Chapter 1. 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; thus someone might be house poor or food poor or health poor. These dimensions of poverty can often 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. The poor lack key capabilities, and 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. First, to keep the poor on the agenda; if poverty were not measured, it would be easy to forget the poor. Second, one needs to be able to identify the poor if one is to be able to target interventions that aim to reduce or alleviate poverty. Third, to monitor and evaluate projects and policy interventions that are geared towards the poor. And finally, to evaluate the effectiveness of institutions whose goal is to help the poor.

To help countries think clearly and systematically about how the position of the poor may be improved, and to act in consequence, 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 manual is to impart the technical and analytical skills needed for this purpose.

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.
4. Summarize the role of the Poverty Reduction Strategy Paper (PRSP) process.
5. Explain why technical and analytical training in poverty analysis is needed.
1.1 The concept of well-being and poverty

According to the World Bank (2000), “poverty is pronounced deprivation in well-being.” This of course begs the question of what is meant by well-being.

One approach is to think of one’s well-being as the command over commodities in general, so people are better off if they have a greater command over resources. In this view, the main focus is on whether households or individuals have enough resources to meet their needs. Typically poverty is then measured by comparing an individual’s 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 would need to go 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 someone is illiterate, or by the amount of formal schooling they have received.

Perhaps the broadest approach to well-being (and poverty) 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 multi-dimensional phenomenon, and less amenable to simple solutions. So, 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 an individual 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 the perceptions of their own situations.

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

1.2 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.

*To keep the poor 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 thus necessary if it is to appear on the political and economic agenda.

*To target interventions, domestically and worldwide*

A second reason for measuring poverty is in order to target interventions. Clearly, one cannot help the poor without at least 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 (by region, urban/rural, mountain/plain, etc.), by community characteristics (e.g. in communities with and without a school, etc.), and by household characteristics (e.g. 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, *A Poverty Profile of Cambodia* (1997).
Probably the most important operational use of the poverty profile is to support efforts to target development resources towards poorer areas. But which regions should command priority in targeting? This question can only be answered at a highly aggregate level by most survey data (like the Cambodian SESC of 1993/94 and the CSES of 1999) because of the limited number of geographic domains that were sampled. For example, in the CSES 1999, poverty is lowest in Phnom Penh, where the headcount poverty rate was 15% compared to the national poverty rate of 51%. 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% 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% (1993/94). This would suggest that policies that aim to reduce poverty through enhancing income-generating capabilities should be targeted towards 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% in 1993/94. With higher levels of education, the likelihood of being poor falls considerably. Raising education attainment is clearly a high priority in order 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% 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%) than among male-headed households (52%). In this case, targeting interventions based on the gender of the head of household would not help to distinguish the poor from the non-poor.

Targeting is also important at a world-wide level. Institutions, such as the World Bank and aid agencies, have limited resources, and would like to know how best to deploy those resources in order to combat poverty. For this, they need to know where in the world the poor 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.

But successful efforts to target policies and programs to help the poor 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 the poor. Or will providing outboard motors help poor fishermen? It might simply lead to overfishing, and so be of no long-term help. And 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.

**To monitor and evaluate projects and policy interventions geared towards the poor**

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 the poor. 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 the poor, 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 help inform us of the effects of these plans on the poor. Using information on poverty, one can simulate the impact of different policies. The identification of the gainers and losers goes a long way towards determining who will support, or oppose, a given policy.

**To evaluate the effectiveness of institutions whose goal is to help the poor**

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 good information on poverty. This does not only apply to governments. “Our dream is a world free of poverty,” writes the World Bank, and
its first mission statement is “to fight poverty with passion and professionalism for lasting results.” The institution’s success in pursuing this goal can only be judged if there are adequate measures of poverty.

1.3 Thinking Systematically: Poverty Reduction Strategy Papers (PRSP)

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

In order to do this, the World Bank favors the Poverty Reduction Strategy Paper (PRSP) process. First introduced for Highly Indebted Poor Countries (HIPC) in 1999, this is supposed to be 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. 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 dialog about what needs to be done to reduce the number of poor. Thus, once poverty is measured and the poor are identified, the next steps in the PRSP 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 manual is to impart the technical and analytical skills needed for this purpose.