification in India has caused changes in consumption and earnings, with increases in the labor supply of both men and women, and it has promoted girls’ schooling by reallocating their time to tasks more conducive to school attendance. Investment in integration and connectedness through railroads in India has helped to reduce the exposure of agricultural prices and real income to rainfall shocks, and to diminish the famine and mortality risks associated with recurrent weather shocks (Burgess and Donaldson 2010).

**Investment in human development is key**

Achieving the ambitious World Bank Group goals will require leveraging human resources to their fullest potential. The capacity of households to contribute to overall growth and their own well-being depends on the assets they control, the returns to these assets, and how intensively the assets can be used (World Bank 2014c). The assets come in many forms, including human capital (education, health, nutrition), financial capital, physical capital (land, machinery), and social capital. Many of these assets—especially human and social capital—have both intrinsic and instrumental value. They are goods in their own right and contribute to well-being, and they also increase a person’s income-generating capabilities. The focus on inequality of opportunities rather than inequality of outcomes is motivated by the need to provide incentives to accumulate human and physical capital. However, the same inequality of outcomes may prevent poorer households from borrowing to accumulate human and physical capital, which perpetuates poverty and inequality. Policies that enable poorer
households to accumulate assets by reducing inequalities of opportunity are therefore crucial.

Equitable access to quality social services is key. To upgrade the human capital of lower-income groups, investments need to be made to ensure equality of access for critical basic social services, such as education, health, water, and sanitation. These investments often take place over multiple periods, with critical windows and sensitive periods depending on the type of investment. For example, in low- and middle-income countries, policies targeted at promoting infant and child survival and those focused on investments in nutrition and stimulation during the first years of life have the highest potential returns. Addressing deprivations during the prenatal period is critical. Providing access to prenatal care and ensuring that births are managed by skilled professionals will reduce the odds of maternal and child mortality (Campbell and Graham 2006).

Beyond birth and survival, early environments have a powerful influence on shaping long-term outcomes. Socioeconomic gaps in child development emerge early in life, before school begins; persist through childhood; and are strongly predictive of adult outcomes, shaping social and economic inequalities in the long run (Fryer and Levitt 2004; Paxson and Schady 2007).

**Access to quality education for all**

Investments to increase access to education and vocational training and to improve educational quality are needed to equip poor people to take advantage of opportunities. Despite impressive gains in school enrollment over the past 25 years, 55 million primary-school-age children do not attend school, especially in Sub-Saharan Africa. In some cases no school is nearby, but more often other obstacles prevent children from attending school. School fees may be prohibitively expensive for parents. Even schools that are nominally free may be unaffordable because of ancillary costs such as books, supplies, uniforms, or miscellaneous fees. The opportunity cost of attending school may be too high for children who are needed to attend to household chores such as collecting water or firewood, cooking, caring for younger children, or helping with the family farm. Parents may consider the financial and opportunity costs too high if they are unaware of the potential returns to investing in their children’s education, or they may rightly calculate that the returns are low because absentee teachers or lack of supplies deliver a low-quality education.

In middle- and high-income countries, where the quantity of education has been more impressive than its results, it is a priority to ensure quality of education. Access to primary and secondary education is widespread or universal in richer countries, where indicators of enrollment and years of schooling are generally good (see box 1.9 for the example of Chile). But important differences persist in the terms of access and outcomes (figure 1.22). Students from poorer families often receive inferior-quality education, worsening their learning outcomes. For example, in countries such as Argentina, Brazil, Bulgaria, Indonesia, and Tunisia, the share of B40 students who demonstrate basic math competencies in the Programme for International Student Assessment test is less than half that of top 20 percent students (World Bank 2015e). In South Asia, inequalities in educational outcomes appear to be increasingly driven by differences in school quality rather than by access to schools (World Bank 2015a). This situation is especially apparent in settings where higher-income households can turn to private schools when public schools are failing.

Improvements in educational quality require that schools and teachers be held accountable for student performance. Building schools, training teachers, and procuring supplies are only the first steps. In addition to adequate resources, school systems and teachers need to be accountable for using resources to deliver results according to established metrics. Not only must teachers show up but they also must be given the right incentives, as well as the complementary inputs and support, to teach effectively. Evidence from Kenya shows
how greater parental and parent-teacher association involvement in teacher selection and school governance can improve the quality of education and student performance (Duflo, Dupas, and Kremer 2015). Greater exposure to the quality of services available elsewhere may also help parents and teachers demand better educational quality. Despite

BOX 1.9  Chile’s growth-with-equity approach

Chile’s growth-with-equity approach has produced substantial development progress. Infant mortality declined between 1990 and 2011 from 16 deaths per 1,000 births to 7—the second-lowest level in Latin America. As measured by the Gini index, income inequality declined from 57.3 to 50.8 between 1990 and 2011, and the income share held by the bottom 40 percent (B40) rose from 9.9 to 12.7. Since 1990, gross domestic product (GDP) per capita growth has averaged 3.9 percent a year. This progress can be associated with policies that aligned growth with equity. The economy was opened to international trade and disciplined by fiscal prudence. Government expenditures were directed toward programs that prioritized families’ investments in health and human capital to reduce the inequality of opportunity. Overall Chileans are healthier and better educated than they were in 1990, and they enjoy higher standards of living.

The policies Chile undertook resulted in broad benefits for the B40. For instance, figure B1.9.1 shows increasing secondary completion rates for workers in the B40 across all sectors in the economy. As a result, the education gap between the B40 and the T60, shown in figure B1.9.2, decreased steadily as Chile progressed toward universal secondary education. Alongside these developments, national labor productivity increased from $12 to $28 for an hour of work.\(^a\)

More work, however, remains to be done. Chile’s level of inequality remains high compared with the region and Organisation for Co-operation and Development (OECD) countries. Chile’s inequality is also reflected in low intergenerational social mobility, which is largely caused by unequal access to quality education (Núñez and Miranda 2011). Social public spending has risen significantly over the last two decades, especially on health and education, but still lags regional and OECD averages. The Chilean tax-transfer system is characterized by low progressivity and has been less effective in reducing poverty and income inequality compared with the experience in the OECD (IMF 2014a).

FIGURE B1.9.1  Across all sectors, Chilean B40 workers are now better educated

![Secondary completion rates of the bottom 40% across sectors](image)

Secondary completion rate (%)

- Agriculture
- Industry
- Services

Source: World Bank calculations, based on CASEN and data from the Conference Board.

Note: For productivity: Total Economy Database; share of workers by sector and level of skill from the B40 was calculated using household surveys (Encuesta de Caracterización Socioeconómica Nacional) from Chile for the respective years. PPP = purchasing power parity.

FIGURE B1.9.2  Educational catch-up of the B40 went hand-in-hand with rising productivity

![Educational gap and labor productivity](image)

Secondary education gap (bottom 40% to top 60%)

- Labor productivity per hour worked (2014 PPP)

Source: World Bank calculations, based on CASEN and data from the Conference Board.

Note: For productivity: Total Economy Database; share of workers by sector and level of skill from the B40 was calculated using household surveys (Encuesta de Caracterización Socioeconómica Nacional) from Chile for the respective years. PPP = purchasing power parity.

\(^a\) The Conference Board’s Total Economy Database. http://www.conference-board.org/data.
the pronounced gaps in educational performance, people in the B40 express as much or more satisfaction with public education services than do those in the T20 in most regions; the main exceptions are South Asia and, to a lesser extent, Sub-Saharan Africa (figure 1.23).

**Health care to meet evolving needs**

In the health sector, investments are needed to strengthen the physical infrastructure, especially the systems that deliver health care. The quality of health care delivery needs to be upgraded, particularly in key areas such as primary care and maternal and child health. At the same time, health care services need to be extended to areas that are currently underserved, possibly through partnerships with the private sector and greater use of community-level providers. As in education, increasing the accountability of the health system is crucial and can be achieved by better linking spending to results, as community-level monitoring has done in Uganda (Gill and Revenga forthcoming).

Reducing the costs of health care for low-income individuals is also needed, including better control of both official out-of-pocket payments and unofficial fees that are sometimes paid to speed delivery of services.

Richer countries, especially those whose populations are aging rapidly, need health systems that are equipped to meet the growing burden of chronic noncommunicable diseases. Treatment of cardiovascular diseases, chronic respiratory diseases, cancer, and diabetes claims a rapidly growing share of national health care budgets. For low-income households without adequate health insurance, these diseases also have a major impact on household budgets. The incidence of noncommunicable disease can be curbed by prevention-oriented policies such as dietary education, food price policies that do not effectively subsidize unhealthy foods, public funding for smoking-cessation programs, and programs to encourage more physically active lifestyles. Policies that contain the out-of-pocket costs for low-income patients are also needed.
**Water and sanitation for healthy environments**

Creating an environment conducive to good public health is just as important as improving the health care system. Improving health and physical well-being begins with prevention. Lack of access to clean water and sanitation leaves poor people susceptible to infectious disease both in the rural countryside and in congested urban slums. Provision of piped water and latrines has been shown to reduce disease and child mortality. A healthy environment has an intrinsic positive impact on the quality of life and an instrumental impact on productivity in the workplace and on full participation in society. Beyond the initial investment to install adequate water supply, sanitation, and drainage facilities, it is critical that the systems be maintained regularly.

**The poor and vulnerable need robust insurance**

Robust mechanisms are needed to assist both those left behind in the development process and those whose well-being can be severely negatively affected by various shocks. Contrary to the general perception of social protection as a narrowly defined cash transfer program, a range of public interventions can protect the poor and vulnerable while promoting competitiveness and growth. Social assistance and insurance schemes are key components of a social protection system. They combine with labor market policies and regulations to form the broader social protection system. A well-functioning social protection system also enhances people’s capacity to manage risks, cushions the impact of crises or economic adjustments, and enables people to take greater advantage of economic opportunities. As cross-country experiences illustrate, social protection institutions are essential to address adversity and foster long-term prosperity (World Bank 2010b).

**Social assistance to address poverty**

Effective social assistance programs can provide the poor with a floor that keeps them from destitution, as well as a ladder to help escape poverty. Noncontributory social transfers ensure that those who are not able to take advantage of opportunities in the labor market can still meet their basic needs. These transfers may also give poor households the financial breathing room to pursue investment opportunities, such as schooling for their children, which might otherwise be unaffordable. They also provide an element of protection from transient shocks. Fiscally efficient transfers are those that are both well targeted to the poor population (low errors of inclusion) and have good coverage (low errors of exclusion). The design of social assistance...
policies is an important determinant of their effectiveness; avoiding disincentives to work, such as sharp reductions in benefits for relatively small increases in earned income, is particularly important.

Conditional cash transfers provide benefits to alleviate current poverty while simultaneously promoting behavior that is likely to provide a pathway out of poverty. Pioneered in Latin America and now in place around the globe, such programs provide cash or noncash benefits to families on the condition that they make investments in human capital, such as taking their children for vaccinations or other preventive health services or sending their children to school. The cash transfers received by households not only ease their poverty but also allow them to look beyond their immediate subsistence needs to invest in their children’s futures.

**Social insurance to deal with vulnerability**

Individuals—especially those among the already poor and the B40—face a variety of risks that can have serious consequences for their well-being. External shocks, such as localized droughts or floods, and repeated shocks can drive households into (deeper) poverty. Commodity price volatility may depress income from agriculture and may hurt the vulnerable the most. Events specific to individuals, such as illness or poor health of the head of household, can have the same effect. In these cases it is not joblessness per se that pushes families into poverty but rather the destruction of personal and household assets. Even taking these shocks into account, however, job losses remain a critical factor sending people deeper into poverty. More generally, as countries pursue market-oriented structural change and expose their economies to greater forces of competition, adjustment costs may arise in the near term even if over the longer term net positive benefits may accrue. However, a competitive economy can coexist with an inclusive society if minimum levels of protection are provided against the risks of economic restructuring.

Social insurance policies are an important mechanism for providing protection against such risks. Social insurance policies are not only designed to help families through idiosyncratic shocks but are also geared to keep people out of poverty from predictable events; contributory old-age pensions to provide income during retirement are one example. The choice of policy instrument depends upon the nature of the risk being considered and the affordability of the intervention. Precautionary policies can cushion the vulnerable against shocks to a limited extent. In developing countries, where farming and self-employment are more prevalent and income support mechanisms more limited, macro-economic instability caused by price shocks has less impact on open unemployment and more on earnings from work (World Bank 2013b). Governments can adopt active social protection policies to mitigate the impact of shocks on the poor. Many countries have public unemployment insurance systems to help mitigate the risk of job loss. Many also have disability insurance to cover situations where illness or injury affects employment opportunities.

**Global insurance to absorb systemic shocks**

Beyond assisting the destitute and insuring against individual risks, protection also needs to extend to large systemic shocks. Natural disasters or global pandemics are examples of systemic shocks that can set progress back for years. Natural and climate-related shocks appear to be growing in importance, with the poor in low-income countries the least prepared for managing such risks. To better equip them to cope with these risks, a range of options exists that transcends borders. One option is to ensure that funding for disaster preparedness and disaster response is already available before such events occur. In this context, the World Bank Group has worked with donors and the private sector to develop a Disaster Risk Financing and Insurance facility that does exactly this. A similar initiative, the Pandemic Emergency Facility, is being developed to quickly disburse substantial funding in response to objective epidemiological criteria. An additional goal of such initiatives is to stimulate greater country
investments in preparedness. These include early-warning systems, response planning, training of frontline professionals, and preparedness equipment and logistics, as well as investments in health systems (Gill and Revenga forthcoming; World Bank 2013c.)

**Conclusion**

Every country in the world—low-, middle-, and high-income—continues to grapple with poverty. In developing countries, extreme poverty remains a concern. As indicated by the new global poverty estimates, based on the 2011 PPP indexes, developing countries have made a great deal of progress in reducing extreme poverty. Yet the challenges remain vast. Reaching the World Bank’s target of reducing extreme poverty to 3 percent of the world’s population by 2030 is ambitious, particularly for NRB and conflicted-affected countries in Sub-Saharan Africa. The latest poverty estimates and projections show that, to meet the global target, policies must go beyond targeting rates of aggregate economic growth, because growth alone will not be sufficient to achieve the goal. Economic growth has helped reduce poverty by about 1 percentage point a year since the 1980s. Yet, in the absence of targeted and effective policies, it is likely that this rate will not be sustainable, particularly as the 3 percent target is approached. Unless extra efforts are made to ensure economic, environmental, and social sustainability, the pace of poverty decline associated with a given rate of economic growth can be expected, at some point, to diminish markedly and possibly even reverse.

Just as critically, ending global poverty requires more than reducing the number of people living below the extreme poverty line. Even if the 3 percent target were reached in the aggregate, many countries would still have high levels of poverty. Similarly, within countries deep pockets of poverty would remain, often in rural areas, where broader economic growth as a poverty eliminator may still not reach the poor. The deepening impact of climate change will contribute to such spatial concentrations of poverty by endangering agricultural output through different channels, including through negative effects on access to fresh water. Moreover, poverty is not just about income: the levels and trends in income-based poverty are imperfectly correlated with other basic variables such as under-five mortality, primary education, and undernourishment. It is possible that even if the first goal of eradicating extreme poverty were achieved in income-based terms, acute multidimensional poverty could still be prevalent.

Many countries—including high-income countries—have seen robust income growth among the poorer segments of the population, but progress has been uneven and challenges remain. Persistent inequalities in opportunities continue, constraining not only the well-being of those affected but also their income-generating capacity and thereby the prospects for broad-based economic growth that benefits everyone. New challenges are also appearing. In a range of countries, growth—a key driver of shared prosperity—may be less buoyant than it was before the global financial crisis. Further constraints may arise if the underlying factors that led to an increase in the B40 income share in many countries turn out to be transitory or unsustainable. In light of these factors, further policy efforts will be needed not only to advance the agenda where progress has remained incomplete or uneven but also to preserve the gains of the past.

The policy approaches for sustainably ending global poverty and boosting shared prosperity are similar in spirit. Complementary policies are needed to foster economic growth while also lifting the incomes of those on the bottom rungs of the economic ladder. Good identification methods are needed to assess poverty in all its dimensions. Efforts can be targeted geographically to regions (particularly Sub-Saharan Africa), to individual countries, and to locations within countries. Countries also would do well to pursue a comprehensive strategy focused on generating broad-based growth, investing in human development, and providing robust social
protection mechanisms. Throughout, such strategy needs to be mindful of sustainability—economic, social, and environmental. With such strategies in place, the world stands a better chance of ending extreme poverty by 2030 and lifting the well-being of lower-income people in every country of the world.

Notes

1. Monetary poverty measures are based on household surveys that measure deprivation on the basis of either income or consumption data. To simplify, this Report refers to “income” poverty for both cases. In a similar vein, most references to poverty, unless explicitly stated otherwise, mean “extreme” poverty.

2. The availability and the quality of data remain a concern in the assessment of both goals, and the robustness of underlying methodologies will require continued scrutiny. Increasing the availability and quality of data is a key priority to strengthen analysis, policy formulation, and policy implementation (World Bank 2015d).

3. Forthcoming update of World Bank 2011a. Furthermore, 7.0 million deaths in developing countries in 2010, or 18 percent of total deaths, were due to pollution (IHME 2010).

4. Based on the international poverty line of $1.90 a day (2011 PPP). A similar trend is observed when comparing 1990 with 2011 using a poverty line of $1.25 a day (2005 PPP).

5. China became an upper-middle-income country in 2010.

6. Because poverty data for several fragile and conflict-affected states are unavailable, the actual numbers of poor living in these countries could be much higher.

7. To evaluate the inclusiveness of growth, it is useful to examine how the rate of average income growth transmits into changes in poverty alleviation. The depth elasticity compares the growth elasticities of the person-equivalent and traditional headcount ratios. It also indicates how well changes in the traditional headcount predict changes in the person-equivalent measure (Castleman, Foster, and Smith 2015).

8. The MPI is calculated and reported yearly by the Oxford Poverty and Human Development Initiative and the United Nations Development Programme (Alkire and Foster 2011; Alkire and Santos 2013).

9. While household surveys may track consumption or income, reference is made just to income for convenience.

10. The second of the World Bank Group’s goals has been extensively discussed in World Bank (2013b, 2015c). The discussion in this Report builds on these publications, focusing selectively on only two aspects: links to equity and inequality, and the non-income dimension.

11. See also the influential book on redistribution with growth (Chenery et al. 1974) and the broad-based growth discussion in World Bank (1990).

12. Rauniyar and Kanbur (2010) provide an example of the latter, which closely connects to examining how shared prosperity, when measured in all of its dimensions, benefits the less well-off.

13. In some respects, the indicator is itself a multidimensional amalgamation because it summarizes the ability to obtain goods and services critical for welfare through market transactions.

14. Basu (2001, 2006) noted that income indicators focusing on the poorer income deciles may correlate more strongly than average incomes with non-income indicators of well-being, such as greater life expectancy and higher literacy.

15. If the shared prosperity objective were illustrated by a social welfare function, it would attach positive weights through the 40th percentile but zero weight thereafter. A singular focus on the B40, however, would conflict with the poverty goal (given that in many countries extreme poverty incidence is well above 40 percent); it would also be inconsistent with the requirement of social sustainability (which requires that the interest of the B40 cannot be considered with total disregard to or independently of the rest of the income distribution).

16. Derived from “prosperitas” (“doing well” in Latin), prosperity can be defined as a state, the optimal distribution of which over a
given population inevitably involves normative questions about social equity. Therefore, shared prosperity—or “prosperitas vulgaris” (that is, prosperity shared by all)—intrinsically reflects a societal value judgment about the equitable distribution of resources as articulated through a process of social choice.


18. Indicators based on mean income growth tend to penalize the less well-off. Since average income weights the incomes of everyone equally, it assigns a greater weight to those in richer percentiles of the income distribution, since richer percentiles have higher incomes (World Bank 2015b).

19. Such a strategy is indicated in World Bank (2013b, 19), where the shared prosperity objective is articulated “to achieve the maximum possible increase in living standards of the less well-off.” Other references, however, such as World Bank (2015c, 1) suggest that the objective merely entails “increasing the average incomes of the bottom 40 percent of the population in each country.”


22. Today, the richest 10 percent of the population in Organisation for Economic Co-operation and Development countries earns 9.5 times the income of the poorest 10 percent; in the 1980s this ratio stood at 7:1, and it has been rising ever since (Cingano 2014).

23. The previous section examined B40 income growth and its implications for the B40 percent income share, a measure of inequality of independent interest, with a view to illustrate different patterns across countries. In this section, the B40 income growth is explained by the constituent components that are thought to drive the explanatory variable: average income growth and its elasticity with respect to the B40 (the change in the B40 income share), where the latter measure of inequality is treated as an instrument rather than an end in itself.

24. The authors examine the relationship through the lens of the social welfare function that corresponds to the shared prosperity concept, which coincides with the average income of the B40 group.

25. The observation also appears to hold within countries. Skoufias, Tiwari, and Shidiq (2014) find a strong positive correlation between overall consumption growth and B40 growth across provinces in Thailand.

26. The role of growth in accounting for changes in social welfare appears to be smaller for bottom-sensitive social welfare functions, mainly because the growth rate of the income shares of the poorest deciles exhibits the highest volatility between spells. This volatility is amplified by social welfare functions that place a high weight on the poor. Dollar, Kleineberg, and Kraay (2013) argue that part of this variation may be due to sampling variation.

27. Efforts are under way to incorporate inequality in longevity and unemployment across educational groups.

28. Primary completion rates in low-income countries are 20–30 percent for the B40 (70–100 percent for the T20). Even in middle-income countries, such as Albania, Lesotho, Nicaragua, and Nigeria, the gaps are significant.

29. For example, among 41 countries, the index of the inequality of opportunity is 2 percent in Norway compared with 34 percent in Guatemala.


31. The concept of change in total wealth per capita rests upon the premise of three forms of capital—natural, human, and physical. Transformation of one form of capital into another is possible. Thus, education expenditures are added to gross natural savings and partly offset the depletion of natural capital (World Bank 2014a, 124–29).

32. Specifically, McNamara said: “The two goals are intrinsically related, though governments are often tempted to pursue one without adequate attention to the other. But from a development point of view that approach always
fails in the end. For the pursuit of growth without a reasonable concern for equity is ultimately socially destabilizing, and often violently so. And the pursuit of equity without a reasonable concern for growth merely tends to redistribute economic stagnation. Neither pursuit, taken by itself, can lead to sustained, successful development.” (McNamara 1980).

33. World Bank (2005) finds that this elasticity is close to zero in countries with high income inequality.

34. The year 2015 marks the 40th anniversary of publication of Arthur M. Okun’s famous book, Equality and Efficiency: The Big Trade-Off. One of the original supply-side economists, Okun introduced the metaphor of the leaky bucket, which has become famous among economists: “The money must be carried from the rich to the poor in a leaky bucket. Some of it will simply disappear in transit, so the poor will not receive all the money that is taken from the rich” (Okun 1975, 91).

35. Some financial inclusion policies, such as broadening credit access (in government’s efforts toward achieving equitable opportunities), could entail a trade-off with macroeconomic stability even if they achieve higher growth (Sahay et al. 2015).

36. This section builds on Gill and Revenga (forthcoming) and World Bank (2010b, 2010c, 2014c).

37. These economies were Botswana; Brazil; China; Hong Kong SAR, China; Indonesia; Japan; the Republic of Korea; Malaysia; Malta; Oman; Singapore; Taiwan, China; and Thailand.

38. Commission on Growth and Development (2008) notes: “The growth of GDP may be measured up in the macroeconomic treetops, but all the action is in the microeconomic undergrowth, where new limbs sprout, and dead wood is cleared away.”

39. Howitt 2009. Aghion, Harris, and Howitt (2001) find, however, that greater competition does not automatically lead to faster productivity growth, because preconditions need to be satisfied so that firms are sufficiently enabled to innovate. For competition to effectively spur innovation, elementary risk mitigation and coping mechanisms need to be in place to protect individuals—though not necessarily industries, firms, or jobs—from the downside risks of failure.

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Scaling Up Impact: Transitioning from Millennium to Sustainable Development Goals

With 2015 marking a watershed between the MDGs and the SDGs, the world can celebrate the many development achievements since 2000. Still, outcomes vary substantially between regions, across the rural-urban divide, and by demographic characteristics. Even where good progress has been made, deprivations persist, leaving a substantial unfinished agenda. In a context of megatrends that are reshaping challenges and opportunities, the SDGs forge a global compact for transformational human progress while safeguarding the environment. The MDG experience highlights the importance of inclusiveness and country ownership, effective monitoring, and strong implementation, supported by enhanced financing for development.

Building on the Millennium Development Goals (MDGs) experience, the transition to the Sustainable Development Goals (SDGs) framework in 2015 reflects a welcome move into a more comprehensive, multidimensional approach to development. During this watershed year, with the MDGs expiring and the SDGs being adopted, it is worth reflecting on what has been accomplished during the past 15 years, and how the SDGs can best carry the development agenda forward over the coming 15 years.

Substantial progress has been made in recent decades, although there is much heterogeneity among regions, between rural and urban areas, and in demographic features. In many ways, development has advanced more rapidly over the past 15 years than at any other time in human history. Millions of people have realized major improvements in well-being. Still, the wide variation in outcomes translates into a substantial unfinished development agenda. With over 900 million people still living in poverty in 2012 (defined as living on less than $1.90 a day, 2011 purchasing power parity), persistent and increasingly concentrated deprivations urgently need to be addressed (chapter 1). At the same time, the importance of environmental sustainability has moved to the fore, and new patterns of eco-friendly production and consumption are necessary to ensure continued development progress.

The MDGs played an important role in galvanizing global efforts for development. Given the complexity of development, the gains of recent decades cannot be attributed to any single factor or process. Nonetheless, the MDGs helped frame the broader goals of development and build a coalition
of partners—international agencies, national entities, philanthropic and civil society organizations, academic institutions, and private sector representatives—to work toward common goals.

In sync with the megatrends reshaping the world, the SDGs represent a new, more comprehensive approach for scaled-up impact. These megatrends—rising global connectedness, the importance of the dynamic economies in the East, the increasing pace of technological change and adoption, accelerating urbanization, changing global demographic trends, and the growing impact of human activity on environmental degradation and climate change—have all emerged over the past two decades and are having profound effects on the evolution of development outcomes. Whereas the MDGs of the Millennium Declaration were conceived as a framework committing nations to reduce extreme poverty through enhanced assistance to developing countries, the SDGs represent a global compact that is applicable to all countries, so that all may benefit more from global interconnections while safeguarding the environment and the global commons.

The SDGs seek to accelerate progress with a strong focus on implementation. The SDGs reflect learning from the MDG experience. Better implementation, based on strengthened policies and institutions, as well as resource mobilization, will be essential to accelerate progress between now and 2030.

The Millennium Development Goals: Current status

Development progress over the past 15 years has been impressive. Millions of children who were unlikely to survive to their fifth birthday have passed beyond these critical years and gone on to school in ever greater proportions, including many more girls than was the case 15 years ago. The incidence of preventable diseases such as AIDS (acquired immune deficiency syndrome), malaria, and tuberculosis is falling, and the share of people with access to clean water and better sanitation has risen markedly (see figure 2.1 and the MDG Report Card in appendix A for details). Overall, the MDGs played an important role in helping to galvanize the development community (McArthur 2013), and that experience will serve the achievement of the newly endorsed SDGs well.

The MDG period saw substantial development progress

The proportion of people facing extreme poverty has declined sharply (detailed in chapter 1). The world met the global MDG 1 target of halving the proportion of the population living in extreme poverty five years ahead of the 2015 deadline (World Bank 2014). China contributed the bulk of this decline. Even excluding China, progress in reducing extreme poverty has been good, and more than two-thirds of countries have reached, or are close to achieving, the target of halving extreme poverty. With the incomes of households in the lowest quintiles (at the national level) rising together with average incomes, the accelerated growth of developing countries in recent decades relative to previous ones made an important contribution to the reduction in extreme poverty (Dollar and Kraay 2002, 2013).

Developing countries have made impressive strides in reducing hunger and malnutrition, although the target of halving the number of people living in hunger is unlikely to be reached by 2015. The prevalence of malnutrition among children under age five dropped from 28 percent in 1990 to 17 percent in 2013. Several international nutrition initiatives, such as the “Nutrition for Growth” project and the “Zero Hunger Challenge,” as well as country-led efforts, have contributed to the improvement. Brazil remains a remarkable success story. In 1990–92, it was home to some 22 million undernourished people, yet over the past decade it has reduced hunger by some 80 percent. Poverty reduction efforts, support for family farmers, school feeding programs, social safety nets, and food access schemes were instrumental in reducing hunger in Brazil. Nonetheless, at the global level, one in eight people in the world...
FIGURE 2.1 Stark variations exist in achievement of MDGs

Goal 1: Eradicate extreme poverty and hunger.
Target 1.A: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.
Indicator 1.1—Proportion of population living below $1.25 (PPP) a day

Goal 1: Eradicate extreme poverty and hunger.
Target 1.C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
Indicator 1.9—Prevalence of undernourishment

Goal 2: Achieve universal primary education.
Target 2.A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
Indicator 2.2—Primary completion rate

Goal 3: Promote gender equality and empower women.
Target 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
Indicator 3.1—Ratio of girls to boys enrollment in primary and secondary education

Goal 4: Reduce child mortality.
Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
Indicator 4.1—Under five mortality rate

Goal 4: Reduce child mortality.
Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
Indicator 4.2—Mortality rate, infant

Goal 5: Improve maternal health.
Target 5.A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.
Indicator 5.1—Maternal mortality ratio, modeled estimates

Goal 7: Ensure environmental sustainability.
Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.
Indicator 7.8—Access to an improved water source (% of population)

Goal 7: Ensure environmental sustainability.
Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.
Indicator 7.9—Access to improved sanitation facilities

Number of countries

Sources: World Development Indicators and Global Monitoring Report team estimates.
Note: Progress is based on extrapolation of latest five-year annual growth rates for each country, except for MDG 5.0, which uses the latest three years. “Sufficient progress” indicates that an extrapolation of the last observed data point with the growth rate over the last observable five-year period shows that the MDG can be attained. “Insufficient progress” is defined as being able to meet the MDG between 2016 and 2020. “Moderately off target” indicates that the MDG can be met between 2020 and 2030. “Seriously off target” indicates that the MDG will not even be met by 2030. “Insufficient data” means that not enough data points are available to estimate progress or that the MDG’s starting value is missing (except for MDG 2 and MDG 3). In the poverty target, 11 of the 66 countries that have met the target have less than 2 percent of people living below $1.25 a day.
continues to go hungry because of interrelated factors such as low agricultural productivity and unemployment (Sanchez and Swaminathan 2005).

Access to primary school education and literacy rates are increasing strongly. Education is a goal in and of itself, but it is also a powerful driver of progress toward other MDGs. Education builds what Amartya Sen (1999) refers to as “human capabilities—the essential and individual power to reflect, make better choices, seek a voice in society, and enjoy a better life.” Between 2000 and 2012, the increase in primary school enrollment in developing countries rose from 83 percent to 90 percent, almost twice as fast as over the preceding 12 years. Consequently, the number of children not attending school dropped from 102 million to 57 million, notwithstanding continued population growth. National programs that lowered barriers to accessing education and global initiatives, like the Global Partnership for Education (previously known as the Education for All—Fast Track Initiative), helped to ramp up primary school enrollments rates (Bruns, Mingat, and Rakotomalala 2003; Riddell 2003). In addition to ongoing efforts to expand coverage to all children, attention is turning toward improving quality.

The promotion of gender equality and empowerment of women is moving forward, as evidenced by the remarkable progress toward eliminating gender disparities in education. Almost two-thirds of countries have reached the target. Greater education for girls has long-term impacts: improving the health of infants and children, immunization rates, family nutrition, and the next generation’s schooling attainment (World Bank 2001). For every 100 boys who attended secondary school in 2000, there were only 90 girls. Focused attention to girls’ education at the country level, supported by global partnerships (such as the Girls Education Initiative), is helping promote gender parity in primary and secondary enrollment. Despite progress in school attendance, questions remain on the quality of education, and less progress is evident at the tertiary (postsecondary) level.1

In addition, closing gender gaps is necessary but not sufficient for achieving the broader goal of gender equality and women’s empowerment (UN 2005). Wide gender disparities persist, acting as major hindrances to development progress.

Many developing countries are achieving major reductions in child mortality. The number of children who die before their fifth birthday fell from 13 million in 1990 to just over 6 million in 2013, implying that 17,000 fewer children die each day compared with 1990. Examples of effective country-level interventions that have saved thousands of lives come from around the world, including 10 low- and middle-income “fast-track” countries: Bangladesh, Cambodia, China, the Arab Republic of Egypt, Ethiopia, the Lao People’s Democratic Republic, Nepal, Peru, Rwanda, and Vietnam (PMNCH et al. 2014). Contributing to the success were an increase in the provision of maternal and neonatal services (helped by cash incentives to use them), an expansion of immunization programs, greater use of mobile phones to promote health (including information on nutrition and breast-feeding), wider access to sanitation and safe water, and stronger data systems to inform policy (Roberts, Caranahan, and Gakidou 2013). Yet, at current trends, the target of reducing under-five mortality rate by two-thirds between 1990 and 2015 will not be met.

Maternal mortality has declined by nearly two-fifths since 2000. For every 100,000 live births, 370 mothers perished in 2000. By 2013, this had fallen to 230—a rate of decline more than twice as fast as in the preceding decade. Progress hinged on expanding access to both prenatal and postnatal care (such as increasing the share of births attended by skilled practitioners), strengthening patient referral networks, boosting family planning, and expanding the education of girls (PMNCH et al. 2014). Enhancing the educational attainment of girls has been found to be especially effective—the risk of maternal death is 2.7 times higher among women with no education than among those who have completed 12 years of school, and 2 times higher for women with 1 to 6 years of education (Karlsen et al. 2011). Despite the
progress over the past decade, the target of reducing maternal mortality rates by three-quarters will not be achieved.

The incidence of AIDS, malaria, and tuberculosis has fallen sharply in recent decades. Since 2001, the number of people newly infected with HIV (human immunodeficiency virus, the virus that causes AIDS) has declined by about 33 percent. In addition, access to antiretroviral medicines has increased to a record 9.7 million people. In Sub-Saharan Africa, only 10,000 people had access in 2000. Likewise, the incidence of tuberculosis fell at an average rate of 1.5 percent a year between 2000 and 2013, and deaths from malaria fell by some 26 percent. It is estimated that since 2000, about 1.1 million deaths from malaria have been averted. Complementing national plans, global initiatives such as the Global Fund to Fight AIDS, Tuberculosis and Malaria; the U.S. President’s Emergency Plan for AIDS Relief initiative; the World Health Organization’s (WHO’s) “3 by 5” initiative; the MDG Health Alliance; and the “Malaria No More” campaign helped accelerate progress. Lower burdens of AIDS and noncommunicable diseases have been associated with much greater progress toward reducing child mortality (Stuckler, Basu, and McKee 2010).

The MDG targets on access to safe drinking water and sanitation, and reducing the number of slum dwellers, have been reached. Between 1990 and 2011, about 1.9 billion people gained access to improved sanitation facilities, helping curb the incidence of illness associated with open defecation. The most progress occurred in East Asia and Pacific. Between 2000 and 2010, more than 200 million slum dwellers gained access to improved water and sanitary conditions, well above the MDG target of 100 million. Yet with increased urbanization and rapid population growth in some regions, the overall number of slum dwellers increased from 650 million in 1990 to 863 million in 2012. More work needs to be done to reduce the absolute number of slum dwellers, despite the attainment of the MDG goals.

The MDG process helped strengthen global partnerships. In 2013, Development Assistance Committee members of the Organisation for Economic Co-operation and Development (OECD) increased development aid disbursements to $134.7 billion, compared with about $80.0 billion in the mid-1990s. However, at 0.3 percent of GDP, official development assistance (ODA) remains well below the target of 0.7 percent of GDP. On the goal of access to Internet and communication technologies, there has been much progress. Spearheaded by private sector investments, mobile/cellular subscriptions have risen dramatically in developing countries since 2000, enabling a range of services such as cellphone banking and information sharing on market prices of agricultural produce. Nonetheless, broadband Internet access remains out of reach for many.

Synergies across the MDGs have helped progress

While progress on each of the MDGs is often considered separately, they are mutually reinforcing and interrelated. Income and non-income dimensions of poverty are closely intertwined, with several studies showing that households in the lowest income quintiles also face deprivation on other dimensions of development (as elaborated in chapter 1). There are also strong correlations among non-income MDGs, such as female literacy and under-five mortality (figure 2.2). In some instances, these correlations are the result of common drivers, such as the quality of public institutions, the capacity to deliver social services, the extent of urbanization, and demographic trends. Nonetheless, strong causal relationships exist among various MDGs, such as between maternal health and school enrollment, gender gaps in education and infant mortality, and access to sanitation and stunting among children, highlighting areas that are mutually reinforcing.

The MDGs related to health are especially important in providing mutual reinforcement. Improving maternal health has been critical for both neonatal and under-five mortality, helping to reduce complications during pregnancy and at birth (King, Klasen, and Porter 2009). Interventions to expand immunization
and nutrition programs contributed to the fall in under-five mortality rates in several countries (Lay 2010). The increased rollout of antiretroviral drugs over the past decade contributed to a reduction in maternal mortality in regions where HIV prevalence was high (WHO et al. 2014). In addition, health-related MDGs matter for other MDGs. Fewer maternal deaths boosts school enrollment, since children whose mothers are absent are more likely to drop out of school.

Likewise, improvements in MDGs related to gender equality influence both income and non-income goals. Closing the gender gap in education is essential to boosting women’s voice and agency and appears to be the single most important driver for reducing poverty and child mortality, as well as for boosting the overall education of children (Klasen 2005; Klugman et al. 2014). Education of girls can reduce infant and maternal mortality, because educated mothers are more likely...
to use available health services. The odds of children in Sub-Saharan Africa receiving the tuberculosis vaccine is 50 percent higher among children of mothers with primary school education relative to those without (Lay and Robilliard 2009). While the availability of piped water reduced the overall incidence of child deaths in rural India, the effect was weaker among poorly educated mothers. Better education leads to higher earnings for women, which contributes to lower child mortality as mothers are able to spend more on children’s health. As noted above, education for girls remains key to reducing maternal mortality through its effect on lowering adolescent pregnancies and enhancing health-seeking behaviors. Education for girls and boys is also a strong preventive weapon against HIV/AIDS, and it contributes to better natural resource management, including the conservation of the tropical rain forest (Godoy and Contreras 2001; World Bank 2003).

Expanding access to sanitation is essential to reducing stunting among children. Open defecation has a significant impact on the incidence of diarrhea and stunting among children (Hammer and Spears 2013; Spears 2013). For example, after controlling for factors such as socioeconomic status, maternal education, and calorie availability, differences in open defecation still explain 35–55 percent of the statistical differences in rates of childhood stunting across different districts in India (Spears, Ghosh, and Cumming 2013). Sanitation still remains a major challenge in India, where more than half the population defecates in the open. In Cambodia, five-year-old children were found to be 2.0–3.6 centimeters shorter in communities where all households defecate openly than in communities where no one does (World Bank 2013b).

Access to safe water, sanitation, women’s education, gender equality, and the quantity and quality of food available are key drivers of past reductions in stunting, with income growth and governance playing essential facilitating roles (Smith and Haddad 2015).

Strong institutions and economic growth enhance the synergies among the MDGs. Theoretical and empirical evidence demonstrate how MDGs reinforce one another, but the effects vary. For example, in some instances there is little correlation between poverty reduction and non-income goals, such as under-five mortality or primary school completion rates (Bourguignon et al. 2008a). Among pairs of non-income MDGs, such as gender parity and child mortality, performance varies significantly across developing countries (Klasen and Lo Bue 2013). Positive spillovers between MDGs are hampered by low-quality public services and weak political commitment, as well as by violence and inequality. In contrast, countries exhibiting high rates of economic growth, strong institutions, and good governance tend to show stronger synergistic relationships among the MDGs, because these determinants mutually reinforce each other over time (Lo Bue 2013, 2015; Klasen and Lo Bue 2013).

Progress toward the MDGs varied greatly

Despite the solid development gains in many areas, significant work remains, particularly regarding the non-income goals. The tide has turned on the incidence of major deadly diseases, but a high number of preventable deaths persist. With the development of new medicines, HIV patients receiving treatment have nearly the same life expectancy as those without HIV. However, about 63 percent of people living with HIV, mostly in developing countries, lack access to antiretroviral drugs. Tuberculosis killed 1.5 million people in 2013, many in the prime of their productive lives. An estimated 198 million cases of malaria were registered in 2013, claiming the lives of about 453,000 children a year and robbing Sub-Saharan economies of an estimated $12 billion in lost economic activity. As noted, the global partnerships needed to help address these challenges are not reaching their potential, with ODA averaging well below the target set by the MDGs (Kenny and Dykstra 2013). The heterogeneity of outcomes manifests across regions, between urban and rural areas, and by demographic features.
Variation across regions

While more than two-thirds of countries achieved the MDG target on halving extreme poverty—the highest success rate of all the MDGs—the decline in poverty across regions has been uneven.\(^2\) East Asia and Pacific realized an unprecedented fall of extreme poverty, led by China. In 1990, extreme poverty in the region was on par with Sub-Saharan Africa, and about a third higher than the average for all developing countries. China was a major driving force in the decline of the poverty rate of East Asia and Pacific. Buoyed by strong growth in India, poverty in South Asia fell rapidly during 1990–2012 reaching the MDG target.

Sub-Saharan Africa is the only region not on target to halve extreme poverty. There is substantial variation across Sub-Saharan Africa: 16 countries are expected to meet MDG 1 (based on the $1.25 income threshold) by the end of 2015, but 21 countries are not expected to reach the target even by 2030. Given that Sub-Saharan Africa started off the MDG period with the lowest average per capita income and exhibits a comparatively lower sensitivity of poverty to changes in growth (growth elasticity of poverty), the framing of the MDG benchmarks may place a greater onus on the region to achieve the goals (Clemens and Moss 2005; Easterly 2007). Compared with the two preceding decades, where extreme poverty either rose or remained flat, trends in the post-2000 period exhibited an acceleration of progress, with the $1.25 a day poverty head count ratio falling from about 60.0 percent in 2000 to 46.8 percent in 2011. That is a meaningful achievement, but concern is growing in the development community that poverty will become increasingly concentrated in natural-resource-based economies and fragile and conflict states, many in Sub-Saharan Africa (as discussed in chapter 1).

The three regions with better initial conditions also made progress. Compared with other developing regions, Europe and Central Asia, Latin America and the Caribbean, and the Middle East and North Africa started off with relatively low levels of poverty and managed to lower poverty further over the 1990 to 2012 period. Nonetheless, wide disparities in poverty levels exist across and within countries in these regions.

Wide disparities in the non-income MDGs persist across and within regions. For example, the primary school completion rate in developing countries as a whole rose from about 79 percent in 1990 to 91 percent in 2012, but only two regions, East Asia and Pacific and Europe and Central Asia, have achieved or are close to the goal of 100 percent. Consider MDG 4, which aims to reduce the under-five mortality rate by two-thirds between 1990 and 2015. Only East Asia and Pacific and Latin America and the Caribbean have met the target, while 17 countries in Sub-Saharan Africa and three countries in the Middle East and North Africa are seriously off track. Regarding HIV/AIDS, the number of people globally who are newly infected is falling, down 38 percent since 2000. Still, the epidemic remains centered in Sub-Saharan Africa, home to about 70 percent of the world’s adults living with HIV, with prevalence rates of 4.5 percent of the population in 2013, compared with below 1 percent elsewhere. Non-income MDG performed unevenly across countries and regions, reflecting initial conditions, economic growth, macro- and microeconomic policy, population dynamics, and effectiveness of government service delivery (Bourguignon, Diaz-Bonilla, and Lofgren 2008b).

Variation between urban and rural areas

Within countries, there are large disparities in development outcomes between better performing urban centers and lagging rural areas. More than three-quarters of the world’s extremely poor live in rural areas in developing countries. While overall poverty and the gap between rural and urban areas has been falling, poverty rates in rural areas remain substantially higher than in urban areas, as more high-paying and productive jobs are created in urban centers. Households
in rural communities in East Asia and Pacific and Latin America and the Caribbean are more than four times as likely to be living in extreme poverty as those in urban areas (World Bank 2013a). Sub-Saharan Africa has the largest gap in absolute terms, with poverty rates in rural areas of 29.4 percent in 2008, compared with 11.6 percent in urban areas—a gap of 17.8 percentage points.

Similar rural-urban differences are observed for the non-income indicators, largely because of the higher unit cost of delivering services in rural areas. For example, gaps in access to safe water and sanitation are substantial between rural and urban areas (figure 2.3). In East Asia and Pacific, while 98 percent of people living in urban areas have access to improved water sources and 80 percent have access to improved sanitation facilities, the corresponding figures for rural communities are 85 percent and 59 percent, respectively. The divergence is even wider in Sub-Saharan Africa, where the difference in access to improved water sources between urban and rural dwellers is more than 30 percentage points. Such disparities are also evident in other non-income dimensions. For example, in Senegal, 83 percent of children in urban areas complete primary school, but in rural areas only 57 percent of children reach this critical stepping stone.

Urbanization varies substantially across regions and is associated with large differences in development progress. The three regions with the highest rates of urbanization in 1990—Europe and Central Asia (74 percent), Latin America and the Caribbean (71 percent), and the Middle East and North Africa (55 percent)—also performed relatively better on both the income and non-income dimensions of poverty. Indeed, only a few countries have transitioned from poverty to prosperity without urbanizing (Ciccone and Hall 1996; Glaeser and Joshi-Ghani 2013; Glaeser and Maré 2001). Productivity and urban scale tend to go together (Melo, Graham, and Noland 2009; Puga 2010; Rosenthal and Strange 2004, 2010). However, urbanization stood at only 32.2 percent in South Asia and 36.7 percent in Sub-Saharan Africa in 2013. This disparity suggests substantial scope to reap development benefits from urbanization in terms of higher productivity from agglomeration economies and lower unit costs of service provision. Still, urbanization needs to be managed to

**FIGURE 2.3** Large disparities exist between urban and rural areas

![Graph showing disparities between urban and rural areas in access to improved water sources and sanitation.](source: World Bank calculations.)
ensure adequate service provision. As noted, although the MDG of improving the lives of 100 million slum dwellers was met, increased urbanization and population growth in some regions raised the overall number by one-third between 1990 and 2012.

**Variation across demographic patterns**

Finally, progress on the MDGs differs markedly depending on key demographic features. Of the countries deemed to be far from achieving the extreme poverty reduction target, 92 percent are in a demographic phase characterized by high fertility rates exceeding four children per woman, high ratios of dependents to people of working age, and rapid population growth. Countries in this demographic phase are also far from achieving most non-income MDG targets, including those on undernourishment (74 percent), under-five mortality (77 percent), maternal mortality (74 percent), sanitation (82 percent), and access to safe water (74 percent). In other key areas, such as gender equality as reflected in the share of women in secondary education or in wage employment outside the agricultural sector, there are major data gaps and indications of large disparities (UNESCO 2015). Almost all countries still in this demographic phase are in Sub-Saharan Africa (97 percent). (See part 2 of this report for a detailed discussion of demographic dynamics and development).

Rapid population growth can make development progress more difficult, and the MDG monitoring framework tends to magnify the impact of population growth. Not only can rapid population growth complicate efforts to expand coverage of public services, many MDG targets are expressed relative to population (Hermann 2015). For instance, Sub-Saharan Africa’s school-age population increased by 70 percent during the MDG period, and while the overall numbers of out-of-school children fell, the region is still lagging behind the MDG targets on universal school enrollment, given the large increase in the absolute number of children attending school. In another example from Sub-Saharan Africa, the under-five malnutrition rate fell from 29.2 percent in 1992 to 21.0 percent in 2013, but the number of malnourished children increased by 4.8 million, because of a 70 percent increase in the under-five population over this period.

Age structures also matter for the attainment of development goals. Savings and investment tend to be lower in countries with higher total dependency ratios than in countries where more of the population is of working age and the economy is benefiting from the so-called “demographic dividend.” Hence, countries with higher dependency ratios (often due to high fertility rates) generally have fewer domestic resources per capita to invest in social services, unless they are able to access international capital markets or receive substantial aid flows.

**A large unfinished agenda remains**

Taken together, disparities in MDG outcomes mean that much remains to be done. None of the MDGs has been achieved by all developing countries. The largest gaps in MDG progress are increasingly concentrated in countries characterized by high fertility and rapid population growth, many of which are natural-resource-based economies and struggling with fragility and conflict situations. However, even for developing countries that have made good progress toward the MDGs, an unfinished agenda remains internally across spatial dimensions, particularly along the urban-rural divide. Further, for most developing countries, some of the greatest challenges lie in meeting the non-income MDGs, in particular those related to health (maternal and infant mortality), nutrition (undernourishment and hunger), and environmental sustainability, including forest cover, fish stocks and ecosystem protection, as well as limiting carbon emissions. Nevertheless, the unprecedented development gains made over the past decade and a half, in part supported by the MDG process (box 2.1), provide ample evidence that the trajectory of development progress can be bent toward accelerated achievement on this unfinished agenda, while also tackling the emerging challenges in a changing world.
BOX 2.1 The MDG process has played a generally positive role in supporting development

Did the process of setting development goals make a discernable difference? What might have happened in the absence of the MDGs? Several empirical approaches have been adopted to address these questions. One method of trying to evaluate the impact of the partnership and monitoring framework on development progress centers on estimating counterfactuals, and then comparing how various indicators actually evolved (McArthur 2014). Another related approach is to analyze the trend of MDG indicators before and after the adoption of the MDGs and apply statistical tests aimed at discerning changes in their trajectories.

The evidence available shows that the MDG process had major impacts in some indicators but little direct effect in others. Under-five mortality (MDG 4), for example, has fallen dramatically in the poorest countries since the MDGs were agreed (McArthur 2014). Controlling for various factors, statistical methods applied to 19 MDG indicators checking for an interruption in the time series between 1992 and 2008 found an acceleration (in progress on an indicator like the primary enrollment ratio going up) or deceleration (in progress on an indicator like maternal mortality going down) in the trajectories after 2001 in five indicators (Friedman 2013). For instance, the incidence of tuberculosis (Target 6C) began falling sharply in 2000, for HIV (Target 6A) the turning point is identified as 1996–97, and for the adolescent child birth rate (Target 5B) the marked fall began in 2004. As for the proportion of children under age one immunized against measles (Target 4A), there was no statistically discernable change in the trajectory during the time period under review. It is also worth noting that these analyses abstract from what else could have been undertaken with the resources, if they had not been applied to achieving the MDGs.

Variations in how underlying trends of individual MDGs changed at the regional level are also notable (figure B2.1.1). For example, using pre-MDG data to generate linear counterfactual trends on the education enrollment ratio for females and males, the post-MDG enrollment rates were higher than what would have been expected in both South Asia and Sub-Saharan Africa. In South Asia, the statistically determined structural break occurred in 2003, a few years after the launch of the MDGs. In contrast, in Sub-Saharan Africa it occurred in 1997, before the commencement of the MDGs, suggesting that even though enrollment accelerated during the MDG period, some positive underlying factors providing support were already in place. Similar accelerations are observable for Europe and Central Asia and Latin America and the Caribbean. In East Asia and Pacific, however, where female-to-male enrollment ratios were already at very high levels, there has been no dis-
The MDG process has played a generally positive role in supporting development (continued)

In the Middle East and North Africa, actuals were lower than pre-MDG trends, possibly because of conflict.

The overall impact of the MDGs depends on factors unique to each MDG, some of which are country specific. Each MDG has its own history, such as the establishment of implementation arrangements (including the timing and size of targeted global funds, like the Education for All—Fast Track Initiative that was established in 2002), or of technical breakthroughs (like the development of antiretroviral drugs to combat AIDS). Even where the impact at the time of the Millennium Declaration in 2000 is not statistically discernable in outcomes, the MDG process has provided a valuable platform to galvanize coalitions of stakeholders seeking to address some of the world’s toughest development problems.

The sustainable development goals: A new approach

Scaling up impact to address the unfinished development agenda depends on adopting new approaches that reflect ongoing megatrends, as well as on learning from the MDGs. The post-2015 development framework of the SDGs aims to seize the extraordinary opportunity offered by these megatrends to make transformational development progress. The framework is based on a more integrated partnership that emphasizes universality, responsibility, and accountability. So that all will benefit more from global interconnections, the SDGs apply universally to all countries as a global compact, based on shared responsibility.
(especially for the global commons) and on improved accountability frameworks to monitor contributions and progress (Kharas and Zhang 2014). The SDGs are also able to build on the MDG experience, reflecting valuable learning on what worked and what was less effective in promoting development progress. The World Bank Group supports the SDGs, aligning its strategy for engagement through the goals of ending poverty and promoting shared prosperity in a sustainable manner (box 2.2).

**BOX 2.2 What is the relationship between the World Bank Group’s goals and the Sustainable Development Goals?**

The World Bank Group’s goals anchor its overarching mission of a world free of poverty to two high-level objectives of ending extreme poverty and promoting shared prosperity, and doing so sustainably. They were established to bring focus and greater accountability to the organization’s own work. As the authors of the report setting out the goals (World Bank 2013d, 9) point out: “The goals we have articulated are not solely for the World Bank Group to achieve but rather are goals that we hope are consistent with those of our 188 member countries.” The SDGs follow in the tradition of the Millennium Development Goals and are endorsed by the General Assembly of the United Nations and speak to the breadth of the development challenge (UN 2015f).

The World Bank Group’s goals are embedded in the SDGs, with some minor differences in goals, targets and indicators. The poverty goal (TG1), for example, calls for ending extreme poverty, which is defined as reducing the share of those living on less than $1.25 poverty a day (in 2005 constant dollars) to 3 percent by 2030. The corresponding SDG goal is stronger in that it aspires to end poverty everywhere and in all of its forms, a goal that amounts to reducing the same indicator to zero by 2030 (SDG1.1). The shared prosperity goal (TG2) sets out to increase the well-being of the poorer segments of society, as measured by income growth of the bottom 40 percent of the population in each country, without specifying a target (“fostering” and “promoting” income growth). The corresponding SDG goal is somewhat different; it aspires to reduce inequality within and among countries, defined as the extent to which, by 2030, countries progressively achieve and sustain income growth in the bottom 40 percent in excess of the national average (SDG 10.1) without stipulating a specific target on the extent of this excess. The SDG goal is focused relatively more on inequality than the World Bank Group’s goal.

A broader perspective that recognizes the multidimensionality of the World Bank Group’s goals and the underlying sustainability requirement would, however, suggest that these goals and the SDGs are aligned. The World Bank Group’s goals need to be pursued in a manner that is economically, socially, and environmentally sustainable. The goals themselves are also inherently multidimensional, as elaborated in chapter 1, even if their monetary indicators manifest themselves more narrowly. Yet, “ending poverty and promoting shared prosperity are unequivocally also about progress in non-monetary dimensions of welfare including education, health, nutrition, and access to essential infrastructure, as well as about enhancing voice and participation of all segments of society in economic, social, and political spheres.” (World Bank 2013d, 8). Furthermore, the additional requirement that the World Bank Group’s goals be achieved in a sustainable manner raises the need for additional analysis, monitoring, and dialogue. Hence, the two sets of goals can be seen as very similar, even if they remain different with respect to their original intent and the level of aggregation at which they are presented.

Recognizing that accelerating development is a shared endeavor, the World Bank Group fully supports the SDGs. The World Bank Group has worked closely with the United Nations on various aspects of the post-2015 agenda, among them financing for development and data issues, and is expected to continue to work with the UN on implementation. Realizing the extraordinary opportunity of ending extreme poverty in a generation and promoting shared prosperity more widely is feasible only through collective efforts of all stakeholders, most importantly through national initiative, supported by international entities. The global compact applies universally, to high- and low-income countries alike, and to national and international implementing agencies and financiers alike. The World Bank Group will benchmark its activities with a view to help accelerate progress on the post-2015 agenda.
The highly inclusive and open SDG process augurs well for sustaining the buy-in needed to accelerate progress. The SDGs emerged from wide-ranging stakeholder engagements, reflecting views from 193 governments and more than 7 million respondents to an online survey conducted by the United Nations (UN) (Bhattacharya and Kharas 2015; United Nations 2015e). They also benefited from the insights of a UN High Level Panel of Eminent Persons (from government, civil society, and the private sector), the Open Working Group of the UN General Assembly on Sustainable Development Goals (drawing on extensive thematic consultations), and the Intergovernmental Committee of Experts on Sustainable Development Financing. The work of these and other key bodies reaches important milestones in 2015 with the Financing for Development Conference in Addis Ababa in July, the UN General Assembly meeting endorsing the SDGs in September, and the United Nations Framework Convention on Climate Change (UNFCC) Conference of the Parties meeting in Paris in December. These are building critical momentum for action going forward.

Changed circumstances demand a new approach

Grounded in a global compact for human development and preservation of the planet, the SDGs represent a qualitative departure from previous frameworks (UN 2015f). With their emphasis on universality, responsibility, and accountability, the SDGs are more holistic in approach than the MDGs were, and in their very nature reflect and respond to several megatrends that are having a profound impact on the trajectory of economic, social, and environmental progress around the world. Given the extensive progress to date, and the growing power of humanity to affect change, there is an extraordinary opportunity to end poverty in all of its forms, while safeguarding the environment and pursuing other development goals. Sustained advancement, however, will require concerted effort, including through the fuller participation of business and civil society.

Evolving context of development

Several megatrends are playing a critical role in framing what will be feasible over the SDG period to 2030. These include the unprecedented increase in global connectedness, the pace of technological change and adoption, the move toward urbanization, the evolution of demographic trends, and the impact of human activity on environmental degradation and climate change (Dobbs, Manyika, and Woetzel 2015; Singh 2012). Effective implementation of the SDGs will need to be mindful of these trends and their wide-ranging implications in order to mitigate risks and accelerate transformational development progress.

Extraordinary and intensifying connectedness is changing the world. Trade, finance, communications, and migration are all expanding rapidly, bringing the world closer together. Between 1990 and 2015, global merchandise trade grew 1.4 to 2.4 times as fast as the world economy, rising to the equivalent of around 60 percent of world GDP (figure 2.4a). Over the same period, financial flows—including foreign direct investment (FDI), official development aid, and private capital—rose from about $87 billion to $1.3 trillion. The composition of financial flows has also undergone a major shift; in 1990 FDI was $21 billion, less than half of ODA at $53 billion; by 2014, FDI reached $735 billion and was more than five times larger than ODA flows of $135 billion. Global communications have skyrocketed: for example, mobile subscriptions rose from 5 per million in 1980 to more than 90 for every 100 people today (figure 2.4b) (Kose and Ozturk 2014). People are also on the move, with 1 billion international tourists in 2013, and 232 million international migrants (compared with 154 million in 1990) (UN 2013b). Another 750 million people have migrated internally. In seeking a global compact to address many of the world’s most difficult challenges, the
SDGs reflect the unprecedented connectedness of the present age.

The global center of economic growth is rapidly moving toward emerging markets, but their comparatively faster growth needs to be supported by expanded investment. For almost 2000 years, the center of global growth moved slowly from a point between China and India, the world’s two most populous nations, toward industrializing Europe and North America (Dobbs, Manyika, and Woetzel 2015, 19). The process has reversed and is accelerating dramatically—from a position just north of Europe in 2000, the center of global economic growth could return to its origin in Asia in just 25 years. This trend is generally welcome, as more populous and poorer countries in the emerging South sustain high rates of growth and “catch up” with advanced countries. Realizing the potential for faster growth, however, depends on scaling up high-return investment in the emerging South, both public and private. The SDGs reflect this imperative in their call for sustainable industrialization, greater infrastructure investment, and accelerated per capita income growth in low-income countries.

Deepening global trade and investment connections could also help reverse slipping potential growth in high-income countries. Concerns about weakening growth prospects in high-income economies are reflected in the “secular stagnation” hypothesis, which highlights a chronic excess of savings over investment because interest rates are unable to adjust to equate savings with investment at full employment (Summers 2015). Low productivity growth and an aging population in high-income countries may also be limiting investment opportunities and contributing to the excess of savings. In such circumstances, greater public investment in high-income countries is likely to lower the debt-to-GDP ratios. They also provide substantial scope for a debt-financed infrastructure push in emerging markets, both to increase high-return public capital stock and to spur private investment (Arslanalp, Bornhorst, and Gupta 2011; IMF 2014). Through expanded trade and investment links, greater public investment in emerging market economies can also
help generate opportunities for exports and boost growth in high-income countries.

Progress is being supported by a quickening of technological innovation and adoption, enabling more sustainable and efficient practices. Humankind will generate more data in the next five years than in the previous 5,000. The digital and data revolutions are driving technical change in a range of fields, and are expected to underpin accelerating technical change in next-generation genomics, materials science, energy storage and renewables, advanced robotics, and information technologies, among others. The adoption of new technologies is also accelerating (although developing countries sometimes have difficulty in using them effectively), largely because of the nature of offerings at almost zero cost, as well as the increased communications and greater connectedness of the world. These trends and efforts to broaden access to technology are a central part of numerous SDGs, including boosting agricultural productivity, promoting the empowerment of women, expanding access to clean energy, diversifying industry and breaking the link between carbon emissions and economic growth.

The urbanization megatrend brings great scope for accelerating development progress if key challenges can be met. The population of cities in emerging economies is projected to double from 2 billion in 2000 to 4 billion by 2030, and the footprint of urban areas is expected to triple from 200,000 to 600,000 square kilometers (World Bank 2013c). About 80 percent of the world’s GDP is generated in cities, attracting rapid inflows of people. While the economies of scale of urban agglomeration and lower unit costs of service provision generate prosperity and improved well-being, the rapid pace of urbanization raises numerous challenges (also for rural areas losing people) that need to be addressed with effective planning, connecting, and financing, to ensure resilient and sustainable development (World Bank 2013c). The SDGs give due emphasis to the critical role of the impulse toward urbanization in development.

Demographic change is exerting a powerful influence on development trajectories. As discussed in more detail in part 2, several demographic changes, including the rise of the total dependency ratio at the global level for the first time since the 1960s, the cessation in the growth of the global youth population (ages 0–15), and the aging of populations in many countries, are giving rise to new opportunities and challenges over the coming decades. In addition to promoting women’s empowerment and universal access to sexual and reproductive health as development objectives in their own right, the SDGs are motivated by demographic pressures and the urgent need to prioritize sustainability.

Global consumption is growing rapidly, especially in emerging market economies, and it will be essential to promote patterns that are environmentally sustainable. The global consuming class, defined as people with disposable income above $10 a day, is expected to exceed 4.2 billion by 2025, compared with 1.2 billion in 1990, with most purchasing power garnered in emerging market economies (Dobbs, Manyika, and Woetzel 2015). On top of existing ecological challenges, the current trajectory of resource and energy intensity of production scaled to this future level of demand show impacts that are unsustainable in terms of water, forests, fish, pollution, and climate. The consuming class is benefiting greatly from new technologies, with information, applications, and online services that are increasingly available at extremely low or no cost. However, as emphasized in the SDGs, it will be paramount that emerging production and consumption patterns be increasingly environmentally and socially sustainable. The World Bank Group, among others, is promoting a conceptualization of development progress that goes beyond traditional measures of GDP to reflect changes in physical, human, and natural capital, which helps countries better estimate whether their growth is sustainable (World Bank 2011).

Finally, climate change is bringing a warming world with more extreme weather events, and urgent mitigation as well as adaptation
is required if development gains are to be preserved (World Bank 2014). The science on global warming caused by human activity is unequivocal, and the signs are clear. Of the 15 hottest years since record keeping began 130 years ago, 14 occurred between 2000 and 2015. The world may already be locked in to a warming of 1.5°C by midcentury, and if a sharp course correction is not undertaken, 4°C by the end of the century. The focus of the SDGs on environmental sustainability recognizes that ending extreme poverty, securing broader development gains, and lowering the risk of fragility and conflict will be very difficult in a +2°C world, and may not be possible at all in a +4°C world (Burke, Hsiang, and Miguel 2015).

A new approach
Mindful of these megatrends, the SDGs explicitly adopt a more universal approach spanning all countries, while recognizing that many key actions and policies are undertaken at the national level. The SDG framework applies to all countries and centers on the key elements needed to improve the future of the planet (UN 2015a, 10). Every country shares responsibility to contribute toward the transformational change that is within reach. The SDGs’ enhanced monitoring framework also responds to the need for enhanced accountability, aimed at ensuring that all are doing their part both to keep their own houses in order and to contribute to the global commons (Kharas 2015).

The framing of the SDGs emphasizes the interconnections between development objectives in setting out an integrated development agenda. There are important interactions between development goals, and they cannot be effectively pursued separately from each other (UN 2015c, 21). For example, progress on health goals depends on investments in infrastructure that gives everyone access to safe water and improved sanitation. Similarly, limiting carbon dioxide emissions to slow global warming requires the modernization of energy supplies. Hence, the SDGs explicitly articulate goals that are “integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental” (UN2015f, 3). The breadth of the SDGs has raised questions about whether the scale of the agenda will dilute focus, especially when some development exigencies are likely to be more pressing than others at the country level. Still, the SDGs are not simply a menu of development objectives, and policy makers and other stakeholders are called upon to pursue the goals as an integrated whole.

A more comprehensive agenda
The SDG agenda goes beyond the MDGs in scope, expanding into wider objectives for peaceful, well-governed, and inclusive societies. The commitment to the SDGs extends from the experience with the MDGs, and similarly aims to mobilize the international community toward common purpose on core elements of well-being by identifying compelling goals, specifying targets with set timeframes, and rendering them more concrete with indicators for monitoring (table 2.1). While similarities with the MDGs are apparent, the transition from the MDGs with 8 goals, 21 targets, and 60 indicators, to the SDGs with 17 goals, 169 targets, and 304 indicators (at the time of writing), reflects a fuller recognition of the multidimensional nature of development.

The commitment to ending extreme poverty is the overarching goal and the first pillar of the MDGs, the World Bank Group’s goals, and the SDGs. The MDG goal to “eradicate extreme poverty and hunger” has evolved into the SDG goal to “end poverty in all of its forms everywhere.” The recognition of the broad nature of deprivation is reflected in the associated targets of SDG1, covering both absolute poverty (as measured by the global poverty line of $1.25 a day) and national definitions, as well as in the call for provision of adequate social protection, access to basic services and economic resources, and mitigation of vulnerability to economic, social, and environmental shocks. The World Bank Group’s goal of reducing extreme poverty to less than 3 percent by 2030 at the global level is in the same vein.
The hunger component of MDG 1 has been captured in a separate SDG 2. Reflecting the complexity of food issues, SDG 2 aims to “end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.” Associated targets encompass not only hunger and nutrition but also efforts to boost agricultural productivity, ensure sustainable practices, remove distortionary trade restrictions in world food markets, and enhance the functioning of food commodity markets with better market information to help reduce volatility.

SDG 3 on health pulls together several related MDGs but is expanded to cover additional dimensions of healthy living. It seeks to “ensure healthy lives and promote well-being for all at all ages,” addressing MDGs 4, 5, and 6 on maternal and child health, as well as the key communicable diseases of malaria, tuberculosis, and HIV/AIDS. Both the MDGs and the SDGs include targets on universal access to reproductive health, which plays a key role in shaping demographic trajectories. The expansions center on efforts to seek more investment in neglected tropical diseases, address the increasingly important issue of non-communicable diseases, ensure universal health coverage, reduce the number of deaths and illnesses from environmental contamination, and lower global deaths and injuries from road traffic accidents.

The SDGs on education and gender equality are broadened from the corresponding MDGs. SDG 4 builds on MDG 2’s focus on the achievement of universal primary education and includes early childhood development; equal access for women and men to technical, vocational, and tertiary education; literacy among adults; and learning about sustainable development and lifestyles. SDG 5 aims to “achieve gender equality and empower all women and girls” by emphasizing additional dimensions of inequality in the treatment of females, including ending violence against all women and girls everywhere, eliminating harmful practices such as child, early, and forced marriage, and ending female genital mutilation. Ensuring universal access to sexual and reproductive health and rights is another component. Significantly, the SDGs recognize that reproductive health is also a critical rights issue.

A major shift in the evolution of the commitment to development goals centers on the heightened focus of the SDGs on...
environmental issues. MDG 7 on ensuring environmental sustainability has been expanded into five dedicated SDGs, including SDG 6 on water and sanitation; SDG 12 on ensuring sustainable consumption and production patterns; SDG 13 on the need to “take urgent action to combat climate change and its impacts”; SDG 14 on the oceans, seas, and marine resources; and SDG 15 on terrestrial ecosystems, including forests, deserts, and biodiversity. Environmental issues also feature prominently in several additional SDGs. These include SDG 2 on agriculture; SDG 7 on energy (seeking to increase the share of renewable energy); SDG 8 on economic growth (referring to the need to “decouple economic growth from environmental degradation”); SDG 9 on industrialization (emphasizing “increased resource-use efficiency and greater adoption of clean and environmentally sound technologies”); and SDG 11 on human settlements (aiming to “reduce the adverse per capita environmental impact of cities” and implement “holistic disaster risk management”). These expansions reflect growing concern about environmental sustainability and the recognition that even the primary SDG 1 on poverty will not be reachable if the present trends of rural resource degradation and climate change continue.

The new monitoring framework places greater focus on income distribution, which is also reflected in the World Bank Group’s goal on shared prosperity. While MDG 1 noted the “share of poorest quintile in national consumption” as an indicator of the poverty target, it did not receive much attention in the development discourse during the MDG period. In contrast, distributional issues have been elevated to a separate goal, with SDG 10 aiming to “reduce inequality within and among countries.” This goal includes a tractable target of sustaining the “income growth of the bottom 40 percent of the population at a rate higher than the national average.” As detailed in chapter 1, the second of the World Bank Group’s goals is on shared prosperity, which emphasizes the income growth of the bottom 40 percent of the income distribution in each country, but it does not specify that it should be higher than the national average. Goals on inequality and shared prosperity are evidently universal, applying to all countries.

The SDG framework includes several other new components, including SDG 7 on energy, and SDG 16 on promoting peaceful and inclusive societies. SDG 7 on ensuring universal access to affordable, reliable, and modern energy services is central to development and underpins many other SDG goals. Similarly, SDG 16 recognizes that development is thwarted or highly vulnerable in fragile and conflict situations, as well as in contexts where governance is weak. Years of development progress can rapidly be undone by the outbreak of conflict. And, poverty and deprivation are increasingly concentrated in countries characterized by fragility, violence, and limited institutional progress. SDG 16 calls for promoting the rule of law and access to justice, reducing illicit arms flows, and lessening corruption and bribery in an effort to address the drivers of conflict.

Finally, SDG 17 focuses squarely on the key elements needed to ensure effective implementation. This goal focuses on arranging and facilitating sufficient financing, cooperating on technology, enhancing capacity-building efforts, and promoting an open and equitable multilateral trading system. SDG 17 also notes the need for greater policy and institutional coherence; multi-stakeholder partnerships; and enhanced data, monitoring, and accountability.

To accelerate progress, the SDGs can learn from the MDGs

To maximize the odds of success on the unfinished development agenda, it is important to learn from the MDGs. Numerous lessons emerge from the MDG process (including challenges faced; see Fehling, Nelson, and Venkatapuram 2013), some of which have already contributed to the framing of the SDGs and others that can help underpin development efforts between now and 2030 (Kanie et al. 2014; UN 2012). These
center on ensuring inclusiveness and ownership at the country level; building on synergies between goals; specifying targets that can be monitored with good data and that are time bound; and supporting strong implementation, including ensuring adequate financing and effective use of resources.

**Inclusiveness and ownership**

A key lesson is to adopt highly consultative goal-setting processes. Given that most of the critical actions required to make progress on the MDGs had to be implemented at the country level, inclusiveness and ownership were essential, extending to policy makers, representatives from the private sector and civil society, and other stakeholders. The SDG process has sought to reflect this lesson, and the proposals are built upon extensive consultations, facilitating adoption in country development programs.

**Synergies between development goals**

Progress toward the MDGs was helped by synergies, and the effectiveness of SDG efforts will also depend on leveraging gains in one goal for advances in others. The links between MDGs on infant mortality and access to sanitation and safe water are well documented. The SDGs reflect this experience in their more integrated approach, and will benefit from synergies across numerous SDGs. For example, progress toward SDG 5 on achieving gender equality would have a major impact on the prospects for lowering infant mortality, eliminating hunger, and raising school attendance. SDG 16 on promoting peaceful and inclusive societies has targets on reducing all forms of violence and corruption, both of which are key impediments to progress on all other SDGs. The scope for synergies is also an important consideration when prioritizing efforts on the SDGs at the country level.

**Sound monitoring**

Like the MDGs, the SDGs require sound monitoring, which in turn hinges on more and better data. Much of the success of the MDGs in moving the development agenda forward has been attributed to the specificity of targets that were time bound. Progress was weaker on goals that were less specific and harder to monitor, and where good data were lacking. Building strong data systems is essential in this regard (box 2.3). With 304 proposed indicators, some of which are difficult to monitor or have very little data coverage and availability, monitoring the SDGs will be challenging, and will entail large costs. Substantial work is needed to strengthen statistical systems at the national level and improve methodologies. About $1 billion a year may be needed in 77 low-income countries to strengthen statistical systems to support and track the SDGs consistently (SDSN 2015). Scaled-up data and monitoring will require enhancing global mechanisms and support.

**Strong implementation**

Success or failure will hinge on implementation. Moving from goal setting to implementation requires analysis and tailoring of the targets to the country level. It also calls for enhanced accountability for financing and other key steps among development partners and the wider international community. In the case of several MDGs, implementation arrangements were effectively not in place until five to seven years after the Millennium Declaration, leading to significant delays. Building on MDG structures, the implementation of the SDGs is better placed, despite the added areas of focus.

Still, several structural factors pose challenges that need to be confronted if the goals are to be met. As highlighted in chapter 1, the evolution of poverty points to an increasing concentration of poverty in hard-to-reach places, such as in fragile and conflict situations, where governance is weak. In addition, the growth elasticity of poverty is falling, suggesting that the remaining pockets of poverty are less responsive to economic growth. Finally, the prospects for growth over the coming years are somewhat dampened compared with the MDG period, when strong growth supported progress, as is discussed in chapter 3.
**BOX 2.3** What gets measured gets done: The importance of data

Data availability has improved under the MDG framework. While setting goals remains a key step to solving development challenges, without critical data inputs measuring initial conditions and monitoring progress, effective policy making is hampered. One beneficial outcome of the MDG process has been the push for better data (Manning 2009) and its contribution to the ongoing data revolution (UN 2014b). In 2003, only four developing countries had two or more data points for at least 16 of the 22 MDG indicators. By 2013, 129 countries met this metric of data availability. The improvement in data was greatly facilitated by the expansion of household surveys, a key data source for monitoring the MDGs. For instance, the average number of surveys produced each year in both Ethiopia and Ghana has almost doubled since 2000. Behind the increased availability of data lies enhanced national statistical capacity building, with data often collected in collaboration with international experts.

Much more needs to be done to fill data gaps. Ongoing improvements in data notwithstanding, significant gaps remain for key MDG indicators. For instance, on the goal of maternal mortality, only 11 percent of developing countries have available data. In part, that is because civil registration systems on births and deaths are incomplete, with coverage ranging from 50 percent in Latin America to 25 percent in South Asia, and a mere 6 percent in Sub-Saharan Africa (Boerma and Stansfield 2007; Devarajan 2013; Murray, 2007). Another challenge is the lack of disaggregation by gender, income quintile, or disabilities, which complicates targeted policy formulation. Even when data are available, they often come with significant lags, and there are concerns about consistency and reliability. For instance, less than 60 percent of developing countries report data with less than a two-year lag on the MDGs related to health and education (including gender parity in education, maternal mortality, and the prevalence of undernourishment), and in many cases broad assumptions were made in order to arrive at existing estimates (Sachs 2012).

Several factors account for the data challenges in the MDG process. The effort to generate the data needed to monitor the MDGs has often been driven by external actors, rather than being embedded in the priorities of national statistical offices. For instance, on the maternal mortality indicator, while some trend analysis can be carried out for about 80 percent of developing countries, this share drops to about 10 percent when data collected from international organizations are excluded. In some cases, national statistical offices perceived the approach of international actors as top-down and undermining their own efforts, especially when estimates differed from national ones. Finally, some of the MDGs were not readily quantifiable (such as “achieve full and productive employment and decent work,” or “universal access to reproductive health”), making it difficult to generate relevant monitoring indicators.

Governments and other stakeholders should invest more in statistical capacity building and a “smart data revolution.” Given the increased number of goals, targets, and indicators under the SDGs, the associated data challenges are even more onerous than those of the MDGs. It is important to invest in statistical capacity and build on existing mechanisms and systems to gather the micro-level data needed for monitoring the SDGs. Monitoring efforts, however, will benefit from the ongoing smart data revolution, which is filtering through all aspects of modern society, such as elections managed with biometrics, forests monitored by satellite imagery, banking undertaken on smartphones, and medical x-rays sent for examination halfway around the world. The associated data revolution has the potential to reduce long lags and dramatically improve the quality of data. Between household survey years, national statistical offices could leverage the expertise of telecommunication companies and software developers to carry out real-time surveys on mortality rates and even poverty data. By one estimate this could reduce the cost of surveys by about 60 percent.
As with the MDGs, demographic patterns may also pose significant challenges to achieving the SDGs. The demographic trends projected over the coming decades will have a major impact on the trajectory of development (see part 2 of this report). For example, more than 2 billion babies will be born worldwide between now and 2030 (UN 2015b). When comparing the coming 15 years with the past 15 years, relatively more births are expected in low-income countries in Africa, where health systems are weak, coverage is incomplete, and maternal and infant mortality rates are high. Making progress on related SDG indicators and expanding the coverage of health services when the underlying demand continues to increase is a major challenge. The same is true for the 2 billion children that are projected to reach school age over the next 15 years. Africa may see a 34 percent increase in school-age children (five-year-olds), making it even harder to expand coverage and increase the quality of schooling. More targeted approaches will be needed in these contexts.

The challenges associated with the sheer scale and breadth of the SDGs require concerted effort and scaled-up financing. Ultimately, the SDGs are the product of a deep political process. Sustaining support among political constituencies, especially when difficult and unpopular actions are required, hinges on leadership and continuing engagement on core SDG issues. Building on the investment in implementation arrangements of the MDGs, the SDGs are better placed for scaled-up action. Still, more needs to be done to boost implementation capacity, including by mobilizing adequate financing (box 2.4).

Some prioritization of SDG-related activities at both the global and the country levels will need to be reflected in spending plans (Lomborg et al. 2014). The

**BOX 2.4**  
**Mobilizing financing for development**

Mobilizing adequate resources and ensuring their effective use is essential to making progress on the unfinished development agenda. The renewed commitment to development in 2015 is an important opportunity to strengthen enabling policies and institutions, as well as to mobilize needed resources. Experience shows that these elements are closely related, especially in a rapidly changing global context, where more low- and middle-income countries are able to access international capital markets (more than 70 emerging market countries have bond ratings), and foreign direct investment in 2013 was more than five times larger than official development assistance (ODA). The 2002 Monterrey Consensus on the MDGs highlighted the importance of global development cooperation to mobilize and increase the effective use of financial resources. The post-2015 financing framework will build on the lessons learned during the MDG era, emphasizing the need to mobilize domestic resources and ensure sound management of public expenditures, encourage private sector resources oriented toward development goals, and boost international public finance. More detailed financing plans need to be prepared at the country level (Kharas and McArthur 2014, 2015).

Domestic resources will continue to make up the bulk of public spending aimed directly at key development priorities. Only about half of developing countries are able to collect 15 percent of GDP or more in taxes (this figure is even lower in fragile and conflict states), a modest level given wide-ranging needs (IMF 2011). Improving the tax structure for domestic resource mobilization also remains a challenge. For example, policy makers are urged to avoid creating economic distortions through tax holidays, or discouraging trade openness with various tax measures. Increasing the quality and efficiency of public spending will help generate needed resources to meet key development goals. Around 8 percent of government spending around the world, equivalent to $1.9 trillion, is spent on subsidies in one form or another, with energy subsidies alone costing the public purse

(box continues next page)
about $300 billion (IMF 2014). The recent fall in oil prices presents a golden opportunity to eliminate or dramatically reduce such subsidies. Expanding the evidence base on the incidence of such subsidies may encourage positive change. Strengthening public expenditure management systems, including enhanced independent oversight, multiyear budgeting, and fiscal responsibility laws, can also contribute meaningfully.

Private resources play a central role, and efforts should focus on incentivizing flows. Private sources, including foreign direct investment, bank loans, capital markets, private transfers (such as workers’ remittances), and philanthropy, account for the bulk of external resource flows to emerging market economies. Given that much of these flows are motivated by risk/reward considerations, public policy needs to help lower and manage risk or increase the rewards associated with private investment. Development partners, such as the multilateral development banks and the International Monetary Fund, seek to serve as “leveraging machines,” catalyzing private sector flows (through both advice and policy-based lending), and by helping to underpin strong macroeconomic conditions and investment climates (World Bank 2015b). Their agenda also includes the promotion of local capital markets for more effective resource intermediation.

ODA is the foundation and catalyst for leveraging greatly expanded public and private sector capital flows for development. ODA remains the largest source of external resources to low-income and fragile and conflicted countries, where private investment and access to international capital markets is limited. However, current levels of ODA, which reached about $135 billion in 2013, will be insufficient to meet the SDGs. Indeed, ODA flows to Africa have fallen in real terms over the past few years. ODA would have to more than double to meet the 0.7 percent of gross national income target set by the Development Assistance Committee of the Organisation for Economic Co-operation and Development. ODA needs to be used more intelligently to channel additional sources of financing towards development goals, leveraging “billions for trillions.” Issues of aid quality and effectiveness, including predictability, alignment, harmonization, and coherence with the World Bank’s goals and the SDG agenda, remain salient. A diverse group of countries has gained prominence in the aid landscape, including the BRICS (Brazil, the Russian Federation, India, China, and South Africa), the Republic of Korea, Saudi Arabia, and Turkey.

Climate finance is a relatively new and growing source of funding available to developing countries for climate change mitigation and adaptation projects and programs. The term has been used in a narrower sense to refer to transfers of public resources from developed to developing countries in light of UN Climate Convention obligations to provide “new and additional financial resources,” and in a wider sense to refer to all financial flows relating to climate mitigation and adaptation. Developed country governments currently provide between $10 billion to $20 billion per year of such funds, and at the 2009 UN climate change conference in Copenhagen, they committed to providing a collective $100 billion per year by 2020. While the focus of climate finance is clearly on climate mitigation and adaptation, many mitigation actions (investments in energy and resource efficiency), adaptation actions (public transit and sustainable cities), capacity building, and research and development also have national and local “co-benefits.”

The multilateral development banks play a fundamental role not only as financial intermediaries leveraging shareholder contributions but also in supporting debt restructuring initiatives, strengthening public expenditure management, and crowding in private sector financing. The multilateral development banks and the IMF are committed to delivering financing solutions that will help countries achieve the SDGs, and they are exploring ways to increase available financial resources, expand policy guidance and technical assistance, promote and catalyze private investment, support international action on regional and global development issues, and improve coordination and alignment (World Bank 2015a, 23). Toward these ends, the World Bank Group and other multilateral development banks have made commitments of over $400 billion for the three-year period 2016–18. Ongoing efforts emphasize additionality, efficiency, and effectiveness. The IMF has also increased access norms and limits across concessional facilities by 50 percent for all eligible countries.

a. The discussion in this section is based on World Bank 2015a.
Outcome Document from the Third International Financing for Development Conference in Addis Ababa emphasizes seven key areas (UN 2015e):

- **Delivering social protection and essential public services**, with a social compact for ensuring adequate service provision, supported by appropriate spending at the national level and augmented with international resources.
- **Scaling up efforts to end hunger and malnutrition**, including by investing in sustainable agriculture and fisheries, especially the productivity of smallholder farmers.
- **Establishing a new forum to bridge the infrastructure gap**, increasing sustainable and inclusive infrastructure investment in developing countries, with additional finance, better technology, and elevated technical assistance.
- **Promoting inclusive and sustainable industrialization**, which is essential for growth, economic diversification, innovation, and high-value-addition jobs.
- **Generating full and productive employment and decent work for all, promoting micro-, small, and medium enterprises**, including credit and other financial services, and creating an environment where the business sector plays a central role in generating employment and growth.
- **Protecting our ecosystems for all**, through coherent policy, financing, trade, and technology that will be essential to mitigating and avoiding harmful activities.
- **Promoting peaceful and inclusive societies** as the foundation of socially, economically, and environmentally sustainable development.

**Conclusion**

As the world transitions from the MDGs to the SDGs, the opportunities presented by rapid global change hold great promise for transforming development while safeguarding the environment. The MDGs shaped the development agenda since the turn of the century, with wide-ranging and impressive achievements. The SDGs are the next step in the global efforts to transform development: much broader in nature, with clear targets for monitoring and a sharpened focus on safeguarding the world’s fragile ecosystems. The lessons learned from the MDGs improve the likelihood of success of the more sweeping SDGs. Realizing the potential of the so-called “megatrends”—such as global connectedness and the shift of the global economic center of gravity toward dynamic economies in the East—can help facilitate progress toward reaching the SDGs. To achieve its promise, however, the SDGs require major commitments regarding policy and institutional reform and mobilization of adequate financing. Achievement of the SDGs also requires meeting emerging economic challenges over the medium term, the subject of the next chapter.

**Notes**

1. Empirical evidence suggests that what counts for economic growth is what students actually learn, not how many years of schooling they complete. While nearly all education systems are expanding quantitatively, many are failing in this fundamental purpose (Hanushek and Woessmann 2007). For instance, in 2006, even though Brazil and Mexico were on track to meet the MDG target, a large share of Brazilian (78 percent) and Mexican youth (50 percent) lacked minimally adequate competencies in mathematics, and over 90 percent did not reach a reasonable global standard (Filmer, Hasan, and Pritchett 2006; Pritchett, Banerji, and Kenny 2013). Similarly, another study focusing on East Africa found that while primary enrollment rates have risen significantly over the past 15 years, children remain functionally illiterate or innumerate, despite completing multiple years of schooling (Jones et al. 2014).

2. See the MDG Report Card in appendix A for more detailed regional comparisons of each MDG and associated targets.

3. The “total dependency ratio” is the sum of people ages 0–14 and 65 and over, divided by the number of people ages 15–64, multiplied by 100.
4. In addition to improved water, sanitation, and slums, MDG 7 (on ensuring environmental sustainability) included indicators on the proportion of land area covered by forest, the proportion of fish stocks within safe biological limits, the proportion of total water resources used, the proportion of terrestrial and marine areas protected, the proportion of species threatened with extinction, the level of CO₂ emissions per capita and per $1 GDP (PPP), and the consumption of ozone-depleting substances.

5. Trade growth has slowed in the postcrisis years—in 2012 and 2013, trade grew more slowly than the world economy for the first time in four decades. This slowdown has sparked a debate about “peak trade”: while there may be scope for further growth in trade, structural changes in U.S. and Chinese supply chains, together with the end of the big push from the fragmentation of production networks, may signal that trade growth has peaked (Constantinescu, Mattoo, and Ruta 2014).


7. U.N. Secretary General Ban Ki-moon indicated that “the SDGs break new ground with goals on inequalities, economic growth, decent jobs, cities and human settlements, industrialization, energy, climate change, sustainable consumption and production, peace, justice, and institutions. The environmental dimension of the agenda is articulated across the whole agenda. The SDGs are underpinned with a goal on global partnerships for the means of implementation” (UN 2014a).

References


Child Health Inequalities.” The Lancet 381: S126.


Global Macroeconomic Performance and Outlook: Prospects for Growth

This chapter includes an overview of recent macroeconomic developments, a short-term global economic outlook, and the risks facing the outlook, which draw on the International Monetary Fund’s (IMF’s) *World Economic Outlook* (WEO). It also assesses the appropriateness of macroeconomic policies in advanced, emerging market, and low-income developing countries. With the year marking a shift in the objectives of the global development agenda—with the Sustainable Development Goals (SDGs) replacing the Millennium Development Goals (MDGs) of the past 15 years—the chapter discusses the global economic performance in a longer-term perspective, by also drawing on the key demographic trends that influence economic prospects of different groups of economies. The main messages are the following:

- Overall, global growth in 2015 is projected to be lower than in 2014, with prospects across major countries and regions uneven. Domestic inflation is expected to remain subdued, in large part due to the significant weakening in global commodity prices, although inflation is projected to rise in some emerging market countries (EMs) that have suffered from sizable exchange rate depreciations. Downside risks to the outlook have risen: They include risks from China’s growth transition, excessive financial market volatility and tightening of financial conditions, the impact of a sizable appreciation of the U.S. dollar on balance sheet exposures, even lower commodity prices, rising geopolitical risks, and lower potential growth.
- Growth in advanced economies (AEs) is expected to continue to recover into 2015–16, and accommodative monetary policy is appropriate to support this recovery. Fiscal policy needs to be supportive where conditions allow, while many AEs need to establish credible medium-term fiscal frameworks and consolidation plans. Strengthening of regulation and supervision of rapidly expanding nonbank financial activities is also needed. Overall, given the weakened near- and medium-term growth outlook for many AEs, raising actual and potential growth is a key economic policy priority.
- The 2015–16 growth outlook for EMs is uneven and has weakened overall for many with the end of the commodity prices supercycle. Geopolitical tensions, tightening of financial conditions, and lower commodity prices weigh on the outlook for many countries. Overall, demand support
needs to be carefully weighed against the need to manage vulnerabilities. Those with policy flexibility should use it to the extent possible; for others, the priority should be growth friendly fiscal rebalancing; financial buffers, where available, should be used to smooth the impact of lower commodity export prices. Lower commodity prices also call for a timely reform of energy subsidies. As in AEs, raising potential growth over the medium term is a priority.

- Low-income developing countries (LIDCs) are projected to see growth slow in 2015 as growth in oil-exporting LIDCs drops off sharply before recovering in 2016. Where warranted, policies should remain focused on rebuilding fiscal and external buffers and achieving medium-term development priorities. In many emerging market and developing countries, allowing for exchange rate flexibility will help adjust to external shocks.

- During the MDG-monitoring period, most emerging market and developing countries (EMDCs) grew at a sustained strong pace, notwithstanding the negative impact from the 2009 global financial crisis. Together with strong growth, per capita income differences among countries were reduced, and absolute poverty was halved over this period.

- For the SDG-monitoring period, prospects are for global growth to trend down, mostly because of a decrease in global population growth. Developing countries would need to address disparate demographic evolutions with an appropriate set of macroeconomic and structural policies to enable further reductions in absolute poverty levels and to narrow income differences relative to more advanced economies.

**Recent developments and short- and medium-term prospects**

In 2014, global growth was 3.4 percent, broadly in line with the projections made in the *Global Monitoring Report* (GMR) 2014/15, and reflecting growth of 1.8 percent in AEs and 4.6 percent in EMDCs (table 3.1). Growth in AEs picked up as the euro area pulled out of recession. In contrast, growth in EMDCs slowed down further with the continued adjustment in many countries to lower potential growth prospects. Among EMs, the slowdown in 2014 was driven to a large extent by subdued growth in Latin America and the Caribbean and in the Commonwealth of Independent States (CIS). Growth in LIDCs was maintained at a robust 6.0 percent, even though several countries in Africa were severely affected by the Ebola epidemic.

In 2015, global growth is projected at 3.1 percent—some 0.7 percentage point lower than the forecast made in GMR 2014/15—with growth in AEs projected to average 2.0 percent and in EMDCs 4.0 percent. Growth in AEs is projected to pick up relative to 2014 on further strengthening of the recovery in the euro area and the return to positive growth in Japan, supported by declining oil prices. In contrast, growth in EMDCs is expected to decline again—the fifth year in a row and the lowest since the 2009 global financial crisis. This reflects lower growth in both EMs and LIDCs, held back in many by lower commodity prices, tighter external financial conditions (especially in Latin America and the Caribbean), and distress related to geopolitical factors (in the CIS and in the Middle East and North Africa).

Economic conditions in the CIS remain very weak. Growth in Russia and Ukraine is projected to be negative with adverse spillovers to the rest of the region. The deep recessions in both countries reflect the persistent effects of the sharp decline in oil prices combined with international sanctions in Russia and, for Ukraine, the continuing conflict in the eastern part of the country.

Growth in emerging and developing Asia is expected to continue its downward trend in 2015 largely due to lower growth in China. Growth in India will benefit from policy reforms, a pick-up in investment, and lower commodity prices. Average growth in other countries in the region is projected to remain about unchanged.

In emerging and developing Europe, growth is expected to remain broadly unchanged from 2014. The economic contraction in the CIS weighs on growth, but low oil prices and continued recovery in the
Euro Area provide an offset. High corporate debt levels and subdued domestic demand will weigh on growth in Turkey.

Growth across the Middle East, North Africa, Afghanistan, and Pakistan is expected to remain modest, in line with growth in 2014. Growth is expected to be negatively affected by low oil prices, regional conflicts, and social tensions.

Growth in Latin America and the Caribbean is expected to turn negative in 2015. In Brazil, the economy is expected to contract with a sharp drop in private sector confidence, the needed tightening of the macroeconomic policy stance to contain inflation, along with weaker in commodity prices, with negative spillovers for the rest of the region. Venezuela is expected to enter into a deep recession as the oil price decline has exacerbated macroeconomic imbalances. Growth in many other countries in the region is negatively affected by low metal, oil, and other commodity prices.

Growth in Sub-Saharan African countries is expected to slow down on lower growth in oil-exporting countries, particularly Nigeria. Growth is also expected to be negatively affected by slowing growth in China and, for some, a tightening of global financial conditions and a retreat in other commodity prices besides oil.

Despite a small recovery relative to 2014, growth in fragile states is projected to remain low in 2015. This reflects continuing civil strife and conflict in some countries (for example, South Sudan and Yemen), and the continued effects of the Ebola epidemic for some economies in West Africa (Liberia and Sierra Leone).

The downward revision of the global growth forecast for 2015 is largely driven by a significant lowering of growth prospects in EMs (from 4.8 percent in the 2014/15 GMR to 3.9 percent). Indeed, some of the key downside risks identified in GMR 2014/15 have materialized—such as tighter external financial conditions and geopolitical tensions—working on top of the sharp, unanticipated retreat in oil and other commodity prices. But growth in AEs has also been revised down slightly relative to GMR 2014/15, on lower growth in the United States and, in LIDCs, on account of lower growth in commodity exporters, including Nigeria.

Per capita growth in the median LIDC has been drifting lower since the strong rebound from the 2009 global crisis, but it remains above growth in the median AE country and median EM country (figure 3.1). With the concurrent slowdown in EMs and recovery in AEs, per capita growth in the median AE country and median EM country is expected
to converge in 2015—at about 1.5 percent—for the first time since the early 2000s.

Global growth is expected to increase to 3.6 percent in 2016, reflecting a growth pick-up in all three main country groups. The continued recovery in AEs, averaging 2.2 percent, is projected to be led by a rebound in the United States that is expected to be supported by lower energy prices, reduced fiscal drag, strengthened balance sheets, and an improving housing market. The pick-up in growth in EMs to 4.4 percent is predicated on an expected turnaround in growth in several distressed economies in the CIS, Middle East and North Africa, as well as a recovery in Latin America and the Caribbean, on a partial normalization of economic growth in Brazil and spillovers from stronger growth in the United States. Growth in LIDCs is projected to return to about 6 percent growth as growth in oil-exporting LIDCs recovers.

Medium-term global growth is expected to be somewhat higher than the level projected for 2016 on higher growth in EMDCs. Higher growth in EMDCs is predicated on a return to normalcy for several countries that have been growing at below potential (due to an easing of geopolitical tensions in the CIS, the Middle East and North Africa, and on a recovery of investment confidence and growth in Latin America and the Caribbean). Growth in AEs will trend down as output gaps are closed.

Global inflation is expected to be subdued, with consumer price inflation in most countries remaining in the low single digits, partly driven by declining international commodity prices (figure 3.2). In twenty-some countries—mainly European AEs and EMs—deflation took hold in 2014. With the exception of Switzerland, the countries with deflation in 2014 are expected to return to low inflation in 2016. In about one dozen countries, however—all EMs or LIDCs—inflation is in the double digits, and for some—including Belarus, Iran, and Venezuela—inflation is projected to remain high in 2016, in part reflecting the effects of exchange rate depreciation.

Commodity prices—which were on a roller coaster during 2008–11—trended lower during 2012–15 against the background of increased supplies but also subdued economic growth. Oil prices have fallen on large supply increases in the United States, Iraq, and, at times, Libya, while at the same time oil demand slowed, including because of weaker global activity. Prices of agricultural commodities eased on record or near-record harvests of major crops. With the sharp correction in 2015, real commodity prices have, to a large extent, reverted back to their levels of the early 2000s. The WEO projections suggest a gradually increasing or broadly stable
path for oil and other commodity prices, respectively, through 2020.

Many developing countries are dependent on the exports or imports of a few commodities, and as the prices of such export or import commodities change, so do these countries’ terms of trade and domestic inflation (figure 3.3). Higher commodity prices in 2010 and 2011 were associated with terms-of-trade gains for the majority of EMDCs. As commodity prices weakened in 2012–15, these terms-of-trade gains were eroded. While the commodity price decline in 2015 is of about the same magnitude as in 2009, the expected dispersion of growth, inflation, and terms-of-trade changes across EMDCs are projected to be significantly lower this year than in 2009.

This suggests that both supply and demand shifts lie behind the 2015 price correction, in contrast to 2009 where the price correction was mostly driven by lower demand.

Downside risks have risen, particularly for EMDCs, given the interaction of external and domestic headwinds, as well as risks from China’s growth transition. Risks for AEs include disruptive asset price shifts and financial market turmoil, with adverse spillovers for EMDCs. In the context of weak demand and low inflation, the risk of secular stagnation and hysteresis for AEs remains, particularly given constraints posed by monetary policy at the zero lower bound and high debt levels.

Risks for EMDCs have increased in the context of slowing growth. Although

FIGURE 3.3 The commodity price shock in 2015 is broadly of the same magnitude as in 2009

Source: IMF World Economic Outlook.
Note: In panel a, commodity price indices are in U.S. dollars. In panel b, bars represent the range between the 25th and 75th percentiles. Country groupings are defined in appendix table C5.2.
Commodity prices have fallen significantly, as discussed above, there are risks that they could fall further, straining balance sheets and growth prospects for commodity-exporting EMDCs. Also, adjustments in commodity markets can be slow and price volatility in the interim high. A further dollar appreciation against the backdrop of asynchronous monetary policy stances in major economies could lead to an unbalanced global recovery and associated capital flow reversal from EMDCs, and exacerbate balance sheet exposures. China’s ongoing growth transition is creating spillovers, and an abrupt growth slowdown in China could have major repercussions for growth in other economies, both directly and through the impact on commodity prices. Moreover, further increases in geopolitical tensions (stemming from ongoing events in Russia, Ukraine, the Middle East, and parts of Africa) could generate regional and global spillovers and disrupt global trade and financial activity.

For the third year in a row, world trade was subdued in 2014, reflecting in part, low economic growth. Even though AEs’ trade performance is expected to remain resilient, world trade is expected to pick up only marginally in 2015 as trade growth slows further in EMs (particularly in Asian EMs, such as China). Against the background of broadly stable prices of traded goods and services, a further modest uptick in world trade is expected for 2016 and beyond.

The sharp widening in global current account imbalances in the run up to the 2009 financial crisis has reversed since, but recent progress in further lowering the imbalances has been slow. Global current account imbalances peaked at 3 percent of global GDP in 2006, narrowing sharply post-crisis as the current account deficits in the United States and some smaller AEs narrowed, together with the surpluses in emerging market capital exporting countries (figure 3.4). However, current account balances are expected to remain broadly stable in 2015, with the contraction in the surpluses in oil-exporting economies offset by surpluses in oil importers. Moreover, there has been a rotation of imbalances with a widening of imbalances for several EMDCs. The downward trend in imbalances from 2012 to 2015 is projected to continue at a gradual pace through 2020.

Current account imbalances in LIDCs remain wider than before the global financial crisis (figure 3.5). The current account deficit (defined here as net of foreign direct investments to focus attention on the residual deficit) for the median LIDC has increased from around 2 percent of GDP in 2009–11 to about 3–4 percent in recent years, peaking at
above 4 percent in 2014. The current account deficit is expected to narrow somewhat in 2016, but still remains higher than precrisis averages.

Net capital inflows to LIDCs (defined here to include current transfers to focus attention on the net available external resources) have remained fairly constant in recent years at 10–11 percent of LIDCs’ GDP (table 3.2). These inflows are mostly in the form of transfers. Net capital inflows (relative to GDP) to EMs are significantly lower than those to LIDCs. Net inflows to EMs dropped off sharply in 2014 and are projected to become a net outflow in 2015 in part because of a further expected tightening in external financial conditions. This turnaround in net capital inflows is being offset by an equivalent change in official reserve accumulation. For 2016 and beyond, a partial reversal is projected.

Official reserves in months of imports are expected to remain relatively stable in 2015 and decrease slightly in 2016 (figure 3.6). The typical emerging market country holds somewhat larger reserves than the typical LIDC. The share of LIDCs that hold reserves of less than 3 months of imports is steadily increasing from about one-quarter in 2012 to almost one-half in 2016. These countries are more vulnerable if they are hit by an external shock.

**Update on recent macroeconomic policies**

In AEs, policy makers strive for a macroeconomic policy stance that can support growth, while at the same time buttressing private sector confidence and containing risks in the financial sector and to medium-term fiscal sustainability. Following sustained fiscal consolidation in 2014, the average fiscal deficit in AEs dropped to about 3½ percent of GDP, down from a deficit of 9 percent in the 2009 crisis year. A further narrowing of deficits is projected to bring the average fiscal deficit down to around 2½ percent by 2016. Monetary policy easing has been maintained against the background of well-anchored inflation expectations and continued low inflation.

Fiscal deficits in 2014 in both the median EM and the median LIDC widened (figure 3.7). Thus, further progress toward rebuilding the fiscal buffers that were used during the 2009 crisis has stalled. Domestic revenue mobilization in EMDCs has remained relatively constant in recent years, and little change is expected for the period ahead (table 3.3), with fiscal revenues in the median LIDC about 8 percentage points of GDP lower than those in the median EM.

About 40 percent of all EMDCs—with similar shares among EMs and LIDCs—saw
FIGURE 3.6  Share of LIDCs with reserve coverage of less than three months is expected to increase

Source: IMF World Economic Outlook
Note: Bars represent the range between the 25th and 75th percentiles. Country groupings are defined in appendix table C5.2.

TABLE 3.2  LIDC net capital inflows stay flat while EM net capital flows turn negative in 2015

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Source: IMF World Economic Outlook
Note: Country groupings are defined in appendix table C5.2.
a loosening of monetary conditions in 2014 (figure 3.8). In LIDCs, there was relatively less reliance on monetary policy loosening in the form of a lowering of short-term interest rates rather than allowing for a depreciation of the exchange rate, but the difference between EMs and LIDCs in that respect was not large.

Against the background of these policy measures, monetary aggregates continued to grow faster than nominal GDP in EMs until 2014 (figure 3.9). These monetary trends have taken place in the context of low to moderate inflation in the vast majority of countries.

Against the background of slower growth and broadly stable inflation in 2014, less than

Table 3.3: Government revenue performance remains about constant

<table>
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</table>

Source: IMF World Economic Outlook.
Note: Country groupings are defined in appendix table C5.2.

Figure 3.7: Fiscal deficits are higher now than before the 2009 global crisis

Source: IMF World Economic Outlook.

Figure 3.8: The share of emerging market countries as well as low-income developing countries that experienced loosening monetary conditions fell somewhat in 2014

Note: Monetary policy loosening is based on Monetary Conditions Index (MCI) calculations. MCI is a linear combination of nominal short-term interest rates and the nominal effective exchange rate (with a one-third weight for the latter). Country groupings are defined in appendix table C5.2.
FIGURE 3.9  The growth in monetary aggregates is trending down in 2014 and early 2015

Note: The money gap is the difference between year-on-year growth rates of M2 and nominal GDP. The sample includes emerging market countries that have data on both for the whole sample period shown. Country groupings are defined in appendix table C5.2.

FIGURE 3.10  The share of emerging market countries as well as low-income developing countries that loosened both monetary and fiscal policies fell sharply in 2014

Note: Fiscal conditions are defined based on annual change in government balance (net lending/net borrowing) as a percent of GDP in 2008, 2009, 2010, 2011, 2012, 2013 and 2014. Monetary conditions are based on the change in the MCI; changes are calculated Q4 over Q4. MCI is a linear combination of nominal short-term interest rates and the nominal effective exchange rate (with a one-third weight for the latter). Country groupings are defined in appendix table C5.2.

20 percent of EMDCs loosened both fiscal and monetary policies (figure 3.10). A significantly larger number of countries—about 30 percent—tightened macroeconomic policies. Among countries that neither tightened nor loosened policies, but changed the mix of policies, more countries loosened fiscal policies and tightened monetary policies rather than the other way around.

Quality of macroeconomic policies in low-income countries

To gain a better perspective on the quality of macroeconomic policies in low-income countries, IMF country desks in these countries have been surveyed annually since 2003 about their assessment of the quality of countries’ economic policies. 2 In the period leading up
to the 2009 global financial crisis, the assessments became more positive, with particularly positive assessments of macroeconomic policies in the crisis year. While the perceived quality of macroeconomic policies has since deteriorated somewhat, it is generally still higher now than in the early part of the MDG-monitoring period (figure 3.11). Selected macroeconomic indicators—the background against which IMF country teams have assessed policies—are shown in figure 3.12.

In 2014, the perceived consistency of macroeconomic policy slipped, with the number of countries with unsatisfactory performance increasing sharply. The assessments of monetary policy continue to be somewhat more positive than those of fiscal policy, with assessments of both types of policies becoming less positive in 2014.

To further gauge the geographical differences in perceived quality of policies, one can also consider the breakdown in answers across geographical areas (table 3.4). These differences are minor over time.

**Long-term convergence and growth trends**

With the completion of the MDG-monitoring period and the launch of the SDGs, it is an opportune moment to provide a longer-term perspective on growth and income convergence. How did outcomes during 2000–15 compare with historical trends? And what are the prospects for the SDG-monitoring period of 2016–30?

An impressive global economic expansion took place in the half century leading up to the adoption of the Millennium Declaration in 2000, although with diverging income levels across countries. Total GDP expanded sevenfold and GDP per capita tripled (in constant U.S. dollars at market exchange rates). However, as the Lorenz curve, which provides a comprehensive representation of global per capita income distribution (figure 3.13) shows, the associated Gini coefficients increased from 67 percent in 1950 to 75 percent in 2000. Indeed, Burkina Faso and China were the two poorest countries in 1950 with income levels one-tenth of the global average; by 2000 one-fourth of all countries had relative incomes lower than that.

In contrast, the strong economic expansion during the MDG-monitoring period was accompanied by greater income convergence. The global Gini declined from 75 percent in 2000 to 62 percent in 2015. And as intercountry income differences diminished over the MDG-monitoring period, per capita GDP growth at 2.1 percent remained about in line with the historical trend of 2.3 percent annually (figure 3.14).

Notwithstanding this narrowing of global income differences, the share of poor countries has remained high. One-seventh of all countries still have GDP per capita below one-tenth the mean global income level, and the countries where the poorest 40 percent of the world’s population live account for just 6 percent of global income (figure 3.15). Excluding China and India, per capita GDP in these countries increased sharply over the past 15 years, but their income level relative to mean global income is no larger now than in 1950.

An alternative measure of progress during the MDG-monitoring period is the number of countries that graduated into high-income status. About one-fourth of all countries are now high-income countries, as compared with one-fifth in 2000 (figure 3.16). The pace at which countries graduate from middle-income to high-income status has picked up, but it trails the pace at which countries graduate from low-income to middle-income status. Although the number of high-income countries increased significantly from 2000 to 2015, the share of the world’s population living in high-income countries remained about constant over this period because of relatively lower population growth in the richer countries.

Looking ahead, prospects for growth and income convergence over the SDG-monitoring period would be influenced by demographic trends. The average annual global population increase is projected to fall to 1 percent during 2015–30 from 1¼ percent during 2000–15. But population growth will
FIGURE 3.11  The quality of macroeconomic policies is lower now than during the 2009 global crisis

Quality of macroeconomic policies in low-income countries, 2003–14\(^{a,b}\)

Source: IMF staff estimates.
a. IDA-eligible countries.
b. IMF staff have assessed each low-income country according to a common set of criteria. Policies are assessed as unsatisfactory, adequate, and good for this purpose. For example, a country with an unsustainable level of public debt and a large fiscal deficit would be judged to have an unsatisfactory fiscal policy.
c. Fiscal transparency data are available from 2005.
FIGURE 3.12 Selected macroeconomic indicators for low-income countries, a 2000–15

Source: IMF World Economic Outlook.

a. IDA-eligible countries.
differ sharply across different country groupings. Average annual population growth from 2015 to 2030 in AEs, EMs, and LIDCs is projected to be 0.4 percent, 0.7 percent, and 2.0 percent respectively. Looking only at growth in the working-age population (15 to 64 years), the differences across country groupings are even starker: in AEs the working-age population will decline by 0.1 percent annually, compared with increases of 0.6 and 2.4 percent annually in EMs and LIDCs.\(^4\) In consequence, there is a marked relative shift in population structures in the three groups of countries, as discussed further in part 2 of this report.

Against the background of this demographic outlook and the medium-term economic WEO outlook, global growth is expected to trend down in 2016–30 relative to 2000–15. In particular, demographic trends in major advanced and emerging markets will be a drag on their potential growth
Other reasons for why one can expect a slowing of growth include weaknesses in investments, slower pace of human capital accumulation, and gradually diminishing growth dividends from information and communication technology. Thus, increasing potential output will be a key policy priority in major advanced and emerging economies. Priorities vary across countries, but they include reforms to boost labor supply, addressing energy infrastructure bottlenecks, and improving business conditions. Also, open markets for goods, services, and capital, under appropriate safeguards, should be maintained so that countries can maximize inter- and intra-temporal gains from trade. In countries where dependency ratios are expected to rise, fiscal policy space should be right-sized in anticipation of increased demand for public social services.

The demographic trends in LIDCs could, in contrast, induce a growth dividend, if met with the right set of policies, and help in driving further income convergence. To harness this demographic dividend while maintaining macroeconomic stability is of the utmost importance; it also requires pursuing a broad, interconnected structural policy agenda. Policies need to focus on enhancing human capital, furthering financial sector development, and building infrastructure that lowers costs and better connects domestic and global markets. Promoting economic diversification will also be essential. The implementation of these policies will likely require fiscal space to reprioritize government spending toward social and infrastructure spending, and still maintain debt sustainability. Flexible and deep labor markets are essential to ensure that workers are matched with available jobs efficiently, while compensation remains aligned with productivity. These policy issues are discussed further in subsequent chapters.

**Conclusion**

Global growth remains moderate, with growth in 2015 expected to be lower than in 2014, with stronger growth in AEs offset by overall weaker growth in many EMs with the end of the commodity prices super-cycle. Growth in 2016 in AEs is expected to continue to recover, and pick up as well in EMs. Geopolitical tensions, tightening of
Financial conditions, and lower commodity prices weigh on the outlook. While growth in LIDCs should slow down in 2015 on lower growth in oil-exporting LIDCs, it is expected to recover in 2016.

Downside risks have increased for EMDCs in the context of slowing growth, including increased financial market volatility, a further dollar appreciation and its impact on balance sheet exposures, even lower commodity prices, an abrupt growth slowdown in China, and heightened geopolitical tensions in Russia, Ukraine, the Middle East, and parts of Africa. Risks for AEs include disruptive asset price shifts and financial market turmoil.

During the MDG-monitoring period (2000–15), most EMDCs grew at a sustained strong pace. Together with strong growth, per capita income differences among countries were reduced and absolute poverty was halved over this period.

For the SDG-monitoring period (2015–30), prospects are for global growth to trend down, mostly because of a decrease in global population growth. Poorer countries would need to address disparate demographic evolutions with an appropriate set of macroeconomic and structural policies to enable further reductions in absolute poverty levels and to further narrow income differences relative to richer countries. Richer countries’ support for a global economic system with open markets for goods, services, and capital, under appropriate safeguards, remains essential.

**BOX 3.1 The effects of demographic factors on potential output**

This box—drawing on the April 2015 *World Economic Outlook: Uneven Growth—Short- and Long-term Factors*—assesses the effects of demographic factors on potential output for 10 advanced economies (Australia, Canada, France, Germany, Italy, Japan, the Republic of Korea, Spain, the United Kingdom, and the United States) and 6 major emerging market economies (Brazil, China, India, Mexico, Russia, and Turkey).

Demographic factors can influence potential output by affecting working-age population and trend labor force participation rates. The former is a function of the same variables as population growth more broadly. For example, declines in fertility rates slow future working-age population growth. The second demographic dimension is the age composition of the working-age population, which affects the aggregate participation rate, since the propensity to participate in the labor force starts declining steeply beyond a particular age threshold, typically in the early 50s. An increased share of older people in the population therefore lowers the average participation rate and thereby potential employment.

Figure B3.1.1 presents the evolution of potential growth and the effects of demographic factors over the period 2001–20. In the aftermath of the crisis,
potential growth declined in both advanced and emerging market economies. While the largest part of this decline is associated with the scars of the crisis (in particular in advanced economies), demographic factors have also played an important role. In particular, demographic factors contributed to lower potential growth in advanced and emerging market economies by about 0.3 and 0.4 percentage point during 2008–14, respectively.

Looking forward, demographic factors are expected to be an increasing drag on potential growth. In advanced economies, demographic factors are projected to reduce potential growth by about 0.2 percentage point in the medium term (figure B3.1.1a). Working-age population growth is likely to decline significantly in most advanced economies, particularly Germany and Japan, where it will reach about –0.2 percent a year by 2020. At the same time, rapid aging is expected to further decrease the average trend labor force participation rates.

In emerging market economies, demographic factors are expected to reduce potential growth by about 0.4 percentage point by 2020 (figure B3.1.1b). Working-age population growth is likely to slow faster, most sharply in China, and to remain negative in Russia. Aging is expected to accelerate, lowering trend labor force participation rates. Again, this effect is expected to be strongest in China.

Notes
1. Unless otherwise noted, the analysis in this chapter is confined to the 188 member countries of the IMF and the World Bank. These countries constitute 99 percent of the world’s population and economic activity. This chapter draws on the October 2015 WEO. The classification of countries follows the one used therein. Emerging market and developing countries are those countries that are not designated as advanced. Low-income developing countries are countries eligible for IMF’s concessional financial assistance with a per capita gross national income (measured according to the World Bank’s Atlas method) in 2011 of below twice the International Development Association’s effective operational cutoff level, and Zimbabwe. Other emerging market and developing countries are considered emerging
market countries. Small states are emerging market and developing countries with a population of less than 1.5 million. Fragile states are countries included in the World Bank’s list of fragile and conflict-affected states as of July 2015. Appendix table C5.2 includes the list of all countries and the groupings to which they belong. In line with standard WEO practice, growth for country aggregates is calculated using purchasing power parity weights.

2. Each low-income country has been assessed according to a common set of criteria. For example, a country’s quality of fiscal policy is assessed by considering its fiscal deficit and the sustainability of its public debt (a country with a large fiscal deficit and an unsustainable level of public debt would be judged to have an unsatisfactory fiscal policy).

3. These coefficients are calculated weighting countries’ GDP per capita with their populations; thus they anchor the calculations to the mean global income level but abstract from inequality within countries (see chapter 5 for a discussion of income inequality within countries). The weighted averages are naturally influenced by developments in the larger economies (for example, China, India, and the United States account for 41 percent of global population and 43 percent of global output in 2015). On an equally weighted basis (treating each country as a single data point), the Gini coefficient increased from 53 in 1950 to 69 in 2000 and then fell to 63 percent in 2015.

4. These estimates are based on the medium fertility scenario in the United Nations’ World Population Prospects: The 2015 Revision.