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Economic Growth and Poverty Reduction in a Rapidly Changing World

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Economic Growth and Poverty Reduction in a Rapidly Changing World

By Beatriz Pérez de la Fuente

Summary

‘Poverty is not just a lack of money; it is not having the capability to realise one’s full potential as a human being.’

Amartya Sen

Economic growth has proven to be a powerful force in the fight against poverty across the world, especially since 2000. While good progress has been made, 900 million people are still trapped in extreme poverty and the prospects for many, particularly in Sub-Saharan Africa, remain worrying. The persistence of extreme poverty in this region, which also struggles with numerous regional conflicts and fragile states, has the potential to stoke sustained geopolitical tensions, which, in turn could stymie future global growth, if left unaddressed. Furthermore, unless accompanied by a matching rise in job opportunities, rapid population growth in Sub-Saharan Africa could continue to fuel migration flows.

Although critical, economic growth alone will not be sufficient to cut the global poverty rate to below 3 % by 2030 unless it is accompanied by policies to ensure that the poorest benefit from growth and the job creation process. By looking at the experiences of China, India and Brazil, this paper assesses what makes a country successful at tackling poverty. This could provide valuable lessons for Sub-Saharan Africa, where global poverty is expected to be concentrated in 2030. To the extent that the concentration and depth of poverty is largely fuelling non-economic risks, like geopolitical conflicts, terrorism and migration flows, making growth inclusive is also critical for the stability of the global economy and should be at the core of global economic policy considerations, including in the G20. This is why, at the recent Hangzhou Summit, the G20 agreed to *‘work to ensure that our economic growth serves the needs of everyone and benefits all countries and all people including in particular women, youth and disadvantaged groups, generating more quality jobs, addressing inequalities and eradicating poverty so that no one is left behind’*.

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1. The New Geography of Global Poverty

At the 2000 **Millennium Summit**, world leaders gathered at the United Nations to forge a comprehensive vision on how to fight poverty in its many dimensions, as being poor is not only about income. Guatemala and Morocco have very similar incomes per capita but Guatemala is doing much worse than Morocco in terms of living standards (primary education, child malnutrition, under-five mortality rate, etc.). That **multifaceted vision of poverty** reduction, which was **shaped into eight Millennium Development Goals** (MDGs¹), remained until 2015 the primary development framework for the world. **Measuring and monitoring progress** towards these goals **required** improving the quality, frequency and availability of relevant statistics. While there has been **investment in national statistical systems** by countries and international partners, weaknesses persist in the coverage and quality of many indicators in the poorest countries.

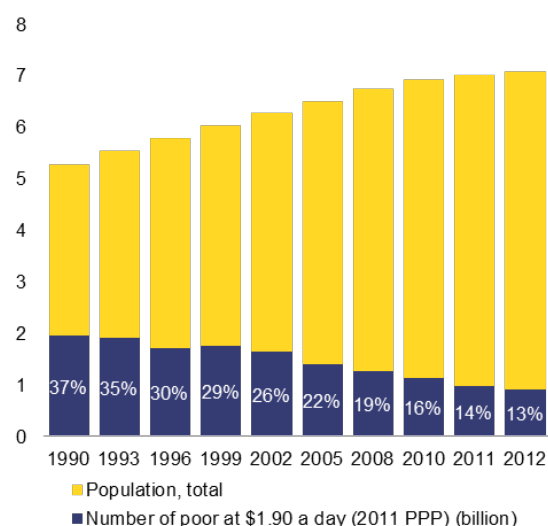
Millennium Development Goal 1a, which is to **halve by 2015 the percentage of the world's population who were living on less than \$ 1.25 per day² (at 2005 PPP) in 1990**, is the first and most important target of the MDGs. This common threshold across countries and over time represents the same standard of living **below which a person is considered to be extremely poor**, just barely above the minimum of subsistence. As **differences in the cost of living across countries evolve**, the **global poverty line** was **adjusted to \$ 1.90 per day** using the **2011 PPPs** in October 2015. These revisions have not changed the broad outline of the dramatic growth-driven decline in extreme poverty in the developing world over the last 20-plus years.

1.1. Does growth alone tell us the full story about poverty reduction in the last 25 years?

The **MDG1a of halving extreme poverty between 1990 and 2015** was already **reached in 2010, five years ahead of the target date³**. The percentage of the developing world's population living in extreme poverty dropped from roughly **44 % in 1990** to close to **15 % in 2012**. However, almost 900 million people, roughly 13 % of the world's population, still live in extreme poverty. The World Bank's projections for global poverty

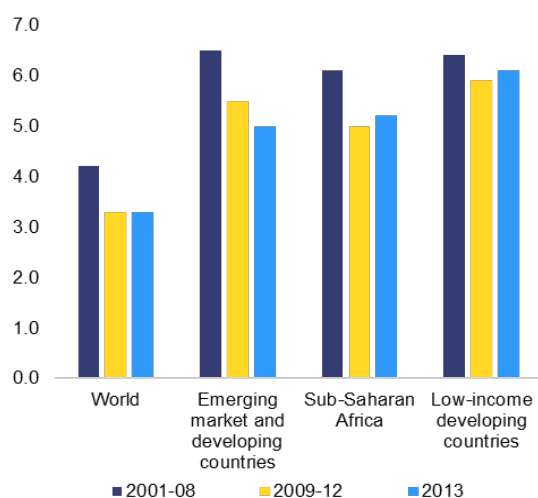
indicate the expected extreme poverty rate in 2015 at around 9.5 % (see table 1a). Compared to the 2012 estimate, global extreme poverty may thus have fallen by an additional 200 million people.

Graph 1: Share of world population living in extreme poverty



Source: World Bank PovcalNet

Economic growth⁴ has been the **main driver of poverty reduction**. The academic literature typically shows that economic growth is the cornerstone for income growth, including for the bottom 40 % of the income distribution (Dollar et al, 2013). In the **early 1990s, growth took off** across the developing world **and accelerated further in the early 2000s**, which was a **time of unprecedented economic growth and poverty reduction** for developing countries and emerging markets. Since 1990, the global poverty rate has been fallen by roughly 1 pp. a year, although the most rapid decline occurred in the 2000s. Between 2001 and 2013, developing countries that were either emerging markets, Sub-Saharan African countries or low-income countries grew on average by more than 5 %, which enabled strong poverty reduction. Kraay⁵ (2006) offers the estimate that growth in average income accounts for between 70 % and 95 % of the observed poverty reduction. Other estimates⁶ point to two thirds of the drop in poverty as being a result of economic growth, with the other third a result of greater equality.

Graph 2: Average real GDP growth (%) by country groups

Source: IMF WEO

China and India were the largest contributors, but global poverty fell in many other countries as well. Much of the observed poverty reduction has been due to continuous fast-paced economic growth in populous and initially poor developing countries such as China and India, which together lifted some 650 million people out of poverty. But countries like **Indonesia, Pakistan and Vietnam** were **also leading contributors** to global poverty reduction between 2008 and 2011. The surge in **economic growth** has been **relatively widespread and simultaneous** (Radelet, 2015): since 1995, real GDP has grown at an average rate of 4.7 % across all developing countries. Between 1995 and 2013, **71** out of 109 **developing countries exceeded 2 % annual GDP per capita growth**, compared to just 21 countries that did so in the previous two decades⁷: 19 in Eastern Europe and Central Asia; 17 in Sub-Saharan Africa; 15 in South Asia and East Asia; 8 in Latin America and 8 in the Middle East and North Africa⁸.

However, making growth inclusive⁹ does not come automatically and **requires economic, social and institutional arrangements** to ensure that the poor are also part of the growth and job creation process (Narayan et al, 2013). Such mechanisms are country-specific and time dependent. Therefore, **economic growth is not the only explanatory factor and dedicated policies also helped¹⁰**, albeit to a lesser extent. Growth-enhancing policies should be complemented with policies that enable the poor to participate fully in the opportunities unleashed

(and so contribute to that growth). This includes institutions and greater quality investments in critical basic social services to expand the opportunities for all segments of the society, and policies to improve the functioning of labour markets, tackle gender inequalities and promote financial inclusion. The mid-1990s were a turning point for most developing countries that began to take off also **in non-income dimensions of development**, such as education, healthcare, nutrition, infrastructure, spread of democracy and good governance, which have had a major impact on poor people's ability to take part in growth opportunities (Radelet, 2015).

More and better paying jobs have been crucial to lifting people out of poverty¹¹ (World Bank, 2013). The 2000s also witnessed the emergence of middle classes in many developing countries. The number of workers living in extreme poverty in developing countries was successfully reduced from 52 % in 1991 to an estimated 11 % in 2015; whereas the number of people in the working middle class, living on more than \$4 a day, almost trebled between 1991 and 2015¹². This latter group currently constitutes half the workforce in the developing regions, up from just 18 % in 1991. Since most of the extreme poor live in rural areas, **accessibility to jobs**, rural or urban, **by promoting access for all and reducing inequality of opportunities** is of paramount importance for poverty reduction. **Also, social safety nets** to insure the poor and vulnerable against emerging risks have proven essential.

1.2. Why has economic growth been less effective at lifting people out of extreme poverty in Africa?

Even though the world has made rapid strides in poverty reduction, progress has been uneven across the developing world. All of them have met the MDG1a target except for Sub-Saharan Africa, where global poverty is expected to be concentrated by 2030 (World Bank, 2015). Extreme poverty headcount rates (i.e. percentage of the population living in households with consumption or income per person below the poverty line) have come down in every region in the last two and a half decades but at different speed.

Table 1a: Trends in poverty (headcount, %) in developing countries by region, 1981 to 2015 (selected years)

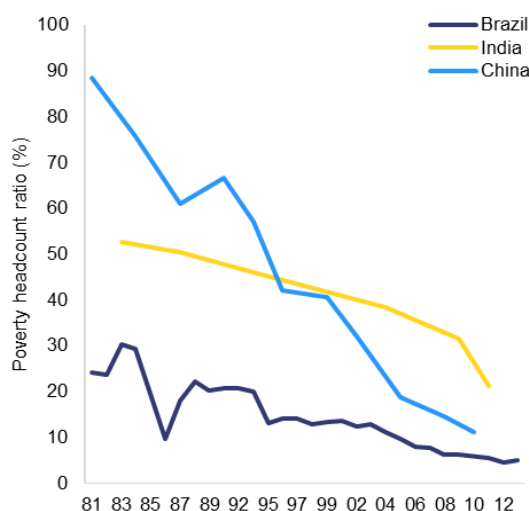
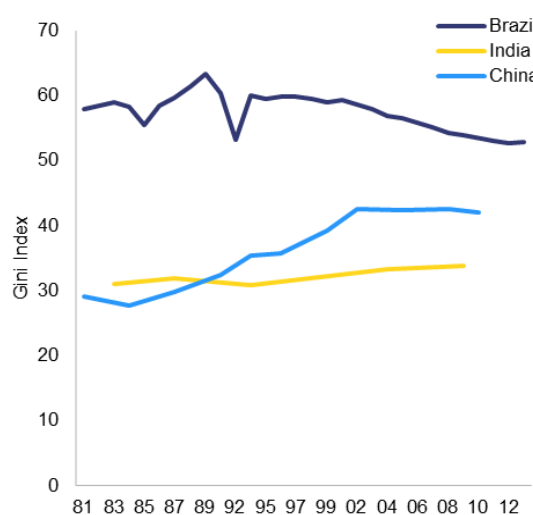
Region	Actual									Projections
	1981	1990	1999	2002	2005	2008	2010	2011	2012	2015
East Asia and Pacific	80.60	60.56	37.45	29.19	18.61	14.96	11.21	8.54	7.21	4.1
Europe and Central Asia*	-	1.89	7.81	6.21	5.46	3.10	2.78	2.39	2.11	1.7
Latin America and the Caribbean	19.65	15.47	13.87	13.17	9.90	7.12	6.45	5.92	5.58	5.6
Middle East and North Africa*	-	5.98	4.17	-	3.34	2.70	-	-	-	-
South Asia*	58.11	50.65	-	40.78	34.95	32.06	27.21	22.21	18.75	13.5
Sub-Saharan Africa	-	56.75	57.96	57.05	50.46	47.81	46.11	44.35	42.65	35.2
Developing world	53.48	44.12	34.34	30.96	24.58	21.87	19.05	16.52	14.88	11.9
World	43.96	36.91	29.08	26.29	20.92	18.65	16.27	14.12	12.73	9.6

Source: World Bank- Poverty & Equity Databank and Povcalnet./ N.B.*= survey coverage is too low, the result is suppressed

East Asia and the Pacific saw the most dramatic reduction in extreme poverty and was the **first region in meeting the target already in 2002**. The regions of Europe and Central Asia; the Middle East and North Africa; and **Latin America and the Caribbean**, which started with relatively low extreme poverty rates followed suit **in 2008**. **South Asia** also experienced a steady decline in poverty but the pace has picked up since 2008, enabling the region to achieve the target by **2011**.

Ravallion (2009) made a **comparative analysis** on poverty reduction in **Brazil, China and India** between 1981 and 2005, the period of highest poverty reduction for China. Understanding how China developed so quickly and comparing the Chinese case with the experiences of Brazil and India could shed some light **on how to fight poverty** in the developing world. These three countries together have lifted more than half of the world's poorest people out of poverty.

Between 1981 and 2005, China had the highest growth rate of GDP per capita, close to 9 % per year, followed by India at around 4 % per year and Brazil at 0.8 % per year. China was also the best performer in poverty reduction: China's poverty rate (\$ 1.25; 2005 PPPs) showed a remarkable fall from 84 % in 1981, when the 'reform and opening up' policy begun, to 16 % in 2005. But Brazil did better than India despite its lower growth rate: Brazil reduced its already lower poverty rate from 17 % to 8 %, whereas India decreased its poverty rate from 60 % to 42 %. **Differences in their performance** were primarily **explained by initial conditions, the pattern of growth** and whether it is associated with growing inequalities, and **redistributive policies**, including direct interventions. Also **macroeconomic stability**, in particular avoiding inflationary shocks, contributed to poverty reduction in all of them.

Graph 3a: Poverty reduction by \$ 1.90 a day (2011 PPPs) in Brazil, China and India between 1981 and 2012**Graph 3b: Inequality in Brazil, China and India between 1981 and 2011**

Source: World Bank- Poverty & Equity Databank

More important than economic growth per se was the pattern of growth¹³ for poverty reduction. China's rapid poverty reduction was the result of large gains from removing growth inhibiting distortions¹⁴, left by Mao's legacy, and

the relatively **low inequality in access to productive factors** (land and human capital), which helped the less well-off to participate more fully in the opportunities unleashed. In the late 1970s, China introduced a series of ‘pro-market’ reforms, being one of the first agrarian reformers. **Much of China’s poverty reduction occurred in the 1980s**, with the break-up of farming collectives and the relatively equitable allocation of farmlands to individual farmers. In that context, agricultural growth played a major role in poverty reduction in rural areas until the mid-1980s. After that, growth shifted towards the cities and manufacturing, and while incomes grew in both urban and rural areas, it rose much faster in the former. By contrast, growth in the service sector in India and Brazil had a far higher poverty reducing impact than growth in either the manufacturing or agricultural sectors. Nonetheless, **China’s growth was much more pro-poor than that of India and Brazil**, mainly thanks to its relatively high access to productive factors, increases in agricultural productivity and expansion of non-agricultural productive employment opportunities.

This suggests that the structural changes involved in the growth process in terms of job creation and labour productivity are of paramount importance for poverty alleviation.

The pattern of growth also mattered to the evolution of inequality. Since the late 1980s the **rise in inequality**, as measured by the Gini index¹⁵, was **far greater in China than in India**. When income inequality increases over time, the poverty-reducing impact of growth tends to be less effective. However, inequality fell **in Brazil**, showing that despite modest growth, well-targeted **social policies can play a significant complementary role in tackling inequalities and poverty**. Brazil’s initial high level of inequality was a serious obstacle to poverty alleviation, requiring it to grow faster than China (assuming no change in income distribution) to reach the same rate of poverty reduction. On the other hand, Brazil had a larger capacity than China to implement redistributive policies to tackle the poverty problem. Brazil’s main conditional cash-transfer program, called Bolsa Familia¹⁶, was an interesting example of reducing inequalities through direct interventions targeting the poor. By contrast, China lagged behind in implementing new social policies, whereas India had a system in which the beneficiaries tend to be non-poor

groups and where the quality of basic public services was questionable. The problem of inequalities in human development has been particularly severe in India.

It therefore follows that pro-poor social policies should focus on building the human capital of the less well-off to allow them into higher productivity employment, and protecting them through social safety nets¹⁷.

However, **Sub-Saharan Africa** has been much **less successful in terms of poverty reduction**, despite its relatively robust annual economic expansion of 4.5 % from 1995 to 2013. First, Sub-Saharan Africa’s poverty rate is not only the highest but also the deepest¹⁸ in the developing world. Second, in countries that are initially more unequal, like most in Sub-Saharan Africa, economic growth is less effective at lifting people out of poverty. Third, Sub-Saharan Africa’s per capita growth has been less remarkable due to rapid population growth. Extreme poverty began to fall in the 2000s with the acceleration of economic growth, allowing the poverty rate to start to fall to around 42.5 % in 2012¹⁹.

However, these reasons do not fully explain why Sub-Saharan Africa is the **only region in the world where the number of extreme poor has risen dramatically**. Since 1990, population growth (at 2.7 % per year) has exceeded the rate of poverty reduction; thus there were many more extreme poor in 2012 than in 1990 (389 million in 2012 up from 288 million in 1990). Yet, a modest decline in the number of poor in Sub-Saharan Africa can be noted, by comparing the most recent data for 2011 and 2012. Strong and sustained economic growth did not always occur in those Sub-Saharan African countries where extreme poverty is concentrated. This is well illustrated by both the Democratic Republic of Congo and Madagascar: both have posted little or no economic growth during the past 20 years, and a rise in the number of people living in extreme poverty. Moreover, the quality of economic growth did not generate enough jobs, especially for the young (with youth unemployment about 50 % and under unemployment being a serious concern). Most of the new employment opportunities were in low-productivity jobs (from the agriculture to the service sector and working in the informal sector in urban areas).

Table 1b: Trends in poverty (number of poor, millions) by region, 1981 to 2015 (selected years)

Region	Actual									Projections
	1981	1990	1999	2002	2005	2008	2010	2011	2012	2015
East Asia and Pacific	1142.50	995.54	689.35	552.74	361.19	296.92	225.65	173.12	147.20	82.6
Europe and Central Asia*	-	8.78	36.77	29.17	25.66	14.63	13.24	11.44	10.14	4.4
Latin America and the Caribbean	72.16	68.04	71.11	70.49	55.09	41.06	38.06	35.33	33.68	29.7
Middle East and North Africa*	-	13.53	11.33	-	10.05	8.56	-	-	-	-
South Asia*	537.93	574.87	-	582.95	523.90	501.46	437.22	361.66	309.23	231.3
Sub-Saharan Africa	-	287.64	374.59	399.01	381.66	391.53	398.34	393.55	388.76	347.1
World	1982.08	1948.41	1751.45	1645.12	1357.67	1253.90	1119.75	988.33	896.70	702.1

Source: World Bank- Poverty&Equity Databank and Povcalnet./ N.B.*= survey coverage is too low, the result is suppressed

As a result, the distribution of global poverty has shifted dramatically from East Asia to Sub-Saharan Africa between 1990 and 2015 (World Bank, 2015). Today, most of the world's poor live mostly in Sub-Saharan Africa whereas they accounted for only a small fraction of the global extreme poor in 1990 — around 15 %. Conversely, about half of the global extreme poor were located in East Asia in 1990 while only 10 % lived in East Asia by 2015 estimates. Therefore, extreme poverty is increasingly becoming a Sub-Saharan African issue, not to disregard other regions, in particular South Asia.

1.3. Where do the world's extreme poor live?

Global extreme poverty is now concentrated in a mere five countries: India, Nigeria, China, Bangladesh and the Democratic Republic of Congo. Three-fifths of the world's extreme poor live in these nations. If **Indonesia, Ethiopia, Pakistan, Tanzania and Madagascar** are added to these, their combined populations would amount to over 70 % of the global extreme poor (World Bank, 2015). Therefore, **the world's poor living on \$ 1.90 a day largely live in middle-income countries (MICs).** Whereas almost all of the world's poor (94 %) lived in low-income countries (LICs) in 1990, there were less than 36 % in 2012. Within MICs, the poor are mostly concentrated in the lower middle-income countries (LMICs) category. This pattern is largely the **result of four populous countries moving into the LMIC category recently: China²⁰ (1999), India (2007), Indonesia and Nigeria (2010).**

There has been a shift in the changing distribution of poverty, pointing to a '**poverty paradox**', indicating that from a global perspective, **most of the extreme poor do not live in the world's poorest countries.** However, the poverty rates vary widely across the top 10 countries²¹ with the highest number of the extremely poor. For example, in 2012 India had

approximately one third of the world's extreme poor, as one of the countries with the largest number of extremely poor, it still has one of the lowest poverty rates among these top 10 countries.

But, LICs typically have higher rates of poverty and a larger poverty gap (i.e. the mean distance below the poverty line as a proportion of the poverty line). The poverty rate in LICs averages 43 % in 2012 compared to 19 % in LMICs. Therefore, **one must not lose sight of poverty in the LICs amidst discussion of poverty in MICs. There are many smaller countries with much higher percentages of the population (equal to or more than 40 %) living below the poverty line.** Approximately a quarter of the world's extremely poor live in these 26 countries, which are all **in Sub-Saharan Africa, except for Haiti and Bangladesh.** The population of most of these countries is relatively small, excluding Bangladesh, the Democratic Republic of Congo, Nigeria and Tanzania. It can therefore be said when viewed from a global perspective, that high poverty rates in such countries do not make a substantive contribution to the total number of extremely poor. Nevertheless, reducing poverty in these countries highlights the need for a targeted strategy to ensure that no country is left behind.

Sumner (2011) has argued that **crossing the threshold²² from LIC to MIC does not inform us significantly about the primary ways in which countries are capable of fighting poverty,** including through domestic redistribution. Therefore, any use of these income graduation thresholds in discussing development assistance requires caution, given the heterogeneity among countries near the low-middle boundary. Furthermore, if receiving MIC status leads to a decrease in aid receipts or other such treatment by international institutions, a country could fall backwards and become trapped if alternating between LIC and MIC status in the long term. Subsequently, this new geography of global poverty questions a widely extended model of development assistance

where aid allocations may hinge upon country classifications based on GNI per capita.

2. Ending extreme poverty by 2030

The **2030 Agenda for Sustainable Development**, approved by world leaders on 25 September 2015 in New York, sets out a **universal framework to eradicate extreme poverty and ensure a sustainable future by 2030**. The EU played an important role in shaping the 2030 Agenda, including creating the **Sustainable Development Goals**²³ that build on the success of the Millennium Development Goals and go further, and will continue to play a leading role in their implementation. Yet the International Conference on Financing for Development in July 2015 in Addis Ababa paved the way for a successful UN Summit in New York, by bringing together the policies, tools and resources to achieve the Sustainable Development Goals and to support the COP21 climate agreement adopted in Paris.

In 2013, the **World Bank** set itself the **twin goals** of ending extreme global poverty and promoting shared prosperity. The poverty goal implies **reducing the percentage of the world's population living below the international poverty line to 3% by 2030**, with an interim target of 9% by 2020. Whereas the shared prosperity goal has no hard target, it is defined as **promoting the income growth of the bottom 40% of the income distribution of each country**. Adding to the poverty goal, a measure that captures the distribution of income growth reveals that the traditional focus on solely economic growth is shifting away towards an increasing attention to inequality. The **United Nations followed suit**, mobilising itself behind the poverty target (**Sustainable Development Goal 1- Ending poverty in all its forms everywhere**) and putting inequality at the top of the 2030 Agenda (**Sustainable Development Goal 10- Reduce inequality within and across countries**).

2.1. How quickly can global progress against extreme poverty occur?

Notwithstanding the challenge of forecasting two decades ahead, the World Bank (2015) estimates the feasibility of achieving the 3% poverty rate by 2030, envisaging three different trajectories for poverty reduction in the developing world, which differ in the pace and incidence of per capita household income growth over the next 15 years.

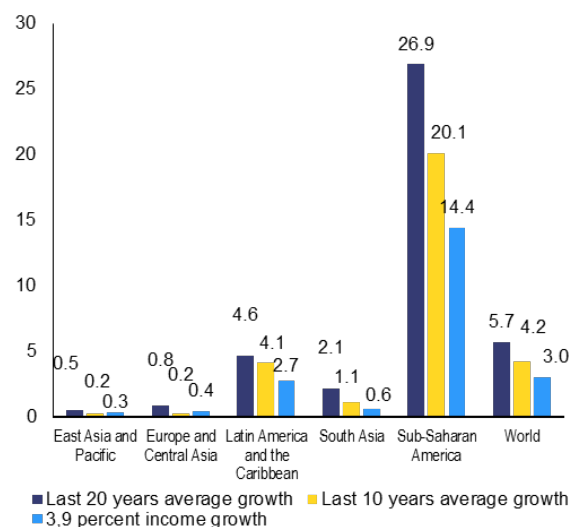
The Bank's findings suggest that **reaching the 3% target by 2030 appear to be rather ambitious** as it

would **require per capita income growth in each developing country of 4% a year** (the developing-country average per capita growth rate during the 2000s) with no change in income distribution. More realistic poverty scenarios would lead to a smaller reduction in poverty with global poverty rates of: 4% by 2030, supposing each country's GDP per capita grows at their respective average annual growth rates of the last 10 years (2004-2013) or close to 6% by 2030, with each country's GDP per capita growing at their respective average annual growth rates of the last 20 years (1994-2013). **Even in the best-case scenario, global poverty would be concentrated solely in Sub-Saharan Africa** and the region's poverty rate would still remain at 14.5% by 2030 unless substantial further action is taken.

However, there are reasons to believe that **economic growth is unlikely to be as a powerful force for reducing global poverty as it was during the Millennium Development Goals period (1990-2015)**.

First, **average income growth in the developing world is expected to be less vigorous than it was before the global financial crisis**. The assumption of a per capita GDP growth rate of 4% a year cannot be taken for granted. The developing world as a whole experienced an extraordinary period of fast income growth during the 2000s, but many countries certainly did not grow at this rate. Furthermore, past economic growth trends might not be economically, socially and environmentally sustainable any longer. According to the IMF, declining growth in emerging markets and developing countries is a real possibility between 2017 and 2020, as compared to the era of the Millennium Development Goals.

Graph 4: World poverty scenarios



Source: World Bank Global Monitoring Report 2015/2016

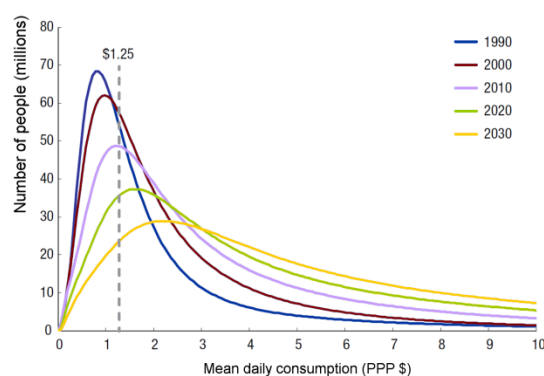
Table 2: Growth developments and prospects by country groups

	Actual				Projections		
	2001-08	2009-12	2013	2014	2015	2016	2017-2020
World	4.2	3.3	3.3	3.4	3.1	3.6	3.9
Advanced economies	2.2	0.6	1.1	1.8	2.0	2.2	2.1
Emerging market and developing countries	6.5	5.5	5.0	4.6	4.0	4.5	5.1
Commonwealth of independent States	7.2	1.7	2.2	1.0	-2.7	0.5	2.4
Emerging and developing Asia	8.4	8.0	7.0	6.8	6.5	6.4	6.4
Emerging and developing Europe	4.6	2.1	2.9	2.8	3.0	3.0	3.3
Middle East, North Africa, Afghanistan and Pakistan	5.4	4.1	2.3	2.7	2.5	3.9	4.3
Latin America and the Caribbean	3.6	3.2	2.9	1.3	-0.3	0.8	2.6
Sub-Saharan Africa	6.1	5.0	5.2	5.0	3.8	4.3	5.0
Low-income developing countries	6.4	5.9	6.1	6.0	4.8	5.8	6.0
Emerging Market countries	6.5	5.5	4.9	4.5	3.9	4.4	5.1
Fragile States	5.0	6.6	4.9	1.3	1.4	6.3	6.8
Small States	5.5	2.4	1.6	2.3	1.4	2.8	3.1

Source: IMF WEO

Global GDP and trade in 2015 expanded at their slowest pace since 2009, as the gradual recovery in advanced economies has not been sufficient to offset a sharper slowdown in emerging economies and oil-exporting countries. Emerging market economies as a whole are going through a broad-based and deeper-than-expected slowdown, on the back of weaker demand from China, which is seeking to engineer a transition to a more sustainable growth model and which is unwinding external and domestic imbalances. Lower oil and commodity prices are weighing on the performance of commodity exporters. Other external factors underpinning the current weakness include geopolitical tensions (CIS, MENA), the end of the commodities cycle (Brazil), and prospects of gradual normalisation of monetary policy in the US. Domestic vulnerabilities largely stem from domestic political instability, increasing domestic imbalances, cyclical adjustments and unresolved structural problems.

Second, even if the annual GDP growth rate still averages 4 % from now to 2030, keeping a poverty reduction rate of about 1 pp. a year cannot be guaranteed (Chandy et al, 2015). Today, with a global poverty rate of roughly 13 %, fewer people live just below the poverty line compared to 1990, when the global poverty rate was 37 %. As a result, the same distribution-neutral increase in household income growth (i.e. keeping income inequality unchanged) would lead to a lower percentage point reduction in poverty (see Figure 5, where the area under the curve to the left of the \$ 1.25 poverty line represents the millions of people considered to be extremely poor).

Graph 5: Probability density functions

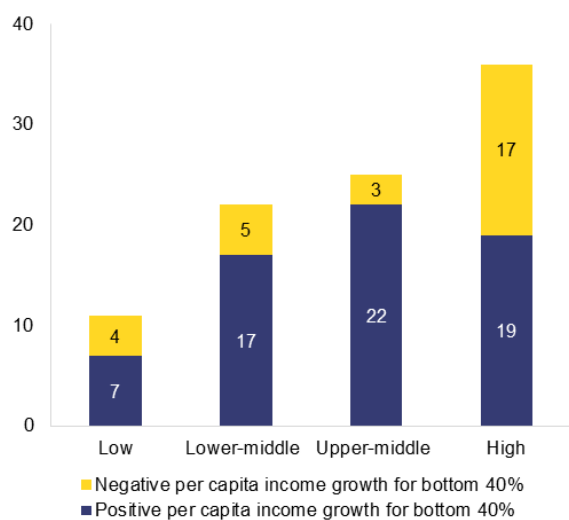
Source: L. Chandy et al (2013)

Therefore, economic growth tends to play a smaller role compared to inequality-reducing policies, as countries become less poor (Olinto et al, 2014). Policies consistent with less inequality through equalising opportunities and promoting social inclusion will therefore be crucial to speed up poverty reduction in an environment of generally lower, but also more sustainable global growth. This further suggests that the **acceleration of economic growth will not be sufficient to eradicate extreme poverty by 2030** (Yoshida et al, 2014).

Promoting ‘shared prosperity’ could increase the probability of achieving the 3 % poverty target more rapidly. Shared prosperity²⁴ refers to fostering the real income growth of the bottom 40 per cent of the income distribution in each and every country. Boosting the income of poorest 40 % could also help reduce income inequality if their incomes rise more quickly than the rest of the population. Fostering development would require lifting living standards even higher, continuously over time and across generations.

Lakner, Negre, and Prydz (2014) show that if average economic growth rates are extrapolated from the first decade of the 2000s, **income growth rates among the bottom 40 % of the population would need to be at least 2 pps. higher than the mean income growth** for the total population **to meet the 3 % target** by 2030. Nonetheless, these simulations should be treated with caution and perspective. For high-income countries (HICs), this was a period of disruption due to the spillover effects of the global economic crisis. In half of the HICs for which there is data, the income of the bottom 40 % declined and income inequality rose.

Graph 6: Number of countries with B40 per capita income growth by country groups



Source: World Bank Global Monitoring Report 2015/2016.

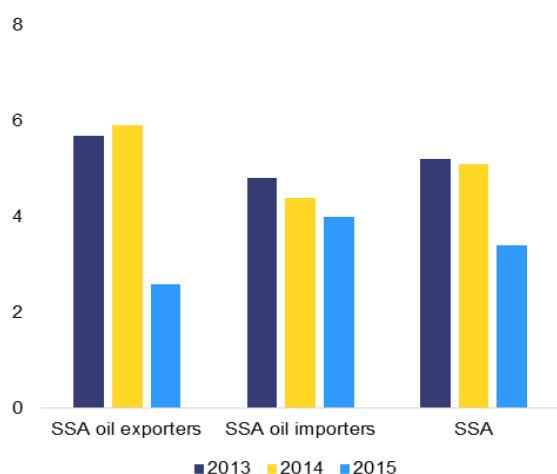
Focusing on the 65 developing countries, 47 of them, LICs and MICs, registered shared prosperity premium (i.e. positive income growth of the bottom 40 % of the income distribution and above average growth), being the **average shared prosperity premium of 1.7 % for the period between 2007 and 2012**. Only eight developing countries in Latin America²⁵ registered a shared prosperity premium exceeding 5 %. Furthermore, the income share of the bottom 40 % rose at an unprecedented rate during the 2000s, the factors that contributed to this could turn out to be transitory or unsustainable²⁶. In most emerging markets, high growth during the last decade may have been built on easy credit and the commodity boom rather than on sustained productivity gains in manufacturing and large-scale agriculture. **With a less buoyant economic outlook, improving ‘shared prosperity’ by at least 2 % seems quite ambitious. Furthermore,** while

macroeconomic policies are essential to directly foster sustainable and balanced growth, **identifying the policy combinations that also promote shared prosperity are less clear-cut** (Dollar et al, 2013).

2.2. Is this the end of the so-called ‘Africa rising²⁷’?

Overall, weaker growth is likely to hinder the acceleration of poverty reduction. As mentioned above, Sub-Saharan Africa fell short of achieving the MDG1a of halving the share of the population living in extreme poverty between 1990 and 2015, and is expected to be at the centre of global extreme poverty by 2030, even if the average 1995-2014 growth rates are maintained. The **European Commission’s spring 2016 economic forecast for Sub-Saharan Africa expects economic growth in the region to decelerate to close to 3 % in 2015 and 2016 from 5 % in 2014, and to pick up to around 4 % in 2017²⁸**. The sharp slowdown has been driven by a **combination of external headwinds and domestic challenges**. On the global front, there is the slump in commodity prices, the rebalancing and slowdown of growth in China, and tight, volatile financial markets. In some cases, these have been compounded by domestic factors such as infrastructure constraints, a severe drought, political and social instability. Nonetheless, there is **heterogeneity among countries in the region**. While many of the largest SSA commodity exporters are seeing sharply lower rates of growth, several others, such as Cote d’Ivoire, Ethiopia, Mozambique, Rwanda and Tanzania²⁹, are escaping the downward trend in regional growth and are growing at a strong pace.

Prospects for the region continue to be lacklustre with countries adjusting to lower commodity prices and macroeconomic vulnerabilities that have emerged in many countries. Therefore, there will be less space for counter-cyclical policies. This calls for urgent economic policy reforms, for both the short and the long term, to reinvigorate growth and realise potential. Without economic growth, the pool to redistribute from will shrink. In that context, the structure of taxation and social expenditures, the efficiency of the state in mobilising and using revenues to provide public goods, and the structure and effectiveness of social-safety nets are of utmost importance (Saavedra and Tommasi, 2007)³⁰.

Graph 7: Average real GDP growth (%) in Sub Saharan Africa

Source: IMF and World Bank

Furthermore, major poverty challenges persist, especially in view of **the region's rapid population growth** (2.7% per year). Compared to other developing regions, Sub-Saharan Africa is **lagging behind** in terms of progress in **non-income dimensions of poverty**. Besides, **most of the fragile and conflict-affected states are located there**. These structural factors help explain why the rate of and level of poverty in Sub-Saharan Africa remains the highest and deepest in the world and why the sharing of prosperity has been so uneven despite a period of moderately high growth. **Without investing more in its human capital**, Sub-Saharan Africa will struggle to undertake its much needed structural transformation to productively employ its rapidly growing youth population. The pressures of population growth in the region will continue to have an impact on **immigration to Europe for many years**. The situation is even more complex in fragile states, given the potential impact on climate change, drought or other natural disasters, and much worse in conflict-affected states as there is rarely development without peace.

Rising income inequality diminishes the impact of growth on poverty. But, although inequality is still high in Sub-Saharan Africa, there has not been a systematic increase in within-country inequality during the recent period of fast-paced economic growth (World Bank, 2016)³¹. Most of the world's unequal countries (seven out of 10)³² are found in the region. Excluding these seven countries and controlling for GDP, African countries cannot be said to be more unequal than developing countries elsewhere. Controlling for sub-region, inequality levels are not correlated with factors such as

resource wealth, development, fragility or whether a state is landlocked. Inequality in Sub-Saharan Africa can be partly associated with **inequality of opportunities**; the sources of which vary across countries and are at the root of unequal human development outcomes such as education, health, and gender. Research now suggests that **failure to make sufficient progress in intergenerational mobility in terms of both occupation and education may perpetuate poverty** across generations and hinder both the pace and sustainability of shared prosperity. Notwithstanding improvements in health, nutrition, education and empowerment, there is **still an unfinished agenda³³ in non-income measures of well-being** given the very low base for all human development outcomes.

Furthermore, **one-third of Sub-Saharan Africa's extreme poor lived in fragile and conflict-affected states** in 2012. Some of these countries are **also resource-rich but** massive investments in extractive industries barely generate employment and often **do little to reduce poverty**. Moreover, residents in resource-rich countries tend to score lower human development outcomes controlling for their income level (World Bank, 2016). Despite the windfall from the commodity boom, public spending on education and health as a share of GDP has been much lower in resource-rich countries than in non-resource ones. In addition, **poverty reduction is slowest** in fragile and conflict affected states. Between 1996 and 2012, poverty reduction in fragile states was 15 percentage points lower than in other developing countries. Besides, after a decade of relative peace, violence is on the rise again, especially in Central Africa and the Horn of Africa. Economic growth will be jeopardised and may even decrease during periods of conflict and economic recoveries may take years. This underlines the **potentially long-lasting impact from the recent upsurge in violent events³⁴** against civilians (terrorism and political disputes).

Most refugees from Sub-Saharan Africa remain in countries within the region, where **the logistical, institutional and socio-economic challenges in managing these increasing flows are huge**. The OECD list of Fragile States³⁵ includes 50 countries (most of them in Sub-Saharan Africa) with a population of 1.4 billion people (20% of the world's population), with an anticipated increase to 1.9 billion by 2030. The median age of the global population was 30 in 2013, but only 21 for people living in a Fragile State. By 2015, global displacement figures were at their highest, close to 60 million people. If

unaddressed, nearly half a billion people could remain below the poverty line by 2030.

2.3. How are low-income countries adjusting to an uncertain global economic outlook?

During difficult economic times, social protection and other policies targeting the poorest and more vulnerable come under pressure when they are needed the most. Also, the composition of public finances and structural reforms to favor adjustment and growth may have some redistributive impact. A more protracted slowdown across large emerging markets could have substantial spillovers in other developing economies, which could jeopardise the hard-won achievements in poverty reduction of the last 25 years. As mentioned above, most of the world's poor live in LMICs but LICs (most of them in Sub-Saharan Africa) have typically higher shares of population living below \$ 1.90 in 2011 PPPs.

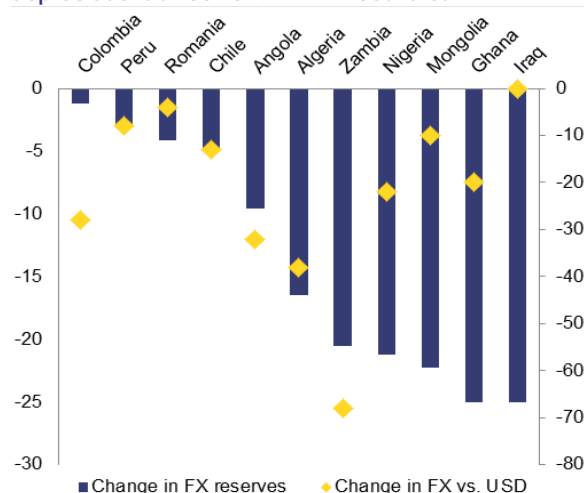
Therefore, the key question is **how LICs** are going to **manage the transition from an era 2001-2013 of unprecedented economic growth to a more challenging period ahead** while maintaining the record of poverty reduction and inclusive growth that they had previously. There is no general answer but a need for a country-specific one.

However, by and large, developing countries should focus on building resilience to financial market volatility and risks to growth. The **levels of vulnerabilities for LICs have increased** in the last two years **and depend on whether the country is an oil and commodity exporter or a more diversified economy**. Oil exporters are now facing major vulnerabilities on the fiscal side and to a lesser extent, but also on the external side. Whereas for commodity exporters, economies for which over 50 % of their exports are commodities but not necessarily oil, vulnerabilities are somewhat inversed and less pronounced than from oil exporters. They are facing above all external stress and to a lesser extent fiscal challenges. For all LICs, including diversified economies, vulnerabilities arise from the fiscal side as the global slowdown has triggered some relaxation of macro discipline, already using some buffers to maintain high growth.

If the changes in the world economy prove to be long-lasting, counter-cyclical policies will not be enough. Countries need to adjust from one economic growth path to another, with slower growth, although some rebound is expected, and above all, lower commodity prices. The ease with which countries can manage **this transition will depend very much on the**

timely implementation of policies and also on the buffers that they have in place, such as level of reserves or room to incur some additional debt.

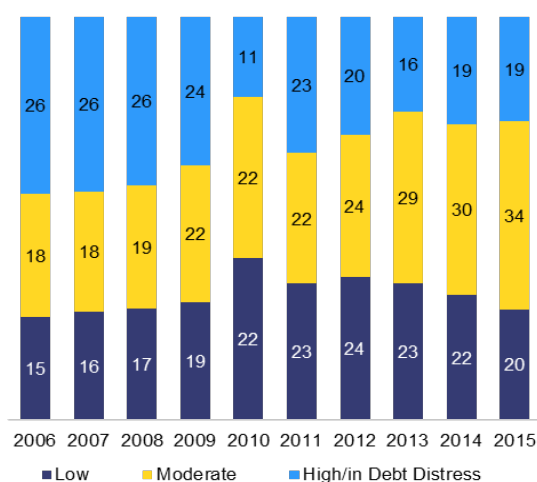
Graph 8: Change in foreign exchange reserves and depreciations since 2014 in IDA³⁶ countries



Source: *Exogenous Shocks and Debt* by J. Prutzer (World Bank Group)

At present, oil and commodity exporters are managing their external sector vulnerabilities through the **use of reserves**. Some of them have already used them widely to avoid some of the adjustments needed because of lower oil and commodity prices. Most of these countries tried to maintain their exchange rates almost fixed to avoid a large depreciation, but this may no longer be sustainable. A clear example is Zambia, which has used up a lot of reserves and whose exchange rate has largely depreciated, raising doubts about how its fiscal deficit is going to be reined in. That is affecting expectations, making its adjustment even more difficult.

Graph 9: Number of LICs by debt risk rating and years



Source: *Exogenous Shocks and Debt* by J. Prutzer (World Bank Group)

The speed of the adjustment will also be a function of the country's fiscal space. **Public debt** could be an option to smooth the process if there is enough room for maneuver. Between 2007 and 2013, the share of LICs at high risk of debt distress fell by almost half thanks to strong growth, debt relief initiatives and high demand for commodities. Subsequently, LIC's average debt was driven down from 66 % in 2006 to 48 % in 2014. In parallel, new borrowing possibilities emerged as a result of the ample liquidity in international financial markets, the deepening of domestic financial markets for some LICs and the rise of debt to non-Paris Club creditors, from about 8 % of GDP in 2007 to almost 12 % of GDP in 2014. These new financing opportunities have been associated with a shift toward greater dependence on non-concessional credit, particularly in the so-called frontier markets³⁷ and commodity exporters for which the share of non-concessional to total external debt almost doubled over that period. However, debt vulnerabilities have increased in the past two years, with nine out of 35 countries in Sub-Saharan Africa already at high risk of debt distress. Although there are only a few LICs (frontier markets and commodity exporters) that have experienced a deterioration in their risk rating, the changes signal a shift in the global environment with sharp declines in commodity prices and tighter external financing conditions as monetary policy normalise.

2.4. How will the G20 contribute to implementing the 2030 Agenda?

The 2030 Agenda for Sustainable Development includes the **Addis Ababa Action Agenda**³⁸, which provides a comprehensive financing framework for development. The Action Agenda is aimed at mobilising all sources of finance and to align all financing flows and policies with economic, social and environmental priorities. Although Official Development Assistance (ODA) remains important for LICs, it is only a small part of development financing. As stated in the Action Agenda, **countries have the primarily responsibility for their own economic and social development**, while committing the international community to create an enabling environment for sustainable development. Improving the poverty and inequality data, especially in Africa, is also crucial for better informed decisions and allocating resources devoted to poverty reduction as well as assessing whether policies and programmes to help the poor ultimately work.

Further acceleration in poverty reduction will depend primarily on the decisions and actions of developing countries themselves, as has been the case with the progress achieved during the last two decades. Therefore, any **process of transition** should be **accompanied**, whenever feasible, **by the support of domestic demand** to try to keep growth at a higher level. Within a context of fiscal prudence, expenditure prioritisation³⁹, in particular on quality social investment, and expenditure tracking with appropriate checks and balances would be of paramount importance. Productive public investment and debt management will be critical to sustain infrastructure development. **But** many countries will **also** need to embark on **reform programs** that they did not carry out during the good times. By and large, the **challenges ahead** refer to **domestic resource mobilisation (DRM)**, **debt management** and the **diversification of their economies**, through accepting changes in the real exchange rate and structural reforms.

The **EU stands ready** to play its part and contribute its share **to help LICs** mobilise the resources for **putting the 2030 Agenda into practice**, beyond being the largest donor of Official Development Assistance (ODA). Domestic resource mobilisation is the cornerstone for sustaining and supporting the investments that LICs need to make further progress. Efficiency in public finance should be strengthened as LICs are still collecting only around 14 % of GDP in taxes. Development partners, including the EU, joined forces and launched the **Addis Tax Initiative** in July 2015 to enhance the mobilisation and effective use of domestic revenues and to improve the fairness, transparency, efficiency and effectiveness of tax systems. The EU has also been at the forefront in tackling these issues together with G20 partners, requesting for example that **LICs** are consulted widely so that they can **benefit** for instance **from the G20 tax agenda (Automatic Exchange of Financial Account Information as well as Base Erosion and Profit Shifting)**. Nonetheless, building more inclusive tax systems and tackling tax evasion requires time; meanwhile external financing might be an option in certain cases.

How countries will respond to the current shifts in global conditions will determine whether their public debt vulnerabilities will remain manageable. Fiscal prudence and careful debt management will be critical for limiting the impact of the downside risks to the global outlook. However, **safeguarding debt sustainability** would require, among others,

strengthening technical assistance given LIC's limited capacity to assess fiscal risks, in particular from contingent liabilities. Moreover, as stated in the Addis Ababa Action Agenda, lenders also have the responsibility to lend in a way that does not undermine debt sustainability. The EU calls for strengthening **information-sharing and transparency** to make sure that debt sustainability assessments are based on comprehensive, objective and reliable data.

Furthermore, the EU as a member of the G20 has **endorsed the G20 Action Plan on the 2030 Agenda for Sustainable Development**, prepared by the G20 Development Working Group (DWG), at the Hangzhou Summit in September 2016. The G20 is committed to further aligning its work with the 2030 Agenda for Sustainable Development to build an inclusive and sustainable future for all. The DWG jointly with other relevant G20 working groups will assess progress against the G20 Action Plan. In building and delivering on its development agenda, the G20 has taken a transparent and consultative approach. The latest Comprehensive Accountability Report is the one agreed by Leaders at the Hangzhou Summit, which takes stock of progress made on the development commitments over 2014 and 2016.

G20 collective actions will focus on experience exchange and mutual support, especially those provided to low income developing countries and will be **concentrated on** the following **Sustainable Development Sectors (SDS)**: agriculture; food-security and nutrition; human resource development and employment; infrastructure; financial inclusion and remittances; domestic resource mobilisation; industrialisation; inclusive business; energy; trade and investment; anti-corruption; international financial architecture; growth strategies; climate and green finance; innovation; and global health. These sectors reflect **ongoing, mid and long-term G20 development commitments on practical measures in areas of primary concerns of developing countries**. For example, the G20 remains committed to National Remittance Plans, which outline actions individual G20 members will take to reduce the transaction cost of migrant remittances to less than 3% and eliminate remittance corridors with costs higher than 5%. **Taken together**, these sustainable development sectors **aim at mainstreaming sustainable development in its economic, social and environmental dimensions into G20 workstreams**. The Action Plan is expected to be a living document with a timeframe of 15 years to be consistent with the 2030 Agenda.

For Africa more specifically, the Chinese G20 Presidency launched at the Hangzhou Summit the **G20 Initiative on Supporting Industrialisation in Africa and LDCs** *'to strengthen their inclusive growth and development potential through voluntary policy options including: promoting inclusive and sustainable structural transformation; supporting sustainable agriculture, agri-business and agro-industry development; deepening, broadening and updating the local knowledge and production base; promoting investment in sustainable and secure energy, including renewables and energy efficiency; exploring ways to develop cooperation on industrial production and vocational training and sustainable and resilient infrastructure and industries; supporting industrialisation through trade in accordance with WTO rules; and leveraging domestic and external finance and supporting equitable access to finance — with a focus on women and youth; and promoting science, technology and innovation as critical means for industrialisation'*.

Concluding remarks

The global outlook is challenging at present with large downside risks. Some of these are of a non-economic nature, like geopolitical conflicts, terrorism and migration flows. This Economic Brief has shown that economic growth has been a major driver of poverty reduction over the last decades. To the extent that the concentration and depth of poverty is largely fuelling these non-economic risks factors, it is critical for the stability of the global economy that the process of poverty reduction is better understood and increasingly included into global economic policy considerations, including in the G20.

Looking ahead, potential growth rates have come down, in general, and might be too low and possibly not enough to reduce global poverty by their own. Beyond the pace of growth, it is important to have a pattern of economic growth that fosters inclusiveness while ensuring sustainability. Promoting shared prosperity requires the creation of more and productive jobs and, at the same time, ensuring equal opportunities for the less well-off to access them, which calls in particular for greater investment in human capital focusing on the poor and better use of social safety nets.

Sub-Saharan Africa will increasingly be the focus of the global poverty agenda, where most of the world's poor are expected to live and as the outlook

for the region continues to deteriorate with the sustained drop in commodity prices. The overall growth forecast for 2016 will be the slowest since 2009, with the continent's two largest economies, South Africa and Nigeria, on the brink of or likely in recession. Sub-Saharan Africa is at a tipping point, with some fear an interruption or even the end of the so-called 'Africa rising'. During the past two decades, many African countries have experienced strong economic growth and remarkable improvements in health indicators and living standards. However, risks on the economic, political and security fronts threaten to stall progress. Africa's rapid population growth also contributes to migration pressures. In most Sub-Saharan African countries unemployment is already about 40-50 % and 70 % of Africa's population is under the age of 30. The lack of job opportunities not only can fuel civil tensions and undermine the rule of law, but also create the conditions for extremist movements to emerge.

The region's future will largely depend on whether its potential demographic dividend will be fully or at least partly exploited. Today, the region is better prepared to handle the above challenges than it was in the 1990s. With more quality investments in human capital and infrastructures, sound institutions and policy actions, including economic diversification, effective leadership, and enough foresight, Sub-Saharan Africa's policymakers could change the game. Supporting Africa's industrialisation would be essential in helping the continent to develop quality jobs and in fostering growth of the middle classes in Africa's market of 1.2 billion people. Not only can large middle classes drive the region's economic growth, but also improvements in good governance. More democratic and effective African countries also provide a more solid basis on which to build a strong partnership to manage global challenges such as climate change, pandemics, terrorist groups and migration. Keeping Africa in its rising trajectory is therefore in the interest of all.

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¹ MDGs: 1- Eradicate extreme poverty and hunger; 2- Achieve universal education; 3-Promote gender equality and empower women; 4-Reduce child mortality; 5-Improve maternal health; 6-Combat HIV/AIDS, Malaria and other diseases; 7-Ensure environment sustainability; 8-Global Partnership for Development.

² This absolute poverty line corresponds to the average value of national poverty lines in the world's poorest countries. To be noted that the EU uses a relative definition of poverty, but this is not applicable when looking at the issue from a global perspective. See A. Deaton (2002) 'Is World Poverty Falling?' for a discussion on the relevance of global poverty estimates.

³ There has been slower progress against fighting absolute global poverty using higher poverty line, such as \$ 2 a day (2005 PPPs), the median poverty line for all developing countries. Ravallion (2016) found that the number of people living between \$ 1.25 and \$ 2 a day has doubled between 1981 and 2010.

⁴ This Brief, based on existing literature, focuses primarily on the importance and quality of economic growth for poverty alleviation: its distributional impact, the structural changes involved in terms of job creation and labour productivity for the poorest segment of the society and whether critical social investments and social safety nets are provided. Other factors that may matter for poverty reduction (such as climate change, pandemic diseases, corruption, the role of the private sector, urbanisation, etc.) are excluded from the scope of this paper, although not to suggest that they are irrelevant.

⁵ A. Kraay (2006) 'When is growth pro-poor? Evidence from a panel of countries'.

⁶ The Economist -'Not always with us' 1 June 2013.

⁷ Development was disrupted in most developing countries because of the global oil shocks and subsequent debt crises in the late 1970s and 1980s.

⁸ (Radelet,2015) 'The Great Surge the ascent of the developing world'.

⁹ Those in poverty do not always benefit from a growing economy. It is nearly impossible for incomes of the poor to rise without economy growth. But the opposite is not necessarily true; the overall economy can be growing with little or no impact on income growth among the poor.

¹⁰ Making growth inclusive entails creating jobs and a social contract that ensure equality of access for critical basic social services and the provision of safety nets (see for example Peru's experience with inclusive growth-<http://documents.worldbank.org/curated/en/600921467995400041/Peru-Building-on-success-boosting-productivity-for-faster-growth>)

¹¹ In the short-term, the biggest contribution to poverty alleviation stems from increased productivity and increased labour demand in unskilled, labour-intensive, and often in the informal sectors.

¹² The United Nations Millennium Development Goals Report 2015.

¹³ The pattern of economic growth refers to its sectoral composition and its impact on job creation.

¹⁴ This reflects in part the very weak starting position following the 'great leap forward' and 'the culture revolution', which created sizeable distortions in the economy.

¹⁵ The Gini index calculates the extent to which income distribution deviated from perfect equality (with zero implying perfect equality and one, full inequality).

¹⁶ Bolsa Familia provides financial aid to poor families subject to improvements in the education and health status of their children. Ferreira et al (2010) found that Bolsa Familia was responsible for one-fifth of decline in inequality in Brazil after its introduction in 2003. The program's success was based on its excellent targeting rather than on the size of the average transfer, which was relatively low.

¹⁷ See Ravallion(2016) 'The Economics of Poverty' for more information on social safety nets.

¹⁸ The depth of poverty refers to how far, on average, the poor are from that poverty line.

¹⁹ Sub-Saharan Africa's poverty rate may have declined further than current estimates suggest. The lack of high quality and comparable consumption surveys conducted at regular intervals is particularly severe in that region, which makes it difficult to track poverty trends.

²⁰ China moved into the upper middle income category in 2010.

²¹ These are the top 10 countries with the largest share of global extreme poor in 2011 (\$ 1.25; 2005 PPPs): India (30%), Nigeria (10%), China (8%), Bangladesh (6%), Democratic Republic of Congo (5%), Indonesia (4%), Ethiopia (3%), Tanzania (2%), Madagascar (2%) and Pakistan (2%).

²² The low-, middle-, and high-income group thresholds were established in 1989 based largely on operational thresholds that had previously been established and are adjusted annually by international inflation (the weighted average of the euro area, Japan, the U.K. and the U.S.). However, many experts consider that the current methodology to set the thresholds needs to be adjusted to take into account changing circumstances, including the availability of improved data.

²³ <https://sustainabledevelopment.un.org/topics>.

²⁴ Shared prosperity or growth in average incomes of the bottom 40% of the income distribution (B40) can be broken down into growth in average incomes plus growth in the income share of the B40. Although average income growth is responsible for most of the variation in B40 growth, it is not the only driver of B40 income growth.

²⁵ Bolivia, Peru, Uruguay, Paraguay, Brazil, Argentina, Colombia and Ecuador.

²⁶ For example, in countries that previously benefitted from the boom in commodity prices, substantial increase in minimum wages or in wages in the labour-intensive service sector may no longer be sustainable due to fiscal and competitiveness reasons. Sustainable growth in the income share of the B40 requires continuous gains in labour productivity, and thus creating productive jobs and investing in building human capital. In an uncertain and less favourable economic outlook, this could be challenging (World Bank 2015/2016).

²⁷ 'Africa rising' (referring to Sub-Saharan Africa) is the term coined by the *TIME* magazine in December 2012 to illustrate the region's surging economic power.

²⁸ This outlook was published in May 2016. More recent estimates by the IMF and the World Bank, point to a significant slowdown this year in Sub-Saharan Africa, driven mainly by a recession in Nigeria.

²⁹ All of these countries are oil importers; whereas oil exporting countries have hardly changed their economic structure with the relatively capital intensive sector dominating the economic activity. Economic growth is more powerful in reducing poverty if the pattern of growth becomes more labour intensive and if poor people's work becomes more productive.

³⁰ Saavedra and Tommasi (2007) 'Informality, the State and the social contract in Latin America: A preliminary exploration'

³¹ Poverty in a rising Africa (World Bank, 2016): for the set of countries for which data was available, half the countries showed a decrease in within-country inequality and the other half an increase. But, as the report notes, caution remains as these data do not capture the growing number of extremely wealthy Africans.

³² Five of which with less than five million people and most of which located in Southern Africa, with Gini indexes exceeding 0.5 [the Gini index goes from 0 (perfect equality) to 1 (full inequality)].

³³ Sub-Saharan Africa has the highest Multidimensional Poverty Index with 0.34, followed by South Asia (0.28), Arab States (0.11), East Asia and Pacific (0.03), Latin America and the Caribbean (0.02) and, Europe and central Asia (0.01).

³⁴ In particular Boko Haram in Nigeria and Al-Shabaab in Kenya

³⁵ The 2015 OECD States of Fragility Report presents a new understanding that goes beyond fragile and conflict affected states, clustering countries according to 5 dimensions of fragility: violence, justice, institutions, economic foundations and resilience. <http://www.oecd.org/dac/governance-peace/conflictandfragility/docs/List%20of%20fragile%20states.pdf>

³⁶ The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries.

³⁷ Frontier markets are those countries that are quite similar to Emerging Markets with regard to international market access.

³⁸ The Addis Ababa Action Agenda (AAAA) is the outcome document of the United Nations Conference of Financing for Development of July 2015.

³⁹ See Ravallion (2016) 'The Economics of Poverty' for more information on social sectorial policies.

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