

THE IMPACT OF THE GLOBAL SHOCKS ON EXTREME POVERTY

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Abstract. The recent release by the Italian National Statistical Institute (Istat) of the update of the methodology to estimate absolute poverty in Italy (Istat, 2023) represents an important opportunity to get a snapshot of the international context and of the fight against poverty in the world. This paper focusses on the global shocks that have characterized the last four years (2020-2023) and that have brought a worsening of the international scenario which has undermined the progress achieved. In 2020 the nearly constant decline, occurred in the last three decades, in the number of people living in extreme poverty – defined as those living on less than \$2.15 per capita per day at purchasing power parity in 2017 – stopped and this number resumed increasing (reaching 757 million from about 683). The paper, after the introduction, sketches an analysis of the evolution of extreme poverty in the last 30 years, in the different geographical areas of the world. Then, in the third paragraph, the situation in the recent years of the 28 poorest countries and specifically of those belonging to Sub-Saharan Africa is discussed highlighting the inhomogeneity of the impact of COVID-19 crisis and the growing difficulties of this area. The moving away of the United Nations objective of eradicating extreme poverty (reducing the poverty rate to 3% in the World Bank formulation) by 2030 is dealt with in the final paragraph.

1. Introduction

Istat updating of the methodology and estimates of absolute poverty in Italy (Istat, 2023) represents an important opportunity to think about the international context and the fight against poverty in the world.

This updating was released in 2023, when the consequences of the various crisis (“polycrisis”; Bjerde, 2023 and World Bank, 2024a) registered since 2020 were still affecting the fight against poverty that is at the centre of the mission World Bank.

If in 1990 around 38% of the world population was in conditions of extreme poverty, this percentage had fallen to 8.9% in 2019. The trend stopped in 2020, when poverty increased because of the COVID-19 crisis. The World Bank data says that the number of people in extreme poverty (defined as those living on less than \$2.15 per capita per day at purchasing power parity in 2017) increased by about 70 million,

reaching over 757 million from about 683. The global extreme poverty rate therefore reached 9.7% in 2020 (World Bank, 2024b).

If compared with other previous global crisis (of different nature, as the financial crisis occurred at the end of the 90s), the increase of poverty due to COVID-19 pandemic is concentrated in the poorest countries. The incomes of the poorest 40% of the world's population fell by around 4% in 2020 with losses that double those of the world's richest, and global inequality increasing for the first time in decades. The poorest have also faced important setbacks in health and education which, if not addressed by political action, will mean lasting consequences on their lifetime income prospects (World Bank, 2022).

The pandemic crisis was followed by the steep rise of consumer prices further supported by the crisis caused by the war in Ukraine.

This means that, in the last four years, a sequence of three shocks of different nature but with global effects, has affected the world.

Therefore, in 2022, the World Bank estimated that there was still a total of 713 million people globally living in extreme poverty, an increase of about 30 million people compared to 2019 that means about 70 million more than the forecasts done in 2019 for 2022. This means that the objective to reduce extreme poverty rate to 3% by 2030 cannot be achieved unless a radical change of the pace of the growth does not take place in the developing countries.

In short, the global shocks that have characterized the last three years have proposed a worsening of the international scenario which has undermined the progress achieved in the last thirty years.

As aforementioned, one of the reasons of this dynamic is due to the concentration of the worsening of living conditions of people in the poorest countries. The poorest became poorer and the crisis following that of COVID-19 (as the sharp rise of inflation that specifically affected large consumption goods that represent a large part of the consumption expenditure of poorer households) further enhanced this tendency. Thus, the 2022 world poverty rate still above that of 2019 (as estimated by the World Bank), despite the post pandemic recovery and the resuming of a positive tendency of reduction, was mainly due to the crisis in the poorest countries and particularly to those in the Sub-Saharan area.

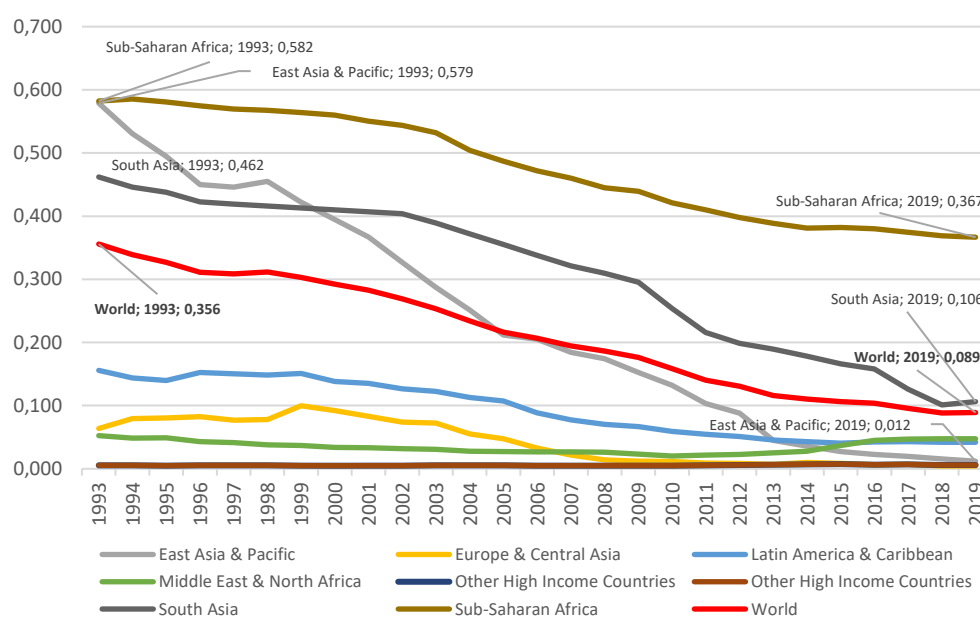
The most recent data that will be disseminated will assess if in 2023 this picture of the world situation and of poverty has started to change or if this inequality in the evolution of poverty between different geographical areas will be confirmed.

A general overview of the history of the last 30 years of extreme poverty indicators can help to understand the past development and some potential future scenarios.

2. The evolution of the extreme poverty in the last 30 years

In Figure 1, the evolution of the poverty rate in the world and in seven macro regions since 1993 to 2019 is represented and it allows understand the contribution of the different areas of the world to its reduction.

Figure 1 – Extreme Poverty rate in the world and in nine macro regions. Period: 1993-2019. Unit: percent.



Source: World Bank Poverty and Inequality Platform.

In 1993, the percentage of people living in extreme poverty in the world was equal to 35.6% and it has been decreasing constantly (with exception of 1996-1998, for the 1997 Asian financial crisis, which provoked a 0.2 percentage point increase in global poverty) until 8.9% in 2019. In absolute terms it means that if in 1993 there were almost 2 billion people living below the threshold of extreme poverty, they became less than 700 million in 2019. It was still a huge amount but consistently lower than the figure registered in 1993.

Figure 1 clarifies that the most important contribution to this positive evolution of the living conditions across the world was brought first by East Asia and Pacific region and secondly by South Asia. The decrease of the poverty rate in East Asia and Pacific was sharp and went from 57.9% in 1993 to 1.2% in 2019, that means

from more than 1.1 billion living in extreme poverty to about 25 million: extreme poverty was almost eradicated. Similar but with a less pronounced profile was the evolution of extreme poverty in South Asia (from 46.2% to 10.6%, from 546 million people to 198 in extreme poverty).

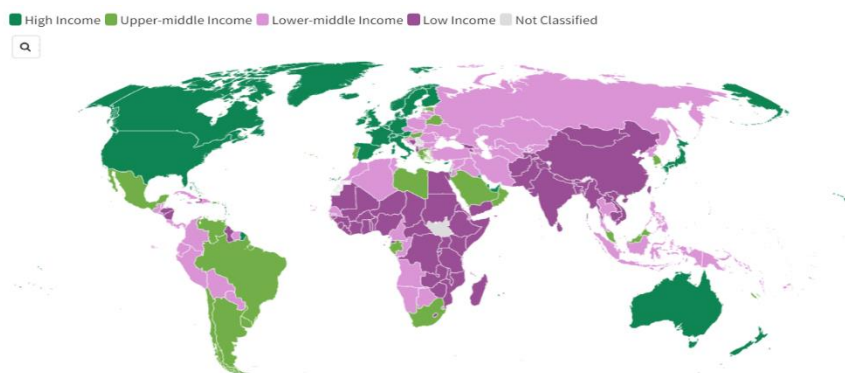
The main driver of the sharp decrease of poverty in East Asia and Pacific was China where the poverty rate was almost zeroed in 2019 from the 60.3% of 1993, with more that 700 million people who went out from the extreme poverty in this time span. India also played an important role in pushing the reduction of extreme poverty in South Asia (from 48% in 1993 to 13.2% in 2019 the poverty rate) but with a slower pace compared to that of China (in 2019 in India 183 million persons still lived in extreme poverty).

It is evident that in other regions of the world the progress was slower, in particular in Sub-Saharan Africa, where in 2019 (and in 2022 also) a wide part of low and lower-middle-income countries¹ are concentrated.

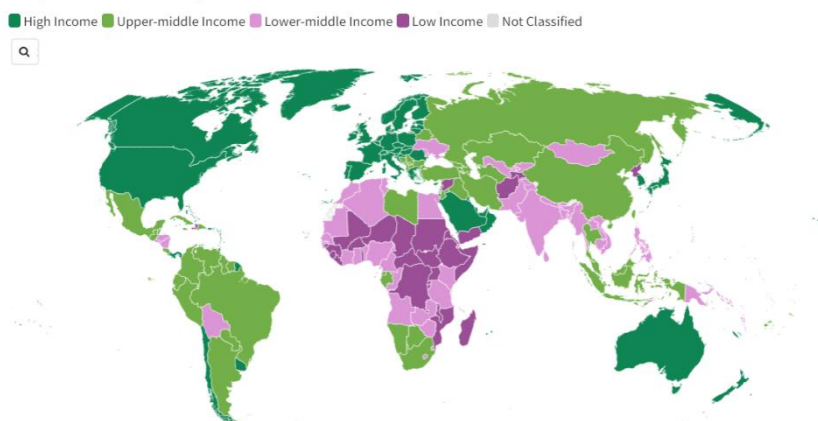
In Sub-Saharan area, the poverty rate decreased from 58.2% to 36.7%, recording a progress but limited and slow.

The pace of growth of GDP provides a first interpretation of these different dynamics and can be projected to understand 2020 and the evolution of the situation in the post-pandemic years. China, that was evaluated in 1993 as a low-income country, recorded between 1993 and 2019 an average growth of GDP equal to +9.4%, whereas this figure was equal to +3.9% in Sub-Saharan region. If we would consider GDP per capita this gap enlarges because in China, the population grew from 1.18 in 1993 to 1.41 billion in 2019 whereas in the Africa regions considered, the population more than doubled (from 560 million to 1.12 billion persons). As a consequence, the average growth of GDP per capita was +8.6% in China and between +1.1% in Sub-Saharan Africa. This slower pace of growth has meant that if in 1993 there were 35 low-income and 8 lower-middle-income countries in this African region, in 2019 41 countries (against 43) were still in this condition even if 18 belonging to the group of lower-middle-income countries. On the same time span China has become an upper-middle income country (Figure 2 and 3).

¹ The World Bank classifies economies for analytical purposes into four income groups: low, lower-middle, upper-middle, and high income. For this purpose, it uses gross national income (GNI) per capita data in U.S. dollars, converted from local currency using the World Bank Atlas method, which is aimed at smoothing exchange rate fluctuations, though conversion factor instead of market exchange rates, reducing the impact of exchange rate fluctuations in cross-country comparisons of national incomes.

Figure 2 – Countries by income groups as classified by the World Bank. Year 1993.

Source: World Bank Group country classifications by income level (<https://blogs.worldbank.org/en/opendata/new-world-bank-group-country-classifications-income-level-fy24>).

Figure 3 – Countries by income groups as classified by the World Bank. Year 2019.

Source: World Bank Group country classifications by income level (<https://blogs.worldbank.org/en/opendata/new-world-bank-group-country-classifications-income-level-fy24>).

The different dynamics recorded across the countries and the regions in the reduction of extreme poverty, produced an important change in the distribution of the poor people. If in 1993 about 16.5% of world poorest people lived in Sub-Saharan Africa, this percentages rose to almost 60% in 2019. If we consider South Asia, where nearly other 200 million people lived under the threshold of extreme

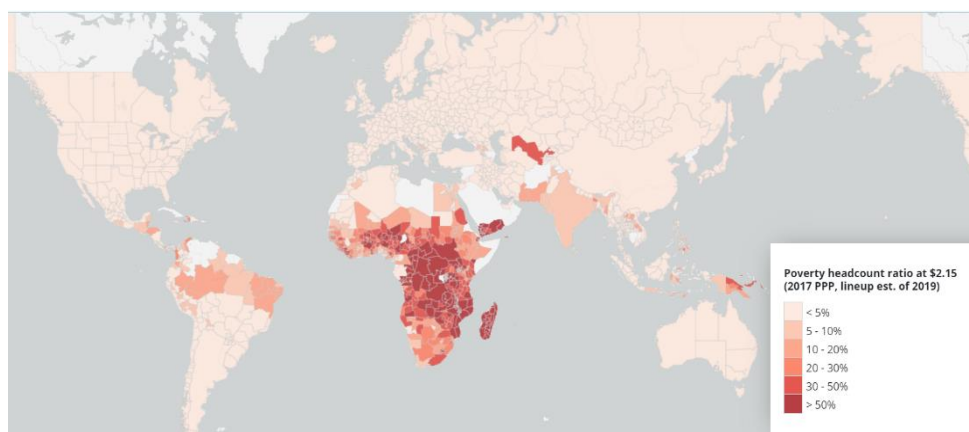
poverty in 2019 (about 29%), the new map of poverty that came out from these 30 years is clear (Figure 4).

In a framework of important achievements around the world, the 30 years ahead of COVID-19 crisis brought a concentration of extreme poverty in some countries and in particular in Sub-Saharan area.

In addition, within Sub-Saharan region, poverty is also increasingly concentrated in Conflict Affected and Fragile States (Fragile and Conflict-affected Situations FCS)²: in 2019, 50% of the poor lived in FCS and the perspective is that this percentage will increase until two third (Hoogeveen *et al.*, 2024).

Based on this legacy from the past, the world arrived at the vigil of 2020 and faced the COVID-19 crisis, that worsened the issues emerged.

Figure 4 – Poverty headcount rate in the World. Year 2019.



Source: World Bank Poverty and Inequality Platform.

3. The consequences of COVID-19 crisis on the poorest countries

The trend of reduction of the number of people living in extreme poverty stopped in 2020, when poverty increased because of the COVID-19 crisis. As reported in the

² The WB classification of FCS uses the following categories:

- Countries with high levels of institutional and social fragility, identified based on indicators that measure the quality of policy and institutions, and manifestations of fragility;
- Countries affected by violent conflict, identified based on a threshold number of conflict-related deaths relative to the population.

(<https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/classification-of-fragile-and-conflict-affected-situations>)

introduction, the number of people in extreme poverty increased by 70 million, reaching over 757 million from about 683 in 2019 and the global extreme poverty rate increased to 9.7% from 8.9%.

This is a historic setback in the fight against global poverty and, although pre-1990 data is largely imputed based on national (and therefore more uncertain) growth rates, the pandemic shock is likely the largest since 1945. Past shocks (such as the 1997 Asian financial crisis) have affected specific countries or regions and occurred within a short time frame. Quite the opposite, the economic shock due to the COVID-19 pandemic has led to widespread losses of employment and income in every region of the world but it was the poorest countries that have borne the highest costs. The impact of the pandemic crisis worsened the progressive concentration of extreme poverty in some areas of the world: out of the 70 million people more compared to 2019 falling in extreme poverty in 2020, 48 million are estimated living in South Asia, while the remaining, estimated by using nowcasting methods, mainly living in Sub-Saharan Africa.

In 2021 the progressive reduction of people in extreme poverty resumed (from 757 million, people under the threshold of \$2.15 per capita per day, decreased to 746) but with a pace that will consolidate the level shift occurred in 2020, consequently moving away the achievement of the objectives of the 2030 agenda which were already difficult to achieve.

In 2022, the pandemic crisis was followed by the steep rise in inflation further supported by the crisis caused by the war in Ukraine, making more difficult the recovery from the consequences of COVID-19.

Indeed, in 2022, it is estimated that around 713 million people are in conditions of extreme poverty, 23 million more if compared to 2019 and 70 million more than expected without the lingering effects of COVID-19 and the following crisis fed by Russian invasion of Ukraine. This means that the path of progressive reduction of extreme poverty has resumed but at a slower pace than expected, with the new international crisis that in the Near East that risks producing new setbacks.

Considering the substantial differences between regions in terms of extreme poverty distribution and the evolution of the last four years (2020-2023), forecasts say that extreme poverty will become increasingly concentrated in sub-Saharan Africa while the other regions will probably reach the 3% poverty rate target by 2030 (even if the conflict and political instability in some countries of Middle East and North Africa, MENA area, could imply local difficulties in achieving this objective). The growth rate of per capita GDP in Sub-Saharan area in 2021 (only +1,6% after the strong decrease of -4.5% in 2020) and 2022 (+1.1%) enhances this negative perspective, given that, to reach the 3% poverty rate target by 2030, Sub-Saharan Africa would need to achieve growth rates approximately eight times higher than the historical ones recorded between 2010 and 2019 (Gill and Kose, 2023).

This is why the 28 poorest countries in the world are experiencing a phase that the Chief Economist of the World Bank, did not hesitate to define as a tragedy (Gill and Kose, 2023).

In fact, looking at data from June 2023, in the 28 poorest countries (where just under 10% of the world population lives) the GDP was estimated at 500 billion dollars, less than 0.5% of global GDP.

Approximately 50% of the population in these 28 countries is poor and yet local governments spend 50% more on defence than they spend on health.

Key indicators of human development are far worse than they were in 2005 (for example maternal mortality is 25% higher or the share of households with access to electricity fell from 52% to around 40%).

This evolution challenges the developed and richer countries, considering that, even before the pandemic, foreign aid to poorer countries, especially in sub-Saharan Africa, was slowing. Now, richer countries are redirecting more of their foreign aid budgets to deal with the wave of refugees (Gill and Kose, 2023). Economic recovery is therefore extremely difficult: by the end of 2024, the average income of people in the poorest countries will still be almost 13% lower than expected before the pandemic. Between 2011 and 2015, external financing accounted for about a third of government revenues in the world's poorest countries but since then this share has fallen to less than a fifth. Thus, it means that the difference was made up by the governments of the poorest countries through further borrowing. Consequently, interest rates have thus risen and the public debt/GDP ratio in these economies has risen from 36% in 2011 to 67% in 2022 (the highest level since 2005, except for 2020).

Fourteen low-income countries are now in debt distress or at high risk of doing so – more than double the number just eight years ago. This means further negative perspective for the fight against extreme poverty (Gill and Kose, 2023).

4. Reducing to 3% the extreme poverty rate by 2030?

The Sustainable Development Goals (SDG) 1 in the 2030 Agenda (United Nations, 2015), is “End poverty in all its forms everywhere”. This general goal is then broken down by targets and two of these targets are, by 2030, eradicate extreme poverty for all people everywhere, and reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.

Together with goal 1, there is goal 10 (“Reduce inequality within and among countries”), thereof the first target is progressively to achieve, and sustain income

growth of the bottom 40 per cent of the population at a rate higher than the national average.

Concerning the targets of goal 1, more cautiously, the World Bank adopted the objective of reducing extreme poverty rate to 3% percent by 2030. Pursuing this objective is not only linked to robust growth rate but to the reduction of inequality (this is the meaning of second target aforementioned).

Nevertheless, also considering different scenarios in the reduction of Gini index (from a distributional neutral scenario to an optimistic scenario of a reduction equal to 2% per year), the objective of reducing extreme poverty rate to 3% by 2030 is substantially unrealistic (and the reduction of inequality is more effective than higher growth rates), given also the worsening due to COVID-19 crisis (Lakner *et al.*, 2020).

The concern about the 2030 was clearly expressed in the “Political declaration of the high-level political forum on sustainable development convened under the auspices of the General Assembly” of UN (United Nations, 2023), particularly in the points 24, 25 and 26³. The main obstacles, to achieve the objectives of the 2030 agenda and highlighted in these points, are the consequences of the pandemic, the effects of climate change, and the conflicts and instability.

The 30-year experience of poverty reduction until 2019 and also some recent experiences in Africa, has highlighted as stability is a precondition of growth and of extreme poverty reduction (Hoogeveen *et al.*, 2024).

Unfortunately, the recent world developments do not encourage optimistic perspectives.

³ “24. Our world has changed drastically since the first SDG Summit in 2019 and since we adopted the 2030 Agenda in 2015. The world was already off track in achieving the majority of the SDGs before the COVID-19 pandemic. Without immediate course correction and acceleration of progress toward achieving the SDGs, our world is destined to face continued poverty, prolonged periods of crisis and growing uncertainty.

25. We are concerned about the persistent and long-term impacts from the COVID-19 pandemic, continued poverty and widening inequalities, and the multiple interlinked crises that are pushing our world to the brink, particularly in developing countries and for the poorest and most vulnerable. The crisis of climate change and its impacts, including persistent drought and extreme weather events, land loss and degradation, sea level rise, coastal erosion, ocean acidification and the retreat of mountain glaciers, as well as biodiversity loss, desertification, sand and dust storms, and pollution, including plastic, air, and chemical pollution, threaten planet and people. Forced displacement, the cost-of-living, water, food security and nutrition, financial and energy crises and challenges are derailing progress on the Sustainable Development Goals.

26. In many parts of the world armed conflicts and instability have persisted or intensified, causing untold human suffering and undermining the realization of the Sustainable Development Goals. Our efforts to prevent and resolve conflicts and foster peaceful, just and inclusive societies have often been fragmented and insufficient and have been hindered in the current global context.”

The persistent Ukrainian conflict, the escalation of Gaza conflict after the terroristic attack of Hamas, the growing instability in fragile and conflict affected States are characterizing the most part of 2024.

Unless important changes in the evolution of these scenarios and in the choices of more developed countries at international level to contrast the consequences of the recent global shocks on the extreme poverty, the poverty and inequality reduction objectives of 2030 Agenda risk to remain unanswered letter.

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