

## Ending poverty by 2030?

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Bangladesh has made considerable progress with increasing incomes, improving human development indicators, especially life expectancy, and lowering the incidence of extreme (LPL) and modest (UPL) poverty. The poverty progress is particularly impressive (Figure 1) that has contributed to a euphoria that Bangladesh may be well set to eradicating poverty in the next 15-20 years. How realistic is this expectation?

To answer this question we need to first look at how poverty is defined and measured. There is a huge body of economic literature on poverty definition and measurement that has basically concluded that there is no unique definition or measurement of poverty and informed judgments have to be made regarding the purpose and use of this concept. In view of the strong public policy interest in measuring development progress and international interest in assessing the effectiveness of development assistance to low-income economies, some broad conventions have emerged. Many of the conventions are the outcomes of research supported by the United Nations and the World Bank.



For low-income developing economies, the usual convention is to use the concept of absolute poverty that defines poverty in terms of the ability to procure a minimum consumption basket of food and non-food items. For advanced high income economies, the common practice is to adopt the concept of relative poverty that defines the poverty line as a certain percentage of the median income. The percentage ranges from 40-80 per cent. In the Organisation for Economic Cooperation & Development (OECD) definition, the poverty cut-off point is taken at 50 per cent of the median income. So, a household whose income falls below 50 per cent of the median income is defined as poor in the OECD countries.

Even when poverty is measured in absolute terms, the poverty line tends to shift upwards with income growth because the definition of minimum standard of living on which absolute poverty is anchored changes with the level of per capita income. As an example, the United States has adopted an absolute poverty line for policy purposes. For 2014 the poverty line stood at US\$ 24,230 annual income for a family of four (two adults and two children). After allowing for purchasing power differentials of a dollar in Bangladesh versus USA, the poverty line is still much higher in USA than in Bangladesh.

The implications of these alternative definitions of poverty and their measurements for poverty incidence at different levels of per capita income are illustrated in Table 1. Several results emerge. Even when poverty is measured in absolute terms, the poverty rate does not disappear to low levels (below 5.0 per cent) with growing incomes. Indeed, the poverty level is as high as 46.2 per cent in Mexico that has nine times higher per capita income than Bangladesh in nominal dollars and five times higher in purchasing power parity (PPP) terms. Poverty levels are lower than Bangladesh in other upper middle income countries like China, Thailand and Turkey, but they remain significantly high relative to per capita income. Importantly, in USA, which defines poverty in absolute terms, the poverty rate is higher than in Brazil, China and Thailand even though capita income is much higher in both nominal dollars and in PPP terms. These results are to a large part because the poverty threshold increases with income.



High income countries typically measure poverty in relative terms. As a result, the poverty rates are quite high relative to per capita income. The income level for defining poverty (50 per cent of the median income) are all significantly higher in OECD countries when compared with upper middle income countries and certainly substantially higher than in low and low middle income countries.

Another way of looking at the poverty challenge in Bangladesh is to look at the sensitivity of the poverty line to changes in the income of the poor from shocks such as natural disasters, political turmoil or health hazards. This is illustrated in Figure 2 that shows the cumulative distribution of consumption by population percentile based on the Household Income and Expenditure (HIES) data of 2010. This is the latest available HIES data. An estimated 80 per

cent of the population consumed at a level that is only double the poverty level and 60 per cent consumed at 1.5 times the poverty level. This high concentration of the population at around the poverty line suggests that a major health or natural disaster shock can easily put a substantial part of the population at risk of falling back in poverty. Under World Bank definition used for international comparison of absolute poverty, the extreme poverty rate in Bangladesh was 43 per cent at \$1.25/day (2005 PPP) and moderate poverty was 77 per cent at \$2.0/day (2005 PPP) in 2010. This high sensitivity of poverty incidence to the choice of the poverty line suggests that the poverty challenge in Bangladesh is very much alive and long term in nature, and will not likely disappear in the next 10 to 15 years.



In conclusion, the encouraging progress made by Bangladesh in reducing extreme and moderate poverty is to be celebrated. But this progress is made on the basis of poverty lines that are very modest by standards of living in middle and high income countries. Also, there is a large concentration of the poor near the poverty line (the near poor). As income grows, the immediate challenge is to move the extreme poor and the moderate poor above the respective poverty lines (lower and upper poverty lines). An additional task is to lift the many near poor hovering around the upper poverty line to substantially higher levels of consumption (income).

Over time as income grows, the nature of the poverty challenge will change as the poverty level consumption basket changes relative to the average consumption standard that is rising. Eventually, as Bangladesh reaches the high income threshold, poverty becomes a relative concept and becomes intimately linked with the distribution of income. The policy challenge will then be to keep relative poverty at low single digit levels.