

MADRID 2019 International Meeting Sant'Egidio

PANEL 2 – September 16, 2019 10am

Economy and Social Justice

Instituto Cervantes, Sala de Conferencias - Calle de Alcalá, 49, 28014 Madrid

Patrizio Pagano – talking points

The title of this panel is both broad and deep. Social Justice means different things to different people. Entering this debate would go beyond the scope of this panel.

Let me just say that for some, social justice is directly linked with equal opportunities and fair processes, and by this way is an intrinsic part of the objective of development. I believe I was invited here because the *raison d'être* of the institution I am affiliated with – the World Bank – is economic development.

Back in 2006 the World Bank published an important World Development Report entitled Equity and Development. Equity is defined in terms of two basic principles. The first is the **avoidance of deprivation in outcomes** – or poverty broadly speaking – particularly in terms of consumption, but also in health and education. The second principle is **equal opportunities**: that a person's life achievements should be determined primarily by his or her talents and efforts, rather than by pre-determined circumstances such as race, gender, social or family background. Here broadly speaking we may say that this means that economic growth should be inclusive.

In my initial remarks I would like to touch on where we stand on both these principles to highlight some challenges for the International Community (and the World Bank) going forward.

POVERTY AND SHARED PROSPERITY SNAPSHOT

In 2013, the World Bank Group set two overarching goals: to reduce extreme poverty to less than 3 percent of the world's population by 2030, and to promote shared prosperity by boosting the incomes of the bottom 40 percent of the population in each country.

One important reason the concept of monitoring shared prosperity was introduced was to expand our view of how to think about poverty reduction and growth.

Monitoring extreme poverty at the global level is inattentive to how progress is distributed across the world. The shared prosperity indicator was built to ensure the monitoring of progress in all countries.

Over the past quarter century, the world has made remarkable and unprecedented progress in reducing extreme poverty. Despite the world population increasing by more than 2 billion people, more than a billion fewer people lived in extreme poverty in 2015 than in 1990.

The number of people living in extreme poverty – i.e. with consumption (or income) below the international poverty line (IPL, currently valued at US\$1.90 in 2011 purchasing power parity dollars) - stood at 736 million in 2015, down from 1.9 billion in 1990. Not only are there now fewer poor people but, on average, the poor are also now less poor. In 1990, the average shortfall between what the poor consumed, and the IPL was 35 percent. This shortfall shrank to an average of 31 percent in 2015.

This impressive progress has brought us closer to achieving the World Bank's target of ending extreme poverty by 2030: in 2015 approximately one-tenth of the world's population lived in extreme poverty, down from more than a third in 1990.

Back in 1990, 36 percent of the world's people lived in extreme poverty. By 2015, that share had plunged to 10 percent, down from 11.2 percent in 2013.

However, there is no room for complacency. Much of the progress in the past quarter century has been in East Asia and Pacific, where China's economic rise has helped lift millions of people out of extreme poverty. Poverty is instead on the rise – and, perhaps more worryingly, is becoming more entrenched and harder to root out – in several countries in Sub-Saharan Africa, because of the region's slower rates of growth, problems caused by conflict and weak institutions, and a lack of success in channeling growth into poverty reduction.

Between 1990 and 2015, the regional profile of poverty has changed significantly. In 2015, more than half of the global poor resided in Sub-Saharan Africa and more than 85 percent of the poor resided in either Sub-Saharan Africa or South Asia. The two regions with the poorest people in 1990 were East Asia and Pacific and South Asia, which were home to 80 percent of the poor. With China's rapid reduction of poverty, the concentration of the global poor shifted from East Asia

and Pacific in the 1990s to South Asia in 2002, and then to Sub-Saharan Africa in 2010. This pattern is likely to continue in the coming decade.

Ending extreme poverty will require a renewed focus on Sub-Saharan Africa and states suffering from weak institutions and conflict.

Estimates for 2015 indicate that India, with 176 million poor people, continued to have the highest number of people in poverty and accounted for nearly a quarter of the global poor. The extreme poverty rate is significantly lower in India relative to the average rate in Sub-Saharan Africa, but because of its large population, India's total number of poor is still large. However, forecasts for 2018 suggest that India's status as the country with the most poor is ending—Nigeria either already is, or soon will be, the country with the most poor people. The extreme poverty rate and the number of poor in South Asia have been steadily declining and are expected to continue that trend. The result of this trend is a shift in poverty from South Asia to Sub-Saharan Africa.

Stronger economic growth and renewed efforts to resolve violent conflicts will be crucial to speed up the rate of poverty reduction in Sub-Saharan Africa and elsewhere. But business as usual will not be enough.

To reach the World Bank's goal of bringing extreme poverty below 3 percent by 2030, estimates indicate that the world's poorest countries must grow at a rate that far surpasses their historical experience. But it will also require that this growth be highly inclusive, not just globally but in every country.

The target would be met if all countries grow at an average annual rate of 6 percent with a shared prosperity premium of 2 percentage points. Alternatively, the target could be reached if all countries grow at an average pace of 8 percent. In an alternate scenario where all countries grow in line with the average in their region over the last 10 years, forecasts indicate that the global poverty rate would be above 5 percent in 2030. This "business as usual" scenario leads to a bifurcated world where more than a quarter of the people in Sub-Saharan Africa live in extreme poverty whereas it is less than 2 percent in most of the rest of the world.

Unfortunately, in many countries, the bottom 40 percent of the population is getting left behind; in some countries, the living standard of the poorest 40 percent is actually declining. On that score, the progress in East Asia and Pacific and South

Asia is all the more impressive because the economic growth in those regions is being shared.

In almost half the 91 economies monitored, the consumption or income share of the bottom 40 is growing more slowly than the average, suggesting that the distribution in these countries is worsening. Globally, the average shared prosperity premium is small: the simple average across all economies in the sample is 0.2 percentage points. The regions with higher average premiums are East Asia and Pacific, the Middle East and North Africa, and Latin America and the Caribbean. Half the countries in Europe and Central Asia and more than half in Sub-Saharan Africa have instead negative shared prosperity premiums. In addition, the picture of shared prosperity among the poorest economies as well as those in fragile and conflict-affected situations is only partial because data on the shared prosperity indicator remain limited. Because a lack of reliable data is associated with slow growth in consumption (or income) for the poorest, the situation could even be worse than currently observed.

Poverty encompasses a shortfall in income and consumption, but also low educational achievement, poor health and nutritional outcomes, and lack of access to basic services - such as electricity, water, sanitation. Lack of access to these factors hinders equal opportunities.

Because many of these goods cannot be purchased in the market, they are typically not included in the measure of extreme poverty. Accounting for these aspects of well-being tends to increase the share of poor. At the global level, the share of poor according to a multidimensional definition that includes consumption, education, and access to basic infrastructure is approximately 50 percent higher than when relying solely on monetary poverty. In Sub-Saharan Africa, more than in any other region, shortfalls in one dimension go hand in hand with other deficiencies.

Poor households are overwhelmingly located in rural areas and have many children. They often are exposed to natural hazards and physical insecurity.

To build a true picture of poverty as experienced by individuals, we also need to go beyond the traditional household-level measures to consider how resources are shared among families. Women and children tend to have disproportionately less access to resources and basic services, especially in the poorest countries.

IMPLICATIONS AND POLICY PRIORITIES FOR THE WBG

1. Transformational change is needed in Sub-Saharan Africa and conflict-affected areas. The battle against extreme poverty will be won or lost in Sub-Saharan Africa and fragile and conflict-affected settings.

As I argued before, global extreme poverty is increasingly becoming a Sub-Saharan phenomenon, and the share of the poor in fragile and conflict-affected situations is growing. Of all regions, Sub-Saharan Africa has one of the worst performances in shared prosperity and the poor there suffer from multiple deprivations more than in any other region. Reaching the 3 percent target by 2030 will require more than business as usual: the region will need strong and sustained economic growth, significant improvements in the living standards of the bottom 40 throughout Sub-Saharan Africa at a scale not seen in recent history, and substantial investments in people.

2. New poverty measures can enhance policy dialogue. This is particularly the case in middle-income countries, where extreme poverty is less prevalent, but where the higher poverty lines and the new multidimensional poverty measure reveal there is still much work to be done.
3. There is a strong correlation between the twin goals: most economies that are performing well in poverty reduction are also doing well in boosting shared prosperity. And the same is true for those that are not doing well.
4. The problem is that data scarcity among the poorest and most fragile situations continues to be an issue, so coverage of the inequality measure in these countries is limited. This means that where we need the most light we have the least! And therefore designing the right policies proves even more difficult.
5. Human capital deficits are a significant barrier to progress. Last year the World Bank launched the Human Capital Index to draw global attention to the economic case for investing more effectively in people. While many countries have cause for concern, in the poorest countries children born today will achieve less than 50 percent of their potential productivity as adults, compared to what could have been possible with complete education and full health.
6. The household is the main incubator and the most important institution for human capital development. Governments, with the support of partners,

have a strong role in strengthening the enabling environment for households to build human capital, including with resources for the poorest. Policies and programs need to tackle both the demand and supply side to deliver better results.