



This Briefing Note is part of a series addressing issues surrounding poverty and poverty reduction. They have been produced for SDC, its partners and interested development practitioners and offer an overview of the current debates. An introduction to the full series can be found at [www.poverty-wellbeing.net](http://www.poverty-wellbeing.net).

## Brief No 1 – Understanding Poverty

*Eva Ludi and Kate Bird, September 2007*

### 1. What is poverty?

‘What is poverty? Who asks? Who answers?’ asks Robert Chambers, a leading researcher on poverty and development in a recent paper (2006). There is ambiguity as to how the term ‘poverty’ is used. It depends partly on different disciplinary traditions, but also on different world views and ideologies.

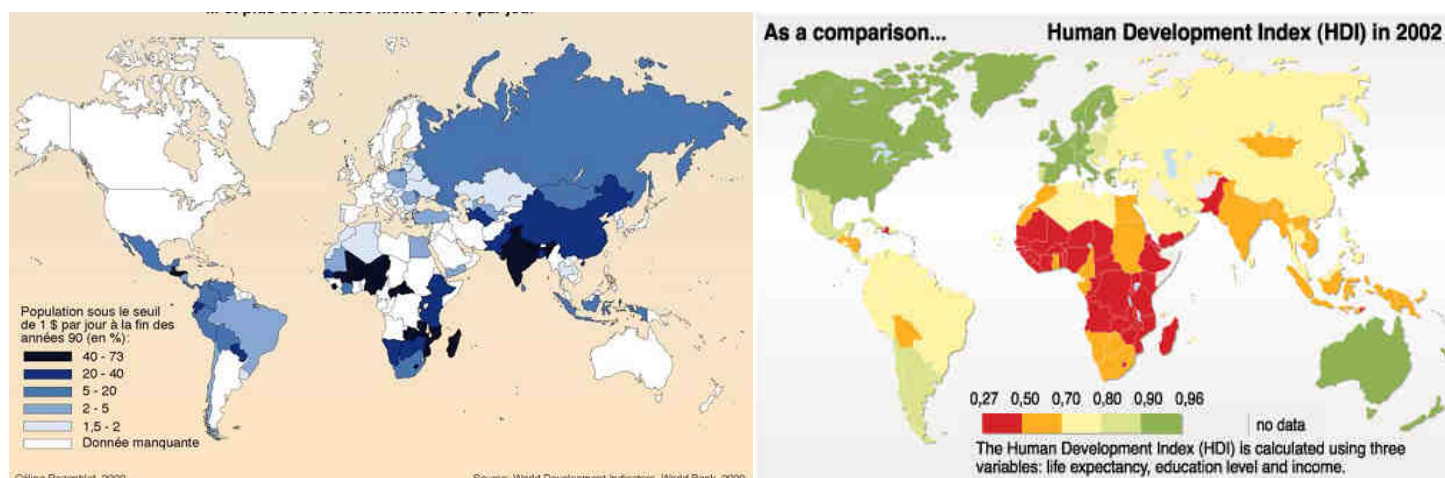
Poverty is described in different ways. Historically, poverty has been related to income, which still remains the core of the concept today. It has evolved from the 19th century idea about ‘subsistence needs’ – what a person needs to survive, to the mid-20th century conceptualisation of lacking ‘basic needs’, extending the subsistence idea by also including basic facilities and services such as healthcare, sanitation and education, to the late 20th century understanding of poverty as ‘relative deprivation’, including of income and other resources, as well as social conditions.

These different ways of looking at poverty are reflected today in how global poverty is described and presented

(see Section 2 for a discussion of alternative approaches to define and measure poverty). The following figures illustrate this. To the question ‘What is poverty?’, the World Bank might answer that the poor are those living below US\$1 per person per day. UNDP might respond that the poor are those who live in an environment that does not allow them to develop their full potential.

People are poor when they cannot lead a productive and creative life in accordance with their needs and interests. Enlarging their choices through building human capacities is seen as a way out of poverty – expressed as leading a long and healthy life, being knowledgeable, having access to the resources needed for a decent standard of living and being able to participate in the life of the community. The two above indicators are related to each other – as incomes rise, human development indicators also tend to increase. However, countries can have an average HDI because they are providing social services such as health and education to poor people, while at the same time a relatively large portion of the population lives below the poverty line of US\$1 per day, as the example of China illustrates.

**Figure 1: Who is under the US\$ 1/day poverty lines and how this compares with the Human Development Index**



(Source: [www.povertymap.net](http://www.povertymap.net))

To the question 'What is poverty?', a government employee in Bangladesh might answer that the 'absolute poor' are those whose calorie intake is less than 2,122 kcal per person per day, whereas the 'hard-core poor' are below 1,805 kcal per person per day (Asra and Santos-Francisco, 2001).

If the same question is posed to a poor woman in Uganda, the answer might be the following:

*'When a woman is poor, she has no say in public, she feels inferior. She has no food, so there is famine in her house; no clothing, and no progress in her family.'*

(Source: World Bank, 2006b)

These few examples already demonstrate that there is a wide range of definitions of poverty. Chambers (2006: 3-4) clusters poverty definitions into five 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 we can or cannot do, or can or cannot be. This goes well beyond material lack or want 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.

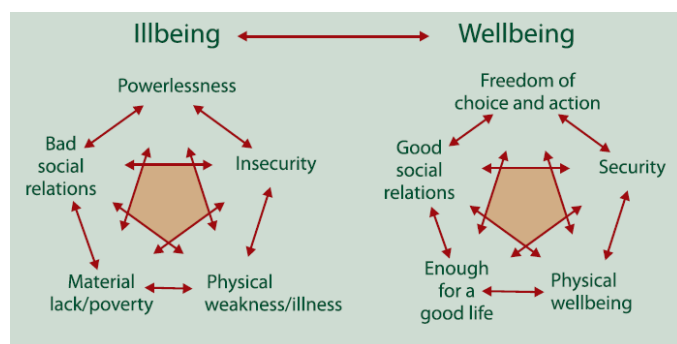
These four dimensions of poverty have all been constructed by 'us' – development professionals. They are normative in the sense that they reflect what professionals identify development should attempt to achieve – 'good change' shifting from ill-being to well-being (see Figure 2).

But, according to Chambers, these four dimensions are all abstractions, to a varying degree reductionist, based on 'our' analysis and view. They tend to overlook the analysis and view of poor people themselves – people who are variously described as poor, marginalised, vulnerable, excluded or deprived. Thus, Chambers stresses the need for the fifth cluster:

- The multiplicity of the meanings of poverty identified by the poor themselves.

A participatory research programme by the World Bank, 'Voices of the Poor', came to a striking set of common dimensions of poverty and well-being across cultures and contexts: well-being and a good life included material well-being (having enough), bodily well-being (being and appearing well), many aspects of social well-being (e.g. being able to settle children, being able to help others), security, and freedom of choice and action (Narayan et al., 1999).

**Figure 2: Development as good change – from ill-being to well-being**



(Source: Chambers, 2006: 4)

## 2. Alternative approaches to defining and measuring poverty

This section describes some of the approaches used to define and measure poverty. These will be expanded on in Briefs 2 and 3, which discuss aspects of multidimensional poverty as perceived by the poor themselves and by development practitioners (Brief No. 2), and risk and vulnerability as drivers and maintainers of poverty (Brief No. 3).

### 2.1. Absolute definition of poverty

Absolute definitions of poverty are based on income (or consumption) in relation to a specific living standard or basic need:

*'A person is considered poor if his or her consumption or income level falls below some minimum level necessary to meet basic needs ("poverty line")'*

(Source: World Bank PovertyNet)

The monetary approach to measuring poverty is the most commonly used. It uses calculations of household income (including own production and expenditures per capita) to identify a shortfall in consumption (or income) from a specified **poverty line**. In 1990, the poverty line for developing countries was set by the World Bank at a per capita income of US\$370 – the 'dollar a day' poverty line (see Figure 1, left). However, the Bank recognises that what is necessary to satisfy basic needs varies across time and place. Therefore, poverty lines vary, with each country usually calculating two or more poverty lines. These take into account differences in purchasing power parity (e.g. urban/rural), local levels of development (identified through the basic basket of goods used to calculate the higher poverty line) and societal norms and values. Generally, a **lower** poverty line is set, which monetises the minimum calories necessary to maintain a healthy life. The **upper** poverty line adds to the lower one the value of a basic basket of goods and services deemed necessary for a healthy life, typically including the costs of basic clothing, shelter and accessing services such as education and health.

The percentage of the population in income poverty can be assessed by identifying those below the poverty line (the **poverty 'headcount'**). The depth of poverty in a country can be assessed using the **'poverty gap'** measure. This estimates the distance that poor people are from the poverty line, indicating the resources needed to raise the incomes or consumption levels of all poor people to enable them to move above the poverty line.

Even if a country adopts a number of regional (upper and lower) poverty lines, problems remain with the accuracy of the poverty line. The choice of the minimal calorific threshold depends on the metabolic rate, activity, size, gender and age of individuals. Moreover, differing tastes, food availability and prices all affect how much money is needed to secure a particular level of nutrition. Countries may set their poverty line at a low level, in an attempt to mask high levels of poverty, or may fail to vary them when inflation (or other factors) pushes the prices of basic goods and services up.

While the Bank considers income measures of poverty an adequate yardstick to assess standards of living, it recognises that this cannot capture other dimensions of welfare such as health, life expectancy, literacy or access to public goods or common property resources, which are generally part of multidimensional definitions of poverty.

## 2.2. Multi-dimensional definitions of (relative) poverty

Townsend, a leading scholar on poverty and social exclusion in Europe, described poverty as a complex phenomenon composed of both an absolute lack of goods and services and an individual's (or household's) relative place in society.

*'Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved of, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns and activities.'*

(Source: Townsend, 1979: 31, cited in Lister, 2004: 21)

This corresponds roughly with the second (material lack or want) and third (capability deprivation) clusters of the meaning of poverty as defined by Chambers.

In its final declaration, the World Summit for Social Development (Copenhagen, 1995) 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. It occurs in all countries: as mass poverty in many developing countries, pockets of poverty amid wealth in developed countries, loss of livelihoods as a result of economic recession, sudden poverty as a result of disaster or conflict, the poverty of low-wage workers, and the utter destitution of people who fall outside family support systems, social institutions and safety nets. Women bear a disproportionate burden of poverty, and children growing up in poverty are often permanently disadvantaged. Older people, people with disabilities, indigenous people, refugees and internally displaced persons are also particularly vulnerable to poverty. Furthermore, poverty in its various forms represents a barrier to communication and access to services, as well as a major health risk, and people living in poverty are particularly vulnerable to the consequences of disasters and conflicts. Absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services.'*

(Source: UN, 1995)

This stresses the multidimensionality of poverty; it combines absolute and relative notions; and points to the need to differentiate poor people, by gender, age, occupational status, origin or ethnicity. However, it does not provide much guidance on targeting and policy.

## Human development/poverty indices

The UNDP **Human Development Reports** have developed aggregate indices for human development. These indices are helpful for mapping differences between countries and over time, but they mask inequalities within countries.

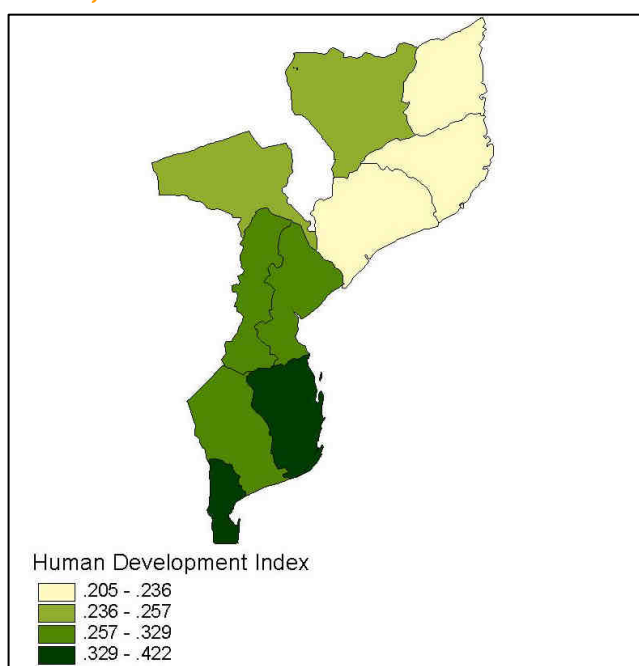
The **Human Development Index (HDI)** is 'based on three indicators: longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of the adult literacy rate and the combined gross primary, secondary and tertiary enrolment ratio and standard of living, as measured by GDP per capita (PPP US\$)' (UNDP, 2006: 394). UNDP specifically mentions that the HDI is not in any sense a comprehensive measure of human development, as it does not include important indicators such as respect for human rights, democracy or inequality. The HDI does not define a threshold, but three levels of achievement in human development: high (HDI of 0.800 and above), medium (0.500–0.799), and low (less than 0.500). It allows for analysing changes over time to explore how individual indices have improved or declined. It also allows for cross-country comparisons or how a specific country relates to the world average, which in 2004 was 0.741 (UNDP, 2006: 286)

The **Human Poverty Index (HPI)** was developed in 1997 and is calculated using separate formulae for developed and developing countries. While the HDI measures average achievement, the HPI-1 (for

developing countries) measures deprivation in the following three dimensions (UNDP HDR, 2006: 395):

- A long and healthy life – vulnerability to death at a relatively early age, as measured by the probability at birth of not surviving to age 40.
- Knowledge – exclusion from the world of reading and communications, as measured by the adult illiteracy rate.
- A decent standard of living – lack of access to overall economic provisioning, as measured by the unweighted average of two indicators, the percentage of the population without sustainable access to an improved water source and the percentage of children underweight for age.

**Figure 3: HDI in Mozambique at provincial levels, 1999**



(Source: UNDP, 2000)

Disparities within countries can be significant. Increasingly, country-level HDRs are produced and the HDI is calculated at provincial levels. For example, the HDI at national level for Mozambique was 0.323 in 1999. The HDI for the same year at provincial levels, however, ranged between 0.205 and 0.422 (see Figure 3). This information is useful for targeting development interventions to those regions where human development is low.

#### **Box 1: Absolute and relative poverty**

**Absolute poverty:** A measure of absolute poverty quantifies the number of people below a poverty threshold. This poverty threshold is independent of time and place and is the same across all countries.

**Relative poverty:** Classifies people as poor not by comparing them with a fixed poverty line, but by comparing them with others in the population under study.

### **2.3. Capability and functioning deprivation**

Most poverty definitions look at ‘inputs’ rather than outcomes. Knowing the level of a household’s income does not tell much about well-being. Amartya Sen has contributed to this thinking by developing ideas about ‘capabilities’ and ‘functionings’ describing poverty as a ‘denial of choices and opportunities for living a tolerable life’ (in Lister, 2004: 15).

‘Functionings’ refer to what a person **actually manages to do or be**; they range from elementary nourishment to more sophisticated levels, such as participation in community life and achievement of self-respect. ‘Capabilities’ denote what a person can do or be, that is, the **range of choices** open to her. Critical here is the freedom people enjoy ‘to choose between different ways of living that they can have reason to value’.

Deprivation in capabilities is the result of lack of opportunities – signifying that society has not provided people with access to the means to develop or maintain essential human capabilities. To measure deprivation in capabilities, indicators should be used that directly reflect capability shortfalls (e.g. ill health, illiteracy, low weight).

Problems arising in interpreting the capability approach to measure poverty relate to (i) the definition of basic capabilities, (ii) their measurability, (iii) thresholds for defining poverty lines, and (iv) aggregation (Ruggeri Laderchi et al., 2006). Of these, the most fundamental are the definition of basic capabilities and the definition of thresholds. Sen did not provide a specific list of minimally essential capabilities or guidelines for drawing up a universal list. There have been attempts to define minimal essential capabilities; these commonly include aspects of nutrition, health and education – broadly the same as those identified in Basic Needs Approaches or included in the Human Development (Poverty) Index. Poverty lines are similarly difficult to construct, and dimensions and cut-off standards are somewhat arbitrary. They are likely to be adapted to specific country contexts at specific times. Although more difficult to conceptualise, capability approaches to poverty draw attention to a much wider range of causes of poverty and options for policies than the monetary approach (Ruggeri Laderchi et al., 2003).

### **2.4. Social exclusion and adverse incorporation**

Monetary and capability approaches to poverty both, in principle, take an individualistic perspective. In contrast, the concept of **social exclusion** describes a process of marginalisation and deprivation, and is closely related to power and powerlessness. It focuses on the processes and dynamics 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 marginalised 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.

Recent research has challenged the notion of social exclusion, and has advanced the concept of **adverse incorporation**. This emphasises that exclusion is not the only danger for poor people. They may be very much included in social, economic and political systems – but in a way that is to their detriment. The way in which poor people are included (incorporated) can be damaging (adverse). So, 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, they may have complex relationships with ‘patrons’ that reinforce their socially inferior position, and they may vote and be nominally part of a democratic state, but one which does not truly represent their interests.

Evidence suggests that social exclusion and adverse incorporation may operate simultaneously and with different effects. An individual may be excluded from receiving a particular service and at the same time be incorporated economically. The exclusion may influence the nature of incorporation and vice versa (Shepherd, 2006; du Toit and Hickey, 2006).

### 3. Conclusions

**There is no single ‘correct’ definition of poverty.** There is, however, consensus that any poverty definition needs to acknowledge particular social, cultural and historical contexts. Also, there is consensus that policy implications differ according to the way poverty is defined (Ruggeri Laderchi et al, 2006: 10-11).

There is a general agreement that poverty needs to be understood at the individual rather than the household level, but that an insight into an individual’s position within the household is essential in view of understanding dimensions and causes of disadvantage. There is also agreement that a person’s poverty status is unlikely to be static and that people move in and out of poverty. Increasingly, there is consensus that poverty is multidimensional, encompassing all important human requirements.

There is less agreement as to whether objective or subjective definitions and measurements of poverty are more valid. 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 and causes and outcomes of their poverty. Participatory approaches to define poverty, however, are highly context, space and time-bound. They are essential for designing concrete and localised development interventions, but are less helpful in policy formulation at national level, as findings cannot be easily scaled up.

Data availability might influence greatly how poverty is measured and defined. Currently, for many countries, data are available at regular intervals for the measurement of monetary poverty (e.g. household

consumer surveys, national income data). In contrast, data for different types of capability poverty are unavailable on a regular basis and rely on surveys, with some capabilities not measured at all and others with deficient indicators. There are similar data deficiencies with respect to dimensions of social exclusion (Ruggeri Laderchi et al., 2006).

#### **Box 2: SDC’s understanding of poverty**

##### **Poverty results in discrimination, obstacles and exclusion**

- In satisfying the basic necessities of life;
- In the use and development of an individual’s physical and human potential, capacities and creativity;
- In seizing the opportunities and choices for fashioning a fulfilling and dignified life;
- In the realisation of one’s aspirations;
- From participating in the formulation and decision-making stages of the social, political and economic transformation process.

##### **Fighting poverty** therefore means:

- Empowering the disadvantaged and enhancing their capacity to mitigate disparities and to stop the advance of impoverishment;
- Building on the capacities, experiences, and potentials of the disadvantaged;
- Establishing priorities in favour of the poor and disadvantaged, and in so doing recognising their point of view and respecting their priorities;
- Fostering organisations operating in the interest of the poor;
- Working at all levels – national as well as multilateral – towards a change in the structures and framework conditions leading to the discrimination, impoverishment, and exclusion of individuals and social groups;
- Encouraging effective poverty reduction policies;
- Advocating for the poor in the defence of their rights and in the denunciation of the misuse of power;
- Confronting the conflicts which may emerge in aligning ourselves with the poor and disadvantaged, and helping to deal with them by peaceful means in the interest of the disadvantaged;
- Utilising disasters, crises, and conflicts also as an opportunity for a new start and a new design of possibilities.

(Source: SDC, 2004)

There is evidence that poverty rates differ significantly according to which approach for estimating the number of poor is used. In India, for example, using the national poverty line, monetary poverty was 38% and was below capability poverty: 52% of adults were education poor (illiterate) and 70% of the under-13 years old were

undernourished. This has serious implications for **targeting and policy**. Targeting that operationalises one definition of poverty might involve serious targeting errors in relation to other types. Different poverty definitions also lead to the identification of different poverty reduction policies: the monetary approach might suggest income growth through overall economic growth or redistribution, while a capability approach might favour the provision of public goods such as health and education services. Applying social exclusion and adverse incorporation approaches will draw attention to addressing the structural determinants of power asymmetries, exploitation, patronage and exclusion.

Considering the multidimensional nature of poverty, the OECD (2001) therefore proposes a strategy for the effective and sustainable reduction of poverty that includes a number of complementary policy elements:

- Pro-poor economic growth;
- Empowerment, rights and pro-poor governance;
- Basic social services for human development;
- Human security: reducing vulnerability and managing shocks;
- Mainstreaming gender and enhancing gender equality; and
- Mainstreaming environmental sustainability using sustainable livelihood approaches.

Such a strategy intends to combine aspects of different poverty definitions: addressing monetary poverty through supporting pro-poor economic growth, capability deprivation through providing basic social services and social exclusion via empowering poor people. Identifying the most appropriate entry points for interventions and policy in a concrete context can be supported by approaches to poverty analysis such as those described in Sustainable Livelihood Frameworks (see Briefing Paper on 'Using the Sustainable Livelihoods Framework to Understand and Tackle Poverty', Ludi and Slater, 2007), which guide a people-centred and holistic analysis of poverty and enable agencies to develop flexible and locally appropriate responses.

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