



POVERTY BRIEF – UNDERSTANDING POVERTY

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What is poverty

Definitions of poverty really matter. They set the standards by which we determine whether the incomes and living conditions of the poorest in society are acceptable or not. Definitions of poverty are also important, as they influence the way interventions and policies addressing poverty are shaped. Despite this, there is ambiguity as to how the term 'poverty' is used and as a result, a range of definitions exists, influenced by different disciplinary approaches, world views and ideologies (Handley et al., 2009).

Historically, poverty has been defined in monetary terms, using income or consumption levels. In order to be able to compare poverty levels across countries and over time, those that live below a given level of income – the poverty line (Ravallion, 2010) – are classified as poor. Over the last decades, this economic definition of poverty has been complemented by other approaches to conceptualise poverty: basic needs approach, capabilities approach, human development approach and multidimensional poverty approach (Handley et al., 2009).

Chambers (2006), a leading scholar on poverty and development, clusters poverty definitions into four groups:

- › Income poverty (or its common proxy, consumption poverty).
- › Material lack or want: besides income, this includes absent, limited or low quality assets (such as shelter, clothing, furniture, personal means of transport, radio, etc.). It also includes inadequate access to services.
- › Capability deprivation, referring to what people can or cannot do, or can or cannot be. This goes well beyond material lack to include human capabilities, such as skills and physical abilities, and also self-respect in society.
- › Multidimensional deprivation, with material lack or want, as only one of several mutually reinforcing dimensions.

Multidimensional poverty

The idea that poverty is multidimensional was first presented by Townsend (Townsend, 1979) and further developed by Chambers (Chambers, 1983). In the final declaration of the World Summit for Social Development in 1995, the United Nations concluded that:

'Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterized by a lack of participation in decision-making and in civil, social and cultural life.'

(United Nations, 1995)

This description stresses the multidimensionality of poverty. It combines notions of absolute and relative poverty and points to the need to differentiate poor people by gender, age, occupational status, origin or ethnicity. In 2001, the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) published its Guidelines for Poverty Reduction (OECD, 2001) and adopted a multi-dimensional poverty definition:

Absolute and relative Poverty

Absolute poverty: when people lack basic necessities for survival. It quantifies the number of people below the poverty line and is independent of place and time.

Relative poverty: when people's way of life and income is much worse than the general standard of living. It classifies people as poor not by comparing them with a fixed poverty line, but by comparing them with others in the population under consideration.

“Poverty encompasses different dimensions of deprivation that relate to human capabilities including consumption and food security, health, education, rights, voice, security, dignity and decent work. Poverty must be reduced in the context of environmental sustainability. Reducing gender inequality is key to all dimensions of poverty.”

(OECD, 2001)

The DAC recognises that poverty is defined in various ways, but suggests that poverty definitions should be context-specific and should encompass the key deprivations faced by poor women and men and identify the ways in which they are incapacitated (Figure 1). The DAC has adopted the capabilities approach to poverty (see below) and suggests that poverty outcomes are affected by individual and household capabilities and that these capabilities are interrelated. However, the DAC emphasises that distinguishing between capabilities is important both for analysis and in order to design effective policies and interventions.

The DAC outlines the following 5 capabilities / dimensions (OECD, 2001):

- › **Economic capabilities**, i.e. the ability to earn an income, to consume and to have assets. These are the foundations for food security, material wellbeing and social status, and poor people often identify them as priorities, along with secure access to land,

implements and animals, forests and fishing waters, credit and decent employment.

- › **Human capabilities** are building on having access to health, education, nutrition, clean water and shelter. Lacking access to these services can mean disease and illiteracy, which are barriers to productive work, and thus to economic capabilities for poverty reduction. Reading and writing support communication, which is crucial in social and political participation. Education, especially for girls, is key to poverty reduction.
- › **Political capabilities** include having human rights and a voice in debates on public policies and political priorities. Deprivation of political freedoms or human rights, as well as arbitrary, unjust and violent action by public authorities, can be a major driver of poverty.
- › **Socio-cultural capabilities** relate to participation as a valued member of a community and include social status, dignity and other cultural conditions. Geographic and social isolation is a major dimension of poverty in many societies.
- › **Protective capabilities** enable people to withstand seasonal variations and external shocks and preventing poverty. Insecurity and vulnerability are strongly related to poverty with links to all other dimensions.

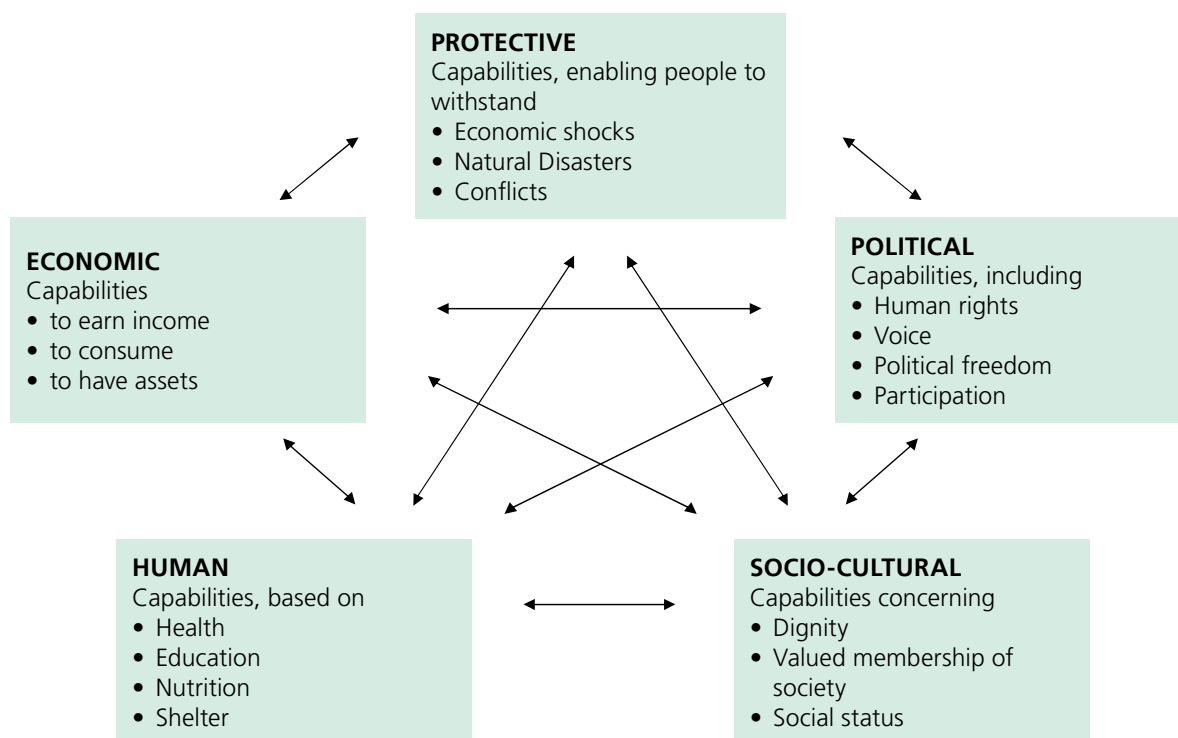


Figure 1: OECD's Multidimensional Poverty Framework

(Source: OECD, The DAC Guidelines Poverty Reduction, 2001)

Poverty Definitions and Measurements

Income poverty

Absolute definitions of poverty are based on income (or consumption) in relation to a specific living standard or minimum income level deemed necessary to meet basic needs. In 1990, the extreme *poverty line* for developing countries was set at US\$1 per person and day. The US\$1-a-day threshold was adjusted in 2008 and increased to US\$1.25, and in October 2015 to US\$1.90 to reflect the actual national poverty lines in the 15 poorest countries (PovcalNet – The World Bank).

Impressive gains have been made in reducing extreme poverty. The MDG target of halving the proportion of people living below the US\$1.25 extreme poverty line has been reached five years ahead of the 2015 deadline. Nevertheless, global figures mask stark differences within and across countries (OECD, 2013).

In September 2015, the UN General Assembly adopted the 17 Sustainable Development Goals (SDGs) and 169 associated Targets. Goal 1 is concerned with ending poverty in all its forms everywhere. Target 1.1 aims at eradicating extreme poverty, measured as living on less than US\$1.25 a day, by 2030 for all people. It also calls for reducing at least by half the proportion of people living in poverty in all its dimensions according to national definitions (target 1.2) (United Nations, 2015).

Basic Needs approach

Basic needs are defined as minimum quantities of such things as food, clothing, shelter, water and sanitation, access to basic education and health services and security to prevent ill health, undernourishment, or under- and unemployment (Streeten et al. 1981). It is based on a broader understanding of well-being and includes access to different goods and services and related achievements, such as adequate nutrition, life expectancy, mortality, etc. (Shaffer, 2008).

Despite a common poverty line used across countries to compare poverty rates, it was always recognised that what is required to satisfy basic needs will vary greatly across different countries. Countries, therefore, often use several national poverty lines based on the cost of basic needs (CBN) approach – including a lower poverty line which monetises the minimum calories required to maintain life and an upper poverty line which also includes a basic basket of goods and services deemed necessary for a healthy life, including basic costs for clothing, shelter and accessing education and health.

Capabilities approach

Income and basic needs approaches look at 'inputs' rather than 'outcomes'. Knowing the level of a household's income does not tell us anything about the well-being of this household. The capabilities approach, based on

work by Sen and Nussbaum (Nussbaum & Sen, 1993; Nussbaum, 2000; Sen, 1985, 1999), describes poverty as a *"denial of choices and opportunities for living a tolerable life"* (Lister, 2004). It comprises three core elements: functionings, capability and freedom. *Functionings* refers to the various things a person achieves to do or be (Sen, 1999), such as being well-nourished and having a decent shelter. It also includes more sophisticated things such as participation in community life and self-respect. It differs from having commodities (i.e. having a bicycle), but focuses on abilities to make use of commodities (i.e. being able to ride a bicycle to go to the market). *Capability* refers to the set of valuable functionings a person is able to effectively access. *Freedom*, finally, refers to the ability of a person to choose and prioritise different combinations of functionings (Wong, 2012).

The capabilities approach provides a framework for analysing poverty, which prioritises capabilities (ends) over resources (means) and adopts a broad focus on the *constraints* that may restrict human lives (Hick, 2012). It focuses on deprivation in capabilities, which is to a large degree the result of lack of opportunities, i.e. society's actions denying people with access to the means to develop or maintain essential human capabilities. And it focuses on the positive – the kind of life we want people be able to achieve rather than the negative – the lack of material resources that prevents people from achieving it (Lister, 2004).

One problem related to the capabilities approach is the lack of a fixed or universally defined set of capabilities. Not only are capabilities difficult to define, the capabilities approach is also hard to operationalise, because it is difficult to compare capabilities across different people and because there is no agreement how to weigh different capabilities. Thirdly, the informational requirements for assessing capabilities can be extremely high (Clark, 2005).

Multidimensional Poverty Index (MPI)

The Oxford Poverty and Human Development Initiative (OPHI) has developed an international measure of poverty – the Multidimensional Poverty Index or MPI – for the United Nations Development Programme's Human Development Report. The index goes beyond the traditional focus on income to reflect the multiple deprivations that a poor person faces with respect to education, health and living standard (see figure 2). It draws heavily on the capabilities framework as a:

"[...] process of enlarging people's choices. The most critical of these wide-ranging choices are to live a long and healthy life, to be educated and to have access to resources needed for a decent standard of living. Additional choices include political freedom, guaranteed human rights and personal self-respect"

(UNDP, 1990).

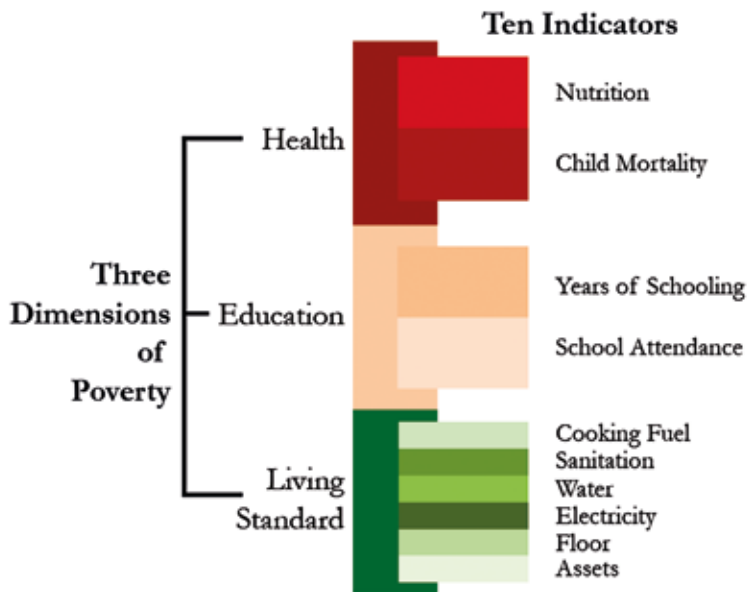


Figure 2: Indicators of the Multidimensional Poverty Index
(Source: <http://www.ophi.org.uk/multidimensional-poverty-index/>)

MPI is in no sense a comprehensive measure of human development – it lacks important dimensions such as rights and political voice – but it is a simple tool that is able to popularize the concept of human development as an improved understanding of well-being and that it is an alternative to GDP per capita as a way to measure levels of development for comparison across countries and time (Stanton, 2007).

Voices of the Poor

In the lead-up to the 2000/01 World Development Report on Poverty and Development, the World Bank launched an extensive consultation of over 60,000 poor women and men from 60 countries – the 'Voices of the Poor'. It enabled poor people to share their views and experiences of being poor and their priorities and recommendations for action. The study wanted to learn from poor people directly what a bad or a good life meant for them and what would make a difference in their lives.

A set of common dimensions of poverty (ill-being) and well-being was distilled across the different cultures and contexts: well-being and a good life included material wellbeing (having enough), physical wellbeing (being and appearing well), freedom of action and choice, security, and social wellbeing (e.g. being able to raise and educate children, help others). Five cross-cutting problems were identified as being largely responsible for keeping poor people trapped in poverty: corruption, violence, powerlessness, incapacity and lacking agency, and bare subsistence living.

(Source: Narayan, Chambers, Shah, & Petesch, 1999)

Participatory approach

The participatory approach defining poverty is not a specific way of conceptualising poverty, but a means of determining who should do the conceptualisation. It advocates that poverty and deprivation should not be defined by outsiders – as the above described approaches all do – but by people themselves through a participatory Poverty Assessment (PPA) process (Shaffer, 2001). It was strongly advocated by Chambers, who criticised current approaches to defining poverty as universal, reductionist, standardized and stable, whereas the realities of poor people are local, complex, diverse and dynamic. When poor people themselves are asked to describe dimensions of poverty, many aspects are mentioned that define ill-being: social inferiority, isolation, physical weakness, vulnerability, seasonal deprivation, powerlessness or humiliation (Chambers, 1995).

Poverty Dynamics

Shepherd et al. (2014) point out that it is not only the multidimensional definition of poverty, but the poverty dynamics that are equally important determinants for designing appropriate interventions to eradicate poverty (Shepherd et al., 2014). **Tackling chronic poverty** requires addressing the needs of socially discriminated groups: the old, the sick and the disabled, women, ethnic or religious minorities, internally displaced people, etc. These people either lack assets, the assets they have produce poor returns, or they may lose assets due to shocks and crises. They are shut out from participation in economic, social, cultural and political life or are adversely included as a result of skewed distribution of power. And finally, the political settlement and government-citizen relationship, macroeconomic policy, and social norms may all work against the interests of the poorest. Policies will include a mix of social assistance programmes (e.g. cash transfers, employment guarantees), asset building programmes and provision of basic services in education, health, water and sanitation, etc. (*ibid.*).

Stopping impoverishment needs a renewed focus, as over the past two decades impoverishment has been almost as widespread as escapes from poverty in many countries (Shepherd et al., 2014). Reasons for impoverishment often are natural disasters, conflicts, economic crises and health shocks. Technically, stopping impoverishment is the 'easy' part of improving poverty dynamics – social protection, disaster-risk management and universal health coverage can all be extended and improved with the necessary political leadership and sustained commitment. The biggest challenge remains solving conflict (*ibid.*).

Anti-poverty policies are usually concerned with supporting people to escape poverty, but rarely with

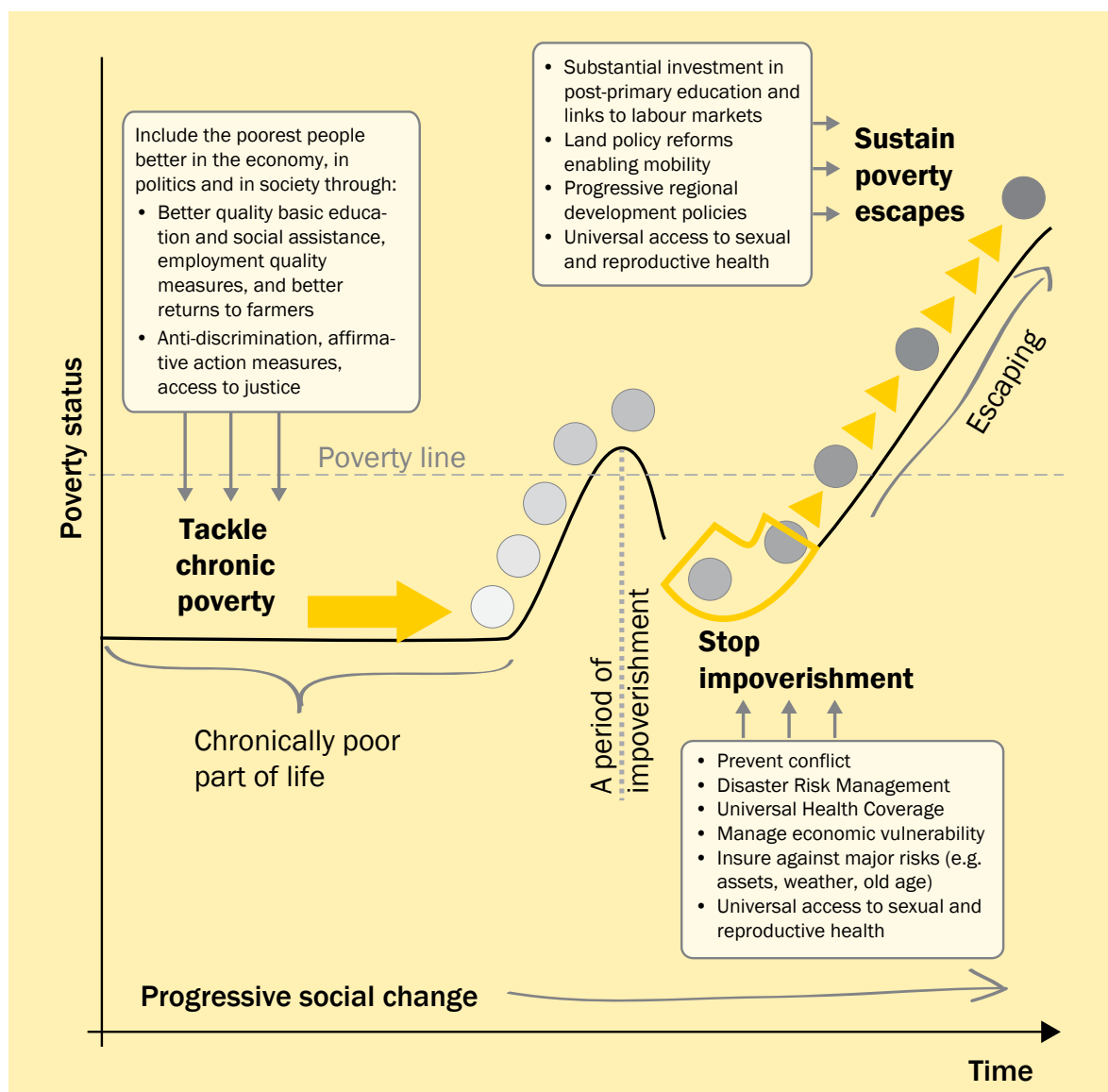


Figure 3: Policies to tackle chronic poverty, stop impoverishment and sustain escapes from poverty
 (Source: Shepherd et al., 2014)

keeping people out of poverty. Supporting people to **sustain poverty escapes** include a range of measures focusing on education and skills development, secure land tenure systems for the poorest, and regional and local economic development policies with a focus on employment and income generation (Shepherd et al., 2014).

Social exclusion and adverse incorporation

The concept of social exclusion describes a process of marginalisation and deprivation, and is closely related to aspects of power and powerlessness. It focuses on the processes that allow deprivation to arise and persist. Analysing exclusion inevitably involves studying the structural characteristics of society, the processes of exclusion and marginalisation and the situation of margin-

alised groups (e.g. ethnic minorities, the landless, lower castes), whereas monetary and capability approaches tend to focus on individual characteristics and circumstances. Such analysis shows that the situation of those deprived relative to the norm generally cannot be improved without some redistribution of opportunities and outcomes.

Social exclusion is the result of multiple and intersecting inequalities that reinforces each other. The persistence of social exclusion is rooted in cultural “de-valuation” that can be silent and invisible, but nevertheless have a profound impact on those who are excluded (Kabeer, 2010).

Recent research has challenged the notion of social exclusion, and has advanced the concept of adverse incorporation. Poor people may be very much included in social, economic and political systems – but in a way

that is to their detriment. For example, they may have little choice, but to take work which is paid so badly that they will never have the opportunity to save and escape poverty or they may vote and be nominally part of a democratic state, but one which does not truly represent their interests (Hickey & du Toit, 2007).

Vulnerability

Vulnerability is not poverty, whichever way poverty is defined, but describes the likelihood of falling into poverty or falling into greater poverty (Shaffer, 2001). Vulnerability describes the degree of *exposure* to risks and the *capacity to respond* to pressures, i.e. to prevent, mitigate or cope with risks (Ludi & Bird, 2007). Pressures can be either stresses or shocks, the former being gradual and cumulative, the latter sudden and unpredictable. Poor people are particularly vulnerable to shocks and stresses and their resilience in resisting or recovering from the negative effects of a changing environment is particularly low, as they lack assets, entitlements and capabilities that would be required to deal with shocks and stresses (Moser et al. 2001).

Applying a vulnerability focus to poverty analysis provides a lens through which to develop measures to address poverty. Policy interventions proposed to address the specific vulnerabilities of poor people include: social assistance, pro-poor and pro-poorest economic growth, human development for those that are hard to reach (i.e. because of age, gender, geography, ethnicity, etc.), and transformative social change (i.e. change in norms, values, and social relations that underpin development processes) (Shepherd et al., 2014).

In a recent report on the geography of poverty, disasters and climate extremes in 2030 (Shepherd et al., 2013), the authors conclude that climate change and exposure to natural disasters are distinct risks that threaten to derail international efforts to eradicate poverty by 2030. With increasing temperatures, many of the world's poorest and most vulnerable people will face growing risks of more intense or longer droughts, extreme rainfall and flooding and severe heat waves – risks that threaten lives and livelihoods and the hard-won gains made in reducing poverty in recent decades.

Inequality

Inequality is not poverty, but inequality – or the absence of fundamental rights, freedoms and opportunities – is a central characteristic of poverty. Addressing inequalities is not only a moral imperative, but from a social perspective, increasing inequality is seen as an impediment to economic growth and development, poverty eradication efforts and social stability. Reduc-

ing inequality is considered a necessity to unleash the human and productive potential of people to achieve sustainable and inclusive growth. The 1995 World Social Summit stressed that a people-centred approach to poverty reduction and development must be based on principles of equity and equality to enable all individuals to access resources and opportunities (United Nations, 2005). Addressing inequality is about levelling the playing field to achieve equality of opportunity. It relates to the social contract between the state and its citizens. While inequality is often cast in economic and social terms, it has important civil and political dimensions, which relate to access to justice, political opportunity and redistribution of wealth and to enable poor people to demand more inclusive and non-discriminatory policies (Tucker & Ludi, 2012).

Over the past decades, inequalities in income distribution and access to productive resources, basic social services, opportunities, markets and information have increased globally and often also within countries. Wealth is even more concentrated than income. On average, the 10% of the wealthiest households hold half of the total wealth, while the poorest 40% hold less than 3% of all assets (OECD, 2015). According to Oxfam, in 2015 the richest 62 individuals on the planet owned as much as the poorest half of humanity (Oxfam, 2016).

The more unequal a society in economic, social and political terms, the fewer women complete higher education, fewer women are represented in government and the pay gap between women and men is wider. Women are more often than men employed in the informal sector, where low wages dominate and job security is lower than in the formal sector. Rising economic inequality is often accompanied by slowed-down or even reversed efforts to achieve gender equality. While the reasons behind inequality between women and men are about more than money, there is no doubt that the overlap between economic inequality and gender inequality is significant (Oxfam, 2014).

In its 2014/15 Global Monitoring Report, the World Bank (World Bank, 2015b) adopted a focus on the performance of the bottom 40% (by income) of the population across all countries. The World Bank proposes a range of measures supporting inclusive and sustainable growth for achieving the twin goals of ending poverty and improving the living standards of the bottom 40% in every country – developed and developing. They focus on policies for maintaining economic growth and stability, investments in education and health, developing well-designed social safety nets, ensuring environmental sustainability and improving the availability and quality of data to monitor progress (*ibid*).

In 2010, UNDP introduced the Inequality-adjusted Human Development Index/HDI (IHDI). It accounts for inequality of human development within a country. The greater the difference between the IHDI and the

HDI, the greater the inequality in that specific country (UNDP, 2010). Globally, the loss in HDI due to inequality is 22.9%. This loss is smallest in Finland (5.5%) and largest in Sierra Leone (44.3%) (Switzerland: 7.7%). People in sub-Saharan Africa suffer the largest losses due to inequality in all three dimensions (33.6%), followed by South Asia (28.7%) and the Arab States (24.9%) and Latin America and the Caribbean (24.5%) (UNDP, 2014).

SDC's understanding of Poverty

As a member of the Development Assistance Committee (DAC) of the OECD, SDC subscribes to the DAC framework of multidimensional poverty (see Figure 1). For over five decades, Switzerland supported the efforts of poorer countries to overcome humanitarian crises and deal with problems of poverty and development. The commitment to support poorer nations and societies is in line with the Federal Constitution's pledge to

"[...] assist in the alleviation of need and poverty in the world and promote respect for human rights and democracy, the peaceful co-existence of peoples as well as the conservation of natural resources." (art. 54)

SDC understands poverty as a result of discrimination, obstacles, exclusion and marginalisation, preventing people from accessing basic necessities for life (Del Pozo, 2004). Poor people are particularly affected by interrelations of economic poverty, social and political exclusion, remoteness and vulnerability to natural disasters. This understanding guides SDC's actions in fighting poverty: (1) empowering the disadvantaged and enhancing their capacity to mitigate disparities and prevent further impoverishment, (2) building the capacities, experiences and skills, (3) establishing political priorities in favour of the poor and disadvantaged, (4) fostering organisations operating in the interests of the poor, (5) working at all levels towards a change in structures and framework conditions leading to the discrimination, impoverishment and exclusion of individuals and social groups, (6) advocating for the poor in the defence of their rights, and (7) confronting the conflicts that may arise when challenging powerful elites in the quest for poverty reduction (*ibid*).

Conclusions

Although there is no single 'correct' definition of poverty, there is consensus that any poverty definition needs to acknowledge particular social, cultural and historical contexts. Depending on the way poverty is defined, policy choices in tackling poverty will differ (Ruggeri-Laderchi et al., 2006). However, it is not only the definition of poverty that will define the most appropriate measures

to fighting poverty, but recognising the dynamic nature of poverty – poverty can be chronic and entrenched, people can fall into poverty or experience increasing levels of impoverishment and people can escape poverty – will provide guidance on the most appropriate policy interventions (Shepherd et al., 2014).

There is less agreement as to whether objective or subjective definitions of poverty matter more. Proponents of participatory approaches point to the need to let people define for themselves what it means to be poor and to define the magnitude, causes and outcomes of their poverty. Participatory definitions of poverty, however, are highly context, space and time-bound. They allow for the formulation of concrete and localised development interventions, but they are less useful in policy formulation at national or international levels.

Data availability might strongly influence how poverty is measured and defined. For many countries, data that allows a monetary definition of poverty is regularly collected through household surveys and national income data. Many of the indicators that would be required to define multidimensional poverty, social exclusion or deprivation in capabilities are unavailable on a regular basis (Ruggeri-Laderchi et al., 2006).

There is evidence that poverty rates differ significantly according to which approach for estimating the number of poor is used. Furthermore, many non-poor households consume only just enough to live above the poverty line, making them highly vulnerable to descend into poverty as a result of stress or shocks (World Bank, 2015a).

Different poverty definitions lead to the identification of different poverty reduction policies: a monetary approach to defining poverty might favour policies that support economic growth in the hope that this will translate to increasing incomes for the poor, while a capability approach might favour the provision of public services such as education and health care. Applying a social exclusion or adverse incorporation approach would point towards addressing the structural determinants of power asymmetries, exploitation, patronage and exclusion.

Considering the progress made so far in reducing poverty, but also taking account of the challenges encountered, the OECD proposes the following themes that should be part of any post-2015 framework aiming to end poverty for good (OECD, 2013):

- › Link poverty, inequalities and social cohesion
- › Strengthen multidimensional measures of poverty
- › Integrate poverty and environmental objectives
- › Set global goals, but recognise national realities
- › Strengthen statistical capacities
- › Improve co-operation and finance for poverty reduction.

Acknowledgement

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Further Reading and references can be found on the poverty-wellbeing shareweb (section "Addressing poverty in practice – Understanding poverty"):

<https://www.shareweb.ch/site/Poverty-Wellbeing>