

What Is Poverty and Why Measure It?

Summary

Poverty is “pronounced deprivation in well-being.” The conventional view links well-being primarily to command over commodities, so the poor are those who do not have enough income or consumption to put them above some adequate minimum threshold. This view sees poverty largely in monetary terms.

Poverty may also be tied to a specific type of consumption; for example, people could be house poor or food poor or health poor. These dimensions of poverty often can be measured directly, for instance, by measuring malnutrition or literacy.

The broadest approach to well-being (and poverty) focuses on the capability of the individual to function in society. Poor people often lack key capabilities; they may have inadequate income or education, or be in poor health, or feel powerless, or lack political freedoms.

There are four reasons to measure poverty:

- To keep poor people on the agenda
- To be able to identify poor people and so to be able to target appropriate interventions
- To monitor and evaluate projects and policy interventions geared to poor people
- To evaluate the effectiveness of institutions whose goal is to help poor people.

To help countries think systematically about how the position of poor people may be improved, and to act accordingly, the World Bank favors the Poverty Reduction Strategy Paper (PRSP) process. Countries are expected to measure and analyze

domestic poverty, and to identify and operationalize actions to reduce poverty. The PRSP process requires strong technical support. A central purpose of this *Handbook* is to impart the requisite technical and analytical skills.

Learning Objectives

After completing the chapter on *What Is Poverty and Why Measure It?*, you should be able to

1. Define poverty.
2. Summarize the three main views of poverty.
3. State four justifications for measuring poverty.
4. Summarize the role of the Poverty Reduction Strategy Paper process.
5. Explain why technical and analytical training in poverty analysis are needed.

Introduction: The Concepts of Well-Being and Poverty

According to the World Bank (2000), “poverty is pronounced deprivation in well-being.” This of course begs the questions of what is meant by *well-being* and of what is the reference point against which to measure deprivation.

One approach is to think of well-being as the command over commodities in general, so people are better off if they have a greater command over resources. The main focus is on whether households or individuals have enough resources to meet their needs. Typically, poverty is then measured by comparing individuals’ income or consumption with some defined threshold below which they are considered to be poor. This is the most conventional view—poverty is seen largely in monetary terms—and is the starting point for most analyses of poverty.

A second approach to well-being (and hence poverty) is to ask whether people are able to obtain a *specific* type of consumption good: Do they have enough food? Or shelter? Or health care? Or education? In this view the analyst goes beyond the more traditional monetary measures of poverty: Nutritional poverty might be measured by examining whether children are stunted or wasted; and educational poverty might be measured by asking whether people are literate or how much formal schooling they have received.

Perhaps the broadest approach to well-being is the one articulated by Amartya Sen (1987), who argues that well-being comes from a capability to function in society. Thus, poverty arises when people lack key capabilities, and so have inadequate income or education, or poor health, or insecurity, or low self-confidence, or a sense

of powerlessness, or the absence of rights such as freedom of speech. Viewed in this way, poverty is a multidimensional phenomenon and less amenable to simple solutions. For instance, while higher average incomes will certainly help reduce poverty, these may need to be accompanied by measures to empower the poor, or insure them against risks, or to address specific weaknesses such as inadequate availability of schools or a corrupt health service.

Poverty is related to, but distinct from, inequality and vulnerability. *Inequality* focuses on the distribution of attributes, such as income or consumption, across the whole population. In the context of poverty analysis, inequality requires examination if one believes that the welfare of individuals depends on their economic position relative to others in society. *Vulnerability* is defined as the risk of falling into poverty in the future, even if the person is not necessarily poor now; it is often associated with the effects of “shocks” such as a drought, a drop in farm prices, or a financial crisis. Vulnerability is a key dimension of well-being since it affects individuals’ behavior in terms of investment, production patterns, and coping strategies, and in terms of the perceptions of their own situations.

The concepts, measures, and analytical tools covered in this *Handbook* are mainly introduced in the context of the monetary measures of poverty, especially consumption. However, they frequently are, and should be, applied to other dimensions of poverty.

Why Measure Poverty?

It takes time, energy, and money to measure poverty, since it can only be done properly by gathering survey data directly from households. Why, then, do we need to go to the trouble of measuring poverty? At least four good reasons come to mind.

Keeping Poor People on the Agenda

Perhaps the strongest justification is that provided by Ravallion (1998), who argues, “[A] credible measure of poverty can be a powerful instrument for focusing the attention of policy makers on the living conditions of the poor.” Put another way, it is easy to ignore the poor if they are statistically invisible. The measurement of poverty is necessary if it is to appear on the political and economic agenda.

Targeting Domestic and Worldwide Interventions

A second reason for measuring poverty is to target interventions. Clearly, one cannot help poor people without knowing who they are. This is the purpose of a poverty profile, which sets out the major facts on poverty (and, typically, inequality),

and then examines the pattern of poverty to see how it varies by geography (for example, by region, urban/rural, mountain/plain), by community characteristics (for example, in communities with and without a school), and by household characteristics (for example, by education of household head, by size of household). A well-presented poverty profile is invaluable, even though it typically uses rather basic techniques such as tables and graphs. (For a straightforward example, see Nicholas Prescott and Menno Pradhan 1997).

Probably the most important operational use of the poverty profile is to support efforts to target development resources toward poorer areas. However, which regions should command priority in targeting? This question can only be answered at a highly aggregate level by most survey data (like the Socio-Economic Survey of Cambodia (SESC) of 1993–94 or the Cambodia Socio-Economic Survey (CSES) of 1999) because of the limited number of geographic domains that are typically sampled. For example, in the CSES 1999, poverty is lowest in Phnom Penh, where the headcount poverty rate was 15 percent compared to the national poverty rate of 51 percent. The survey data can sometimes be combined with more detailed census data to allow for much finer geographic targeting.

A good poverty profile also makes employment targeting possible. The ability of the vast majority of households in Cambodia to escape poverty will depend on their earnings from employment. The highest poverty rate was found among people living in households headed by farmers (46 percent in 1993–94 in Cambodia). By contrast, households headed by someone working in the government are least likely to be poor; in these occupations the poverty rate was 20 percent (1993–94). This would suggest that policies that aim to reduce poverty through enhancing income-generating capabilities should be targeted toward the agricultural sector.

The relationship between poverty and education is particularly important because of the key role played by education in raising economic growth and reducing poverty. The better educated have higher incomes and thus are much less likely to be poor. Cambodians living in households with an uneducated household head are more likely to be poor, with a poverty rate of 47 percent in 1993–94. With higher levels of education, the likelihood of being poor falls considerably. Raising education attainment is clearly a high priority to improve living standards and reduce poverty.

The relationship between gender and poverty may also indicate another targeting strategy for poverty reduction. In Cambodia, about 25 percent of the population lives in households headed by women. Perhaps surprisingly, the CSES 1999 data show that the poverty rate was slight *lower* among female-headed households (48 percent) than among male-headed households (52 percent). In this case, targeting interventions based on the gender of the head of household would not help to distinguish the poor from the nonpoor.

Targeting is also important at a worldwide level. Institutions, including the World Bank and aid agencies, have limited resources, and would like to know how best to

deploy those resources to combat poverty. For this, they need to know where in the world poor people are located, and this in turn requires viable information on poverty in every country. All developed countries, and about two-thirds of developing countries, have undertaken nationally representative household surveys to collect information on consumption and/or income; in many cases, these surveys have been repeated over time.

Successful efforts to target policies and programs to help poor people also require an understanding of why they are poor. This is not simply academic curiosity: it is integral to the process of finding workable solutions and managing tradeoffs. For instance, does a tax on rice exports help the poor? We know it will favor urban residents who eat rice and will hurt rice farmers, but more information is needed before we can conclude that the policy would help poor people. Or will providing outboard motors help poor fishermen? It might simply lead to overfishing and so be of no long-term help. Will providing sewers in slums help the poor residents, or might it worsen their lot as higher rents force them to move and provide a windfall to landowners? Questions such as these cannot be answered adequately without viable information that measures poverty, even if this is only the first step toward developing solutions.

Monitoring and Evaluating Projects and Policy Interventions

More generally, the third reason for measuring poverty is to be able to predict the effects of, and then evaluate, policies and programs designed to help poor people. Policies that look good on paper—new opportunities for microcredit for the poor, for instance—may in practice not work as well as expected. To judge the effects, one would ideally like to monitor the effects of a policy on poor people and evaluate the outcomes in comparison with a control group. Rigorous analysis of this kind is needed both to improve the design of projects and programs and to weed out ones that are not working.

Information on poverty is also helpful in understanding the politics of many government policies. By collecting information on households and their economic status, one can assess who uses public services and who gains from government subsidies. If programs are cut or there is retrenchment of the public sector, poverty data provide information on the effects of these plans. Using information on poverty, one can simulate the impact of different policies. The identification of the gainers and losers goes a long way toward determining who will support, or oppose, a given policy.

Evaluating the Effectiveness of Institutions

The fourth reason for measuring poverty is to help evaluate institutions. One cannot tell if a government is doing a good job of combating poverty unless there is solid information on poverty. This does not only apply to governments. “Our dream is a

world free of poverty,” writes the World Bank,¹ and its first mission statement is “to fight poverty with passion and professionalism for lasting results.”² The institution’s success in pursuing this goal can only be judged if there are adequate measures of poverty.

When evaluating projects, policies, and instruments, our concern is with poverty comparisons, the title of Martin Ravallion’s influential monograph (Ravallion 1992). In this context, we typically want to know whether poverty has fallen (a qualitative measure) and by how much (a quantitative measure). Such comparisons are surprisingly difficult to do well—often they are not robust—and require close attention to issues of measurement, which is one of the major themes of this *Handbook*.

Thinking Systematically: Poverty Reduction Strategy Papers

Measurement is necessary but not sufficient. It is also important to think clearly and systematically about how the position of poor people may be improved, and to act accordingly.

To do this, the World Bank favors the Poverty Reduction Strategy Paper process. First introduced for Highly Indebted Poor Countries (HIPC) in 1999, this approach begins with a country-driven policy paper setting out a long-term strategy for fighting poverty and rooted in the latest available data and analysis.

The idea is that leaders, administrators, analysts, and others from within a country should take the lead in developing a PRSP, so that the process is “owned” locally and not imposed from the outside—although the World Bank typically insists that the process be followed. This begins with the measurement of poverty, followed by an analysis of its dimensions and causes. Based on this foundation, the expectation is that there will be extensive dialogue about what needs to be done to reduce the number of poor people. Thus, once poverty is measured and the poor are identified, the next steps in the PRSP process are to choose public actions and programs that have the greatest impact on poverty, identify indicators of progress, and monitor change in a systematic manner. Poverty measurement and diagnostics are therefore central to informing policy making for poverty reduction in many countries.

The creation of a good PRSP requires strong technical support. A central purpose of this *Handbook* is to impart the requisite technical and analytical skills.

Review Questions

1. Poverty is

- A. A lack of command over commodities in general
- B. A pronounced deprivation in well-being
- C. Lack of capability to function in society
- D. All of the above

2. Which of the following is *not* a reason to go to the trouble and expense of measuring poverty?

- A. To evaluate the impact of policy interventions geared toward the poor
- B. To keep poor people on the agenda of public policy
- C. To measure the distributional effects of economic growth
- D. To target interventions designed to reduce poverty

3. Is the following statement true or false? “The World Bank promotes the Poverty Reduction Strategy Paper process in order to determine to which countries it should lend money.”

- True
- False

Notes

1. See <http://go.worldbank.org/4DO5SXV2H0> (accessed June 7, 2008). More recently, the World Bank has begun to use a new slogan, “Working for a World Free of Poverty”; see <http://www.worldbank.org/> (accessed June 7, 2008).
2. <http://go.worldbank.org/DM4A38OWJ0> (accessed June 7, 2008).

References

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