# Introduction

Among the goals of the World Bank, there are two main objectives taken by World Bank for the betterment of the World on April 20, 2013, which are;

* To put an end to extreme poverty in all the countries of the World, and
* Simultaneously promote the concept of Shared prosperity by fostering the income growth for the low level income group people in every country.

World Bank believes that these goals will allow the population of a country to share the assets of the country in a justified manner and in a sustainable way, thereby allowing the scope for reduction in poverty and income inequality. In this regard, World Bank has started a new **Poverty and Shared Prosperity** flagship series which provides a global audience with the latest and the most accurate estimates of global poverty and the situation of shared prosperity, as well as in depth research into policies and interventions that can make a difference for the world’s poorest.

# Methodology for measuring Poverty

The first World Bank goal to end poverty globally is measured in the percentage of population below poverty line. There are mainly three components which are critical to this aggregation;

1. **Cost of Living Comparability across Countries:** Clearly, the cost of decent living is different for different countries, which poses a critical hardship in measurement of poverty. For this reason, the key information collected is **Purchasing Power Parities** (PPP). Also, the comparison between households of different countries requires the market exchange rates between local currencies. Usage of both the exchange rates and PPP allow World Bank to compare income levels of households of different countries in real terms (rather than nominal term) while accounting for the differences in the prices across countries. Another hardship in the measurement is that most of the products are not sold worldwide, and the quality may vary across countries and also across the regions of a country. Moreover, the demand elasticity of the same product may vary drastically, i.e. a necessary product may be a luxury item for another country.
2. **Definition of International Poverty Line in PPP terms:** Every country determines its own standard of poverty line mostly by means of basic standard needs for the consumption of products available to only that country, in order to foster its own domestic policies. However, World Bank needs an international standard of poverty line to compare the situation of poverty across countries. In this regard, it calculates the international threshold of poverty line based on the domestic thresholds of poverty of some of the poorest countries, and multiplying them accordingly to adjust for relative change of price across countries. The key assumption is that the necessary products available to those poorest countries are also assumed to be available to the rest of the world to enable comparison.
3. **Treatment for lack of reliable data:** The main hardship in aggregation of the measurements of poverty is that lack of reliable data collected domestically by each country. Also, different countries adapt distinct methodologies in order to provide summary statistics of the poverty situation, which might be difficult to aggregate. For the countries lacking proper reliability of the income and consumption data, a regional average for the poverty line is used. Also, some cross-countrywise regression and extrapolation exercise is undertaken in order to assess quality of estimation for the unavailable data.

There is also another problem in the aggregation when counting the share of population below poverty line is assumed to be “zero” in most of the high-income industry-based countries, even though their domestic report shows a non-negligible share of poor households. The reason for this is that World Bank assumes that those households residing in an industry-based country have access to free public services, social transfers, as well as the improved infrastructure, which are not accounted for in the domestic statistic for cost of standard living.

# Methodology for measuring Shared Prosperity

World Bank measures the situation of sharing of prosperity and dynamical growth of a country using the level of growth in income or in consumption distribution of the low-income groups of the population, measured by the basis of household surveys. Although World Bank has no justification of why only bottom 40% income level groups are surveyed, many economists think that this threshold reflects a commitment to the sustainable growth of all of the low-earning population, not just the ones below poverty line.

One most widely used indicator for measuring prosperity growth is GDP per capita. However, since the GDP affects all of the population, it is not enough to convey the information regarding growth of bottom 40. On the other hand, Gini index, being a measure of inequality, can only capture the distribution of the prosperity, but is unable to provide evidence on the total amount of economic growth. Hence, the key indicator of Shared prosperity is obtained by compromising between a prosperity indicator that fails to capture inequality and an equity indicator that fails to capture growth. To enlighten oneself from such misery, it is decided that the key point in shared prosperity is deciding whether the income or consumption of the bottom 40 grows more quickly or more slowly than the average which indicates whether or not the bottom 40 disproportionately benefit from growth relative to the average individual in society. This concept leads to the indicator of shared prosperity, called **Shared Prosperity Premium**. This is defined as;

where is the growth in the income share of the bottom 40, i.e. the shared prosperity premium, is the income growth of the bottom 40 and is the growth of the mean. Also note that the growth in income share is calculated from inequality adjusted GDP per capita value.

# Global Poverty Scenario

Before addressing the scenario on Global poverty, World Bank determines the international extreme poverty line of US $1.90, which was based on global purchasing power parities in 2011.