THE WORLD BANK

THE WORLD BANK GROUP GOALS

END EXTREME POVERTY AND PROMOTE SHARED PROSPERITY

CONTENT

THE WORLD BANK GROUP
MISSION, GOALS, AND INDICATORS

Photo: Curt Carnemark

Although poverty has declined rapidly over the past three decades, humanity still faces urgent and complex challenges. More than 1 billion people worldwide still live in destitution, a state of affairs that is morally unacceptable given the resources and the technology available today. Moreover, rising inequality and social exclusion seem to accompany the rising prosperity in many countries. Under these circumstances, the World Bank Group's overarching mission of a world free of poverty is as relevant today as it has ever been.

The World Bank Group has established ambitious but achievable goals to anchor its overarching mission and to galvanize international and national efforts in this endeavor. Accordingly, the institution will strive to (i) end extreme poverty at the global level within a generation and (ii) promote what may be called "shared prosperity": a sustainable increase in the well-being of the poorer segments of society. This second goal reflects the fact that all countries aspire to rapid and sustained increases in living standards for all of their citizens, not just the already privileged. These two goals and their respective indicators can be summarized as:

Photo: Arne Hoel

End extreme poverty:
the percentage of people living with less than $1.25 a day to fall to no more than 3 percent globally by 2030;

Promote shared prosperity:
foster income growth of the bottom 40 percent of the population in every country.

Ending extreme poverty within a generation and promoting shared prosperity must be achieved in such a way as to be sustainable over time and across generations. This requires promoting environmental, social, and fiscal sustainability. We need to secure the long-term future of our planet and its resources so future generations do not find themselves in a wasteland. We also must aim for sustained social inclusion and limit the size of economic debt inherited by future generations.

Photo: Simone D. McCourtie

We are aware that these two monetary indicators do not adequately accommodate all the dimensions of poverty that represent our mission. But to insert every dimension explicitly into a limited number of measures is to risk creating such complex indicators that they will be ill-understood. Each of the monetary indicators we have adopted has the advantage of capturing the key elements of welfare in a single, compelling measure. While these monetary measures will define our goals, we will continue to maintain a strong focus on multiple dimensions of welfare.

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.

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 goals will guide the World Bank Group's strategy as we continue our transformation into a "Solutions Bank" by influencing what the organization does and how, and by helping it become more selective and focused in its activities. The goals are well-aligned with the overall objectives of the Millennium Development Goals (MDGs) process and reiterate our unwavering commitment to support it and to helping shape the Post-2015 Agenda.

Photo: Visual News Associates

ENDING EXTREME POVERTY

Photo: Curt Carnemark

Ending extreme poverty is a moral imperative and arguably one of the most compelling challenges facing the development community. We are setting a target date for reaching an extreme poverty rate of no more than 3 percent in 2030, using the internationally established measure of the proportion of people living on less than $1.25 a day.

While representing a very frugal threshold, the $1.25 standard is well-accepted in the development community as one of the Millennium Development Goals, and it would allow the World Bank Group to focus its central mission in measurable, intuitive, and transparent terms.

Reaching the target, which would effectively end extreme poverty globally in less than a generation, is an ambitious endeavor. It will require sustaining high rates of economic growth across the developing world, as well as translating growth more effectively into poverty reduction in each developing country. Reaching the target also requires governance, institutional, and social policy changes not seen yet in many poor countries, and hence enormous efforts from national governments and the international community.

Ending poverty within a generation—difficult, but achievable

Reducing the global extreme poverty rate to no more than 3 percent in 2030 is not a prediction. It is a target that we consider difficult but achievable, given recent experience. It will require a fall in poverty by about one percentage point per year during this period, which is about the same as the average annual reduction seen since 1980. It implies maintaining a growth rate of per capita household income in the developing world at least as high as that achieved since 1999.

At the same time, maintaining such a growth rate will be far from business as usual. That trajectory is a highly optimistic scenario, as it assumes continuing the pattern of strong growth in the developing world, successfully managing any global shock to limit its impact on the poor, and preventing inequality from increasing. Also, a one percentage point reduction in extreme poverty per year becomes progressively harder to achieve as the rate declines, because each successive one percentage point represents an increasingly larger share of the overall poverty rate. One might thus expect the pace of global poverty reduction to slow down in the coming years relative to the trend in previous decades. Transforming the trajectory to maintain the historical trend in effect requires bending the "natural arc" of history.

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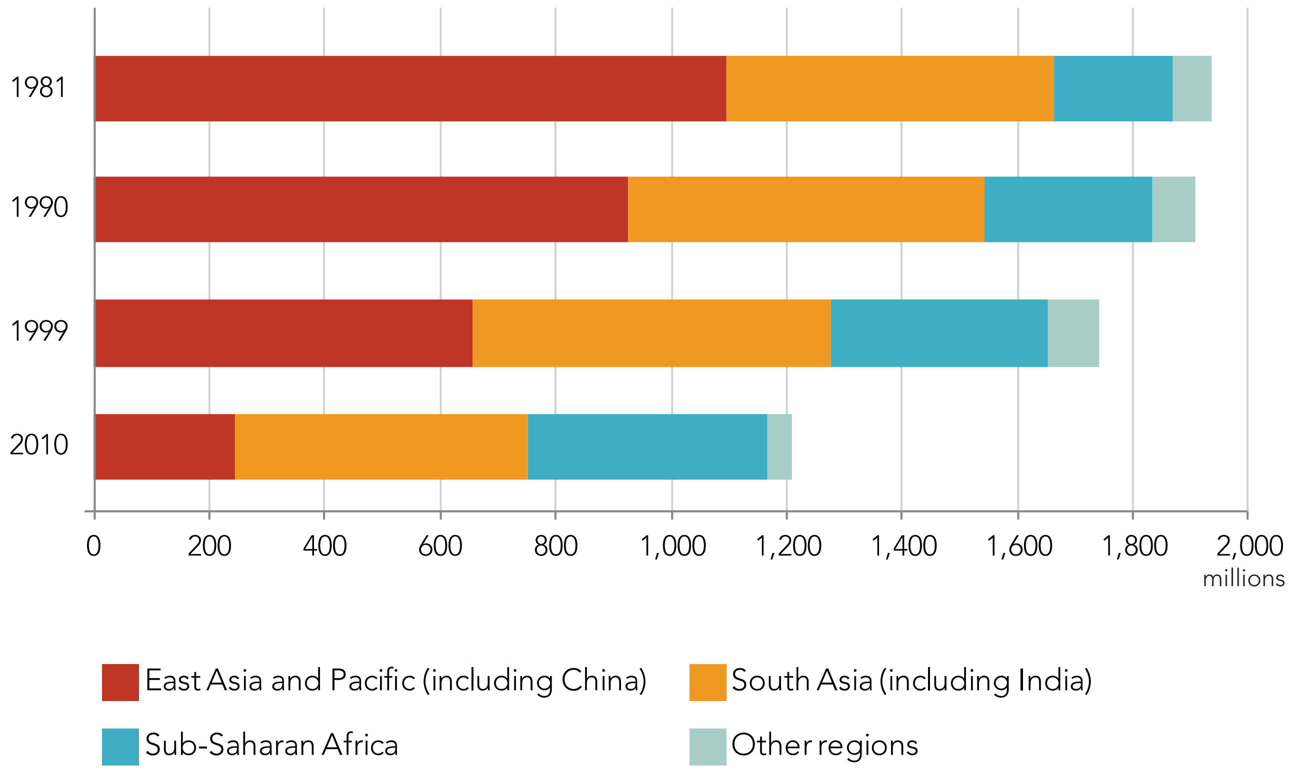
The ambition of the target can also be seen in other respects. China accounted for more than half of the total reduction in global poverty between 1980 and 2000, but China's overall contribution would precipitously decline as it comes closer to ending extreme poverty. Recent history shows this trend starkly (Figure 1). Between 1981 and 2010, when the number of extreme poor in the world dropped, the proportion of the poor in East Asia and Pacific (including China) fell from around 57 percent to 20 percent as the number of poor in the region declined dramatically.

Figure 1: Regional changes in the population of extreme poor over the years



To reach the global target for 2030, the pace of poverty reduction in Sub-Saharan Africa and South Asia will assume increasing importance. For Sub-Saharan Africa, where two decades of disappointment have been followed by a decade of unprecedented poverty reduction during the 2000s (Figure 2), a further acceleration of this trend is needed.

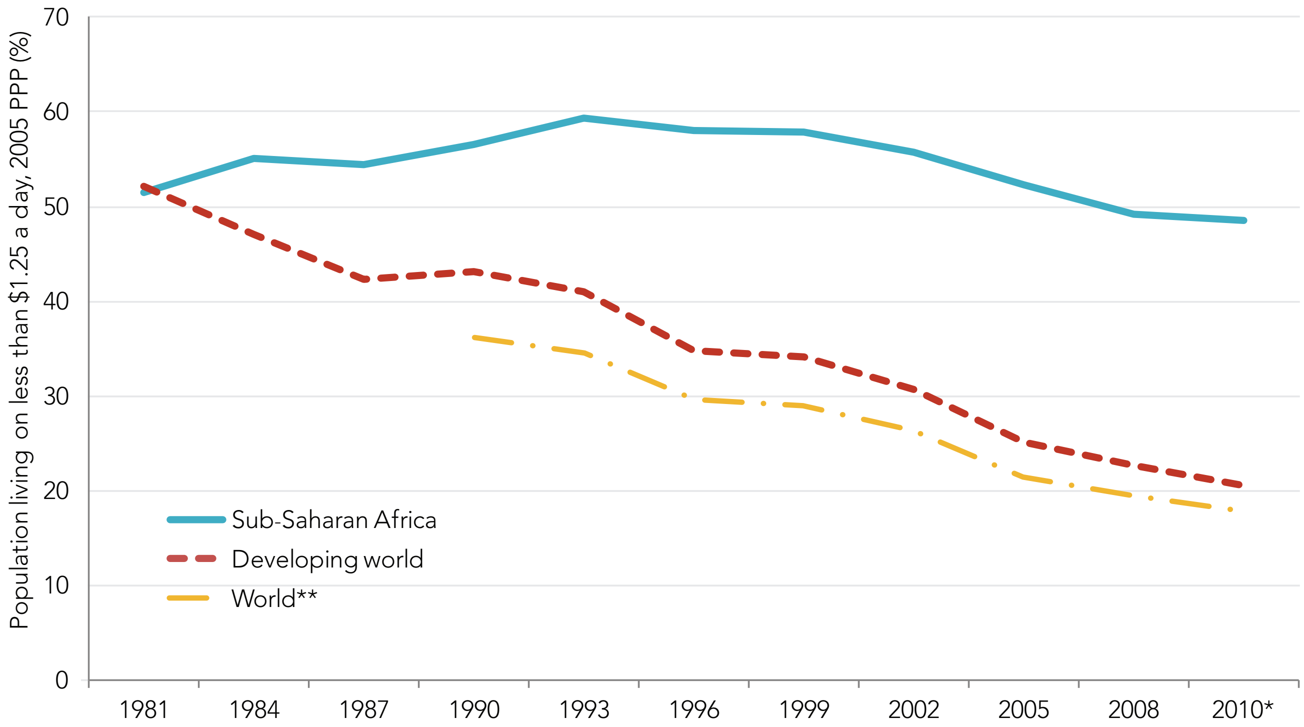
Note: Other regions are Europe and Central Asia, Middle East and North Africa, and Latin America and the Caribbean.
Source: World Bank database, based on country household surveys.

The extent of the challenge in low-income countries, many of which are in Sub-Saharan Africa, is illustrated by the high rates of current extreme poverty. More than one-third of countries in Sub-Saharan Africa, several of them fragile and conflict-affected states, had an extreme poverty rate of more than 50 percent in 2010. In 12 countries in Sub-Saharan Africa, the extreme poverty rate is above 60 percent; in four cases (Burundi, the Democratic Republic of Congo, Liberia, and Madagascar), it is above 80 percent.

In 12 countries in Sub-Saharan Africa, the extreme poverty rate is above 60 percent; in four cases it is above 80 percent.

Reaching the global target of 3 percent in 2030 will require rapid economic growth in low-income countries, which in turn must be translated into a rate of poverty reduction that is higher and sustained over longer periods than ever seen in the past. This will not be possible without long-term structural changes in many low-income countries.

Figure 2: Poverty has fallen steadily since the 1980s except in Africa where the decline began later



*   *Preliminary*
** *World Bank staff calculations assuming extreme poverty in high-income countries to be near-zero.*
Source: World Bank database, based on household surveys from countries.

Increasing the welfare of the poor in low-income countries will require complex institutional and governance reforms that enhance the accountability of the state, raise the quality of service delivery, and improve the overall economic and social environment.

An additional challenge will be to contain rises in inequality within countries. If inequality were to continue rising, as it has recently in some large middle-income countries, achieving the global target would require even higher overall growth rates. The feasibility of eliminating extreme poverty will also depend on the occurrence of and ability to manage large-scale economic shocks—like food, fuel, or financial crises—as well as natural and climate change-related disasters. All of these events pose significant risks to the pace and sustainability of poverty reduction.

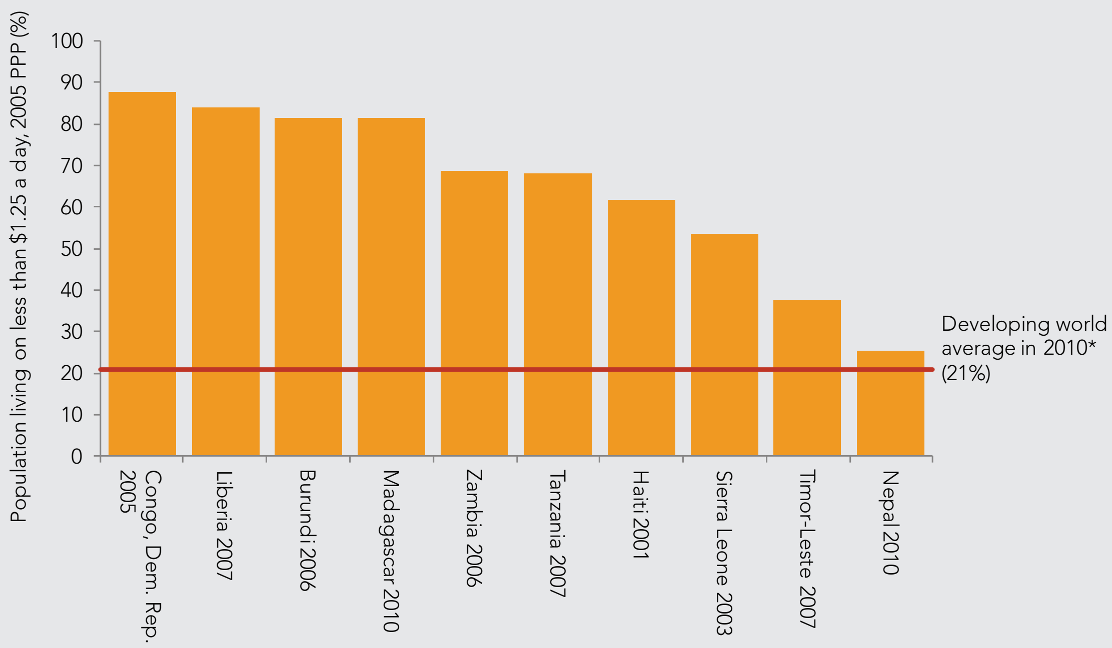
At the same time, however, some of these challenges may be balanced by the promise of technological breakthroughs, which could result in rapid rises in productivity and open up new opportunities for economic transformation and better-designed social policies. Such breakthroughs are already being embraced and are transforming the poverty-reduction path in some countries.

Photo: John Hogg

Box 1: Destitution could continue after 2030 in some of the poorest countries

We envisage the fight against extreme poverty to by and large come to an end as a global endeavor by 2030. But even as the global extreme poverty rate reaches 3 percent, much higher rates are likely still to exist in some of the poorest countries or Fragile and Conflict-Affected Situations (FCS). The fight against extreme poverty, at the level of each individual country, would not necessarily come to an end everywhere. Many of these countries are characterized by severe institutional and policy challenges that will likely endure in the medium to longer term. The fight against poverty in its current form thus may need to continue well beyond a generation, until large-scale deprivation ends not only on average among the global population, but in each individual country, large and small. We will work with such countries to define ambitious country-specific paths of poverty reduction consistent with each country's economic, social, and institutional challenges.

Figure B1: Poverty in selected low-income countries



**Preliminary*
Source: World Bank database, based on household surveys from countries.

Photo: Curt Carnemark

The world already has the economic and technological resources to achieve the target of ending extreme poverty globally in a generation. We hope the target will act as a catalyst for the aspirations of national governments and for accelerated and coordinated efforts in the global development community.

PROMOTING SHARED PROSPERITY

Photo: Dana Smillie

The World Bank Group's mission of a world free of poverty involves a continuing commitment to increasing the welfare of the poor and vulnerable in every country. Ending extreme poverty wherever it exists is a priority. However, our mission is not just about the poorest developing countries, but about poor people everywhere. Judged by the standards of each society, significant levels of poverty remain in most developing countries and must be addressed if societies are to achieve the stability and well-being to which they aspire.

Raising the incomes of the poor in every country means ensuring that rising prosperity benefits the less well-off. The World Bank Group and the development community as a whole have a responsibility toward them. While shared prosperity requires the pursuit of rapid and sustained expansion of the economy, any type of growth will not suffice. What is needed is sustainable growth that achieves the maximum possible increase in living standards of the less well-off.

Our mission is not just about the poorest developing countries, but about poor people everywhere.

An indicator of growth with equity and inclusion

We will monitor progress in shared prosperity using the income growth of the bottom 40 percent of a nation's population. This implies a direct focus on the income of the less well-off, as opposed to the common practice of focusing only on growth of GDP per capita and implicitly relying on the "trickle down" impact of growth on the bottom of the distribution.

The measure captures the two elements central to the notion of shared prosperity: a growing economy and a fundamental concern for equity. Sustained growth is necessary; without it, the less well-off are unlikely to increase their living standards in the in the medium to long run. But improvement in the indicator requires growth to be inclusive, which in turn calls for a social contract within each country demanding that the poor be a priority in the policy environment that supports the growth process.[1] Our indicator of shared prosperity is also consistent with the idea of prosperity being "unbounded," as opposed to being defined by an absolute standard that everyone should reach, which means that a global target is not relevant.

Our shared prosperity indicator implies a direct focus on the income of the less well-off, as opposed to the common practice of focusing only on growth of GDP per capita and implicitly relying on the "trickle down" impact of growth on the bottom of the distribution.

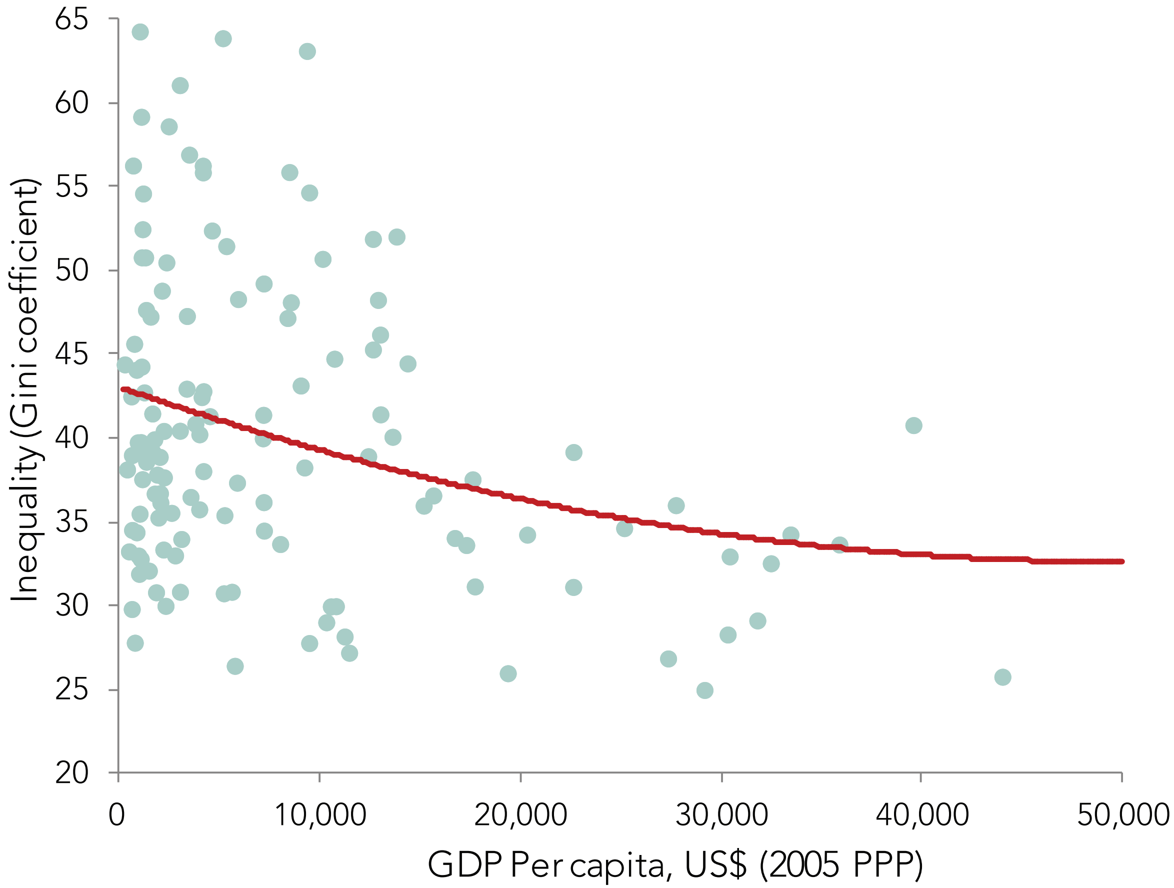
1 A cut-off at 40 percent to define this bottom segment is admittedly arbitrary, but all cut-offs have some arbitrariness. Development economists have used "the bottom quintile" to refer to the group who should receive more attention from policy makers. But in many low-income countries this is close to the percentage of people of in extreme poverty, and therefore covered by the extreme poverty indicator. We choose a percentage that currently roughly coincides with the proportion of the population that is considered moderately poor in middle-income countries.

Shared prosperity, understood in this way, is not an agenda of redistributing an economic pie of a fixed size. Rather, it means expanding the size of the pie continuously and sharing it in such a way that the welfare of those at the lower end of the income distribution rises as quickly as possible. It also requires that progress is sustainable over time and across generations, in terms of the environment, social inclusion, and fiscal prudence.

Photo: Jerome Ascano

Shared prosperity and inequality

Figure 3: Inequality tends to be lower in high-income countries



Source: World Bank database, based on household surveys from countries.

Income growth of the bottom 40 percent in a country could occur, at least temporarily and especially in low-income countries, at the expense of rising inequality, implying average income growing faster than the income of the poor. Some rise in inequality could well be necessary to generate growth, by creating incentives that reward innovation and risk taking and inducing firms and people to invest in human and physical capital. For example, this occurred in some East Asian countries a few decades ago, when income growth of the bottom 40 percent was strong but lagging behind the growth of average income.

But in many cases growth in the incomes of the poor will be accompanied by falling inequality, as has been witnessed in many Latin American countries during the past decade. Moreover, sustained progress in shared prosperity is incompatible with a long-term increase in inequality.

Growth of the bottom 40 percent that is consistently lower than the average income growth should be a cause for concern. This is because the associated rise in inequality could eventually stifle the growth process itself by affecting the quality of institutions, causing political instability, and reducing mobility in society.

Recent research at the International Monetary Fund, for example, suggests that high inequality is associated with shorter growth episodes;[2] and other empirical research has identified high structural inequality to be an obstacle to economic development.[3] In general, no country has transited beyond middle-income status while maintaining high levels of inequality (Figure 3). Most likely, then, where inequality is high, boosting shared prosperity will require that the income of the bottom 40 percent grows faster than the average income of the population.

What is good performance in shared prosperity? The higher the growth of the incomes of the poor, the better it is. But what a country can strive for depends on a number of factors, including the initial income distribution and level of development, as well as the overall growth rate.

No country has transited beyond middle-income status while maintaining high levels of inequality.

The past decade provides mixed news on income growth of the bottom segment in each country (Figure 4). In the past decade, in 20 out of 55 developing countries, real per capita incomes (or consumption) of the bottom 40 percent grew at a healthy average rate of more than 5 percent annually.

2 "What makes growth sustained?" by A. Berg, J. Ostry and J. Zettelmeyer (2012), Journal of Development Economics, 98(2).

3 "Inequality does cause underdevelopment: Insights from a new instrument" by W. Easterly (2007), Journal of Development Economics, 84(2).

Figure 4 also illustrates two additional points. First, there is a strong and positive association between income growth of the bottom 40 percent and growth in average income. Second, in the last decade, in 60 percent of developing countries, including large countries like Brazil and Mexico, incomes of the bottom 40 percent actually grew faster than the average of the population, which means that there was a fall in inequality.

But in other countries, such as Egypt, income growth of the bottom 40 percent was close to zero. Even though inequality was also falling, it is hard to say that there was shared prosperity in these countries. By focusing on the income growth of the bottom 40 percent by itself, rather than on this rate relative to the average rate of income growth, we ensure that welfare improvement among the less well-off in every country is our primary concern.

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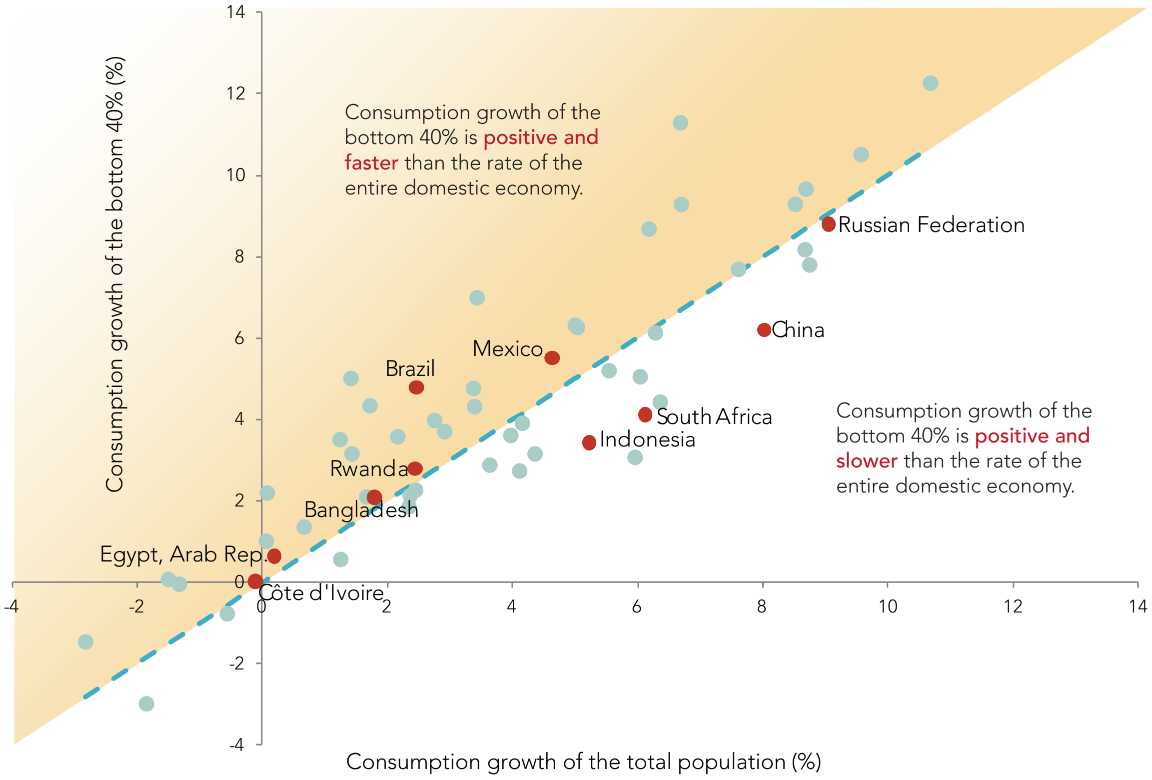
Figure 4: Shared Prosperity Indicator in selected countries (circa 2000-10)



Source: World Bank database, based on household surveys from countries.

Pathways to shared prosperity and poverty reduction

The goals of ending extreme poverty and promoting shared prosperity highlight the need for social, economic, and institutional arrangements that foster welfare and income growth of the less well-off. Growth that includes the poor and accelerates progress toward a just society does not come automatically. It requires mechanisms to ensure that the less well-off not only enjoy the benefits of that growth process but are also integral to the process. How a specific society chooses to provide these opportunities will be context- and time-dependent, with no single optimal institutional arrangement applicable to all societies.

Prosperity can be broad-based if growth generates jobs and economic opportunities for all segments of the population. This requires pursuing an agenda of physical and human capital accumulation, competitiveness, and innovation. The most effective path out of poverty is through access to more and better jobs, through rapid and broad-based growth centering on the strong contribution by the private sector. Jobs not only increase the earnings of the poor but are also transformative because efficiency increases as workers get better at what they do and as more productive jobs replace less productive ones.

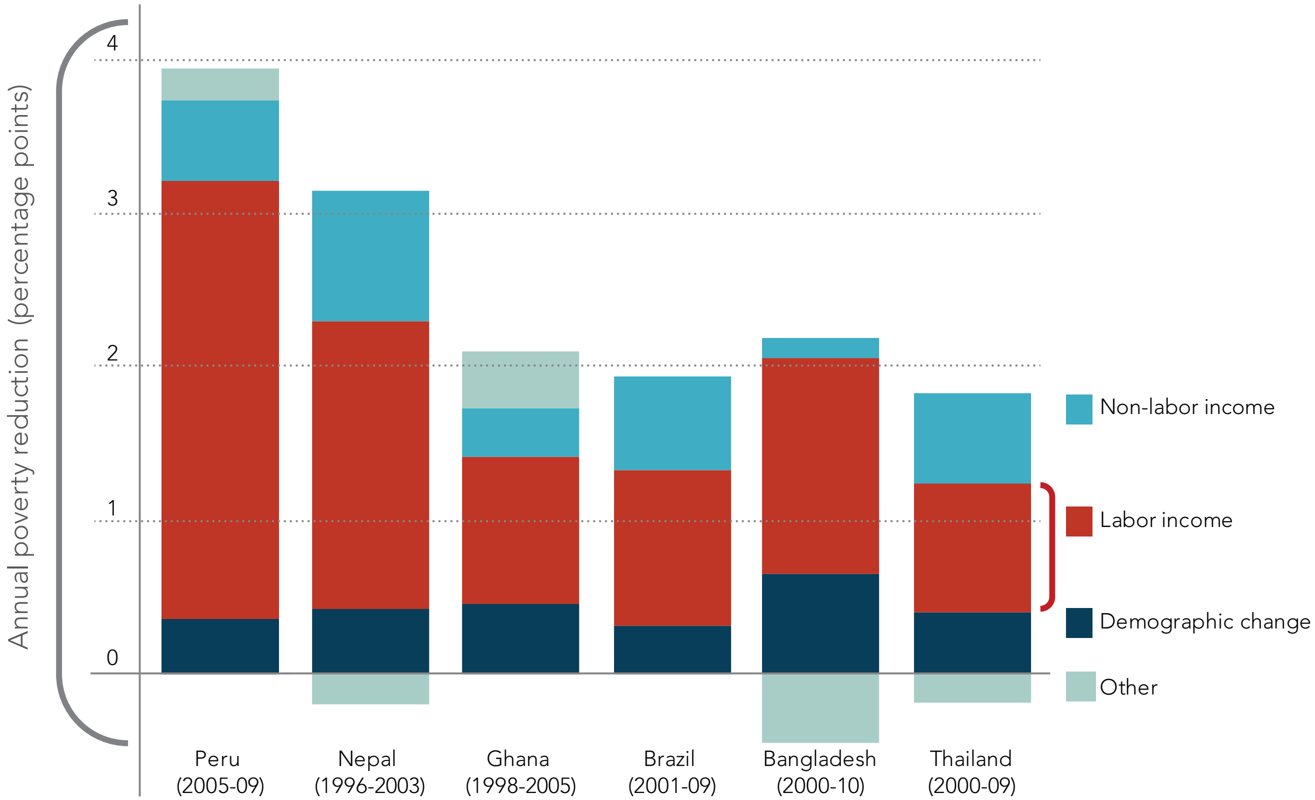
Prosperity can be broad-based if growth generates jobs and economic opportunities for all segments of the population.

In the decade of the 2000s, most of the reduction in poverty in successful countries across the globe was related to better labor market engagement in the form of more and better-paying jobs. Direct income transfers to the poor, remittances, and changes in demographic patterns contributed much less (see Figure 5 for a few country examples).

Evidence also suggests that poverty reduction is higher when growth is biased toward labor-intensive sectors[4], and when growth is diversified and generates employment opportunities across multiple sectors.

The government has a key role in creating the overall environment for economic growth and shared prosperity, including by improving competitiveness, promoting a favorable investment climate, and encouraging innovation. The state also has the critical responsibility for investing in people so that they can be part of a modern and dynamic workforce.

Figure 5: Labor market factors contributed the most to poverty reduction, selected countries (decade of the 2000s)



Source: J. Azevedo, G. Inchauste, S. Olivieri, J. Saavedra and H. Winkler (2013). "Is labor income responsible for poverty reduction? A decomposition approach", (April, forthcoming as World Bank Policy Research Working Paper).

4 "The composition of growth matters for poverty alleviation," by N. Loayza and C. Raddatz (2010), Journal of Development Economics, 93(1).

A healthy and stable social contract is needed to ensure that growth includes the poorer segments of society. This requires investments that improve opportunities for all citizens, including women and youth, and that provide safety nets to protect the vulnerable against extreme deprivation and shocks. The social contract would also include adequate mechanisms to raise resources to support these policies, including a tax system that creates incentives for economic growth and promotes fairness.

Photo: Maria Fleischmann

The redistribution of resources implied in a social contract is not just a matter of transferring income from one segment of the society to another at one point of time, but is also an investment in people, to promote growth and equity over time and across generations.

The social contract for promoting equity and growth should aim to create an "opportunity society," where the human and productive potential of every individual, regardless of gender, region, ethnicity, or parental background, is maximized. In childhood and youth, this would imply providing universal access to early childhood development, health, nutrition, education, and basic infrastructure to build human capital and increase long term productivity. For a society as a whole, this will enhance mobility on the economic and social ladder within and across generations. For the World Bank Group, it implies a continued multisectoral agenda with a particular lens—one that has, as a priority, the welfare of the less well-off.

An important part of the social contract would be to create conditions that enable women to contribute to their fullest potential in the development process, by dismantling barriers to their participation in the economic, social, and political spheres in many societies. Gender equality is not just a core development objective; it also enhances productivity, improves development outcomes for the next generation, and makes institutions more representative.

The social contract for promoting equity and growth should aim to create an "opportunity society," where the human and productive potential of every individual, regardless of gender, region, ethnicity, or parental background, is maximized.

SUSTAINABILITY

Photo: Arne Hoel

…managing our planet for future generations

Sustainability is an overarching theme that frames both goals of the World Bank Group. These goals must be achieved in an environmentally, socially, and fiscally sustainable manner.
A sustainable path of development and poverty reduction would be one that: (i) manages the resources of our planet for future generations, (ii) ensures social inclusion, and (iii) adopts fiscally responsible policies that limit future debt burden.

Economic growth, which is critical to continuing the process of poverty reduction, has to be compatible with the limits imposed by the resources of the planet. The past two decades have seen a significant toll on the environment. For example, an estimated 5.2 million hectares of forest were lost annually between 2000 and 2010. More than 550 billion tons of CO_2 have been emitted globally between 2000 and 2010—leading to increased global temperatures and more frequent and intense floods, droughts, and storm surges. Air pollution is a major problem in almost all megacities of the developing world, and 87 percent of the world's ocean fisheries are over-exploited or depleted.

Continuing along such a path will threaten the long-term future of the planet and its resources, and, of course, the process of economic growth and poverty reduction itself. There are signs of this happening already. Unsustainable management of ecosystems has disproportionate impact on the poor, since the poor are often more dependent on ecosystems and the goods and services they provide. Poor people are always the least able to protect their children from the harmful impacts of pollution on health and educational outcomes, the accumulated impacts of which reduce earnings and quality of life across generations. Water and land constraints are already affecting poverty. Some 28 percent of the world's population today lives in areas of high water stress, and a full quarter of the world's agricultural land is degraded, thus compromising the ability of those who farm these lands to aspire to prosperity.

A sustainable path of development and poverty reduction would be one that:

(i) manages the resources of our planet for future generations,

(ii) ensures social inclusion, and

(iii) adopts fiscally responsible policies that limit future debt burden.

The adverse impacts of climate change are also likely to fall disproportionally on the poorest countries that have the least economic, institutional, and technical capacity to cope and adapt, and on the poorest people within countries. For example, recent projections suggest that the poor are especially sensitive to increased drought intensity in a warming world, especially in Sub-Saharan Africa and South Asia.[5]

The World Bank Group recognizes that green growth offers the only way of reconciling the rapid economic development required to reduce poverty and boost shared prosperity with the imperative of a better-managed environment. The recent report *Inclusive Green Growth: The Pathway to Sustainable Development* articulates our commitment to supporting sustainable growth that is efficient and takes into account the social costs of resource depletion.

5 "Turn down the heat: Why a 4°C warmer world should be avoided," World Bank (November 2012).

Working closely with our development partners, we have committed to moving beyond a reliance on GDP to promoting wealth and natural capital accounting, and developing measures of "genuine savings" net of natural capital depletion and pollution damages.

Promoting green growth requires the tools to monitor progress and quantify the extent of the challenge. Improving the quality and coverage of quantitative indicators related to environmental sustainability is thus a critical endeavor and a priority for the World Bank Group. We recognize that the current economic monitoring practices undervalue finite resources—a flaw that can only be addressed by proper accounting of natural capital.

Given the complexity of the issues, multiple indicators are needed to capture progress adequately. We thus are working in partnership with the rest of the international community on indicators combining local and global measures.

Photo: Curt Carnemark

…fostering an inclusive society

A sustainable path toward ending extreme poverty and promoting shared prosperity would also involve creating an inclusive society, not only in terms of economic welfare but also in terms of the voice and empowerment of all groups.

An inclusive society must have the institutions, structures, and processes that empower local communities, so they can hold their governments accountable. It also requires the participation of all groups in society, including traditionally marginalized groups, such as ethnic minorities and indigenous populations, in decision-making processes.

While the state cannot be the sole driver, it can play an important catalytic role to accelerate the process of institutional and social change toward a more inclusive society—processes that, left to their own, can at times be too slow and resistant to change. The implicit social contract of the state with its citizens provides the state with important tools—legal, institutional, and economic—to play such a catalytic role, guided by the objective of reducing imbalances in voice and power between different groups. A social contract that is based on the principle of better and equal opportunities for all citizens promotes social inclusion as well. A society that promotes equal opportunities, and is perceived by its citizens to be doing so, is more likely to be able to achieve the stability and cohesiveness needed to generate a sustainable development path.

…and ensuring fiscal sustainability

Finally, economic policies to end extreme poverty and promote shared prosperity should be fiscally responsible over time, to ensure that the gains are not short-lived or achieved at the cost of future prosperity. Poverty could be reduced unsustainably, through policies that produce short-lived gains but leave countries mired in debt, threatening the prosperity of future generations. To name one example, universal fuel subsidies, provided at great cost to government finances, are common in many developing countries. In countries where such subsidies are unaffordable, they essentially trade off today's small gains—as these subsidies in many instances have little benefits for the poor—for the future cost of debt that will surely crowd out investments with higher social returns.

The most appropriate policies are those that are part of a social contract—specific to the situation of each country—that aims to end poverty permanently, along an inter-temporally balanced growth path.

These include policies that promote macroeconomic stability and prudent management of finances, while ensuring that public spending is efficient and effective in promoting policy objectives

Such policies are unlikely to emerge in a vacuum. They require institutional and political environments that promote transparency, accountability, and the right incentives to ensure that policies fully take into account social costs and inter-temporal tradeoffs, and that policy makers are held accountable by their citizens for the success (or failure) in doing so.

The goals we have set will anchor our institution going forward and will sharpen our resolve to support countries effectively to reach these goals. This needs a better understanding of what policies and interventions work best to promote objectives consistent with these goals, when (in terms of the enabling environment) they work best, and how to translate the knowledge gained from evidence and practice to meaningful engagement with country governments. We are committed to aligning our activities and resources to make a more significant contribution toward these goals.

Photo: Dominic Chavez


Photo: Deshan Tennekoon


Photo: Liang Qiang


Photo: Arne Hoel

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