

POVERTY

What is poverty?

Poverty is a social and economic condition which touches men, women, and children throughout the world, in urban areas as well as rural areas. Because it is so widespread, poverty takes on many forms. The 2002 Least Developed Countries Report by UNCTAD (UN Conference on Trade and Development) defines poverty as the **inability to achieve minimally adequate levels of consumption**, which entails a **lack of basic necessities for physical survival** (food, water, clothing, and shelter). The Program of Action of the World Summit for Social Development in 2002 defines poverty as being characterized by:

- 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 services
- increased mortality from illness, homelessness and inadequate housing
- social discrimination and exclusion
- lack of participation in decision-making
- lack of participation in civil, social, and cultural life.

It defines *absolute poverty* as being characterized by severe deprivation of basic human needs (for food, safe drinking water, sanitation facilities, health, shelter, education, and information).¹

Poverty and inequality

Poverty is inextricably linked to economic, social and political inequality.

The poor are more vulnerable to events they cannot control. They are less able to diversify their income sources. They are more likely to suffer from famine, violence, and natural disasters. They have lower access to credit markets and insurance, with which to smooth out their consumption. Their children risk exploitation, and are less likely to become educated.²

Where is poverty? The geography of poverty

The Third World

Poor people live in poor countries. The countries ranging from low-income to upper-middle-income countries are grouped under the broad category “third world”, “the South” or “developing world” which refers to Latin America and the Caribbean, Africa, Asia (except for Japan), and Eastern Europe. (The developed world is comprised of Western Europe, North America, Japan, Australia, and New Zealand.)

The LDCs (least developed countries): 85% of the world’s poor people³

The LDCs are 49 countries identified by the UN in 1971 as “least developed” in terms of their low GDP per capita, their weak human assets (as given by a composite index), and their high degree of economic vulnerability (as also given by a composite index).

¹ “Program of Action of the World Summit for Social Development”, *World Summit for Social Development 2002*, www.earthsummit2002.org/wssd/wssd/wssdr4.htm.

² “Poverty Traps”, <http://elsa.berkeley.edu/~chad/azstach.pdf>

³ “Rural Poverty Report 2001”, IFAD, http://www.ifad.org/poverty/e_sum.pdf.

The LDCs are the "poorest and most economically weak of the developing countries, with formidable economic, institutional and human resources problems, which are often compounded by geographical handicaps and natural and man-made disasters". These 49 least developed countries have a combined population of some 560 million people, or approximately 10% of the world's population but only 0.1% of the world's income.⁴ 34 of these countries are African.

Africa, the world's poorest region

Although Asia is home to the largest number of poor people in the world, Africa has the largest number of poor people in relative terms.

Nearly ½ of the African population (300 million people) lives on less than \$1 a day. Approximately ¼ of all the world's people who live on less than \$1 a day live in Africa. More than **300 million** people in Africa do not have access to clean water. More than **44 million** primary-schooled aged children are out of school.

Who is hit hardest by poverty?

***people in rural areas**

In the world's poorest countries, more than 75% of the population lives in rural areas, depending on agriculture for work and income. (In Africa and Asia, 80% of poor people live in rural areas and in Latin America, 50% of poor people live in rural areas.⁵)

Of the 800 million people worldwide suffering from chronic malnutrition, the vast majority live in rural areas of developing countries.⁶

The International Fund for Agricultural Development (IFAD) has identified several characteristics of the rural poor: they live in remote areas, cultivate dry and marginal lands, are illiterate, have large families and high mortality, and suffer from hunger and disease.⁷

The global distribution of rural poverty:

- 44% of the world's rural poor live in South Asia
- 24% in East Asia
- 24% in sub-Saharan Africa
- 6.5% in Latin America and the Caribbean⁸

***women and children**

Virtually everywhere, women and children are discriminated against and experience the harshest deprivation. They are more likely to be poor and malnourished and less likely to receive medical services, clean water, and sanitation. (In India, girls are 4 times more likely to suffer from acute malnutrition than boys who are 40 more likely to be taken to a hospital when ill.) Women also have less access to education, formal-sector employment, social security, and government employment programs. Women's financial resources are meager and unstable relative to men's. Thus the poorest segments of LDC populations live in households headed by women in which there are generally no male wage earners.⁹

***indigenous peoples and ethnic minorities**

⁴ "The Geography of Poverty", <http://www.un.org/esa/socdev/poverty/subpages/dpi1782e.htm>.

⁵ Michael P. Todaro and Stephen C. Smith, *Economic Development*, 9th ed. (Addison Wesley, 2006), 227.

⁶ "The Geography of Poverty", <http://www.un.org/esa/socdev/poverty/subpages/dpi1782e.htm>.

⁷ "Rural Poverty Report 2001: Key Messages", <http://www.ifad.org/poverty/presentation/1.htm>.

⁸ "Rural Poverty Report 2001", http://www.ifad.org/poverty/e_sum.pdf.

⁹ Michael P. Todaro and Stephen C. Smith, *Economic Development*, 9th ed. (Addison Wesley, 2006), 227-229.

Approximately 40% of the world's countries have more than five sizable ethnic populations, one or more of which faces serious economic, political and social discrimination.¹⁰ Worldwide, there are 300 million indigenous peoples over 5,000 different groups in more than 70 countries.¹¹ Indigenous people represent 5% of the global population, but comprise about 15% of all the poor people in the world¹² and about 1/3 of the world's 900 million extremely poor rural people.¹³

*The case of Latin America

The inequality between indigenous and non-indigenous people is especially prominent in Latin America where indigenous peoples represent 10% of the region's population and its largest disadvantaged group.¹⁴ In Latin America, being indigenous greatly increases the chances than an individual will be malnourished, illiterate, in poor health and unemployed:

- In Mexico, 80% of the indigenous population is poor (compared with 18% of the non-indigenous population).¹⁵
- In Peru, 43% of all poor households are indigenous.
- In Ecuador, poverty among indigenous people is about 87% and reaches 96% in the rural highlands.¹⁶

Causes of poverty

Poverty is a shocking condition, but it is also a complex phenomenon that can have causes at the individual level, societal level, country level, and at the international level. The causes of poverty are social, political, economic, and geographic.

The many causes of poverty include:

- absence of infrastructure or poor infrastructure
- lack of opportunities
- lack of social integration
- crime
- natural disasters
- natural factors such as climate or environment
- overpopulation
- war, genocide
- lack of education
- exploitation of the poor by the rich
- geographic factors
- government corruption
- lack of democracy
- disease (AIDS, malaria, tuberculosis)
- inadequate nutrition
- social discrimination

¹⁰ Michael P. Todaro and Stephen C. Smith, *Economic Development*, 9th ed. (Addison Wesley, 2006), 231.

¹¹ "Indigenous Peoples", <http://www.ifad.org/pub/factsheet/ip/e.pdf>.

¹² "Indigenous peoples and rural poverty", <http://www.ruralpovertyportal.org/english/topics/indigenous/index.htm>.

¹³ "Indigenous peoples", <http://www.ifad.org/pub/factsheet/ip/e.pdf>.

¹⁴ "Indigenous Peoples, Poverty and Human Development in Latin America: 1994-2004", <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:20505834-pagePK:146736-piPK:146830-theSitePK:258554,00.html>

¹⁵ Michael P. Todaro and Stephen C. Smith, *Economic Development*, 9th ed. (Addison Wesley, 2006), 231.

¹⁶ "Indigenous Peoples, Poverty and Human Development in Latin America: 1994-2004" <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:20505834-pagePK:146736-piPK:146830-theSitePK:258554,00.html>

- substance abuse
- cost of living
- national debt
- lack of hygiene and access to sanitation
- lack of access to credit
- lack of access to land

It is important to keep in mind that poverty rarely has one cause but rather many interconnected ones, and that many socio-economic situations (such as lack of education or lack of hygiene) are both causes and consequences of poverty. Poverty can be a self-perpetuating condition.

The poverty trap

With the technology we have developed, with enough food to feed everyone, enough medicine to cure everyone from treatable diseases, why does poverty still exist? Poverty persists because whole countries around the world are caught in **poverty traps**.

A poverty trap is a self-reinforcing mechanism which causes poverty to persist. A poverty trap is in place when the evolution of individual wealth or well-being is governed by a path-dependent process such that depending on initial conditions, individuals, nations or other groups remain for long periods of time (if not indefinitely) "locked into" poverty¹⁷ and suffer from persistent underdevelopment¹⁸. The mechanisms which reinforce poverty may occur at any scale of social and spatial aggregation, from individuals to families, communities, regions, and countries. Traps can arise not just across geographical location such as national boundaries, but also within dispersed collections of individuals affiliated by ethnicity, religious beliefs or clan¹⁹.

Jeffrey Sachs is perhaps the economist who has best brought to light and analyzed the poverty trap which paralyzes the world's poorest countries.

He explains that being caught in a poverty trap means struggling to live, struggling to eat, day by day, with no surplus money to invest in the future, and therefore no hope out getting out of the cycle of poverty. At country level, being ensnared in a poverty trap means lacking "the financial means to make the necessary investments in infrastructure, education, healthcare systems, and other vital needs."²⁰

Because of this trap, the poorest countries are caught in a "downward spiral of disease, violence, impoverishment, unpayable debt and ecological catastrophe".

The UN Millennium Project, coordinated by Jeffrey Sachs, has issued a paper on Africa's poverty trap in 2004. The paper identifies "five structural reasons that have made sub-Saharan Africa the most vulnerable region in the world to a persistent poverty trap:

- very high transport costs and small market size
- low-productivity agriculture
- a very high disease burden
- adverse geopolitics
- very slow diffusion of technology from abroad."

Because of these five structural problems, rural Africa "is basically unable to generate enough of an economic surplus above survival levels that could be invested sufficiently to overcome these conditions." Thus, "tropical Africa, even the well-governed parts, is stuck

¹⁷ "Poverty Traps", Santa Fe Institute, <http://discuss.santafe.edu/povertytraps/>.

¹⁸ "Poverty Trap", <http://www.faculty.econ.northwestern.edu/faculty/matsuyama/Poverty%20Traps.pdf>

¹⁹ "Poverty Traps", <http://elsa.berkeley.edu/~chad/azstach.pdf>.

²⁰ Jeffrey Sachs, "Getting Through the Bottleneck", *Our Planet*, February 2003, <http://www.ourplanet.com/imgversn/134/sachs.html> (accessed November 12, 2006).

in a poverty trap, too poor to achieve robust, high levels of economic growth and, in many places, simply too poor to grow at all."²¹

An Oxfam briefing paper entitled "The Rural Poverty Trap" (published in August 2006) shows how the 96% of the world's farmers who live in developing countries face handicaps in every aspect of agricultural trade compared with people in the industrialized world. Essentially, the agricultural sectors of the world's poorest countries are left with no chance to grow, seeing that local producers are facing increasing difficulties in selling their products because of export dumping by productive countries and import barriers imposed by these same countries, and when they succeed in selling their produce, they face tariffs, unstable prices, and declining market shares.²²

(For more information on how economic forces and mechanisms create a poverty trap, see: <http://www.unmillenniumproject.org/documents/BPEAEndingAfricasPovertyTrapFINAL.pdf> <http://www.faculty.econ.northwestern.edu/faculty/matsuyama/Poverty%20Traps.pdf>)

Global poverty

- 4 billion people live in the developing world
- 1.2 billion people live on less than \$1 a day. An additional 2 billion people live on less than \$2 a day
- 800 million people suffer from hunger
- 30 million people die from hunger every year
- 1/5 of the world's children receive an insufficient intake of calories or protein
- 18 million people die each year of poverty-related causes =1/3 of deaths worldwide
- 16% of the people on the planet live without clean drinking water
- 34% are without access to sanitation
- 16% live in inadequate housing
- 14% live without healthcare services of any kind
- More than 110 million children are out of school
- 94% of the world income goes to 40% of the world population, while 60% of people live only with 6% of the world income.²³

Measuring poverty

- GNP per capita and GDP per capita

GDP is the total value of goods and services produced in the economy during a given period.

GNP is the value of total incomes earned by domestically based producers and factors of production. GDP is used to measure domestic economic activity. GNP is better as a measure of the income of domestic residents.

The problem of such indicators is that they are not an adequate measure of the well-being of people. Not only does it not take into account income distribution, but it does not always succeed in giving a sense of the way people are living: they could be earning a sufficient income but may have no access to healthcare, sanitation, or education in a disintegrating environment.

²¹ "Ending Africa's Poverty Trap." *Brookings Papers on Economic Activity* (2004). 12 Nov. 2006 <http://www.unmillenniumproject.org/documents/BPEAEndingAfricasPovertyTrapFINAL.pdf>.

²² Tom Lines, Gonzalo Fanjul, Penny Fowler, and Celine Charveriat. *The Rural Poverty Trap*. Oxfam. 2006. 1 Nov. 2006 http://www.oxfam.org/en/files/bp59_unctad_rural_poverty_trap.pdf.

²³ Mohammed Yunus, Nobel lecture (Oslo City Hall, Norway, December 10, 2006)

- Human Development Index (HDI)

Introduced in the first UN annual Human Development Report, the HDI is a composite index which attempts to measure a country's level of human development.

It measures the average achievements in a country in three basic dimensions of human development:

- health: as measured by life expectancy at birth
- knowledge: as measured by the adult literacy rate and the combined primary, secondary, and tertiary enrolment ration
- standard of living: as measured by GDP per capita (PPP US\$)

A country can have a relatively low income per capita but a relatively high HDI.

In 2005, the world's five most livable countries (Norway, Iceland, Australia, Luxemburg, Canada) were not the countries with the highest income per capita.

- Human Poverty Index (HPI)

The UNDP defines the HPI as "a composite index measuring deprivations in the three basic dimensions captured in the human development index – a long and healthy life, knowledge and a decent standard of living – and also capturing social exclusion."

Two versions of the HPI have successively been developed: the HP-1, which is more relevant for low-income countries and the HP-2, introduced more recently, which is used for the more advanced OECD countries.

*For developing countries (HP-1), indicators used are:

- probability at birth of not surviving to age 40 (%)
- adult illiteracy rate (%)
- population without sustainable access to an improved water source (%)
- children underweight for age (%)
- population below income poverty line (%)

*For industrialized countries (OECD, Central and Eastern Europe, and CIS) (HPI-2, released in 1998), indicators used are:

- probability at birth of not surviving to age 60 (%)
- population lacking functional literacy skills (%)
- long-term unemployment (12 months or more) (% of labor force)
- population below income poverty line (50% of the median adjusted to household disposable income)

Poverty lines

A poverty line is the level of income below which one cannot afford to purchase all the resources required to live.

The international \$1-a-day standard was introduced in the World Bank *Development Report 1990: Poverty*. "Living under \$1 a day" means having a total daily consumption of goods and services comparable to the amount of goods and services that can be bought in the US for \$1. According to the World Bank, there is "no uncertainty that an international poverty line measures the degree of deprivation across countries".²⁴

However, there are problems with the \$1 poverty line as there are several aspects of poverty it does not take into account or fails to show:

-It can be argued that having an income marginally above the poverty line is not substantially different from having an income marginally below it, since the negative effects of poverty tend to be continuous rather than discrete.

-It does not take into account cost of living differentials within countries. \$1 will buy different amounts of goods in urban and rural areas.

²⁴ "The problem of comparing poverty", http://www4.worldbank.org/afr/poverty/measuring/cross_country_comparing_en.htm

-It only values goods which are delivered on the market. In many poor countries people grow and rear food and animals for their own consumption, a process which is not captured by measures of income and consumption based on the measurements of the purchase of goods sold as commodities.²⁵

How does poverty affect us?

In our increasingly connected world, can we truly feel the effects of widespread poverty in countries far away?

-poverty and instability

Various experts on poverty have emphasized the correlation between poverty and instability.

*Jeffrey Sachs: Terrorists' "staging areas [...] are unstable societies beset by poverty, unemployment, rapid population growth, hunger and lack of hope. Without addressing the root causes of that instability, little will be accomplished in stanching terror."

There are "strong linkages between extreme poverty abroad and the threats to national security. Poverty abroad can indeed hurt us at home, and has repeatedly done so."²⁶

*Mohammed Yunus: "Poverty is a threat to peace."

"Peace is threatened by unjust economic, social and political order, absence of democracy, environmental degradation and absence of human rights. [...] The frustrations, hostility and anger generated by abject poverty cannot sustain peace in any society. For building stable peace, we must find ways to provide opportunities for people to live decent lives."²⁷

*The British Department for International Development has found a strong correlation between poverty and insecurity. "All other things being equal, a country at \$250 GDP per capita has an average 15% risk of experiencing a civil war in the next five years. At a GDP per capita of \$5,000, the risk of civil war is less than 1%". Additionally, "inequality and exclusion exacerbate insecurity. Where ethnic minorities are subject to political discrimination, conflict is ten times more likely to occur."²⁸

-poverty and environmental degradation

Poverty is forcing people to damage their environment (by cutting down trees, polluting water supplies, killing rare animals for food), adding to the global environmental crisis which affects us all.

-poverty and its costs

Hunger and malnutrition is costing \$951 per second (or \$2.6 billion per year) in direct costs. The direct and indirect costs of hunger and malnutrition amount to \$4,756 per second (or \$13 billion per year)²⁹.

"No society can surely be flourishing and happy, of which by far the greater part of the numbers are poor and miserable."

-- Adam Smith

²⁵ United Nations Development Program, Human Development Report 1997, Oxford 1997.

²⁶ Jeffrey Sachs, *The End of Poverty* (New York: Penguin Press, 2005), 330-331

²⁷ Mohammed Yunus, Nobel lecture (Oslo City Hall, Norway, December 10, 2006)

²⁸ "Fighting poverty to build a safer world: a strategy for security and development", Department for International Development. (<http://www.dfid.gov.uk/pubs/files/securityforall.pdf>)

²⁹ Medard Gabel, "Eliminating Hunger", <http://www.bigpicturesmallworld.com/movies/hunger/hunger1.html>

Do solutions exist?

The solutions suggested to eradicate poverty depend on the attributions that are made as to the causes of the problem. If the origins of poverty are attributed to the unfair international trading system, then the solutions will be targeted to the international arena. Many of the suggestions that have been made are tinted by ideology, so to some extent, the solutions proposed depend on ideology.

*international solutions:

- increase development aid
- reform the international trading system via the WTO
- reform the international financial institutions (IMF and World Bank)
- coordinate the achievement of the Millennium Development Goals set by the UN member countries in 2000
- create "a true and formidable international agency on behalf of women as part of the multilateral UN system"³⁰, as Stephen Lewis has suggested
- fair trade

Fair trade, as it was defined by the world's main fair trade networks, is a "trading relationship based on dialogue, transparency and respect, that seeks greater equity in international trade". Marketers in high-income countries work with economically marginalized producers from low-income countries helping them to move from a position of vulnerability towards economic self-sufficiency. It aims not only at empowering disadvantaged producers but more largely at playing an active role in the global arena to achieve greater equity in international trade and pave the way for an alternative approach to international commerce which embraces human and social development, and sustainable development values.

*country-level solutions:

-Jeffrey Sachs' "Quick Wins" within the framework of the MDGs

The Quick Wins include:

*Eliminating school and uniform fees.

- Providing impoverished farmers in sub-Saharan Africa with affordable replenishments of soil nitrogen and other soil nutrients.
- Providing free school meals for all children using locally produced foods with take-home rations.
- Designing community nutrition programs for pregnant and lactating women and children under five that support breastfeeding, provide access to locally produced complementary foods and, where needed, provide micronutrient (especially zinc and vitamin A) supplementation.
- Training large numbers of village workers in health, farming, and infrastructure (in one-year programs) to ensure basic expertise and services in rural communities.
- Distributing free, long-lasting, insecticide-treated bed-nets to all children in malaria-endemic zones.
- Eliminating user fees for basic health services in all developing countries, financed by increased domestic and donor resources for health.
- Expanding access to sexual and reproductive health information and services.
- Expanding the use of proven effective drug combinations for AIDS, tuberculosis, and malaria.
- Providing access to electricity, water, sanitation, and the Internet for all hospitals, schools, and other social service institutions.

³⁰ Stephen Lewis, *Race Against Time* (Toronto: Anansi Press, 2005).

- Reforming and enforcing legislation guaranteeing women property and inheritance rights.
- Establishing, in each country, an office of science advisor to the president or prime minister to consolidate the role of science in national policymaking.
- Empowering women to play a central role in formulating and monitoring MDG-based poverty reduction strategies and other critical policy reform processes, particularly at the level of local governments.³¹

-a focus on agriculture

According to the IFAD, development efforts in most countries neglect the rural sector, which contains three quarters of the world's 1.2 billion poor people. The movement of the poor from the countryside to cities has been overestimated; even by 2020, 60% of the world's poor will still be living and working in rural areas. To succeed, poverty-reduction programs must therefore be refocused on rural people and on agriculture.³²

-the piecemeal reform approach advocated by William Easterly

Because "nobody can fully grasp the complexity of the political, social, technological, ecological and economic systems that underlie poverty", William Easterly suggests taking small steps, one at a time, then testing whether that small step made poor people better off, holding accountable the agency that implemented the small step, and considering the next small step. According to him, piecemeal interventions such as vaccination campaigns, oral rehydration therapy to prevent diarrhea and other aid-financed health programs, will ultimately be most effective in fighting poverty.³³

-market-based solutions: "eradicating poverty through profits" (C. K. Prahalad)

Business consultant C. K. Prahalad advocates helping the poor become empowered consumers and entrepreneurs as a powerful and effective solution to eradicate poverty. "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers," he says at the beginning of his bestselling *The Fortune at the Bottom of the Pyramid*, "a whole new world of opportunity will open up. Four billion poor can be the engine of the next round of global trade and prosperity."³⁴ He argues that creating new markets and new enterprises geared specifically at the "bottom of the pyramid" is a truly sustainable solution and a win-win scenario, for both the entrepreneurs and the consumers. To illustrate this, he packs his book with "business success stories from the bottom of the pyramid" describing the accomplishments of the private-sector companies serving the poor such as the Aravind Eye Care System and the ITC Group in India.

In conclusion, it is clear that there is no unique solution to poverty eradication; no magic bullet will solve the problem. Any strategy needs to be multi-pronged to tackle the various roots of the problem.

³¹ "Quick Wins", <http://www.unmillenniumproject.org/documents/4-MP-QuickWins-E.pdf>

³² "Rural Poverty Report 2001", IFAD, http://www.ifad.org/poverty/e_sum.pdf

³³ William Easterly, "A Modest Proposal", Washington Post, March 13, 2005, <http://www.washingtonpost.com/wp-dyn/articles/A25562-2005Mar10.html> (accessed January 10, 2007)

³⁴ C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Upper Saddle River, NJ: Pearson Education, 2006)

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